etrion

Management Discussion & Analysis

Three months ended March 31, 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 May 11, 2011, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2011. Financial information is reported in United States dollars ("$"). However, as the Group primarily operates in Italy, certain financial information associated with its renewable energy projects is reported in Euros ("€"). At March 31, 2011, the €/$ exchange rate was 1.42 and the average exchange rate for the three months ended March 31, 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

- Produced 12,183,673 kilowatt-hours ("kWh") of solar electricity from four solar power projects (Cassiopea, Centauro, Helios ITA and SVE) during the first quarter of 2011
- Generated $7.3 million (€5.2 million) of solar electricity revenue during the first quarter of 2011
- Issued in April 2011 $85.2 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 $85.2 million (€60 million) credit facility provided by a subsidiary of Lundin Petroleum AB

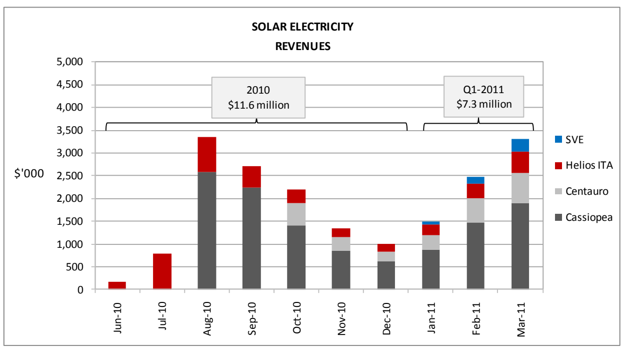
BUSINESS REVIEW

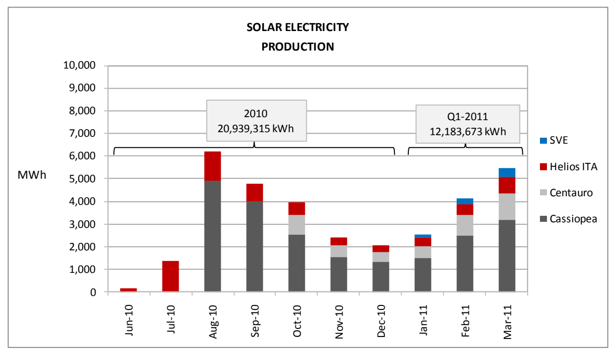
Etrion is a solar power producer focused on developing, building, owning and operating solar power plants. The Group currently owns 47 megawatts ("MW") of operational, ground-based solar photovoltaic ("PV") power plants and has 10 MW of solar power projects under construction.

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.

FIRST QUARTER 2011 RESULTS AT A GLANCE

During the first three months of 2011, the Group recognized revenues from four solar power projects in Italy (Cassiopea, Centauro, 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 months ended March 31, 2011, for the Group's renewable energy segment are shown in the table below and the table on page 3. The Group generated no revenues from solar power projects in the comparable period of 2010.

Renewable energy segment	**March 31, 2011 $'000**
Revenue	**7,277**
Renewable segment EBITDA(1)	7,893
- Liquidation damages(2)	(1,941)
Adjusted renewable segment EBITDA	**5,952**
Adjusted EBITDA margin (%)	**82%**

Notes:

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

(2) During the three months ended March 31, 2011, the Group recognized $1.9 million (€1.4 million) of liquidation damages relating to delays encountered by the EPC contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio).

Production and pricing information for the three months ended March 31, 2011, was as follows:

	kWh(1)	Price(2) ($/kWh)	Revenue $'000
FiT revenues (based on actual production)(3)	12,183,673	0.49	5,970
Market Price revenues (based on evacuated production)(4)	11,881,818	0.11	1,307
Total revenue			**7,277**

Notes:

(1) Electricity produced is measured in kilowatt-hours.

(2) Prices are received in Euros and have been translated at the average €/$ exchange rate of 1.40 for the three months ended March 31, 2011.

(3) The FiT is received on kWh of electricity produced.

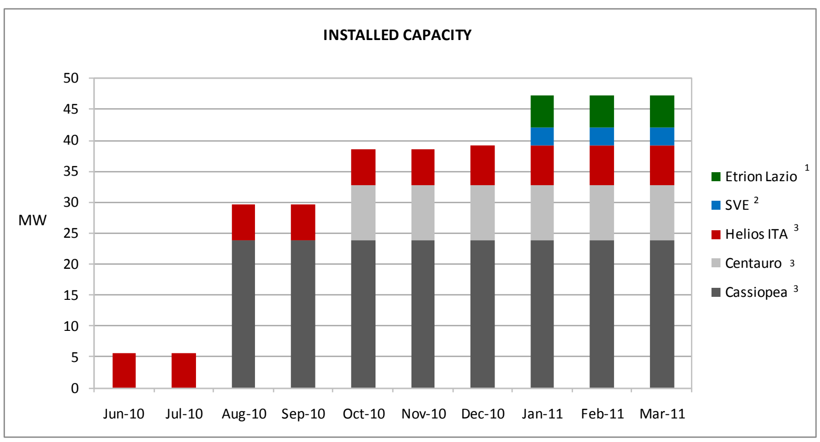
(4) The spot market price ("Market Price") is received in addition to the FiT. The Market Price is based on evacuated production (i.e., electricity produced less transmission losses).

Financial results

- Solar power revenues of $7.3 million (€5.2 million) for the first three months of 2011 generated from the Cassiopea, Centauro, Helios ITA and SVE solar power projects
- Positive adjusted EBITDA for the renewable energy segment of $6.0 million (€4.3 million) recognized during the quarter

Business developments

A summary of the Group's total installed capacity of 47.3 MW is as follows:



Notes:

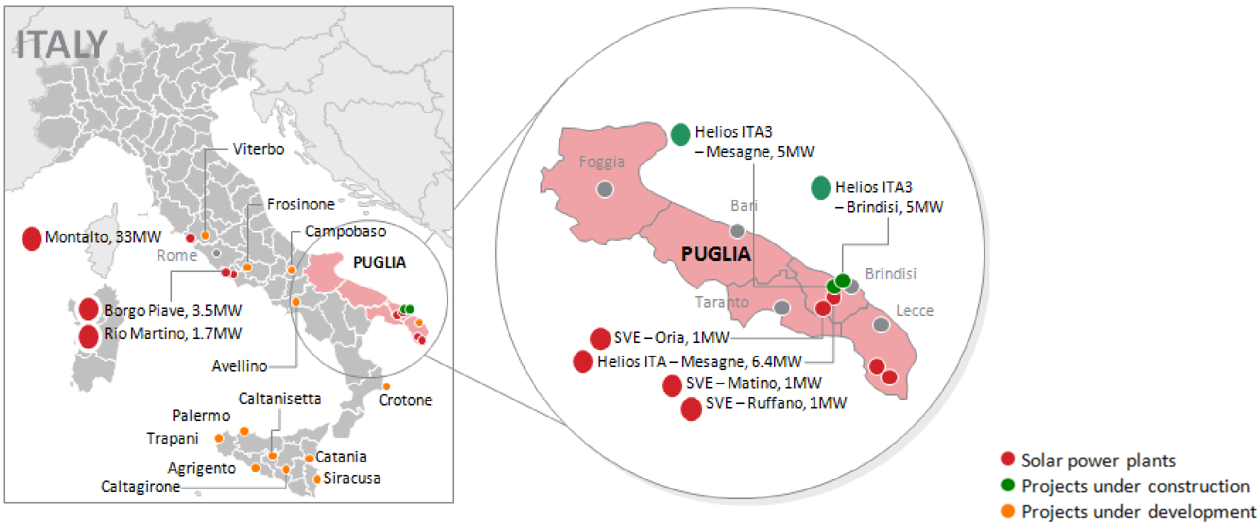
(1) Etrion Lazio was installed but not connected in the first quarter of 2011.

(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, Centauro and Cassiopea as of the acquisition dates June 24, 2010, October 1, 2010, and August 5, 2010, respectively.

SOLAR ENERGY PROJECTS

The following is an overview of the Group's solar power projects in Italy:



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

Projects	Region	Number of sites	Capacity (MW)	Contractor	Status
Cassiopea	Lazio	1	23.9	SunPower	Operational
Centauro	Lazio	1	8.8	SunPower	Operational
Helios ITA	Puglia	7	6.4	Solon	Operational
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	SunPower	Operational
Etrion Lazio (Borgo Piave, Rio Martino)(1)	Lazio	2	5.2	Phoenix	Operational
Helios ITA 3 (Brindisi and Mesagne)	Puglia	2	10.0	SunPower(2)	Under construction
Total		**16**	**57.3**		
Operational		**14**	**47.3**		

Notes:

(1) The Etrion Lazio solar parks were completed in December 2010 but were not connected to the electricity grid until April 2011, at which time they commenced producing revenues.

(2) Construction of the Helios ITA 3 solar power project (10 MW) has been voluntarily delayed due to the new FiT regime. Refer to further discussion on the Italian FiT regime on page 7.

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 8.8 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, using high efficiency modules mounted on single axis trackers with 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 \$0.501 (€0.353) per kWh plus the Market Price of approximately \$0.11 (€0.08) per kWh. The Centauro project benefits from the 2010 FiT of \$0.491 (€0.346) per kWh plus the Market Price of approximately \$0.11 (€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 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 $0.501 (€0.353) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh and the last park built (0.5 MW) benefits from the 2010 FiT of $0.491 (€0.346) per kWh plus the Market Price of approximately $0.11 (€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), that were all connected to the grid in December 2010. The SVE solar parks were built by SunPower and use high efficiency modules mounted on single axis trackers with 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 $0.491 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Originally, the SVE project included an additional 1 MW site in Spinazzola. This park encountered certain delays related to the original authorization for construction granted in 2009, and the Company's management is currently assessing whether to proceed with construction on this site in 2011.

Borgo Piave

The Borgo Piave solar park is located on one site in Lazio, Italy, with a total capacity of 3.5 MW. The Borgo Piave park is a ground-mounted solar PV power plant built by Phoenix Solar ("Phoenix"), a German PV system integrator that uses Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. The Borgo Piave park was completed in December 2010 and was connected to the electricity grid in April 2011.

Borgo Piave has an O&M contract with Phoenix, including preventive and corrective maintenance.

The project benefits from the 2010 FiT of $0.491 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Rio Martino

The Rio Martino solar park is located on one site in Lazio, Italy, with a total capacity of 1.7 MW. The Rio Martino park is a ground-mounted solar PV power plant built by Phoenix that uses Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. The Rio Martino park was completed in December 2010 and was connected to the electricity grid in April 2011.

Rio Martino has an O&M contract with Phoenix, including preventive and corrective maintenance.

The project benefits from the 2010 FiT of $0.491 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Projects under construction

Helios ITA 3

The Helios ITA 3 project includes two 5.0 MW ground-mounted solar PV parks under construction, Brindisi and Mesagne.

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. Refer to further discussion on the Italian FiT regime on page 7.

Once connected, the Helios ITA 3 project is expected to receive the applicable FiT available at that date plus the Market Price of approximately $0.11 (€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 forces, such as legislative and policy support, cost of subsidies, technology, macroeconomic conditions and environmental concerns. The primary goal for solar energy producers is to obtain on-grid connection, resulting in solar energy complementing traditional sources of electricity power generation such as coal, natural gas and nuclear energy. The overall driver of the solar energy market is to realize grid parity, whereby the price of solar energy is competitive with traditional sources of electricity. 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. The Company's management expects that some countries will reach grid parity within the next five years and expects Italy to be one of the first countries to achieve this due to its high 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 energy since 2005 is largely attributable to the attractive FiT program, high irradiation rates and high electricity prices. The Italian state-owned company, Gestore Servizi Energetici, 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 constant purchase price for renewable electricity that is guaranteed by the Italian government for a period of 20 years. Since 2005, the Italian FiTs have been revised for new projects to account for the decreasing cost to build solar power generation. Although the FiTs continue 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, the spot market rate is received for the electricity sold 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.

A summary of actual FiTs 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]	$0.491 (€0.346)	$0.501 (€0.353)
Duration	20 years	20 years

Note:

(1) Prices are quoted in Euros and have been translated at the closing €/$ exchange rate of 1.42 at March 31, 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, the Italian government previously approved a decree on March 3, 2011, 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 current 2011 FiT);
- 2011 Annual cap: annual cap of 1,200 MW on the overall capacity of solar PV plants eligible for the FiT and connected to the electricity grid after August 31, 2011. However, projects connected to the grid before August 31, 2011 are not subject to the cap;
- 2012 Annual cap or target: annual cap of 1,490 MW on the overall capacity of solar PV plants eligible for the FiT; and
- 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
  - land restriction of up to 10% for PV plants installed on agricultural land (i.e., the PV plant can cover up to 10% of the total land area).

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.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many countries today (i.e., Germany, Spain, Greece and Canada) and are a key driver for market growth. The aim of the incentives is to raise production of solar PV power in order to deliver greater efficiency and cost reductions within the solar PV energy industry.

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 generous government incentives, such as FiTs, capital subsidies and tax incentives.

FINANCIAL REVIEW

QUARTERLY RESULTS

Selected consolidated financial information for the three months ended March 31, 2011 and 2010, is set out below.

	March 31, 2011 $'000	March 31, 2010 $'000
Revenue	**7,277**	**-**
Gross profit	**2,444**	**-**
Net loss	**(1,521)**	**(3,536)**
Adjustments for non-recurring items:		
- Exchange right non-cash compensation expense	110	743
- Other income (liquidation damages)	(1,941)	-
Adjusted net loss	**(3,352)**	**(2,793)**
Basic and diluted loss per share (net loss)	(0.01)	(0.02)
Basic and diluted loss per share (adjusted net loss)	(0.02)	(0.02)
Net loss	**(1,521)**	**(3,536)**
Items not affecting operating cash flow:		
- Income tax recovery	(279)	(242)
- Depreciation and amortization	4,287	41
- Share-based payment expense	332	992
- Changes in fair values of derivative instruments	(1,955)	-
- Finance costs (net)	4,598	915
- Foreign exchange	(429)	-
- Net loss on sale of assets	-	10
- Income tax paid	(943)	-
- Changes in working capital	(13,335)	(3,952)
Operating cash flow	**(9,245)**	**(5,772)**

Selected consolidated financial information at March 31, 2011, and December 31, 2010, is set out below.

	March 31, 2011 $'000	December 31, 2010 $'000
Total assets	**466,303**	**446,216**
Total non-current liabilities	**297,179**	**279,745**
Dividends declared	**-**	**-**

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

	2011	2010				2009		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	7,277	4,605	6,833	127	-	-	-	-
Net loss	(1,521)	(4,019)	(6,376)	(4,190)	(3,536)	(4,897)	(50,926)	(1,579)
Basis and diluted loss per share	(0.01)	(0.02)	(0.04)	(0.02)	(0.02)	(0.03)	(0.32)	(0.01)

The Group reported a net loss of $1.5 million in the first quarter of 2011 compared to a net loss of $3.5 million in the comparable period of 2010. The results for the first three months of 2011 are not comparable to the prior year as the Group generated its first revenues from the sale of solar electricity in June 2010.

Solar related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months. However, the increase in revenue experienced in the first quarter of 2011 compared to the third and fourth quarters of 2010 is due to four projects being operational in 2011 compared to two and three projects in the third and fourth quarters of 2010, respectively.

FINANCIAL RESULTS

During the first three months of 2011, the Group reported a net loss of $1.5 million (2010: $3.5 million). Revenue of $7.3 million (2010: $nil) was generated from electricity sales from four of the Group's solar power projects (Cassiopea, Centauro, Helios ITA and SVE). This resulted in a positive gross profit from operations for the three months ended March 31, 2011, of $2.4 million (2010: $nil). The net results for the three months ended March 31, 2011, were positively impacted by non-recurring liquidation damages of $1.9 million (€1.4 million) 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) and adversely impacted by a non-cash compensation expense of $0.1 million (2010: $0.7 million).

Revenue

Revenues earned during the three months ended March 31, 2011, were generated from the FiT and Market Price, both paid by an Italian state-owned company (as discussed in the "Market Overview" on page 6), as follows:

	kWh	Price[1] ($/kWh)	Revenue $'000
Feed-in-Tariff revenues (based on actual production)[2]	12,183,673	0.49	5,970
Market Price revenues (based on evacuated production)[3]	11,881,818	0.11	1,307
Total revenue			**7,277**

Notes:

(1) Prices received in Euros have been translated at the average €/$ exchange rate of 1.40 for the three months ended March 31, 2011. Prices represent the average rounded price received for the applicable type of revenue during the three months of 2011.

(2) The FiT is received on kWh of electricity produced.

(3) The Market Price is received on evacuated production (i.e., electricity produced less transmission losses).

The Group recognized no revenue from its renewable energy segment in the three months ended March 31, 2010.

Operating costs

	March 31, 2011 $'000
O&M costs	145
Insurance	199
Depreciation and amortization	4,223
Other operating costs	266
Total operating costs	**4,833**

O&M costs of $0.1 million for the three months ended March 31, 2011 (2010: $nil), relate to fees paid in connection with the operation and maintenance of the Group's solar power projects in Italy. The Group outsources the operation and maintenance of the projects to external third parties. The Group incurred no operating costs in the comparable period of 2010 as no solar power projects were operating during the period.

Depreciation and amortization of $4.2 million was recognized during the three months ended March 31, 2011 (2010: $nil), in relation to operating solar power projects producing electricity during the period.

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 (non-cash item)	332	992
Depreciation and amortization	64	41
Office, listing and filing expenses and other general and administrative expenses	1,075	415
Total general and administrative expenses	**3,634**	**3,017**

The increase in general and administrative expenses for the three months ended March 31, 2011, compared to 2010 is primarily due to the acquisition of solar power projects during 2010 and the subsequent increased level of activity in the renewable energy sector.

During the three months ended March 31, 2011, the Group recognized $0.3 million (2010: $0.9 million) of expenses related to the Company's equity-settled, share-based compensation plan. At March 31, 2011, the number of stock options outstanding was 6,407,200 (2010: 11,763,640). The share-based payment expense also includes $0.1 million (2010: $0.7 million) relating to the 10% equity interest held in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), by Marco A. Northland, the Chief Executive Officer and Director of the Company ("Mr. Northland"). Refer to "Related Party Transactions" on page 15.

Depreciation of $0.1 million was recognized during the three months ended March 31, 2011 (2010: $41,000), relating 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 income

	March 31, 2011 $'000
SVE – liquidation damages	1,206
Etrion Lazio – liquidation damages	735
Other expenses (net)	(16)
Total other income	**1,925**

During the three months ended March 31, 2011, the Group recognized $1.9 million (€1.4 million) of liquidation damages relating to delays encountered by the EPC contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio). The Group recognized no other income in the comparable period of 2010.

Net finance costs

	March 31, 2011 $'000	March 31, 2010 $'000
Finance income	2,401	188
Finance costs	(4,936)	(949)
Total net finance costs	**(2,535)**	**(761)**

Finance income earned during the first three months of 2011 included fair value movements associated with the Group's interest rate swap contracts of $2.0 million (2010: $nil) and foreign exchange gains of $0.4 million (2010: $0.2 million).

Finance costs for the three months ended March 31, 2011, included interest expense of $4.5 million and other finance costs of $0.4 million. In the three months ended March 31, 2011, the Group accrued and paid interest on five non-recourse loans associated with its solar power projects in Italy (2010: one non-recourse loan). 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. The interest expense for the three months ended March 31, 2011, also included $0.9 million (2010: $nil) associated with the bridge loan provided by Lundin Services BV ("Lundin Services"), a wholly-owned subsidiary of Lundin Petroleum AB. Refer to "Financial Position" below and "Related Party Transactions" on page 15. During the comparable period of 2010, finance costs included $0.9 million of fair value movements associated with an interest rate swap contract and $32,000 of interest associated with one non-recourse loan.

Income tax recovery

	March 31, 2011 $'000	March 31, 2010 $'000
Current income tax recovery/(expense)	1,664	(20)
Tax recovery on warrants	-	262
Deferred tax expense	(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 operations 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.

FINANCIAL POSITION

During the first three months of 2011, the Group's net assets increased by $5.1 million from $34.8 million at December 31, 2010, to $39.9 million at March 31, 2011. The increase in net assets is primarily attributable to changes in the fair values of the Group's interest rate swap contracts that qualify for hedge accounting.

Assets relating to the Group's renewable energy segment, included within property, plant and equipment and intangible assets at March 31, 2011, amounted to $359.1 million (December 31, 2010: $340.9 million) and $12.3 million (December 31, 2010: $11.6 million), respectively. The balances at March 31, 2011, and December 31, 2010, related to the Group's solar power projects are as follows:

	March 31, 2011 $'000	December 31, 2010 $'000
Property, plant and equipment	359,097	340,883
Intangible assets	12,305	11,630
Total	**371,402**	**352,513**

Liquidity and capital resources

At March 31, 2011, the Group had cash and cash equivalents of $31.6 million (December 31, 2010: $45.0 million), of which $28.5 million (December 31, 2010: $40.3 million) was restricted to solar power projects in Italy. In addition, the Group had a negative working capital of $81.4 million (December 31, 2010: $73.3 million) due to $80.9 million (December 31, 2010: $75.2 million) owed in relation to the bridge loan provided by Lundin Services, including accrued interest and amortization of transaction costs. The bridge loan was subsequently repaid in May 2011. Refer to "Lundin Services bridge loan" below.

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 page 13.

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. ABG Sundal Collier Norge ASA acted as lead manager of the bond issue.

Net proceeds from the bond issue were used for early repayment of the bridge loan provided by Lundin Services and for general corporate purposes. Refer to "Lundin Services bridge loan" below.

Lundin Services bridge loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services for up to $85.2 million (€60.0 million) in order to finance capital and operating expenditures of the Group. The bridge loan was to mature on November 15, 2011, and bore an interest rate of Euribor plus a margin of 3% until March 31, 2011, with a margin of 5% thereafter. Total transaction costs incurred to arrange the facility amounted to $0.4 million (€0.3 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.

In May 2011, the net proceeds from the Company's bond issue were used to repay the bridge loan. Refer to "Corporate bond issue" above.

Non-recourse project loans

The non-recourse loans held by the Italian subsidiaries mature at various dates beyond 2011. Counterparties to the non-recourse loans do not have unconditional or unilateral discretionary rights to accelerate repayment at earlier dates. Therefore, the Group is somewhat protected from short-term liquidity fluctuations.

Below is a summary of the Group's non-recourse loans denominated in Euros, translated at the closing €/$ exchange rate of 1.42 at March 31, 2011:

	Size capacity (MW)	**Financial institution**	**Maturity**	**Balance outstanding[1] $'000**
Cassiopea	23.9	BIIS [2], Societe Generale and WestLB	March 31, 2024	157,796
Centauro	8.8	Barclays	September 30, 2028	58,130
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2029	50,034
SVE	3.0	Centrobanca	June 30, 2028	16,710
Etrion Lazio	5.2	Natixis, WestLB and Mediocreval	December 31, 2027	6,755
Total	**47.3**			**289,425**

Notes:

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

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

Outstanding share data

At the date of this report, the Company had 181,036,120 common shares and 6,007,200 options to purchase common shares issued and outstanding. During the three months ended March 31, 2011, the Company issued 940,000 common shares as a result of stock options being exercised.

The stock options outstanding expire at various dates between November 11, 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 page 15.

Going concern

The Company's 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 provided by Lundin Services 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. Refer to "Lundin Services bridge loan" and "Corporate bond issue" on page 12.

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.

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.

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 equity or debt 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 agreements with large international contractors that supply, design and build solar power plants. At March 31, 2011, the only EPC contract outstanding related to the construction of Helios ITA 3 for services in the amount of $45.3 million (December 31, 2010: $45.4 million), 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. The Company's management is currently assessing the best way to proceed with the construction of this project in light of the new FiT regime. Refer to "Market Overview" on page 6.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 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.

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 months ended March 31, 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 Group's key management 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 (technical and legal) from Lundin Services a subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a Director of the Company. 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. Refer to "Lundin Services bridge loan" on page 12.

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 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.

RISKS AND UNCERTAINTIES

The Company's activities expose it to a variety of financial and non-financial risks and uncertainties, which 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.

Capital requirements and liquidity

Although the Company is currently generating operating cash flows from its current 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 such 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 and to begin selling electricity. 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 developing renewable energy projects in jurisdictions that provide long-term FiTs, a portion of the Company's revenues is derived from the spot market. 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 FiTs could impact the profitability of the Group's solar power projects. Refer to "Market Overview" on page 6.

International operations

Etrion 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, 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 by the Group that took place after March 31, 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. The following table shows the summarized financial information for the excluded subsidiaries within the Group's consolidated financial statements for the three months ended March 31, 2011:

	Excluded subsidiaries	Group total
Selected financial data		
Total assets	423,059	466,303
Total liabilities	378,737	426,422
Equity	44,322	39,881
Net gain/(loss) for the year then ended	(344)	(1,521)

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 anticipated FiT that will be available to certain projects under construction, the need for additional capital and the expected sources of such capital, expectations regarding the implementation of the new Italian FiT regime and its impact on Etrion's operational projects, expectations relating to grid parity and contractual obligations. 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 adoption of a new Italian FiT regime; assumptions as to the prices at which the Group will be able to sell electricity from its projects; 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 our 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**.