etrion

MANAGEMENT DISCUSSION & ANALYSIS

FIRST QUARTER 2010 (RESTATED)

The following management discussion and analysis (“MD&A”) is prepared as of August 16, 2010. This MD&A, as provided by the management of Etrion Corporation (“Etrion”, the “Company” or “we”), should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements for the three months ended March 31, 2010.

Estimates and forward-looking information are based on assumptions of future events and actual results may vary from these estimates; see “Cautionary Statement Regarding Forward-Looking Information”. Unless otherwise stated herein, all dollar amounts are expressed in US dollars (“USD”).

IFRS Early Adoption

In January 2006, the Canadian Institute of Chartered Accountants (“CICA”) Accounting Standards Board (“AcSB”) formally adopted the strategy of replacing Canadian generally accepted accounting principles (“Canadian GAAP”) with International Financial Reporting Standards (“IFRS”) for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will be required for Etrion’s interim and annual financial statements for the fiscal year beginning January 1, 2011.

In Staff Notice 52-321 – Early Adoption of International Financial Reporting Standards, use of US GAAP and Reference to IFRS - IASB, the Canadian Securities Administrators (“CSA”) has indicated that it would be prepared to provide exemptive relief to permit a Canadian reporting issuer to prepare its financial statements in accordance with IFRS for financial periods beginning before January 1, 2011.

In December 2009, the Company submitted an IFRS early adoption application to the British Columbia Securities Commission (“BCSC”) pursuant to CSA Staff Notice 52-321. On June 22, 2010, the Company received a decision of the British Columbia Securities Commission that permits the Company to prepare its financial statements in accordance with IFRS for financial periods beginning on or after January 1, 2010. Based on that decision, the Company has adopted IFRS for Canadian reporting purposes for interim and annual financial statements for the fiscal year beginning January 1, 2010, with the first reporting period under IFRS being the three and six month periods ending June 30, 2010.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the financing and development of Etrion's solar projects in Italy; the anticipated construction and development costs of such projects; the potential production capacity of such projects; the timing of the expected sales of electricity from such projects; various potential acquisitions currently being negotiated by Etrion; prospects for development of early stage projects that require additional permitting; the Mixed Companies' oil and natural gas production; general and administrative expenses; planned growth and development; contractual obligations; future plans, objectives and results. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and assumptions, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the receipt or timing of required permits to obtain and construct renewable energy projects and to begin selling electricity therefrom; uncertainties with respect to the availability of suitable additional renewable energy projects; the possibility of project cost overruns or unanticipated costs and expenses or delays in construction, uncertainties relating to the availability and costs of financing needed in the future; the possibility that some or all of the acquisitions being negotiated by Etrion will not be completed; the possibility that certain early stage projects that Etrion currently expects to develop may prove to be uneconomic or otherwise unsuitable for development; possible changes in the regulatory regimes in the jurisdictions where the Company proposes to develop renewable energy projects; being a minority partner in the Mixed Companies; the uncertainty of timing and amount of dividends from the Mixed Companies; the possibility that Etrion may be subject to cash calls from the Mixed Companies to fund their operations; the possible imposition of higher royalties and income taxes; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; volatility in electricity and oil and gas prices; interest rates; opportunities available to or pursued by the Company; and other factors, many of which are beyond our control.

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

ETRION'S BUSINESS ENVIRONMENT

Description of Business

Etrion is focused on building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic.

Pursuant to approvals given by the shareholders of the Company at its annual and special meeting of shareholders held on September 10, 2009, the Company has continued its incorporation from Alberta to British Columbia and changed its name from "PetroFalcon Corporation" to "Etrion Corporation". The Company has moved its operational base to Europe to seek additional opportunities in the renewable energy sector.

Acquisition of Solar Resources Holding, Sarl ("SRH")

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy projects, from Lorito Holdings Srl ("Lorito") and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum AB ("Lundin Petroleum"), which indirectly owned 45% of Etrion at the date of acquisition.

Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million (equivalent to $3.3 million at the date of acquisition) in cash. Etrion also advanced a loan to SRH in the amount of €1.4 million (equivalent to $1.9 million at the date of acquisition) in order to repay an equivalent amount advanced to SRH by Lorito. The remaining 10% of SRH continues to be held by Marco Northland ("Northland"), who was appointed as Chief Executive Officer of Etrion at closing.

SRH will initially focus on solar energy projects in Europe utilizing non-recourse bank financing and government guaranteed premium electricity rates for solar power.

Acquisition of SVE, Srl ("SVE")

On October 20, 2009, the Company's subsidiary, SRH, purchased 100% of the outstanding shares of an Italian entity, SVE, for an aggregate purchase price of €1.3 million ($1.9 million at the date of acquisition). SVE owns the required permits for the construction of four solar power plants in the Puglia region of southern Italy with a total generating capacity of four MW. A contingent consideration of €180,000 ($266,400 at the acquisition date) was recognized at the time of the acquisition related to additional payments due upon connection of the plants to the Italian electricity grid.

On November 4, 2009, SVE signed a credit facility agreement with an Italian bank, Centrobanca, to fund the construction of the four solar power plants. The non-recourse loan provided is for €17.2 million or 83% of the anticipated cost of the project.

An engineering, procurement and construction ("EPC") contract was signed with SunPower Corp. ("SunPower") following the acquisition. The construction of the solar power plants is scheduled to be completed in the third quarter of 2010. On February 3, 2010, the first payment was made by SVE to SunPower Corp. for 15% of the total EPC cost to build three of the four solar plants.

On February 15, 2010, 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 1 MW may apply for a tax credit equal to 20% of the project costs. SVE's Visco Sud tax credit is €4.1 million ($5.5 million) and does not expire. On March 5, 2010, following receipt of the Visco Sud tax credit approval, SRH paid an additional €240,000 ($325,970) according to the terms of the SVE share purchase agreement.

Acquisition of Deutsche Bank Solar Portfolio

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 in the Puglia region 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 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 the non-controlling interest (2%) in Energy Service Provider, SRL ("ESP"), for an aggregate purchase price of €4.0 million ($4.9 million), including a price adjustment at the date of acquisition. Helios ITA has an existing facility agreement with Societe Generale and Dexia for up to €45 million ($54.9 million), of which €33 million ($40.3 million) has been drawn to date. Societe Generale's participation in the financing is partially guaranteed by SACE, the Italian export credit agency.

Acquisition of Montalto 33

On August 5, 2010, the Company signed a definitive sale and purchase agreement and acquired 100% of the share capital of SunRay Italy Holding, S.r.l., an Italian company that owns a 24 MW solar park (the "Montalto 24 Project") in Lazio, Italy, for cash consideration of €36.1 million ($44.0 million) plus the assumption of the related non-recourse loan facilities. On August 5, 2010, the Company also signed a definitive sale and purchase agreement for the acquisition of SunRay Italy Holding 2, S.r.l., an Italian company that owns an 8.8 MW solar power project under construction (the "Montalto 9 Project") on the same site as the Montalto 24 Project, for cash consideration of €13.9 million ($16.9 million) plus the assumption of the related non-recourse loan facility. For the Montalto 9 Project, 20% of the purchase price or €2.8 million ($3.4 million) was paid at signing, and the balance is due at closing following grid connection, expected by September 30, 2010.

The Montalto 24 Project has an existing facility agreement with Societe Generale, Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group) and WestLB for €107 million ($130.5 million). Societe Generale's participation in the financing is partially guaranteed by SACE, the Italian export credit agency. The Montalto 9 Project has an existing facility agreement with Barclays for €40 million ($48.8 million).

Oil and Gas Investments

Etrion continues to own oil and gas investments in Venezuela through its wholly-owned Venezuelan subsidiary, PFC Oil and Gas, C.A. ("PFC Venezuela"), which owns 40% of PetroCumarebo, S.A. ("PetroCumarebo") and 5% of Baripetrol, S.A. ("Baripetrol" and, together with PetroCumarebo, the "Mixed Companies").

PetroCumarebo holds all of the operating rights to the East and West Falcon blocks in north-western Venezuela. The oil and gas produced from the East and West Falcon blocks is sold to the state-owned oil and gas company, Petróleos de Venezuela, S.A. ("PDVSA"), and is either trucked or shipped by pipelines to the Paraguana Refinery Complex. Baripetrol holds all of the operating rights to the Colon Block in western Venezuela. The oil and gas produced from the Colon Block is sold to PDVSA and shipped by pipelines to PDVSA's distribution network.

The Company's investments in oil and gas companies are passive investments acquired by the predecessor company, PetroFalcon. Etrion is currently reviewing strategic alternatives for these investments and does not expect cash calls from PetroCumarebo or Baripetrol for the Mixed Companies' capital expenditures.

TSX Listing Category

On February 23, 2010, the Toronto Stock Exchange (“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.

As a result of the acquisition of its solar power generation business in Europe, the Company is no longer considered by the TSX to be an oil and gas company and had 90 days to demonstrate compliance with the TSX original listing requirements for an industrial issuer. 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 is subject to certain conditions, including the completion of an equity financing resulting in net proceeds to the Company of at least $15 million. The Company continues to pursue the required financing and has received extensions from the TSX of the deadline for satisfaction of the continued listing conditions. No assurance can be given that the Company will be able to satisfy such conditions and maintain its TSX listing.

FINANCIAL AND OPERATIONAL REVIEW

Etrion's financial results

For the three months ended March 31, 2010, the Company reported a net loss of $3.5 million (loss per share of $0.02) compared to a net loss of $1.6 million (loss per share of $0.01) for the three months ended March 31, 2009. The first quarter 2010 results are not comparable to the prior year due to the addition of the renewable energy segment.

The net results for the three months ended March 31, 2010, were adversely affected by the following non-cash items that had no impact on cash flow: (a) the recognition of a $0.8 million loss in the fair value of the hedge agreement signed with Centrobanca; and (b) the recognition of $0.7 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH. See "Related Party Transactions".

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008. This amount has been reflected as a liability until such time as the dividends are declared and paid. Based on information provided by PDVSA, the Company believes that it is entitled to receive an additional $2.1 million and $2.6 million in dividends from Baripetrol for 2008 and 2009 operations, respectively, although the timing of such payments is uncertain.

Etrion's financial position

As at March 31, 2010, Etrion had $16.8 million in cash and short-term deposits and working capital of $12.3 million. Etrion plans to finance the acquisition and/or construction of its projects with a combination of cash on hand, additional equity financing, vendor financing, non-recourse loans and shareholder loans as required. The Company does not expect cash calls from its oil and gas investments for 2010 capital expenditures.

On April 12, 2010, the Company received a bridge loan from Lundin Services BV for €20 million ($26 million) bearing interest at Euribor plus 3% and repayable at the earlier of an equity raise or September 30, 2010, subsequently amended.

SUMMARY OF QUARTERLY RESULTS

The following table contains selected consolidated financial information for Etrion over the last eight quarters:

	In accordance with IFRS					**In accordance with CANGAAP**		
($000s, except per share amounts)	**2010**	**2009**				**2008**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	(3,536)	(4,897)	(50,926)	(1,579)	(1,578)	(9,982)	(7,121)	(4,412)
Loss per share basic and diluted	(0.02)	(0.03)	(0.32)	(0.01)	(0.01)	(0.07)	(0.04)	(0.03)

CAPITAL INVESTMENTS RELATED TO RENEWABLE ENERGY PROJECTS

The Company plans to make capital investments in 2010 to acquire and/or build ground-based solar photovoltaic power plants in Italy. The following table summarizes the maximum total budgeted 2010 capital expenditures in millions of Euros for the current projects in operation or under construction. The capital expenditures shown for operational projects have been mostly spent already.

Project Name	MW	Status	Total Capex (€MM)
Already financed:			
SVE	4.0	Construction	21.2
Deutsche Bank ITA I	6.4	Operational	36.9
Sub-total	**10.4**		**€58.1**
To be financed:			
Deutsche Bank ITA III.1	5.0	Permitted	25.2
Deutsche Bank ITA III.2	5.0	Permitted	25.2
Ragusa	8.4	Permitted	33.6
Borgo Piave	3.5	Permitted	12.3
Rio Martino	1.6	Permitted	5.9
Sub-total	**23.5**		**€102.2**
Total	**33.9**		**€160.3**

Note: Etrion plans to finance the construction of its projects with a combination of cash on hand, additional equity financing, vendor financing, non-recourse loans and shareholder loans as required. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Company. For those projects with financing already secured through non-recourse loans, no additional capital contributions are expected.

The Company typically finances its solar projects with long-term non-recourse bank loans for 80-85% of total projects costs. The projects to be financed in the table above are expected to be financed at a minimum debt-to-equity ratio of 80:20.

Development Pipeline and Fees

The Company enters into share purchase agreements with local developers of renewable energy projects in Europe pursuant to which, subject to certain conditions, a developer agrees to sell Etrion one or more project companies following the contribution in kind of permitted projects. As at May 11, 2010, the Company had entered into four agreements with developers for the acquisition of 100% of the outstanding shares of one or more project companies for a minimum purchase price or development fee.

Ragusa Project

In April 2010, the Company signed a term sheet with a developer of renewable energy projects pursuant to which, subject to certain conditions and the negotiation of a definitive agreement, the developer would agree to sell Etrion one or more project companies in Italy following the contribution in kind of permitted projects with debt financing and a turn-key EPC contract. If Etrion successfully completes its due diligence, and the seller meets the condition precedents for the share purchase agreement being negotiated, the total project cost, including the purchase price and EPC cost for the 8.4 MW, is expected to be approximately €33.6 million ($42.6 million), for an average cost of approximately €4 million per MW. Etrion’s commitment would be limited to an equity contribution of €6.7 million ($8.5 million) or 20% of the total project cost, plus a related development fee to be negotiated. The Ragusa agreement subsequently expired without future liability for either party.

Borgo Piave and Rio Martino

Two of the four agreements signed relate to project companies with 5.1 MW of permitted projects for the construction of solar power plants in the region of Lazio, Italy. If Etrion successfully completes its due diligence, and the seller meets the condition precedents for the share purchase agreements, the total project cost, including the purchase price and EPC contract cost for the 5.1 MW, is expected to be approximately €21.2 million ($26.9 million), for an average cost of approximately €4 million per MW. Upon closing of the acquisition, the Company intends to finance an average of 80% of the total project cost with non-recourse project loans. As at May 11, 2010, the Company had advanced to the potential sellers a total of €40,000 ($50,800). According to the terms and conditions of the share purchase agreements, the advance payments will be deducted from the total purchase price at closing.

Solar Plaza

One of the agreements signed is a framework agreement with an Italian developer pursuant to which, subject to certain conditions, the developer agrees to sell Etrion one or more project companies in Italy following the contribution in kind of permitted projects with a total capacity of up to 20 MW. The final equity contribution by Etrion would be dependent on the number of MW the developer may be able to contribute in a certain timeframe. As at May 11, 2010, the Company had advanced to the potential sellers a total of €150,000 ($190,500). According to the terms and conditions of the share purchase agreements, the advance payments will be deducted from the total purchase price at closing.

MIXED COMPANY 2010 PRODUCTION

The following tables outline the gross production for each of PetroCumarebo and Baripetrol in which Etrion holds a 40% and 5% interest, respectively.

For the purposes of calculating the production from the Venezuelan mixed companies in which the Company has interests (the "Mixed Companies"), natural gas has been converted to a barrel of oil equivalent ("boe") using a conversion rate of six thousand cubic feet ("mcf") equal to one barrel (6:1) based on an energy equivalency conversion method primarily applicable at the burner tip and which does not represent a value equivalency at the wellhead. This conversion to boe may be misleading, particularly if used in isolation.

***PetroCumarebo Production Summary*:**

	March 31, 2010 3 months	**March 31, 2009 3 months**
Average daily production		
Oil - bbls/d	651	945
Natural gas - mcf/d	3,355	11,632
Total – boe/d	**1,210**	**2,884**

Note: Production is shown before royalties of 33.33%. Etrion owns 40% of PetroCumarebo.

As detailed in the table above, PetroCumarebo's average gross production from both the East and West Falcon blocks for the three month period ended March 31, 2010, was 1,210 boe/d. For the comparable period ended March 31, 2009, PetroCumarebo's average gross production was 2,884 boe/d. The production decrease is due to natural decline, increased water production, paraffin, compressor mechanical problems and lack of well maintenance.

PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela. PetroCumarebo's oil production from the East and West Falcon blocks is delivered to PDVSA at a weighted average price of approximately 100% of the price of West Texas Intermediate ("WTI") crude oil.

Payment from PDVSA to PetroCumarebo is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Potential dividends from PetroCumarebo to Etrion will be in US dollars and are at the discretion of the shareholders of PetroCumarebo, depending on net and available profits. Since inception of PetroCumarebo on April 1, 2006, Etrion has not received any dividends for the Company's 40% interest.

Baripetrol Production Summary:

	March 31, 2010 3 months	**March 31, 2009 3 months**
Average daily production		
Oil - bbls/d	8,309	8,435
Natural gas - mcf/d	6,566	7,072
Total – boe/d	**9,403**	**9,614**

Note: Production is shown before royalties of 33.33%. Etrion owns 5% of Baripetrol.

As detailed in the table above, Baripetrol's average gross production from the Colon Block for the three month period ended March 31, 2010, was 9,403 boe/d. For the comparable period ended March 31, 2009, Baripetrol's average gross production was 9,614 boe/d.

Baripetrol's oil production is delivered to PDVSA at an average price that is approximately 92% of WTI.

Payment from PDVSA to Baripetrol is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Dividends from Baripetrol to Etrion are paid in US dollars and are at the discretion of the shareholders of Baripetrol, depending on net and available profits. During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. During the year ended December 31, 2009, Etrion received $1.1 million from Baripetrol as an advance dividend for operations during 2008. Based on information provided by PDVSA, the Company expects to receive an additional $2.1 million and $2.6 million in dividends from Baripetrol for 2008 and 2009 operations, respectively, although the timing of such payments is uncertain.

GENERAL AND ADMINISTRATIVE EXPENSE

	March 31, 2010 3 months	March 31, 2009 3 months
Salary and compensation expense	987,223	627,000
Corporate and professional fees	582,404	425,000
Office, listing and filing expenses	414,750	457,285
Total general and administrative expense	1,984,377	1,509,285

Etrion's G&A expenses were $1.9 million during the three month period ended March 31, 2010, compared to $1.5 million during the three month period ended March 31, 2009. The net increase is primarily due to the acquisition of the European subsidiaries effective September 30, 2009, and the subsequent higher level of activity in the renewable energy segment. Etrion does not capitalize general and administrative expenses.

DEPRECIATION AND AMORTIZATION

	March 31, 2010 3 months	March 31, 2009 3 months
Depreciation and amortization	40,556	58,199
Total depreciation and amortization	**40,556**	**58,199**

For the three month period ended March 31, 2010, Etrion's D&A expense was $40,556 compared to $58,199 for the three month period ended March 31, 2009. The decrease was due to the relocation of the Company's operations to Europe.

Stock-Based Compensation

	March 31, 2010 3 months	March 31, 2009 3 months
Compensation from option plan	248,651	47,296
Compensation for Northland's interest	743,353	-
Total stock-based compensation	**992,004**	**47,296**

During the three month period ended March 31, 2010, the Company recorded $248,651 in stock-based compensation expense compared to $47,296 during the three month period ended March 31, 2009.

As at March 31, 2010, the number of outstanding stock options was 11,763,640 compared to 9,333,660 outstanding stock options as of March 31, 2009. The net increase in stock options outstanding was due to options granted to employees and directors in May 2009, September 2009 and January 2010, partially off-set by options forfeited in 2009 by former employees and directors.

The stock-based compensation also includes the recognition during the three month period ended March 31, 2010, of $0.7 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH. See "Related Party Transactions".

Interest Income (Expense)

	March 31, 2010 3 months	March 31, 2009 3 months
Interest income (expense)	(146,730)	136,076
Total interest income (expense)	**(146,730)**	**136,076**

At March 31, 2010, Etrion had $16.8 million in cash and short-term deposits compared to $31.2 million at March 31, 2009. During the three month period ended March 31, 2010, the Company recorded interest expense (excluding movements on derivatives) in the amount of $146,730 compared to interest income (excluding movements on derivatives) of $136,076 during the three month period ended March 31, 2009.

There was a significant decrease in interest rates during 2009 that remained at low levels during the first quarter of 2010, reducing the interest income received from the Company's short-term investments. In addition, following the acquisition of SRH, the Company made investments in the renewable energy sector that reduced the average monthly short-term deposits bearing interest.

The Company has also accrued interest due on the non-recourse loan obtained by the Italian subsidiary, SVE, that bears interest at 6-month Euribor plus 2.5% payable on June 30 and December 31 each year until maturity in June 2028. Transaction costs related to this non-recourse loan have been deducted from the first drawdown and are amortized using the straight-line amortization method over the period of the loan. For the three month period ended March 31, 2010, Etrion's amortization expense and interest expense were $16,558 and $130,172, respectively.

INCOME TAXES

	March 31, 2010 3 months	March 31, 2009 3 months
Current income tax	(19,707)	-
Income tax recovery	261,434	-
Total income taxes	**241,727**	**-**

During the three months ended March 31, 2010, Etrion recorded a current income tax expense of $19,707 related to taxable income in the Swiss subsidiary for the period then ended. During the three month period ended March 31, 2009, the Company did not record a current income tax expense.

On February 1, 2010, Lundin Services BV's 5,000,000 Etrion 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 by it 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 of $261,434 has been recorded in the net tax expense for the three month period ended March 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2010, Etrion had $16.8 million in cash and short-term deposits and $12.3 million of working capital. At March 31, 2009, Etrion had $31.2 million in cash, $31.3 million of working capital and no debt.

The non-recourse loan obtained by the Italian subsidiary, SVE, matures at various dates beyond 2011, with approximately €1.7 million repayable in the period 2011 to 2013. Counterparties to the non-recourse debt do not have unconditional or unilateral discretionary rights to accelerate repayment at earlier dates. Therefore, the Company is protected from short-term liquidity fluctuations.

Etrion has substantial cash on hand and expects to generate operating cash flow in 2010 through its renewable energy operations and potentially by receiving dividends from its oil and gas investments. The Company estimates that it is entitled to receive a total of approximately $7.7 million in dividends (including an advance already received of $1.1 million) from Baripetrol and PetroCumarebo for 2007, 2008 and 2009 operations, but the payment of these dividends is uncertain. Based on prior experience and current oil prices, Etrion does not expect cash calls from PetroCumarebo or Baripetrol for 2010 capital expenditures.

The planned growth and development activities for the next twelve months will require additional funds. Management anticipates that these funds will be obtained from potential dividends from PetroCumarebo and Baripetrol and debt or equity securities financing. The Company cannot be certain that capital will be available when needed.

SHARE DATA

As at May 11, 2010, the Company has 158,501,120 common shares issued and outstanding and 11,763,640 stock options outstanding. The stock options expire at various dates between June 12, 2013, and April 28, 2018, and are exercisable at various prices between CAD$0.25 and CAD$3.28 per share. In addition, Northland has the right until September 11, 2014, to exchange his equity interest in SRH for the equivalent fair value of shares of the Company. See "Related Party Transactions -- Marco Northland's exchange right and the Shareholders Agreement."

RISK FACTORS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign currency and commodity price risk) and other risks. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivables from PetroCumarebo, value-added tax receivable and other tax credits of the wholly-owned Venezuelan subsidiary with the Venezuelan tax authorities and third party credits. The Company has no concentration of credit risk. Value added tax receivables are collectable from the Venezuelan government as of March 31, 2010, excluding amounts already provided for. Management believes that the credit risk with respect to financial instruments attributable to value added tax receivables is moderate.

In addition, the majority of the Company's cash and cash equivalents are on deposit with highly-rated banks in Canada and Europe. A lesser amount is held in banks in Curacao and Venezuela.

Liquidity risk

At March 31, 2010, the Company had sufficient funds to settle current liabilities. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days, except for severance employee benefits, an advance from Baripetrol and an exchange obligation, and are subject to normal trade terms. The Italian subsidiary, SVE, has a non-recourse credit facility that relates to a solar power project in southern Italy.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and oil prices.

(i) Interest rate risk

The Company's exposure to interest rate risk arises both from the interest rate impact on its cash and cash equivalents as well as on its debt facilities. Etrion has significant cash balances and short-term investments, with the latter having a variable annual interest rate from 0.10% to 0.15% in 2010. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company has floating rate debt instruments but the exposure to interest risk has been mitigated by an interest hedge pursuant to the Centrobanca loan agreement.

(ii) Foreign currency risk

Etrion's functional currency is the US dollar. Any annual dividends from its oil and gas investments are in US dollars, and major purchases are transacted in US dollars. The Company maintains US dollar bank accounts in Canada and Curacao. The Company funds some of its subsidiary's operating and administrative expenses in Venezuelan Bolivars from its US dollar bank accounts.

During 2007, the Company's management determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bs to USD using the official rate was no longer appropriate. The Company recognizes the foreign currency transactions of its Venezuelan subsidiary at the implied market rate in Venezuela, which had a spread of 163% over the principal official rate as of March 31, 2010. The Company has exposure to the volatility of the

implied market rate in Venezuela that may result in significant foreign exchange gains or losses from its Venezuelan subsidiary.

The Company also funds its European subsidiaries' capital, operating and administrative expenses in Euros and Swiss Francs from its USD accounts. The Company has exposure to the volatility of the exchange rates of the Euro and Swiss Franc that may result in significant foreign exchange gains or losses from its European subsidiaries.

Management anticipates the functional currency of Etrion Corporation will change from the US dollar to the Euro effective April 1, 2010, due to the acquisition of new subsidiaries in Europe that will be generating Euro revenues in 2010, as well as the Euro bridge loan received from Lundin Petroleum. All of these factors provide strong evidence that the Company's primary economic environment is the Euro on an on-going basis.

(iii) Commodity price risk

Oil price risk is the potential adverse impact on the Company's dividends from its oil and gas investments due to oil price volatility. The Company closely monitors oil prices to determine the appropriate course of action to be taken by the Company, to the extent possible, through its participation on the board of directors of PetroCumarebo and the private party consortium for Baripetrol.

Other risks

Licenses and Permits

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities that it is currently conducting under applicable laws and regulations, and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. There is no assurance that the Company will be able to obtain all necessary licenses and permits required to develop future renewable energy projects and to begin selling electricity.

Competition

The renewable energy and oil and gas industries are intensely competitive, and the Company will compete with a substantial number of other companies, many of which have greater financial and operational resources. There is no assurance that the Company will be able to acquire any energy projects on economic terms or at all. Etrion and the Mixed Companies also compete with other companies in attempting to secure equipment necessary for construction of solar energy projects and drilling and completion of oil and gas wells. Such equipment may be in short supply from time to time. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. There is no assurance that the Company or the Mixed Companies will be able to successfully compete against their competitors.

Cost Uncertainty

The renewable energy and oil and gas projects in which the Company is currently involved or in which it may be involved in the future are subject to the risk of cost overruns or other unanticipated costs and expenses that could have a material adverse impact on the Company's financial performance.

Prices and Markets for Electricity, Oil and Natural Gas

Although the Company will focus on developing renewable energy projects in jurisdictions that provide long-term feed-in-tariffs to provide pricing certainty, pricing for the sale of electricity may be subject to change based on economic, political and other conditions. Oil and natural gas are also commodities whose prices are determined based on global demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices

will have a significant impact upon the revenue of the Mixed Companies and the potential dividends to the Company.

Substantial Capital Requirements, Liquidity

Until such time, if any, as the Company is able to generate profits from its renewable energy projects, dividends received by the Company from the Mixed Companies may not be sufficient to fund its ongoing activities. From time to time, the Company may require additional financing in order to carry out its investment, acquisition and development activities. The Company anticipates that it will make substantial capital expenditures related to renewable energy projects in the future. If the Mixed Companies' earnings or reserves decline or the Company cannot receive funds from PetroCumarebo and/or Baripetrol, the Company may have limited ability to expend the capital necessary to undertake or complete future projects. Failure to obtain such financing on a timely basis could cause the Company to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be available on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition and results of operations.

Issuance of Debt

The Company anticipates financing a significant portion of the capital costs associated with the construction and development of its renewable energy projects by way of debt. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Breaches of debt obligations by the Company or any of its subsidiaries could also subject the Company or its subsidiaries to the risk of seizure or forced sale of some or all of their assets.

Governmental Regulation

The renewable energy and oil and gas industries are subject to extensive government regulation. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Company operates could impair the ability of the Company to acquire and develop economic projects, increase the Company's costs and have a material adverse effect on the Company.

International Operations

Etrion participates in renewable energy projects located in Europe and in oil and gas projects located in Venezuela. Energy exploration, development and production activities, including joint ventures in emerging markets, are subject to significant political and economic uncertainties that may adversely affect the Company's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future power purchase agreements or oil and gas concessions and contracts, a change in crude oil, natural gas or renewable energy pricing policies, changes in taxation policies and/or the regulatory environment in the jurisdictions and industries in which the Company operates and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Etrion's business prospects and results of operations. In addition, if legal disputes arise related to any of the Company's operations, Etrion could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing an energy project in which Etrion has or acquires an interest.

Reliance on Contractors and Key Employees

The ability of the Company and the Mixed Companies to conduct their operations is highly dependent on the availability of skilled workers. The labour force in Europe and Venezuela is unionized and politicized, and the Company's and the Mixed Companies' operations may be subject to strikes and other disruptions. In addition, the

success of the Company is largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Dividends from the Mixed Companies

One of Etrion's sources of revenue is potential dividends from its 40% interest in PetroCumarebo and its 5% interest in Baripetrol. Under Venezuelan law, dividends can only be declared to the extent a company has net and available profits as stated in its approved financial statements. Therefore, if there are sufficient net and available profits, subject to prior approval of shareholders, Etrion, through PFC Venezuela, may receive annual dividends in US dollars, or quarterly loans against those projected dividends. If the Mixed Companies' boards of directors do not propose dividends, the Mixed Companies' shareholders do not approve dividends or the Mixed Companies do not have net and available profits to declare dividends, Etrion cannot expect to receive payment from the Mixed Companies. Dividends from the Mixed Companies must be proposed by four out of the five board members (80%), and each of PFC Venezuela and Baripetrol's private party consortium (which includes Tecpetrol, Perenco and PFC Venezuela) have two out of five board seats (40%) in the respective Mixed Companies. Dividends proposed by the board of the Mixed Companies must be approved by a qualified majority (75%) of its respective shareholders, and PFC Venezuela and Baripetrol's private party consortium each only account for 40% of the respective shareholders. Furthermore, given the current economic environment and its potential impact on the oil and gas business, PDVSA and the Venezuelan government, the timing and amount of dividends from the Mixed Companies is uncertain.

RELATED PARTY TRANSACTIONS

Lundin Services BV

Etrion receives technical services from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum's CEO, Ashley Heppenstall, is a member of the Board of Directors of Etrion. For the three months ended March 31, 2010 and 2009, the Company paid Lundin Services BV for professional services $31,495 and $7,450, respectively. These payments for professional services include oil and gas services and legal advice. As at March 31, 2010 and 2009, the outstanding balance due to Lundin Services BV amounted to $220 and nil, respectively.

Lundin Petroleum SA

Etrion also receives professional services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. For the three months ended March 31, 2010 and 2009, the Company paid Lundin Petroleum SA for professional services $43,848 and nil, respectively. These services include management and administrative services. As at March 31, 2010 and 2009, the outstanding balance due to Lundin Petroleum SA amounted to $12,154 and nil, respectively.

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.

Marco Northland's exchange right and the Shareholders Agreement

At closing of the SRH acquisition, Etrion and Northland entered into a shareholders' agreement (the "Shareholders Agreement") to govern their rights and obligations as the shareholders of SRH. Under the Shareholders Agreement, Northland will maintain his 10% equity ownership of SRH without investing additional capital until such time as Etrion has advanced an aggregate of €17.7 million ($25.7 million at the acquisition date) to SRH. Northland also has the right to maintain his 10% equity ownership through purchases of SRH shares financed by loans from Etrion ("Loan Shares") or by way of "phantom shares" that do not require Northland to invest additional capital but are offset by notional loans from Etrion ("Carry Shares") until such time as Etrion has invested an additional €80 million ($116 million at the acquisition date) in SRH.

Northland also has the right under the Shareholders Agreement, for a period of five years beginning September 11, 2009, to exchange some or all of his shares of SRH, including Loan Shares and Carry Shares, for Etrion shares with a value based on the increase in value of SRH from the date of the Shareholders Agreement to the date of exchange and net of amounts owed by Northland in respect of the Loan Shares and Carry Shares. The value of SRH for this purpose will be based on the market capitalization of the Company less the value of its oil and gas investments and subject to certain other adjustments related to the Company's non-SRH debt and cash on hand. Any SRH shares held by Northland that have not been exchanged for Etrion shares at the end of the five-year period will automatically be exchanged on the same basis.

Pacific Oil and Gas

Pacific Oil and Gas, LLC ("Pacific Oil and Gas") is controlled by a director of Etrion, Clarence Cottman, and Etrion's former President and Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the three months ended March 31, 2010 and 2009, nil and $189,000, respectively. As at March 31, 2010 and December 31, 2009, the outstanding balance due to Pacific Oil and Gas amounted to nil and $36,218, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting estimates

In connection with the preparation of the consolidated interim financial statements, management has made assumptions and estimates about future events, and applied judgements that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. The assumptions, estimates and judgements are based on historical experience, current trends and other factors that management believes to be relevant at the time the consolidated interim financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgements 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, and such differences could be material. Management believes the following critical accounting policies affect the more significant judgements and estimates used in the preparation of the consolidated interim financial statements:

- Revenue: Management estimates the value of the volumes supplied between the date of the last meter reading and the period-end.

- 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 reasonable assessed, the Company cannot accurately determine the respective fair values of Baripetrol or PetroCumarebo at March 31, 2010. Therefore the Company has recognized these investments at cost less impairment.

- Useful lives and residual values of property, plant and equipment: Management estimates the useful lives and residual values to calculate depreciation expense using the straight-line method.

- Deferred tax assets: Management forecasts its profits and cash flows, which are then used to assess whether or not a deferred tax assets can be recognized in the consolidated financial statements

- Stock-based compensation: Management estimates some of the inputs used to calculate the share purchase 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.

Critical accounting policies

The AcSB confirmed in February 2008 that IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with the option available to early adopt IFRS from 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 BCSC that permits the Company to prepare its financial statements in accordance with IFRS for financial periods beginning on or after January 1, 2010. Based on such decision, the Company has adopted IFRS for Canadian reporting purposes for interim and annual financial statements for the fiscal year beginning January 1, 2010, with the first reporting period under IFRS being the three and six month periods ending June 30, 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 Standard Board (“IASB”) and interpretations of the IFRS Interpretations Committee that are effective or available for early adoption on December 31, 2010.

These are the Company’s first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS 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 GAAP.

Impact of IFRS on our organization

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not change the actual cash flows of the Company, the adoption resulted in changes to the reported financial position and results of operations of the Company.

The conversion to IFRS impacts the way the Company presents its financial results. Management and directors have extensive experience preparing and reviewing IFRS statements given its regular reporting Lundin Petroleum under IFRS and also the key personnel has been trained to ensure appropriate understanding and a smooth

transition process to IFRS. Given the relatively early stage of Etrion's renewable business segment and the relatively low complexity of the Company's operations the impact of the conversion to IFRS on the Company's accounting systems has been moderate. In the mid-term we plan to complete the incorporation of a consolidation and IFRS reconciliation software to improve the current reporting process. The Company's internal and disclosure control processes, as currently designed, have not required significant modifications as a result of its conversion to IFRS. The Company has assessed the impacts of adopting IFRS on our contractual agreements, including Long term agreements to build and operate solar energy plants, Debt and hedging agreements and Compensation agreements and have not identified significant compliance issues.

First time adoption of IFRS

IFRS 1, "First Time Adoption of International Accounting Standards," sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. The Company has chosen to apply only the business combination optional exemption, which allows the Company to avoid restating its business combinations to comply with IFRS 3R.

As stated in Note 2 of the condensed consolidated interim financial statements for the three months ended March 31, 2010, these are the Company's first condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2010, the comparative information for the three months ended March 31, 2009, the financial statements for the year ended December 31, 2009 and the preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2009.

In preparing its opening IFRS balance sheet, comparative information for the three months ended March 31, 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.

In order to allow the users of the financial statements to better understand these changes, we have provided qualitative and quantitative differences between Canadian GAAP and IFRS for the total current assets, total assets, total current liabilities, total liabilities, shareholders equity and net loss. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is disclosed in Note 5 of the condensed consolidated interim financial statements for the three months ended March 31, 2010.

Disclosure Controls and Internal Control Over Financial Reporting

During the three months ended March 31, 2010, there were no changes to internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. National Instrument 52-109 allows for a limitation on scope when the issuer acquired a business not more than 365 days before the end of the financial period. Consequently, SRH and its subsidiaries were excluded from the assessment of internal controls since it was acquired by Etrion during the year ended December 31, 2009, and its operations have not yet been integrated into the Etrion's controls, policies and procedures. Management is currently revising the group's internal control structure to incorporate the new subsidiaries. The following table contains summarized financial information for SRH that has been consolidated in Etrion's financial statements:

Selected Financial Data	**March 31, 2010 $**
Total Assets	**11,086,785**
Total Liabilities	**14,687,769**
Net Equity	**(3,600,985)**
Net Loss (*)	**(2,199,605)**

* Net results for the three month period ended March 31, 2010.

Additional Information

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