

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

etrion

Condensed Consolidated Interim Financial Statements
Three and Nine Months Ended
September 30, 2010
(Unaudited)

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Condensed Consolidated Interim Statement of Comprehensive Income

Unaudited – Expressed in US\$

| | Note | September 30, 2010 3 months | September 30, 2009 3 months (Note 5) | September 30, 2010 9 months | September 30, 2009 9 months (Note 5) |
|--|------|--------------------------------|--|--------------------------------|--|
| Total revenue | 7 | 6,833,153 | - | 6,960,393 | - |
| Operating and production costs | 9 | (2,891,797) | - | (2,929,519) | - |
| General and administrative costs | 9 | (4,856,834) | (7,103,138) | (11,042,490) | (10,274,144) |
| Impairment of long-lived assets | 8 | - | (44,046,990) | - | (44,046,990) |
| Other income | | 72,768 | - | 72,768 | - |
| Operating (loss) | | (842,710) | (51,150,128) | (6,938,848) | (54,321,134) |
| Finance income | | 288,377 | 224,434 | 288,377 | 238,253 |
| Finance costs | | (5,709,402) | - | (7,536,629) | - |
| Finance income (costs) - net | 15 | (5,421,025) | 224,434 | (7,248,252) | 238,253 |
| (Loss) before income tax | | (6,263,735) | (50,925,694) | (14,187,100) | (54,082,881) |
| Income tax (expense) recovery | 19 | (112,591) | - | 84,208 | - |
| Total (loss) | | (6,376,326) | (50,925,694) | (14,102,892) | (54,082,881) |
| Other comprehensive income | | | | | |
| Loss on foreign currency translation adjustment | | 793,067 | - | (932,583) | - |
| Loss on cash flows hedges | 13 | (2,699,734) | - | (2,699,734) | - |
| Tax effect on cash flow hedges | | 742,427 | - | 742,427 | - |
| Total other comprehensive (loss) | | (1,164,240) | - | (2,889,890) | - |
| Total comprehensive (loss) | | (7,540,566) | (50,925,694) | (16,992,782) | (54,082,881) |
| (Loss) attributable to: | | | | | |
| Owners of Etrion Corporation | | (6,376,326) | (50,925,694) | (14,102,892) | (54,082,881) |
| | | (6,376,326) | (50,925,694) | (14,102,892) | (54,082,881) |
| Total comprehensive (loss) attributable to: | | | | | |
| Owners of Etrion Corporation | | (7,540,566) | (50,925,694) | (16,992,782) | (54,082,881) |
| | | (7,540,566) | (50,925,694) | (16,992,782) | (54,082,881) |
| Basic and diluted (loss) per share | 16 | (0.04) | (0.32) | (0.09) | (0.34) |

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

Condensed Consolidated Interim Balance Sheet

Unaudited – Expressed in US\$

| | Note | September 30, 2010 | December 31, 2009 (Note 5) | January 1, 2009 (Note 5) |
|---|------|--------------------|-------------------------------|-----------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 10 | 256,226,469 | 855,141 | 565,926 |
| Intangible assets | 11 | 14,401,910 | 5,630,985 | - |
| Investments | 8 | 10,409,441 | 10,000,000 | 54,046,990 |
| Derivative financial instruments | 13 | - | 231,429 | - |
| Trade and other receivables | | 2,912,708 | 753,473 | 494,564 |
| Total non-current assets | | 283,950,528 | 17,471,028 | 55,107,480 |
| Current assets | | | | |
| Trade and other receivables | | 34,784,494 | 1,330,956 | 7,123,821 |
| Cash and cash equivalents | | 47,213,003 | 23,447,778 | 26,667,337 |
| Total current assets | | 81,997,497 | 24,778,734 | 33,791,158 |
| Total assets | | 365,948,025 | 42,249,762 | 88,898,638 |
| EQUITY | | | | |
| Attributable to owners of Etrion Corporation | | | | |
| Common shares | 14 | 123,865,220 | 107,556,977 | 107,556,977 |
| Contributed surplus | | 12,858,464 | 10,340,555 | 8,773,958 |
| Other reserves | | (3,206,007) | (374,902) | - |
| Accumulated deficit | | (101,992,042) | (87,889,150) | (28,909,127) |
| Total equity | | 31,525,635 | 29,633,480 | 87,421,808 |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Borrowings | 12 | 272,912,383 | 1,279,197 | - |
| Derivative financial instruments | 13 | 22,000,030 | - | - |
| Deferred income tax liability | 19 | 5,173,028 | 772,800 | - |
| Provisions for other liabilities | | 188,024 | 700,824 | 494,564 |
| Total non-current liabilities | | 300,273,465 | 2,752,821 | 494,564 |
| Current liabilities | | | | |
| Derivative financial instruments | 13 | 1,972,673 | 709,907 | 62,852 |
| Trade and other payables | | 19,644,760 | 9,061,848 | 919,414 |
| Current income tax liability | 19 | 2,840,519 | 91,706 | - |
| Borrowings | 12 | 9,690,973 | - | - |
| Total current liabilities | | 34,148,925 | 9,863,461 | 982,266 |
| Total liabilities | | 334,422,390 | 12,616,282 | 1,476,830 |
| Total equity and liabilities | | 365,948,025 | 42,249,762 | 88,898,638 |

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

Condensed Consolidated Interim Statement of Changes in Equity

Unaudited – Expressed in US\$

| | Note | Attributable to owners of Etrion Corporation | | | | | Total | Non-controlling interest | Total equity | |
|--|------|--|---------------------|----------------|-----------------------------------|-----------------|---------------|--------------------------|--------------|---------------------|
| | | Share capital | Contributed surplus | Other reserves | Cumulative translation adjustment | Cash flow hedge | | | | Accumulated deficit |
| Balance at January 1, 2009 | | 107,556,977 | 8,773,958 | - | - | - | (28,909,127) | 87,421,808 | - | 87,421,808 |
| Total comprehensive (loss) for the nine month period | | - | - | - | - | - | (54,082,881) | (54,082,881) | - | (54,082,881) |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Stock-based compensation on outstanding options | 17 | - | 451,748 | - | - | - | - | 451,748 | - | 451,748 |
| | | - | 451,748 | - | - | - | - | 451,748 | - | 451,748 |
| Balance at September 30, 2009 | | 107,556,977 | 9,225,706 | - | - | - | (82,992,008) | 33,790,675 | - | 33,790,675 |
| Balance at January 1, 2010 | | 107,556,977 | 10,340,555 | - | (374,902) | - | (87,889,150) | 29,633,480 | - | 29,633,480 |
| Total comprehensive (loss) for the nine month period | | - | - | - | (932,583) | (1,957,307) | (14,102,892) | (16,992,782) | - | (16,992,782) |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Private placement | 14 | 16,158,243 | - | - | - | - | - | 16,158,243 | - | 16,158,243 |
| Issuance of shares for options exercised | 14 | 150,000 | (60,238) | - | - | - | - | 89,762 | - | 89,762 |
| Non-controlling interest on acquisition | 6 | - | - | - | - | - | - | - | 236,920 | 236,920 |
| Acquisition of non-controlling interest | 6 | - | - | 58,785 | - | - | - | 58,785 | (236,920) | (178,135) |
| Tax effect of the expiration of warrants | 14 | - | (264,927) | - | - | - | - | (264,927) | - | (264,927) |
| Stock-based compensation on outstanding options | 17 | - | 2,843,074 | - | - | - | - | 2,843,074 | - | 2,843,074 |
| | | 16,308,243 | 2,517,909 | 58,785 | - | - | - | 18,884,937 | - | 18,884,937 |
| Balance at September 30, 2010 | | 123,865,220 | 12,858,464 | 58,785 | (1,307,485) | (1,957,307) | (101,992,042) | 31,525,635 | - | 31,525,635 |

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2010 and 2009

Unaudited – Expressed in US\$ unless otherwise stated

| | September 30, 2010 3 months | September 30, 2009 3 months (Note 5) | September 30, 2010 9 months | September 30, 2009 9 months (Note 5) |
|---|--------------------------------|--|--------------------------------|--|
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| (Loss) from the period | (6,376,326) | (50,925,694) | (14,102,892) | (54,082,881) |
| <i>Adjustment for:</i> | | | | |
| Income tax expense (recovery) | 112,591 | - | (84,208) | - |
| Depreciation and amortization | 2,075,614 | 51,724 | 2,179,080 | 167,354 |
| Impairment of long-lived assets | - | 44,046,990 | - | 44,046,990 |
| Interest expense | 3,184,357 | - | 3,590,315 | - |
| (Gain) loss on changes in fair value of warrants | - | 25,835 | 11,385 | 77,266 |
| Stock-based compensation expense | 937,945 | 278,669 | 2,737,343 | 5,544,720 |
| Non-cash compensation expense | - | 5,544,720 | - | 451,748 |
| Loss on derivative instrument | 2,004,708 | - | 3,669,848 | - |
| Amortization of transaction costs | 158,378 | - | 188,525 | - |
| Decrease / increase in accounts receivables | 1,017,879 | (594,762) | 881,984 | 5,836,509 |
| Decrease / increase in trade and other payables | 354,770 | 599,082 | (2,551,769) | 113,406 |
| Net cash from operating activities | 3,469,916 | (973,436) | (3,480,389) | 2,155,112 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Purchases of investments | (287,169) | - | (656,367) | - |
| Purchases of property, plant and equipment | (9,805,101) | 64,846 | (17,373,750) | 41,003 |
| Purchases of intangible assets | 339,054 | - | (6,477,929) | - |
| Acquisition of Solar Resources Holding, net | - | (2,982,255) | - | (2,982,255) |
| Acquisition of Helios ITA, net of cash acquired | (345,390) | - | (4,626,167) | - |
| Acquisition of SunRay Italy, net of cash acquired | (26,249,652) | - | (26,249,652) | - |
| Advances for SunRay Italy II acquisition | (3,638,628) | - | (3,638,628) | - |
| Dividends received | - | 1,125,000 | - | 1,125,000 |
| Acquisition of non-controlling interests | (184,065) | - | (184,065) | - |
| Net cash used in investing activities | (40,170,951) | (1,792,409) | (59,206,558) | (1,816,252) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| Interest paid | (2,723,935) | - | (3,190,280) | - |
| Interest on swap paid | (2,499,534) | - | (2,499,534) | - |
| Proceeds from borrowings | 56,382,294 | - | 94,053,871 | - |
| Private placement | 15,041,640 | - | 15,041,640 | - |
| Proceeds from the issuance of shares | - | - | 89,762 | - |
| Repayment of borrowings | (17,342,881) | - | (18,380,892) | - |
| Net cash used in financing activities | 48,857,584 | - | 85,114,567 | - |
| Net (decrease) / increase in cash and cash equivalents | 12,156,549 | (2,765,845) | 22,427,620 | 338,860 |
| Exchange gains / (losses) on cash and cash equivalents | 4,470,215 | - | 1,337,605 | - |
| Cash and cash equivalents at the beginning of the period | 30,586,239 | 29,772,042 | 23,447,778 | 26,667,337 |
| Cash and cash equivalents at the end of the period | 47,213,003 | 27,006,197 | 47,213,003 | 27,006,197 |

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2010 and 2009

Unaudited – Expressed in US\$ unless otherwise stated

1. General information

Etrion Corporation ("Etrion" or the "Company") is incorporated under the laws of the Province of British Columbia, Canada with an office in Geneva, Switzerland and an office in Rome, Italy. The address of its registered office is 1600-925 West Georgia St, Vancouver, BC V6Z 3L2, Canada.

These condensed consolidated interim financial statements were approved on November 12, 2010 by the Board of Directors.

These condensed consolidated interim financial statements have been reviewed, not audited.

Etrion and its subsidiaries ("the Group") are primarily focused on developing, building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic ("PV"). Etrion also continues to hold oil and gas investments in Venezuela through its wholly owned Venezuelan subsidiary, PFC Oil and Gas, C.A. ("PFC Venezuela").

The Group's solar power investments are held through its 90%-owned Luxembourg subsidiary, Solar Resources Holding, Sarl ("SRH"). The remaining 10% continues to be held by Marco Northland ("Northland") **Note 18**. The non-controlling interest in SRH was initially measured as Northland's participation in SRH's net assets at the date of acquisition and subsequently measured as Etrion's maximum total commitment in respect of Northland's participation (guaranteed floor) **Note 18**. As at September 30, 2010, all of the Company's solar assets are located in Italy.

The Company is listed on the Toronto Stock Exchange ("TSX"). On February 23, 2010, the TSX announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas activities to renewable energy. The TSX review arose in connection with the Company's proposed application for a second listing on the NASDAQ OMX exchange in Sweden. On May 21, 2010, the TSX conditionally approved the listing of the Company's common shares in the industrial category. The Company's continued listing in the industrial category was subject to certain conditions, including the completion of an equity financing resulting in net proceeds to the Company of at least \$15 million. On August 23, 2010, the Company completed an equity financing to satisfy the continued listing requirements of the TSX through a private placement of 21,000,000 common shares at a price of CAD\$0.75 per share to arm's length investors, raising gross proceeds of CAD\$15,750,000 (approximately \$15.1 million).

Acquisition of SunRay Italy

On August 5, 2010, the Company's Luxembourg subsidiary, SRH, acquired 100% of the outstanding shares of SunRay Italy Holding, SRL ("SunRay Italy"), an Italian company that owns 100% of the project company, Cassiopea PV, SRL ("Cassiopea"), which owns and operates a 24 MW solar park in the Lazio region. Additionally, on August 5, 2010, the Company's Luxembourg subsidiary advanced 20% of the purchase price \$3.7 million (€2.8 million) for SunRay Italy Holding 2, SRL ("SunRay Italy II"), an Italian company that owns 100% of the project company, Centauro PV, SRL ("Centauro"), which owns and operates a 9 MW solar park in the Lazio region **Note 21**.

Management has determined that SunRay Italy constituted a business from an accounting perspective at the acquisition date. Etrion has accordingly treated the acquisition of SunRay Italy as a business combination as disclosed in **Note 6**.

Notes to the Condensed Consolidated Interim Financial Statements

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Unaudited – Expressed in US\$ unless otherwise stated

Acquisition of Deutsche Bank Solar Assets in Italy

On April 2, 2010, the Company signed a definitive sale and purchase agreement to acquire Deutsche Bank's portfolio of solar assets in Italy for €10.3 million (\$12.6 million) plus a contingent deferred payment of €1.5 million (\$1.8 million). The Deutsche Bank assets acquired include 6.4 MW of operating assets and 10 MW of permitted projects ready for construction plus a pipeline of more than 150 MW in various stages of permitting.

On April 30, 2010, the Company completed the acquisition of the non-operating project companies with 10 MW of permitted projects ready for construction and the development pipeline of more than 150 MW in various stages of permitting from Deutsche Bank for an aggregate purchase price of €6.8 million (\$8.3 million).

On June 24, 2010, the Company completed the acquisition of Helios ITA, Srl ("Helios ITA"), the Italian entity with 6.4 MW of operating assets and a non-controlling interest (2%) in Energy Service Provider, SRL ("ESP"), a development company, for an aggregate purchase price of €4.0 million (\$4.9 million), including a price adjustment at the date of acquisition.

Management has determined that the only legal entity acquired from Deutsche Bank that constituted a business from an accounting perspective at the acquisition dates was Helios ITA. Etrion has accordingly treated the acquisition of Helios ITA as a business combination as disclosed in [Note 6](#), and the acquisition of the non-operating project companies, development pipeline and non-controlling interest as asset acquisitions as disclosed in [Notes 8, 10 and 11](#).

2. Basis of preparation

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with the option available to early adopt IFRS for periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian securities regulatory authorities.

On June 22, 2010, the Company received a decision of the British Columbia Securities Commission that permits the Company to file its financial statements in accordance with IFRS for financial periods beginning on or after January 1, 2010.

These condensed consolidated interim financial statements have been prepared in accordance with *International Accounting Standard 34, Interim Financial Reporting ("IAS 34")* using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee that are effective or available for early adoption on December 31, 2010.

These IFRS condensed consolidated interim financial statements cover part of the period to be covered by the Company's first consolidated annual financial statements to be prepared in accordance with IFRS for the year ending December 31, 2010. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

The preparation of interim financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the condensed consolidated interim financial statements are disclosed in [Note 4](#). These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (including derivative instruments) that are recognized at fair value through profit or loss.

Notes to the Condensed Consolidated Interim Financial Statements

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Unaudited – Expressed in US\$ unless otherwise stated

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company 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. As at 30 September 2010, the Company remains reliant on a loan facility provided by Lundin Services BV. Refer to [Notes 12 and 21](#) for information relating to this facility.

3. Summary of significant accounting policies

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements at December 31, 2009 prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2009 for the purposes of the transition to IFRS, as required by *IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1")*. The impact of the transition from Canadian GAAP to IFRS is explained in [Note 5](#).

The principal accounting policies are set out below:

a) Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which Etrion has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Company. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any assets or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated.

When acquiring project companies, an assessment is made to determine whether the project company represents a business or is just a corporate wrapper for a specific asset or group of assets such as land and/or licenses. Where the project company is a business, acquisition accounting is applied. Where the project company does not meet the definition of a business, the transaction is treated as an asset acquisition. Key factors in determining whether the definition of a business is met include an assessment of inputs, processes and outputs and the stage of the project development plan at the acquisition date.

Notes to the Condensed Consolidated Interim Financial Statements

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Transactions with non-controlling interests

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the differences between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors, which makes strategic decisions and is responsible for allocating resources and assessing performance of the operating segments.

c) Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency).

Effective April 1, 2010, the functional currency of Etrion, the parent company of the Group, changed from the US dollar to the Euro. This change resulted from the increasing significance of the renewable energy segment within the operations of the Company and that the fact that the revenues and expenses of the renewable operations, as well as the corporate and project level loans, are denominated in Euros.

On the date of the change of the functional currency, all assets, liabilities, issued capital and other components of equity and comprehensive income statement items were translated into Euros at the exchange rate on April 1, 2010.

The functional currencies of Etrion's subsidiaries remain the same. The presentation currency of Etrion remains the US dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income in "Finance income (costs)-net" and "other operating income/expenses".

Group companies

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each statement of comprehensive income are translated at average exchange rates
- All resulting exchange differences are recognized as a separate component of equity

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2010 and 2009

Unaudited – Expressed in US\$ unless otherwise stated

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On consolidation, exchange differences arising from monetary items that forms part of the Company's net investment in a foreign operation are initially recognized in other comprehensive income and reclassified from equity to profit and loss on disposal of the net investment.

The exchange rates for the relevant currencies of the Group with respect to the US dollar are:

| | CHF/US\$ | EUR/US\$ | Bs/US\$ | CAD\$/US\$ |
|---|----------|----------|---------|------------|
| Closing rate at September 30, 2010 | 0.98 | 0.73 | 5.30 | 1.03 |
| Closing rate at December 31, 2009 | 1.02 | 0.69 | 5.97 | 1.05 |
| Nine month average rate September 30, 2010 | 0.94 | 0.76 | 6.26 | 1.04 |
| Nine month average rate September 30, 2009 | 0.91 | 0.73 | 6.34 | 1.17 |
| Three month average rate September 30, 2010 | 0.97 | 0.76 | 5.53 | 1.04 |
| Three month average rate September 30, 2009 | 0.94 | 0.70 | 6.32 | 1.10 |

Note: CHF refers to Swiss Francs, EUR refers to Euros, CAD\$ refers to Canadian dollars and Bs refers to Bolivars, the Venezuelan currency.

d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials, direct labor and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalized.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net in the statement of comprehensive income.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is possible that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of maintenance and repairs of property, plant and equipment are recognized in profit and loss when incurred.

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Depreciation

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The estimated useful lives are as follows:

| | Useful Lives |
|-------------------------|-----------------|
| Solar power plant | 20 years |
| Equipment and furniture | 3-5 years |
| Other | 3 years |

e) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Licenses

Project permits and licenses acquired in a business combination are recognized at fair value at the date of acquisition. Licenses and project permits also result from the acquisition of a project company accounted for as an asset acquisition as described in (a) above. Project permits and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the permits and licenses over their estimated useful lives, which are usually determined according to the term of the applicable energy supply contract signed with the local grid operator for the solar power projects.

f) Impairment of non-financial assets

The carrying amounts of property, plant and equipment, intangible assets and all other non-financial assets are reviewed for impairment if facts and circumstances indicate that impairment may exist. Goodwill is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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g) Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

h) Financial assets

Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Financial assets at fair value through profit or loss* are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current or non-current assets depending upon their maturity.
- *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet (refer to (l) and (m)).
- *Available-for-sale financial assets* are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.
- *Held-to-maturity investments* are financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for available-for-sale assets where the fair value cannot be measured reliably, in which case these assets are carried at cost less impairment. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within "Finance income (costs)" in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in

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equity are included in the consolidated statement of comprehensive income as “Finance income (costs)”.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated statement of comprehensive income as part of other income.

i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

j) Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The asset’s carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

Impairment testing of trade receivables is described in (l) below.

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Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to for assets carried at amortized cost above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

k) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- Hedges of a particular risk associated with a recognized asset or liability of a highly probable forecast transaction (cash flow hedge)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in [Note 13](#). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months from maturity, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of comprehensive income within “Finance income (costs)”. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps on variable rate borrowings is recognized in the consolidated statement of comprehensive income within “Finance income (costs)”. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is

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ultimately recognized in the consolidated statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income within “Finance income (costs)”.

l) Trade receivables

Trade receivables are recognized initially at fair value, which due to short maturities generally approximates nominal value. They are subsequently measured at amortized cost, using the effective interest rate method. Valuation allowances, included in the reported net carrying amount, are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

p) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

q) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management

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periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, and that, at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

r) Employee benefits

Pension obligations

The Company's Swiss subsidiary has a funded defined contribution pension plan that is managed through a private fund. Independent actuaries determine the cost of the defined contribution pension plan on an annual basis and the Swiss subsidiary pays the annual insurance premium. The fund provides benefits coverage to the employees in the event of retirement, death or disability. Etrion's Swiss subsidiary and its employees jointly finance retirement and risk benefit contributions. As per the agreement, the Swiss company contributes between 60% and 67% of the monthly pension costs, and the remaining balance is deducted from the employee's payroll. The investment risk is borne by the fund. According to articles of the pension fund regulations, the fund is responsible for remediating any technical underfunding that may exist at any given time. Etrion's Swiss subsidiary only records the pension costs as an expense and liability based on the insurance premium billed by the private fund.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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s) Stock-based compensation

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the Group. The total amount to be expensed is determined by reference to the fair value of the options granted.

The fair value of stock-based compensation is determined using the Black-Scholes option-pricing model and management's assumptions as disclosed in [Note 17](#). When a stock option is exercised, the Company recognizes an increase in its share capital equivalent to the consideration paid by the option holder and the amount previously recognized in contributed surplus. The fair value of any stock options granted to directors, officers and employees of the Company is recorded as an expense over the vesting period of the options with a corresponding increase in contributed surplus.

t) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

u) Revenue recognition

Revenue

Revenue is recognized upon delivery of electricity to the local operator of the grid, which is usually the state owned utilities company. Delivery is deemed complete when all the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues are measured at the fair value of the consideration received or receivable. Revenues reflect the value of volumes supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and the period-end.

Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

4. Critical accounting estimates and assumptions

In connection with the preparation of these condensed consolidated interim financial statements, 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 management believes to be relevant at the time the condensed consolidated interim financial statements are prepared. On a regular basis, 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 our assumptions and estimates,

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and such differences could be material. Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the condensed consolidated interim financial statements:

- *Impairment of non-current assets:* Management estimates the future cash flows and the appropriate discount rates to calculate the value in use that is compared to the net carrying amount to determine if an impairment loss needs to be recognized in the consolidated financial statements. In management's judgment, PFC Venezuela does not exercise control or significant influence over the operating and financial decisions of Baripetrol or PetroCumarebo. The investments are therefore classified as available-for-sale. The Company monitors the value of the investments for impairment using a valuation model. Reasonable changes in the assumptions used in the model, specifically in relation to the probability of future dividends, result in highly significant variations in the fair value estimates. As the range of potential fair values is so significant and the probabilities of the various estimates cannot be reasonably assessed, the Company cannot accurately determine the respective fair values of Baripetrol or PetroCumarebo at September 30, 2010. Therefore the Company has recognized these investments at cost less impairment.
- *Non-controlling interest:* The non-controlling interest in SRH was initially measured as Northland's participation in SRH's net assets at the date of acquisition and subsequently measured as Etrion's maximum total commitment in respect of Northland's participation (guaranteed floor) **Note 18**.
- *Stock-based compensation:* Management estimates some of the inputs used to calculate the stock option expense recognized in the consolidated financial statements.
- *Fair value of financial and derivative instruments:* Management uses projections of cash flows and interest rates to calculate the fair value of the financial instruments and derivative instruments recognized in the consolidated financial statements.
- *Purchase accounting:* Management uses valuation models that include estimates regarding the value and timing of future cash flows to calculate the fair value of assets, contingent liabilities, etc. acquired in a business combination for the purposes of allocating the purchase price and calculating the resulting goodwill.

5. Transition to International Financial Reporting Standards

As stated in **Note 2**, these condensed consolidated interim financial statements are for part of the period covered by the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in **Note 3** have been applied in preparing these condensed consolidated interim financial statements for the three and nine months ended September 30, 2010, the comparative information for the three and nine months ended September 30, 2009, the financial information for the year ended December 31, 2009 and the preparation of an opening IFRS balance sheet on the Transition Date, January 1, 2009.

In preparing its opening IFRS balance sheet, comparative information for the three and nine months ended September 30, 2009 and financial statements for the year ended December 31, 2009, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from the previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

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The guidance for the first time adoption of IFRS is set out in IFRS 1, which provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemption:

- *Business combinations (IFRS 3 revised)*: Management elected not to apply IFRS 3 (revised) to business combinations that occurred before the date of transition.

a) There were no IFRS conversion adjustments affecting other comprehensive income at January 1, 2009

b) Reconciliation of equity at January 1, 2009 (Transition Date)

| GAAP refers to CANADIAN GAAP | Reference | January 1, 2009 | | IFRS |
|---|-----------|-------------------|-----------------|-------------------|
| | | GAAP | Adjustment | |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | 565,926 | - | 565,926 |
| Intangible assets | | - | - | - |
| Investments | | 54,046,990 | - | 54,046,990 |
| Derivative financial instruments | | - | - | - |
| Trade and other receivables | | 494,564 | - | 494,564 |
| Total non-current assets | | 55,107,480 | - | 55,107,480 |
| Current assets | | | | |
| Trade and other receivables | | 7,123,821 | - | 7,123,821 |
| Cash and cash equivalents | | 26,667,337 | - | 26,667,337 |
| Total current assets | | 33,791,158 | - | 33,791,158 |
| Total assets | | 88,898,638 | - | 88,898,638 |
| EQUITY | | | | |
| Attributable to owners of Etrion Corporation | | | | |
| Common shares | | 107,556,977 | - | 107,556,977 |
| Warrants | V | 1,867,386 | (1,867,386) | - |
| Contributed surplus | I | 8,717,779 | 56,179 | 8,773,958 |
| Cumulative translation adjustment | | - | - | - |
| Accumulated deficit | I | (30,657,482) | 1,748,355 | (28,909,127) |
| | | 87,484,660 | (62,852) | 87,421,808 |
| Non-controlling interest | | - | - | - |
| Total equity | | 87,484,660 | (62,852) | 87,421,808 |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Provisions for other liabilities | | 494,564 | - | 494,564 |
| Total non-current liabilities | | 494,564 | - | 494,564 |
| Current liabilities | | | | |
| Derivative financial instruments | V | - | 62,852 | 62,852 |
| Trade and other payables | | 919,414 | - | 919,414 |
| Current income tax liability | | - | - | - |
| Total current liabilities | | 919,414 | 62,852 | 982,266 |
| Total liabilities | | 1,413,978 | 62,852 | 1,476,830 |
| Total equity and liabilities | | 88,898,638 | - | 88,898,638 |

Reference relates to the references in 5.f)

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c) Reconciliation of net equity at December 31, 2009 and September 30, 2009

| GAAP refers to CANADIAN GAAP | Reference | December 31, 2009 | | | September 30, 2009 | | |
|---|-----------|-------------------|--------------------|-------------------|--------------------|------------------|-------------------|
| | | GAAP | Adjustment | IFRS | GAAP | Adjustment | IFRS |
| ASSETS | | | | | | | |
| Non-current assets | | | | | | | |
| | II | 883,509 | (28,368) | 855,141 | 451,950 | - | 451,950 |
| | IV,II | 6,732,330 | (1,101,345) | 5,630,985 | 3,751,664 | - | 3,751,664 |
| | | 10,000,000 | - | 10,000,000 | 10,000,000 | - | 10,000,000 |
| | | 231,429 | - | 231,429 | - | - | - |
| | | 753,473 | - | 753,473 | - | - | - |
| | | 18,600,741 | (1,129,713) | 17,471,028 | 14,203,614 | - | 14,203,614 |
| Current assets | | | | | | | |
| | | - | - | - | 43,933 | - | 43,933 |
| | | 1,330,956 | - | 1,330,956 | 1,761,759 | - | 1,761,759 |
| | | 23,447,778 | - | 23,447,778 | 27,006,197 | - | 27,006,197 |
| | | 24,778,734 | - | 24,778,734 | 28,811,889 | - | 28,811,889 |
| | | 43,379,475 | (1,129,713) | 42,249,762 | 43,015,503 | - | 43,015,503 |
| EQUITY | | | | | | | |
| Attributable to owners of Etrion Corporation | | | | | | | |
| | | 107,556,977 | - | 107,556,977 | 107,556,977 | - | 107,556,977 |
| | V | 1,867,386 | (1,867,386) | - | 1,867,386 | (1,867,386) | - |
| | I | 10,140,784 | 199,771 | 10,340,555 | 9,107,893 | 117,813 | 9,225,706 |
| | II | - | (374,902) | (374,902) | - | - | - |
| | I | (89,714,560) | 1,825,410 | (87,889,150) | (84,601,464) | 1,609,455 | (82,992,009) |
| | | 29,850,587 | (217,107) | 29,633,480 | 33,930,792 | (140,118) | 33,790,674 |
| | | 29,850,587 | (217,107) | 29,633,480 | 33,930,792 | (140,118) | 33,790,674 |
| | | - | - | - | - | - | - |
| | | 29,850,587 | (217,107) | 29,633,480 | 33,930,792 | (140,118) | 33,790,674 |
| LIABILITIES | | | | | | | |
| Non-current liabilities | | | | | | | |
| | | 1,279,197 | - | 1,279,197 | - | - | - |
| | IV | 1,696,791 | (923,991) | 772,800 | 877,177 | - | 877,177 |
| | | 700,824 | - | 700,824 | - | - | - |
| | | 3,676,812 | (923,991) | 2,752,821 | 877,177 | - | 877,177 |
| Current liabilities | | | | | | | |
| | V | 698,522 | 11,385 | 709,907 | - | 140,118 | 140,118 |
| | | 9,061,848 | - | 9,061,848 | 8,207,534 | - | 8,207,534 |
| | | 91,706 | - | 91,706 | - | - | - |
| | | 9,852,076 | 11,385 | 9,863,461 | 8,207,534 | 140,118 | 8,347,652 |
| | | 13,528,888 | (912,606) | 12,616,282 | 9,084,711 | 140,118 | 9,224,829 |
| | | 43,379,475 | (1,129,713) | 42,249,762 | 43,015,503 | - | 43,015,503 |

Reference relates to the references in 5.f)

There were no adjustments in other comprehensive income

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d) Reconciliation of comprehensive income for the three and nine months ended September 30, 2009

| GAAP refers to CANADIAN GAAP | Reference | September 30, 2009 | | | September 30, 2009 | | |
|--|-----------|---------------------|------------------------|---------------------|---------------------|------------------------|---------------------|
| | | GAAP | 3 months Adjustment | IFRS | GAAP | 9 months Adjustment | IFRS |
| General and administrative costs | I,II,IV | (7,147,691) | 44,553 | (7,103,138) | (10,212,511) | (61,633) | (10,274,144) |
| Impairment of oil and gas investments | | (44,046,990) | - | (44,046,990) | (44,046,990) | - | (44,046,990) |
| Operating (loss) | | (51,194,681) | 44,553 | (51,150,128) | (54,259,501) | (61,633) | (54,321,134) |
| Finance income | II | 250,269 | (25,835) | 224,434 | 315,519 | (77,266) | 238,253 |
| Finance income (costs) - net | | 250,269 | (25,835) | 224,434 | 315,519 | (77,266) | 238,253 |
| (Loss) before income tax | | (50,944,412) | 18,718 | (50,925,694) | (53,943,982) | (138,899) | (54,082,881) |
| Total (loss) | | (50,944,412) | 18,718 | (50,925,694) | (53,943,982) | (138,899) | (54,082,881) |
| Total comprehensive (loss) | | (50,944,412) | 18,718 | (50,925,694) | (53,943,982) | (138,899) | (54,082,881) |
| (Loss) attributable to: | | | | | | | |
| Owners of Etrion Corporation | | (50,944,412) | 18,718 | (50,925,694) | (53,943,982) | (138,899) | (54,082,881) |
| Total comprehensive (loss) attributable to: | | | | | | | |
| Owners of Etrion Corporation | | (50,944,412) | 18,718 | (50,925,694) | (53,943,982) | (138,899) | (54,082,881) |
| Basic and diluted (loss) per share | | (0.32) | | (0.32) | (0.34) | | (0.34) |

Reference relates to the references in 5.f)

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e) Reconciliation of comprehensive income for the year ended December 31, 2009

| GAAP refers to CANADIAN GAAP | Reference | December 31, 2009 | | |
|--|-----------|---------------------|-------------------------|---------------------|
| | | GAAP | 12 months Adjustment | IFRS |
| General and administrative costs | I,II,VI | (58,514,300) | (232,094) | (58,746,394) |
| Operating (loss) | | (58,514,300) | (232,094) | (58,746,394) |
| Finance income | II | 304,107 | 43,073 | 347,180 |
| Finance costs | III | (754,257) | 265,105 | (489,152) |
| Finance income (costs) - net | | (450,150) | 308,178 | (141,972) |
| (Loss) before income tax | | (58,964,450) | 76,084 | (58,888,366) |
| Income tax (expense) recovery | II | (92,628) | 972 | (91,656) |
| Total (loss) | | (59,057,078) | 77,056 | (58,980,022) |
| Other comprehensive income | | | | |
| Loss on foreign currency translation adjustment | III | - | (374,902) | (374,902) |
| Total other comprehensive (loss) | | - | (374,902) | (374,902) |
| Total comprehensive (loss) | | (59,057,078) | (297,846) | (59,354,924) |
| (Loss) attributable to: | | | | |
| Owners of Etrion Corporation | | (59,057,078) | 77,056 | (58,980,022) |
| Total comprehensive (loss) attributable to: | | | | |
| Owners of Etrion Corporation | | (59,057,078) | (297,846) | (59,354,924) |
| Basic and diluted (loss) per share | | (0.37) | | (0.37) |

Reference relates to the references in 5.f)

f) References to the IFRS conversion adjustments

I. This IFRS conversion adjustment relates to the accounting treatment of stock options granted by the Company. For Canadian GAAP purposes, the Company measured forfeitures based on an estimated number of forfeitures expected to be incurred. In addition, the Company used the straight-line method to recognize the graded-vesting features of the stock option. Under IFRS, the Company made an initial estimation of the expected number of forfeitures and subsequently adjusted it to reflect the actual number of awards vested. In addition, each installment of the graded-vesting features was treated as a separate award because each installment had a different vesting period. This resulted in additional cost that was debited to retained earnings at the Transition Date, plus subsequent adjustments to general and administrative expenses and contributed surplus.

II. This IFRS conversion adjustment relates to the GAAP difference associated with the translation of foreign currency transactions. For Canadian GAAP purposes, foreign subsidiaries were considered to be an extension of the Company's operations (not self-sustaining). Therefore, their functional currency was deemed to be the US dollar and the transactions and balances denominated in a different currency were translated using current rates, historic rates and average rates depending on the nature of the transactions (monetary items, non monetary items and profit and loss items). Under IFRS, the functional currencies of the foreign operations are the currencies where each subsidiary conducts its business (mainly the

Notes to the Condensed Consolidated Interim Financial Statements

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country where the subsidiary is located) and its financial statements are translated to US dollars (the presentation currency) using the methodology described in [Note 3 \(c\)](#).

III. This IFRS conversion adjustment relates to the reversal of foreign exchange gains and losses resulting from translating the financial statements of a foreign subsidiary. For Canadian GAAP, these exchange differences were recorded in the consolidated statement of comprehensive income as “Finance income (costs)”. For IFRS purposes, these foreign exchange gains or losses are an item of other comprehensive income and accumulated in the consolidated statement of changes in equity as a cumulative translation adjustment reserve.

IV. This IFRS conversion adjustment relates to the reversal of deferred tax liabilities recognized from the purchase of SVE and allocated to intangibles under Canadian GAAP. For IFRS purposes, IAS 12 prohibits recognition of a deferred tax liability if it arises from the initial recognition of specified assets or liabilities in a transaction that is not a business combination and did not affect accounting or taxable income at the time of the transaction. SVE was accounted for as an asset acquisition (licenses) consistent with accounting policies described in [Note 3](#).

V. The warrants entitled the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the company’s functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of comprehensive income as they arise. The Company has recorded these changes in finance costs. Under Canadian GAAP, the warrants were classified as equity and changes in fair value were not recognized.

VI. IFRS 1 requires that consistent policies are applied from the date of transition onwards. This means that IFRS 3 revised is applicable for both 2009 and 2010. The acquisition accounting for SRH was based upon the original IFRS 3 where acquisition costs were capitalized. The Company has recorded acquisition costs as part of general and administrative costs and also had to record a new amount for the goodwill and deferred tax liability at the time of the acquisition.

g) There were no IFRS conversion adjustments affecting the cash flow statement at January 1, 2009, September 30, 2009, or December 31, 2009.

6. Business combinations

Acquisition of SunRay Italy Holding, SRL (“SunRay Italy”)

On August 5, 2010, the Company’s Luxembourg subsidiary, SRH, acquired 100% of the outstanding shares of SunRay Italy, an Italian company that owns 100% of the project company Cassiopea PV, SRL (“Cassiopea”), which owns and operates a 24 MW solar power plant in Italy. The goodwill arising from the acquisition amounts to \$345,821 (€262,383) and is the excess of the net fair value of acquired net assets over the purchase price. There is no goodwill amount expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for SunRay Italy:

| Purchase consideration | EURO | USD |
|--|-------------------|-------------------|
| Cash consideration for 100% of the share capital of SunRay Italy | 11,575,342 | 15,256,301 |
| Additional consideration | 365,943 | 482,313 |
| TOTAL | 11,941,285 | 15,738,614 |

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The amount of assets acquired and liabilities assumed at the acquisition date are summarized in the following table:

| Allocation of the purchase price | PROVISIONAL FAIR VALUE | |
|--|------------------------|-------------------|
| | EURO | USD |
| Cash and cash equivalents | 11,505,113 | 15,163,739 |
| Restricted cash | 2,630,753 | 3,467,332 |
| Trade and other receivables | 17,111,552 | 22,553,026 |
| Property, plant and equipment | 135,968,794 | 179,206,871 |
| Trade and other payables | (2,848,405) | (3,754,199) |
| Long-term debt | (115,161,384) | (151,782,704) |
| Other long-term provisions and liabilities | (25,230,984) | (33,254,437) |
| Derivative instrument | (9,375,190) | (12,356,500) |
| Net deferred tax liability | (2,921,347) | (3,850,335) |
| Net identifiable assets acquired | 11,678,902 | 15,392,793 |
| Goodwill | 262,383 | 345,821 |
| | 11,941,285 | 15,738,614 |

The Group's share of SunRay Italy's net results from the date of acquisition to September 30, 2010 was net loss of \$0.5 million (€0.4 million) and the group's share of SunRay Italy's revenue from the date of acquisition to September 30, 2010 was \$4.7 (€3.6 million). If the acquisition of SunRay Italy had occurred on January 1, 2010, the Group's consolidated revenue and net loss as for the nine months ended September 30, 2010 would have increased by \$20.4 million (€15.5 million) and decreased by \$4.8 million (€3.6 million), respectively.

The restricted cash of \$3.2 million (€2.6 million) recognized at the acquisition date relates to cash provided by former SunRay Italy shareholder for the purpose of providing a cash guarantee to the project lender banks (Note 12) in respect of the equity contribution in Cassiopea, based on the total estimated project costs.

The fair value and gross amount of trade and other receivables is \$22.7 million (€17.1 million) and includes mainly trade receivables and VAT receivables with a value of \$7.2 million (€5.4 million) and \$14.8 million (€11.5 million), respectively, that are expected to be fully collected.

Prior to acquisition, SunRay Italy owed \$32.9 million (€25.0 million) to its shareholder. As part of acquisition, SRH repaid \$29.5 million (€22.4 million) of these borrowings. The remaining balance relates to the restricted cash as described above. On September 21, 2010, this restricted cash was released by the lender banks, however, as of the period end date was not used to repay the remaining portion of the former shareholders' loan. The remaining borrowings were repaid in November 2010.

Under the sale and purchase agreement signed between Etrion and SunRay, the consideration paid is subject to price adjustments that may arise from the correction or revision of initial data used in the calculation of the purchase price. The price revision period ends January, 2011. As at 30 September 2010, the Company has accrued \$0.5 million (€0.4 million) as a preliminary result of this purchase price adjustment mechanism.

The provisional values of assets and liabilities are recognized at their estimated fair values at the date of acquisition. IFRS allows up to 12 months for provisional acquisition accounting to be finalized following the acquisition date if any subsequent information provides better evidence of the item's fair value at the date of acquisition. Currently for SunRay Italy, the Group has undertaken a detailed review to determine the fair value of assets and liabilities recognized at the date of acquisition.

Acquisition-related costs directly attributable to this business combination amounted to approximately \$388,968 (€285,000) and have been recognized as part of the general and administrative costs.

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Acquisition of Helios ITA, Srl (“Helios ITA”)

On June 24, 2010, the Company’s Luxembourg subsidiary, SRH, acquired 90% of the share capital of Helios ITA, an Italian company that owns and operates solar power plants in Italy. The operating assets consist of 6.4 MW of ground-based solar PV plants in the Puglia region. The goodwill arising from the acquisition of \$21,434 (€17,467) is the excess of the purchase price over the net fair value of acquired assets that was not possible to allocate to identifiable assets that would qualify for separate recognition. There is no goodwill amount expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for Helios ITA at acquisition:

| Purchase consideration | EURO | USD |
|---|------------------|------------------|
| Cash consideration for 90% of the share capital of Helios ITA | 1,500,000 | 1,840,650 |
| Cash replaced | 255,125 | 313,064 |
| TOTAL | 1,755,125 | 2,153,714 |

The amount of assets acquired and liabilities assumed at the acquisition date are summarized in the following table:

| Allocation of the purchase price | PROVISIONAL FAIR VALUE | |
|---|-------------------------------|--------------------|
| | EURO | USD |
| Cash and cash equivalents | 519,126 | 637,020 |
| Restricted cash | 255,125 | 313,063 |
| Trade and other receivables | 4,741,322 | 5,818,076 |
| Property, plant and equipment | 37,044,406 | 45,457,190 |
| Intangible assets | 664,899 | 815,898 |
| Trade and other payables | (4,235,858) | (5,197,821) |
| Long-term debt | (32,669,915) | (40,089,253) |
| Derivative instrument | (3,056,304) | (3,750,391) |
| Net deferred tax liability | (1,332,070) | (1,634,582) |
| Net identifiable assets acquired | 1,930,731 | 2,369,200 |
| Non-controlling interest | (193,073) | (236,920) |
| Goodwill | 17,467 | 21,434 |
| | 1,755,125 | 2,153,714 |

The Group's share of Helios ITA’s net results from the date of acquisition to September 30, 2010 was net loss of \$0.8 million (€0.6 million) and the group’s share of Helios ITA’s revenue from the date of acquisition to September 30, 2010 was \$2.0 million (€1.6 million). If the acquisition of Helios ITA had occurred on January 1, 2010, the Group’s consolidated revenue and net loss as for the nine months ended September 30, 2010 would have increased by \$4.6 million (€3.5 million) and \$7.1 million (€5.4 million), respectively.

The restricted cash recognized at the acquisition date relates to cash replaced of \$0.3 million (€0.2 million) funded with the purpose of providing a cash guarantee to the project lender bank in respect of the Company’s equity contribution based on the total estimated project costs. Concurrent with the acquisition, the Company provided additional funding to the restricted cash bank account in the amount of \$1.1 million (€0.9 million) to fulfill its equity contribution obligations. This restricted cash is expected to be available to the Company in December 2010 upon confirmation of the total project costs.

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The fair value and gross amount of trade and other receivables is \$5.7 million (€4.7 million) and includes trade receivables and VAT receivables with a value of \$1.8 million (€1.5 million) and \$2.0 million (€1.7 million), respectively, that are expected to be fully collected.

Obtaining information about acquisition-related costs directly attributable to this business combination was impractical given that the amounts incurred related to a portfolio of assets acquired, including those not qualifying for business combinations.

The Company also acquired a shareholder loan in the amount of \$2.7 million (€2.3 million) in order to repay an equivalent amount advanced to Helios ITA by Deutsche Bank. As at the acquisition date the Company assumed the debt, and the intercompany balance was eliminated in the consolidation process.

The provisional values of assets and liabilities are recognized at their estimated fair values at the date of acquisition. IFRS allows up to 12 months for provisional acquisition accounting to be finalized following the acquisition date if any subsequent information provides better evidence of the item's fair value at the date of acquisition. The Group has undertaken a detailed review of Helios ITA to determine the fair value of assets and liabilities recognized at the date of acquisition.

On July 16, 2010, SRH acquired the remaining 10% of the share capital of Helios ITA from Sun Energy, SRL for \$184,065 (€150,000).

7. Segment reporting

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors assesses the business based on the Company's various activities and has identified two reportable segments: 1) the Renewable Energy segment, which includes the solar power projects in Europe; and 2) the Oil and Gas segment, which includes the passive oil and gas investments in Venezuela. The accounting policies of the operating segments are the same as the Group's accounting policies described in [Note 3](#). However, IFRS requires that the measure of profit or loss disclosed for each operating segment is the measure that is provided regularly to the chief operating decision maker for the purposes of performance assessment and resource allocation. For the Company, this measure of profit or loss is earnings before interest, tax, depreciation and amortization expense ("EBITDA"). EBITDA is not a recognized IFRS measure.

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The following shows EBITDA and profit or loss by segment for the three and nine month periods ending September 30, 2010 and 2009:

| | Oil and Gas Segment | Renewable Energy Segment | Reconciling item- Corporate | Total |
|---------------------------------------|------------------------|--------------------------------|-----------------------------------|---------------------|
| September 30, 2010 - 3 months | | | | |
| Total segment revenue | - | 6,833,153 | - | 6,833,153 |
| EBITDA | - | 5,630,967 | (4,406,332) | 1,224,635 |
| Finance income (costs) - net | - | (5,311,250) | (109,775) | (5,421,025) |
| Depreciation and amortization expense | - | (2,042,607) | (24,738) | (2,067,345) |
| Income tax expense | - | (102,842) | (9,749) | (112,591) |
| Total (loss) for the period | - | (1,825,732) | (4,550,594) | (6,376,326) |
| September 30, 2009 - 3 months | | | | |
| Total segment revenue | - | - | - | - |
| EBITDA | - | - | (7,051,414) | (7,051,414) |
| Impairment of long-lived assets | (44,046,990) | - | - | (44,046,990) |
| Finance income (costs) - net | - | - | 224,434 | 224,434 |
| Depreciation and amortization expense | - | - | (51,724) | (51,724) |
| Total (loss) for the period | (44,046,990) | - | (6,878,704) | (50,925,694) |
| September 30, 2010 - 9 months | | | | |
| Total segment revenue | - | 6,960,393 | - | 6,960,393 |
| EBITDA | - | 5,721,459 | (10,481,227) | (4,759,768) |
| Finance income (costs) - net | - | (7,396,107) | 147,855 | (7,248,252) |
| Depreciation and amortization expense | - | (2,088,598) | (90,482) | (2,179,080) |
| Income tax recovery (expense) | - | (102,842) | 187,050 | 84,208 |
| Total (loss) for the period | - | (3,866,088) | (10,236,804) | (14,102,892) |
| September 30, 2009 - 9 months | | | | |
| Total segment revenue | - | - | - | - |
| EBITDA | - | - | (10,106,790) | (10,106,790) |
| Impairment of long-lived assets | (44,046,990) | - | - | (44,046,990) |
| Finance income (costs) - net | - | - | 238,253 | 238,253 |
| Depreciation and amortization expense | - | - | (167,354) | (167,354) |
| Total (loss) for the period | (44,046,990) | - | (10,035,891) | (54,082,881) |

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The following shows total assets and liabilities by segment as at September 30, 2010 and December 31, 2009:

| | Oil and Gas Segment | Renewable Energy Segment | Reconciling item- Corporate | Total |
|-------------------------------|------------------------|--------------------------------|-----------------------------------|--------------------|
| September 30, 2010 | | | | |
| Property, plant and equipment | - | 255,911,160 | 315,309 | 256,226,469 |
| Investments | 10,000,000 | 409,441 | - | 10,409,441 |
| Intangible assets | - | 14,401,910 | - | 14,401,910 |
| Cash | - | 45,766,500 | 1,446,502 | 47,213,002 |
| Other | - | 35,129,844 | 2,567,359 | 37,697,203 |
| Total assets | 10,000,000 | 351,618,855 | 4,329,170 | 365,948,025 |
| Total liabilities | 1,125,000 | 326,566,089 | 6,731,301 | 334,422,390 |
| December 31, 2009 | | | | |
| Property, plant and equipment | - | 715,774 | 139,367 | 855,141 |
| Investments | 10,000,000 | - | - | 10,000,000 |
| Intangible assets | - | 5,630,985 | - | 5,630,985 |
| Cash | - | 8,841,451 | 14,605,925 | 23,447,376 |
| Other | - | 789,272 | 1,526,988 | 2,316,260 |
| Total assets | 10,000,000 | 15,977,482 | 16,272,280 | 42,249,762 |
| Total liabilities | 1,125,000 | 3,258,105 | 8,233,177 | 12,616,282 |

8. Investments

| | Company's Share | September 30, 2010 | December 31, 2009 |
|-------------------------------|-----------------|--------------------|-------------------|
| PetroCumarebo | 40% | 1,900,000 | 1,900,000 |
| Baripetrol | 5% | 8,100,000 | 8,100,000 |
| Energy Service Provider (ESP) | 2% | 409,441 | - |
| Total | | 10,409,441 | 10,000,000 |

The Company's subsidiary, PFC Venezuela, owns 40% of PetroCumarebo, S.A., a Venezuelan company majority owned by Petróleos de Venezuela ("PDVSA"), the Venezuelan national oil company. PetroCumarebo holds the operating rights to the East and West Falcon blocks in northwestern Venezuela and has current onshore production of oil and natural gas.

PFC Venezuela also owns 5% of Baripetrol, S.A., another Venezuelan company majority owned by PDVSA. Baripetrol holds the operating rights to the Colon Block in western Venezuela and has current onshore production of oil and natural gas.

On June 24, 2010, the Company's subsidiary, SRH, acquired an investment in ESP, an Italian solar developer, as part of the acquisition of the Deutsche Bank solar portfolio in Italy.

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Impairment of investments in oil and gas companies in 2009

Given the fact that no dividends have been received since the effective date of PetroCumarebo (April 1, 2006), and the only dividends that are expected to be received in the future correspond to the operations of 2007 and 2008, management concluded, based on a risk-adjusted probability approach, that the fair value of the PetroCumarebo investment is approximately \$1.9 million. Therefore, a write-down of \$38.7 million was recorded in 2009.

In addition, management considered the history of dividends paid by Baripetrol, the advance on dividends received in the third quarter of 2009, as well as the dividends that are expected to be received in the future. Based on the current reserves and expected future oil and gas prices and the weighted probabilities of potential future cash flow scenarios, management concluded that the fair value of this investment is approximately \$8.1 million. Therefore, a write-down of \$5.3 million was recorded in 2009.

During the nine month period ended September 30, 2010, there were no indicators that suggested a decrease in the fair value of the investments (Note 4).

9. Expenses by nature

| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
|--|--------------------|--------------------|--------------------|--------------------|
| | 3 months | 3 months | 9 months | 9 months |
| <i>Production and operating costs:</i> | | | | |
| O&M contract costs | 243,753 | - | 243,753 | - |
| Land lease | 5,632 | - | 5,632 | - |
| Insurance | 108,607 | - | 108,607 | - |
| Depreciation and amortization | 2,050,876 | - | 2,088,598 | - |
| Other operating expenses | 482,929 | - | 482,929 | - |
| Total | 2,891,797 | - | 2,929,519 | - |
| <i>General and administrative expenses:</i> | | | | |
| Salary and compensation expense | 794,234 | 412,972 | 3,243,906 | 1,600,125 |
| Non-cash compensation | - | 5,544,720 | - | 5,544,720 |
| Stock-based compensation | 937,945 | 278,669 | 2,737,343 | 451,748 |
| Corporate and professional fees | 1,368,700 | 272,102 | 2,473,311 | 1,306,102 |
| Depreciation and amortization | 24,738 | 51,724 | 90,482 | 167,354 |
| Office, listing, filing and other expenses | 1,731,217 | 542,951 | 2,497,448 | 1,204,095 |
| Total | 4,856,834 | 7,103,138 | 11,042,490 | 10,274,144 |

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10. Property, plant and equipment

| | Land | Solar power plant | Equipment and furniture | Work in progress | Total |
|---|-------------------|--------------------|-------------------------|-------------------|--------------------|
| At December 31, 2009 | | | | | |
| Cost | 184,355 | - | 806,639 | 453,340 | 1,444,334 |
| Accumulated depreciation | - | - | (589,193) | - | (589,193) |
| Net book amount | 184,355 | - | 217,446 | 453,340 | 855,141 |
| Nine months ended September 30, 2010 | | | | | |
| Opening net book amount | 184,355 | - | 217,446 | 453,340 | 855,141 |
| Exchange differences - cost | (9,700) | - | (10,312) | (23,853) | (43,865) |
| Exchange differences - accumulated depreciation | - | (80,240) | (29,465) | - | (109,705) |
| Additions | 4,932,001 | - | 174,709 | 16,403,197 | 21,509,907 |
| Acquisition of businesses (IFRS 3) | 6,767,535 | 227,582,224 | - | 1,778,655 | 236,128,414 |
| Disposal - cost | - | - | (160,180) | - | (160,180) |
| Disposals - accumulated depreciation | - | - | 214,636 | - | 214,636 |
| Depreciation charge | - | (2,077,397) | (90,482) | - | (2,167,879) |
| Closing net book amount | 11,874,191 | 225,424,587 | 316,352 | 18,611,339 | 256,226,469 |
| At September 30, 2010 | | | | | |
| Cost | 11,874,191 | 227,582,224 | 810,856 | 18,611,339 | 258,878,610 |
| Accumulated depreciation | - | (2,157,637) | (494,504) | - | (2,652,141) |
| Net book amount | 11,874,191 | 225,424,587 | 316,352 | 18,611,339 | 256,226,469 |

As discussed in [Note 6](#), the Group acquired Helios ITA, a company that owns and operates solar power plants in Italy. As a result of the acquisition, the Group recognized \$48.9 million (€37 million) of assets from the acquisition of solar plants and land at fair value.

On April 30, 2010, the Group completed the acquisition of the non-operating project companies from Deutsche Bank with 10 MW of permitted projects ready for construction and a development pipeline of more than 150 MW in various stages of permitting. The transaction resulted in the recognition of land of \$4.9 million (€3.6 million).

The Group is currently in the construction phase of a 3 MW power plant project in Italy and, based on the construction progress, has incurred costs in the amount of \$15.4 million (€11.3 million).

As discussed in [Note 6](#), the Group acquired SunRay Italy, a company that owns and operate a solar power plant in Italy. As a result of the acquisition, the Group recognized \$185.4 million (€135.9 million) of assets from the acquisition of the solar plant and land at fair value.

Interest costs capitalized as part of solar power plants under construction amounted to \$109,249.

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11. Intangible assets

| | Goodwill | Licenses | Other | Total |
|---|------------------|-------------------|----------------|-------------------|
| At December 31, 2009 | | | | |
| Cost | 695,438 | 4,913,127 | 22,420 | 5,630,985 |
| Net book amount | 695,438 | 4,913,127 | 22,420 | 5,630,985 |
| Nine months ended September 30, 2010 | | | | |
| Opening net book amount | 695,438 | 4,913,127 | 22,420 | 5,630,985 |
| Exchange differences - cost | (25,061) | (258,514) | (1,180) | (284,755) |
| Exchange differences - accumulated amortization | - | (4,319) | - | (4,319) |
| Additions | - | 7,348,065 | 545,890 | 7,893,955 |
| Acquisition of businesses (IFRS 3) | 370,403 | 907,454 | - | 1,277,857 |
| Amortization charge | - | (111,813) | - | (111,813) |
| Closing net book amount | 1,040,780 | 12,794,000 | 567,130 | 14,401,910 |
| At September 30, 2010 | | | | |
| Cost | 1,040,780 | 12,910,132 | 567,130 | 14,518,042 |
| Accumulated amortization | - | (116,132) | - | (116,132) |
| Net book amount | 1,040,780 | 12,794,000 | 567,130 | 14,401,910 |

As discussed in [Note 6](#), the Company acquired Helios ITA, a company that owns and operates solar power plants in Italy. As a result of the acquisition the Company recognized \$0.9 million (€0.7 million) from the acquisition of licenses.

On April 30, 2010, the Company completed the acquisition of the non-operating project companies from Deutsche Bank with 10 MW of permitted projects ready for construction and a development pipeline of more than 150 MW in various stages of permitting. The transaction resulted in the recognition of permitted projects (licenses) and development contracts for \$5.5 million (€4.0 million).

On June 10 and July 5, 2010, the Company's subsidiary, SRH, purchased 40% and 60%, respectively, of the outstanding shares and permits of an Italian entity, Etrion Lazio, SRL ("Etrion Lazio") for an aggregate purchase price of €0.9 million (\$1.2 million), including a deferred payable. Etrion Lazio owns the required permits for the construction of the 3.5 MW Borgo Piave solar power plant in the Lazio region. As a result of the acquisition, the Company recognized \$1.1 million from the acquisition of licenses.

On August 5, 2010, Etrion Lazio purchased 100% of the outstanding shares and permits of an Italian entity, Smart Power, SRL ("Smart Power") for an aggregate purchase price of \$0.5 million (€0.4 million). Smart Power owns the required permits for the construction of the 1.7 MW Rio Martino solar power plant in the Lazio region. As a result of the acquisition, the Company recognized \$0.5 million from the acquisition of licenses.

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12. Borrowings

The movement of the loan facilities during the nine months ended September 30, 2010 is as follows:

| | Lundin Services BV | Societe Generale and Dexia | Intesa and others | Centrobanca | Total |
|---|-----------------------|----------------------------------|--------------------|-------------------|---------------------|
| Carrying value at December 31, 2009 | - | - | - | 1,279,197 | 1,279,197 |
| Nine months ended September 30, 2010 | | | | | |
| Proceeds from loans | 81,478,560 | 921,727 | - | 12,215,474 | 94,615,761 |
| Borrowings assumed on acquisition of subsidiaries | - | 47,804,431 | 158,952,006 | - | 206,756,437 |
| Repayment of loans and interest | (16,118,136) | - | (6,238,992) | (45,514) | (22,402,642) |
| Accrued interest | 834,279 | 288,747 | 889,389 | 129,102 | 2,141,517 |
| Amortization of transaction costs | 74,463 | 23,021 | 41,867 | 49,174 | 188,525 |
| Exchange differences | 35,100 | 12,041 | 35,969 | (58,549) | 24,561 |
| Carrying value at September 30, 2010 | 66,304,266 | 49,049,967 | 153,680,239 | 13,568,884 | 282,603,356 |
| Less current portion | - | (5,667,062) | (3,823,508) | (200,403) | (9,690,973) |
| Total non-current at September 30, 2010 | 66,304,266 | 43,382,905 | 149,856,731 | 13,368,481 | 272,912,383 |
| Fair value at September 30, 2010 | 66,304,266 | 49,049,967 | 153,680,239 | 13,568,884 | 282,603,356 |

As part of the acquisition of Helios ITA (Note 6), the Company assumed the loan payable to Societe Generale and Dexia related to the credit facility agreement from December 2008. The Company also assumed pledges on 100% of the receivables and assets, including trade and VAT receivables, plant, land and bank accounts. The purpose of the credit facility agreement was to finance the construction of power plants in Italy. The Company can draw funds up to a total of \$55.2 million (€45.0 million). The loan is due in 2024 and repayable in 28 installments plus a balloon payment at maturity date. Interest on the loan is payable at Euribor plus a margin, ranging from 1.35% for the first two years, 2.25% between the second and the fifth year and 2.5% thereafter. As at September 30, 2010, the cash sweep account balance was \$1.2 million (€0.9 million). Total transaction costs related to this facility amounted to \$1.36 million (€1.0 million).

As part of the acquisition of SunRay Italy (Note 6), the Company assumed the loan payable to Societe Generale S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A. (Intesa Sanpaolo Group) and WestLB AG for €120 million, with Societe Generale's participation in the financing partially guaranteed by SACE S.p.A., the Italian export credit agency. The loan includes two separate facilities: facility A of €107 million matures on June 30, 2028, and facility B of €13 million matures on September 30, 2013. The Company also assumed pledges on 100% of the receivables and assets, including trade and VAT receivables, plant, land and bank accounts. Total transaction costs related to this facility amounted to \$5.2 million (€3.8 million).

On November 4, 2009, the Italian subsidiary, SVE, SRL ("SVE") signed a credit facility agreement with Centrobanca, an Italian bank owned by UBI Group, for the construction of solar power plants in Italy. The non-recourse loan provided is for €17.2 million (\$23.5 million). The debt facility has a term of 17.5 years and bears a hedged fixed interest rate of 3.9% on 90% of the principal and a floating rate of 6-month Euribor on the remaining 10% of principal, plus a margin of 250 basis points during the first five years, 270 basis points during the second five years and 300 basis points thereafter.

In April 2010, the Company entered into a loan agreement with Lundin Services BV (Note 18) to draw funds up to \$24.5 million (€20.0 million) to finance capital and operating expenditures (the "Bridge Loan"). The Bridge Loan was due September 30, 2010, and interest was payable on the principal balance of the loan outstanding at Euribor plus 3%. On June 25, 2010, the Bridge Loan was amended to increase the amount of the credit facility to \$73.5 million (€60 million). On July 16, 2010, the

Notes to the Condensed Consolidated Interim Financial Statements

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Company made an additional drawdown under the Bridge Loan in the amount of \$39.2 million (€32 million), and on August 9, 2010, the Bridge Loan was further amended to extend the maturity date to October 31, 2011, and to amend the interest rate applicable after March 31, 2011, to Euribor plus 5%. On September 2, 2010, the Company made a partial repayment of the Bridge Loan in the amount of \$15.1 million (€11.6 million). On September 15, 2010, the Company made an additional drawdown under the Bridge Loan in the amount of \$10.4 million (€8 million). Total transaction costs related to this facility amounted to \$0.4 million (€0.3 million) [Note 21](#).

As at September 30, 2010, the minimum principal repayment obligations are as follows:

| | |
|------------------|--------------------|
| 6 months or less | 1,501,912 |
| 6 - 12 months | 8,189,061 |
| 1-5 years | 98,654,101 |
| Over 5 years | 174,258,282 |
| Total | 282,603,356 |

These credit facilities are denominated in Euros.

13. Financial instruments

a) Derivative instruments

The Company's net position for derivative instruments is as follows:

| | At September 30, 2010 | | At December 31, 2009 | |
|------------------------------------|------------------------------|-------------------|-----------------------------|------------------|
| | Asset | Liability | Asset | Liability |
| Interest rate swaps | - | 23,972,703 | 231,429 | 698,522 |
| Warrants | - | - | - | 11,385 |
| Total | - | 23,972,703 | 231,429 | 709,907 |
| Less current portion | - | (1,972,673) | - | (709,907) |
| Total non - current portion | - | 22,000,030 | 231,429 | - |

The fair market value of the instruments at September 30, 2010 resulted in a net liability of \$23.9 million due to a lower Euribor forecasted curve in comparison with projections in the hedge agreements. The Company recognized a loss of \$3.7 related to the derivative instruments carried at fair value through profit and loss during the nine months ended September 30, 2010 (\$2.3 million for the three month period ended September 30, 2010), which is included in Finance Cost in the consolidated interim statement of comprehensive income ([Note 15](#)).

| | Liability - net | |
|----------------------------|------------------------------|-----------------------------|
| | At September 30, 2010 | At December 30, 2009 |
| Centrobanca | 2,643,311 | 467,093 |
| Intesa and others | 15,547,348 | - |
| Societe Generale and Dexia | 5,782,044 | - |
| Total | 23,972,703 | 467,093 |

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As part of the acquisition of Helios ITA, the Company assumed eight swap agreements with Societe Generale and Dexia entered into with respect to the credit facility agreement (Note 12). The objective of these swap agreements is to hedge the interest rate risk on 100% of the principal projected to be outstanding prior to the project completion and on 100% of the amortizing principal scheduled to be outstanding under the credit facility agreement at each repayment date until the maturity date in 2024. The Company pays fixed interest (ranging from 3.8% to 4.1%) and receives Euribor. These swap agreements do not meet the hedge accounting criteria and its changes in fair value are recognized directly in finance cost.

As part of the acquisition of SunRay Italy, the Company assumed three swap agreements with Societe Generale S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A. (Intesa Sanpaolo Group) and WestLB AG entered into with respect to the credit facility agreement (Note 12). The objective of these swap agreements is to hedge the interest rate risk on 100% of the principal of facility A projected to be outstanding prior to the project completion and on 100% of the amortizing principal scheduled to be outstanding under the credit facility agreement at each repayment date until the maturity date in 2028. The Company pays fixed interest (ranging from 3.8% to 4.0%) and receives Euribor. These swap agreements meet the hedge accounting criteria. Changes in the fair value of these swap agreements are recognized in other comprehensive income.

On November 4, 2009, SVE entered into a non-recourse loan agreement with Centrobanca for a total amount of €17.2 million to fund the construction of solar power plants in Puglia, Italy. Pursuant to that agreement, SVE also entered into a hedging contract to cap 90% of the interest at 3.9% for a period of 17.5 years, consistent with the terms of the loan. These swap agreements do not meet the hedge accounting criteria and its changes in fair value are recognized directly in finance cost.

b) Financial assets

| | Available for sale | Held-to-maturity | Cash, loans and receivables | Assets at fair value through profit and loss | Total |
|----------------------------------|--------------------|------------------|-----------------------------|--|-------------------|
| At September 30, 2010 | | | | | |
| Trade and other receivables | - | 287,169 | 9,064,824 | - | 9,351,993 |
| Investments | 10,409,441 | - | - | - | 10,409,441 |
| Cash and cash equivalents | - | - | 47,213,003 | - | 47,213,003 |
| Total | 10,409,441 | 287,169 | 56,277,827 | - | 66,974,437 |
| At December 31, 2009 | | | | | |
| Derivative financial instruments | - | - | - | 231,429 | 231,429 |
| Trade and other receivables | - | - | 1,773,017 | - | 1,773,017 |
| Investments | 10,000,000 | - | - | - | 10,000,000 |
| Cash and cash equivalents | - | - | 23,447,778 | - | 23,447,778 |
| Total | 10,000,000 | - | 25,220,795 | 231,429 | 35,452,224 |

On June 24, 2010, the Company's subsidiary, SRH, acquired an investment in ESP as part of the acquisition of the Deutsche Bank solar portfolio in Italy. The Company accounts for this investment at fair value (Note 8).

Notes to the Condensed Consolidated Interim Financial Statements

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Unaudited – Expressed in US\$ unless otherwise stated

c) Financial liabilities

| | Liabilities at fair value through profit and loss | Other financial liabilities | Total |
|----------------------------------|---|-----------------------------|--------------------|
| At September 30, 2010 | | | |
| Borrowings | - | 282,603,356 | 282,603,356 |
| Derivative financial instruments | 23,972,703 | - | 23,972,703 |
| Trade and other payables | - | 18,165,929 | 18,165,929 |
| Total | 23,972,703 | 300,769,285 | 324,741,988 |
| At December 31, 2009 | | | |
| Borrowings | - | 1,279,197 | 1,279,197 |
| Derivative financial instruments | 709,907 | - | 709,907 |
| Trade and other payables | - | 9,061,848 | 9,061,848 |
| Total | 709,907 | 10,341,045 | 11,050,952 |

14. Share capital

The Company has authorized capital consisting of an unlimited number of common shares, of which 179,766,120 are issued and outstanding as at September 30, 2010. In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which are currently issued. The common shares of the Company have no par value. The common shares of the Company are all of the same class, carry voting rights and entitle shareholders to receive dividends as and when declared by the Board of Directors (Note 21).

On April 14, 2010, the Company issued 265,000 shares with a fair value of CAD\$0.56 as a result of stock options exercised during the nine month period ended September 30, 2010 (Note 17).

On February 1, 2010, Lundin Services BV's 5,000,000 warrants expired unexercised. According to the Canadian Income Tax Act (subsection 49(2)), the Company is deemed to have a capital gain equal to the proceeds received for issuing the warrants. The capital gain is taxed at 50% of the corporate income tax rate of 28%. The tax cost of the expiry has been recorded in contributed surplus, following the original treatment of this equity transaction. As the Company used previously unrecognized capital losses to reduce the current tax liability associated with the warrant expiry, a tax recovery has been recorded in the net tax expense for the quarter.

On August 23, 2010, the Company completed an equity financing to satisfy the continued listing requirements of the TSX through a private placement of 21,000,000 common shares at a price of CAD\$0.75 per share to arm's length investors, raising gross proceeds of CAD\$15,750,000 (approximately \$15.1 million).

Notes to the Condensed Consolidated Interim Financial Statements

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Unaudited – Expressed in US\$ unless otherwise stated

15. Finance income (cost) - net

| | September 30, 2010 3 months | September 30, 2009 3 months | September 30, 2010 9 months | September 30, 2009 9 months |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Finance income: | | | | |
| Interest income | 20,732 | 59,498 | 20,732 | 187,503 |
| Foreign exchange gain | 267,645 | 164,936 | 267,645 | 50,750 |
| Total finance income | 288,377 | 224,434 | 288,377 | 238,253 |
| Finance costs: | | | | |
| Interest expense on loan facilities: | | | | |
| - Interest expense related parties | (609,892) | - | (834,279) | - |
| - Interest expense | (1,267,960) | - | (1,307,238) | - |
| - Interest rate swap | (1,306,505) | - | (1,448,798) | - |
| Fair value loss on financial instruments: | | | | |
| - Interest rate swap | (2,004,708) | - | (3,669,848) | - |
| Amortization of transaction costs | (158,378) | - | (188,525) | - |
| Other finance cost - net | (471,208) | - | (197,190) | - |
| | (5,818,651) | - | (7,645,878) | - |
| Less: amounts capitalised on qualifying assets | 109,249 | - | 109,249 | - |
| Total finance costs | (5,709,402) | - | (7,536,629) | - |
| Finance income (costs) - net | (5,421,025) | 224,434 | (7,248,252) | 238,253 |

16. Loss per share

| | September 30, 2010 3 months | September 30, 2009 3 months | September 30, 2010 9 months | September 30, 2009 9 months |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| (Loss) for the period | (6,376,326) | (50,925,694) | (14,102,892) | (54,082,881) |
| Weighted average number of outstanding shares | 167,440,033 | 158,501,120 | 161,547,475 | 158,501,120 |
| Basic and diluted (loss) per common share* | (0.04) | (0.32) | (0.09) | (0.34) |

* The calculation of diluted loss per common share excludes options, warrants and exchange rights outstanding, as the effect would be anti-dilutive.

Notes to the Condensed Consolidated Interim Financial Statements

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17. Stock-based compensation

The Company maintains a stock option plan whereby options can be granted to employees. All outstanding stock options have a term of between five and ten years. Stock options generally vest over three years and are exercisable at the market prices for the shares on the dates the stock options are granted. In certain circumstances, the Board of Directors of the Company may authorize different vesting periods for particular stock options granted.

A summary of changes in the number of outstanding stock options during the periods is presented below:

| | <u>Nine months to September 30, 2010</u> | | <u>Year ended December 31, 2009</u> | |
|--|--|-------------------------|-------------------------------------|-------------------------|
| | Price CAD\$ (*) | Number of stock options | Price CAD\$ (*) | Number of stock options |
| Outstanding - beginning of the period | 1.16 | 11,383,640 | 1.77 | 9,333,660 |
| Granted | 0.68 | 755,000 | 0.48 | 4,510,000 |
| Forfeited | 1.84 | (3,813,340) | 2.20 | (2,460,020) |
| Exercised | 0.35 | (265,000) | - | - |
| Expired | - | - | - | - |
| Outstanding - end of the period | 0.82 | 8,060,300 | 1.16 | 11,383,640 |
| Exercisable - end of the period | 0.94 | 5,235,301 | 1.47 | 7,571,972 |

(*) Weighted average exercise price

Notes to the Condensed Consolidated Interim Financial Statements

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A summary of stock options outstanding as at September 30, 2010, is set out below:

| Exercise Price CAD\$ | Outstanding Stock Options Number | Exercisable Stock Options Number | Weighted Average Contractual Life (Years) |
|-------------------------|--|--|---|
| 0.25 | 100,000 | 33,333 | 3.19 |
| 0.35 | 400,000 | 400,000 | 0.44 |
| 0.35 | 265,000 | 265,000 | 1.17 |
| 0.35 | 340,000 | 113,334 | 3.62 |
| 0.55 | 2,540,000 | 1,180,000 | 3.95 |
| 0.60 | 300,000 | - | 4.05 |
| 0.61 | 580,000 | - | 4.27 |
| 0.90 | 175,000 | - | 4.57 |
| 1.00 | 1,090,000 | 1,090,000 | 0.44 |
| 1.00 | 790,000 | 790,000 | 1.17 |
| 1.00 | 185,300 | 185,300 | 2.70 |
| 1.00 | 250,000 | 250,000 | 6.74 |
| 1.23 | 150,000 | 150,000 | 6.24 |
| 1.37 | 100,000 | 66,667 | 2.87 |
| 1.55 | 100,000 | 100,000 | 5.44 |
| 1.59 | 250,000 | 166,667 | 7.58 |
| 1.93 | 100,000 | 100,000 | 5.50 |
| 2.20 | 120,000 | 120,000 | 3.50 |
| 2.35 | 75,000 | 75,000 | 3.70 |
| 2.39 | 150,000 | 150,000 | 4.70 |
| | 8,060,300 | 5,235,301 | |

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes options pricing model with weighted average assumptions for grants in the period as follows:

| | |
|---|-----------|
| Risk-free interest rate | 3.01% |
| Expected volatility | 105.9 |
| Dividend yield rate | 0.00% |
| Weighted average expected life of stock options | 5 years |
| Weighted average grant date fair value | CAD\$0.70 |

Notes to the Condensed Consolidated Interim Financial Statements

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18. Related parties

As at September 30, 2010, the Company was controlled by Lundin Petroleum AB (incorporated in Sweden), which owned approximately 40% of the Company's share capital. Lundin Petroleum's CEO, Ashley Heppenstall, is a member of the Board of Directors of the Company and owned 1.7% of the Company's share capital. Additional shares were held indirectly by the Lundin family (12%). The remaining shares are widely held (Note 21).

| Transactions with related parties | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 3 months | 3 months | 9 months | 9 months |
| Cost and expenses | | | | |
| Lundin Services BV | 616,943 | 26,390 | 850,965 | 39,280 |
| Lundin Petroleum SA | 2,853 | - | 73,793 | - |
| Pacific Oil and Gas | - | 135,000 | - | 459,000 |
| Key management compensation | 757,327 | 510,150 | 3,127,151 | 1,305,663 |
| Total cost and expenses | 1,377,123 | 671,540 | 4,051,909 | 1,803,943 |
| Key management compensation | | | | |
| Salary and compensation expense | 151,419 | 273,958 | 777,826 | 717,588 |
| Bonuses | - | 125,000 | - | 315,482 |
| Pension Cost | 32,902 | - | 91,616 | - |
| Stock-based compensation | 573,006 | 111,192 | 2,257,709 | 272,593 |
| Total key management compensation | 757,327 | 510,150 | 3,127,151 | 1,305,663 |
| Balance with related parties | | | | |
| | September 30, 2010 | December 31, 2009 | | |
| Liabilities | | | | |
| Loan payable to Lundin Services BV | 66,304,266 | - | | |
| Account payable to Pacific Oil and Gas | - | 36,218 | | |
| Account payable to Northland | 5,440,000 | 5,762,400 | | |
| Total liabilities | 71,744,266 | 5,798,618 | | |

Key management includes the Directors (executive and non executive), CEO and CFO of the Company.

a) Lundin Services BV

The Company receives technical services from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum. As at September 30, 2010, Lundin Petroleum AB owned approximately 40% of the Company, and Lundin Petroleum's CEO, Ashley Heppenstall, is a member of the Board of Directors of the Company. In April 2010, the Company entered into a loan agreement with Lundin Services BV (Note 12).

b) Lundin Petroleum SA

The Company also receives professional services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. These services include management and administrative services.

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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c) Marco Northland's exchange right and the Shareholders Agreement

Guaranteed floor

The SRH Shareholders Agreement between the Company and Northland as shareholders of SRH (the "Shareholders Agreement") provides Northland with a right to exchange his 10% equity interest in SRH for a period of five years beginning September 11, 2009, for an equivalent fair value of shares in Etrion with a guaranteed floor on the exchange value of his interest of €4.0 million. The Company will continue to recognize the fair value of the exchange right as a liability until such time as it is exercised or deemed to be exercised. As at September 30, 2010, the liability recognized related to this exchange right was €4.0 million (\$5.2 million).

Carried interest

In addition, the Shareholders Agreement also provides for the additional issuance of in substance, in the money stock options on the date of future equity investments above the initial €17.7 million (\$25.7 million at acquisition date) by Etrion to SRH. During the three and nine months ended September 30, 2010, the Company recognized a non-cash compensation expense of \$667,053 and \$2,001,159, respectively, related to these in substance, in the money options.

19. Income taxes

| | September 30, 2010 3 months | September 30, 2009 3 months | September 30, 2010 9 months | September 30, 2009 9 months |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Current taxon profits for the period | (844,957) | - | (886,356) | - |
| Deferred tax | 715,497 | - | 715,497 | - |
| Tax effect on the expiration of the warrants | 16,869 | - | 255,067 | - |
| Total income tax (expense) recovery | (112,591) | - | 84,208 | - |

The tax impact of the change in the fair value of the interest swap hedge instrument assumed with acquisition of Sunray Italy in amount of \$742,427 was recorded in other comprehensive income.

On February 15, 2010, the Company's Italian subsidiary, SVE, received approval for the "Visco Sud" tax credit from the Italian tax authorities. According to local Italian income tax law, companies with solar energy projects with installed capacity of up to 1MW may apply for a tax credit equal to 20% of project costs. SVE's Visco Sud tax credit is €4.1 million (\$5.5 million) and may be credited against income taxes arising on future taxable income following connection of the solar power plants to the Italian electricity grid. The tax credit does not expire. On March 5, 2010, following receipt of the Visco Sud tax credit approval, SRH paid an additional €240,000 (\$325,968) according to the terms of the SVE share purchase agreement. This additional consideration paid has been allocated to the intangible asset. The Company will recognize this tax credit once SVE has been connected to the Italian grid.

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20. Commitments

Construction costs

The Company enters into engineering, procurement and construction (“EPC”) agreements with large international contractors that design, construct, operate and maintain large-scale solar power plants.

Pursuant to an EPC contract dated November 19, 2009 between the Company’s Italian subsidiary, SVE, and SunPower Corp, SVE is to pay €4.2 million per megawatt for full turn-key construction of the 3 MW power plant in Puglia, Italy. Payments are due upon reaching specified milestones in the construction program. The project is scheduled to be finished by November 2010 and operational by December 2010. If construction is delayed or the solar plants are not performing up to the specified standard, SVE will receive pre-specified liquidated damage payments. Furthermore, SVE is protected by a “performance bank guarantee” worth a portion of the contract price as a credit line with SunPower’s bank.

On July 19, 2010, the Company’s Italian subsidiary, Etrion Lazio, signed an EPC contract with Phoenix Solar AG (“Phoenix”) to build a 3.5 MW solar power plant in Borgo Piave in the Lazio region of Italy. Phoenix Solar will design and construct the plant, and provide operations and maintenance services. Construction started in August 2010, and grid connection is expected by the end of 2010. The Phoenix Solar contract price is approximately €10 million (\$12.2 million). Etrion funded the initial project construction through the existing shareholder loan (Note 12 and 21). Etrion expects to re-finance 80-85% of project costs with a long-term non-recourse bank loan before the end of the year.

21. Subsequent events

Shareholder loan

On October 15, 2010, the Bridge Loan was further amended to extend the maturity date to November 15, 2011 (Note 12).

EPC contract signed

On October 5, 2010, the Company’s Italian subsidiary, Etrion Lazio, signed an EPC contract with Phoenix to build a 1.7 MW solar power plant in Rio Martino in the Lazio region of Italy. Phoenix Solar will design and construct the plant, and provide operations and maintenance services. Construction started in October 2010, and grid connection is expected by the end of 2010. The Phoenix Solar contract price is approximately €4.7 million (\$6.1 million). Etrion funded the initial project construction through the existing shareholder loan (Note 12). Etrion expects to re-finance 80-85% of project costs with a long-term non-recourse bank loan before the end of the year.

Acquisition of SunRay Italy Holding 2, SRL (“SunRay Italy II”)

On October 1, 2010, SRH acquired 100% of the outstanding shares of SunRay Italy II, an Italian company that owns 100% of the project company, Centauro PV, SRL (“Centauro”), which owns and operates a 9 MW solar power plant in Italy. The aggregate consideration for the acquisition was approximately €13.7 million paid in cash, of which approximately €6.7 million was attributed to the purchase of the share capital of SunRay Italy II and approximately €7 million was attributed to the assignment by SunRay Italy to SRH of a shareholder loan for the same amount granted in favor of SunRay Italy II. SunRay Italy II is borrower under an existing facility agreement with Barclays for up to €40 million. The purchase price paid was net of the previous payment of €2.8 to the seller on August 5, 2010. A detailed analysis of the provisional fair value of assets has not been disclosed given the date of the acquisition.

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Reduction of accumulated deficit

On October 20, 2010, at an extraordinary general shareholder meeting, shareholders approved a resolution to reduce, effective December 31, 2010, the stated capital of the Company's common shares by an amount equal to the accumulated deficit of the Company as at December 31, 2010.

OMX listing

On November 12, 2010, the Company obtained a secondary listing on the NASDAQ OMX Stockholm exchange in Sweden. At the same time, Lundin Petroleum, Etrion's former major shareholder, distributed its 40% ownership in Etrion to Lundin Petroleum shareholders. As a result of the distribution, the Lundin family trusts increased their beneficial ownership in Etrion from approximately 12% to 25%.