Etrion Corporation

Consolidated Financial Statements
December 31, 2009 and 2008
(expressed in US dollars)

PricewaterhouseCoopers LLP
Chartered Accountants
PO Box 82
Royal Trust Tower, Suite 3000
Toronto Dominion Centre
Toronto, Ontario
Canada M5K 1G8
Telephone +1 416 863 1133
Facsimile +1 416 365 8215

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Auditors' Report

To the Shareholders of
Etrion Corporation

We have audited the consolidated balance sheets of **Etrion Corporation** as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

Etrion Corporation
Consolidated Balance Sheets
As at December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	23,447,778	26,667,337
Restricted cash	18,070	-
Accounts receivable and deposits (note 4)	1,019,467	6,885,555
Income tax recoverable	49,469	151,699
Prepaid expenses	243,949	86,567
	24,778,733	33,791,158
Long-term accounts receivable (note 4)	753,474	494,564
Derivative instruments (note 10)	231,429	-
Investments (note 5)	10,000,000	54,046,990
Property, plant and equipment (note 6)	883,509	565,926
Goodwill (note 7)	807,592	-
Intangible assets (note 8)	5,924,738	-
	43,379,475	88,898,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,236,638	919,414
Exchange obligation (note 13)	5,762,400	-
Derivative instrument (note 10)	698,522	-
Amounts owed to related parties (note 13)	62,808	-
Income tax payable (note 18)	91,706	-
Future tax liability (note 18)	1,696,791	-
Long-term debt (note 10)	1,279,197	-
Other long-term liabilities (note 14)	700,824	494,564
	13,528,886	1,413,978
Shareholders' equity		
Share capital (note 11)	107,556,978	107,556,978
Warrants (note 11)	1,867,386	1,867,386
Contributed surplus (note 11)	10,140,785	8,717,778
Accumulated deficit	(89,714,560)	(30,657,482)
	29,850,589	87,484,660
	43,379,475	88,898,638

Commitments (note 17)
Subsequent events (note 21)

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

Approved by the Board of Directors

signed "Marco Northland" Director
Marco Northland

signed "Clarence Cottman" Director
Clarence Cottman

Etrion Corporation

Consolidated Statements of Operations, Comprehensive Loss
and Accumulated Deficit
For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Expenses		
General and administrative	7,395,863	8,217,813
Impairment loss from investments in oil and gas companies (note 5)	44,046,991	6,824,974
Depreciation and amortization	220,021	112,964
Non-cash compensation expense (note 13)	5,449,920	-
Stock-based compensation (note 12)	1,423,007	797,365
	58,535,802	15,953,116
Loss before financing (expense) income and income tax	(58,535,802)	(15,953,116)
Financing (expense) income		
Interest income	304,109	890,377
Foreign exchange loss	(287,164)	(721,840)
Guarantee fee	-	(7,878,842)
Loss on derivative financial instruments (note 10)	(467,093)	-
Other income	21,500	473,364
	(428,648)	(7,236,941)
Loss before income taxes	(58,964,450)	(23,190,057)
Income taxes (note 18)	(92,628)	-
Net loss and comprehensive loss	(59,057,078)	(23,190,057)
Accumulated deficit – Beginning of year	(30,657,482)	(7,467,425)
Accumulated deficit – End of year	(89,714,560)	(30,657,482)
Basic and diluted weighted average number of common shares outstanding (note 20)	158,501,120	150,945,412
Basic and diluted loss per share (note 20)	(0.37)	(0.15)

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

Etrion Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Cash (used in) provided by operating activities		
Net loss	(59,057,078)	(23,190,057)
Items not affecting cash		
Depreciation and amortization	220,021	112,964
Guarantee fee	-	7,878,842
Impairment loss from investments in oil and gas companies	44,046,991	6,824,974
Unrealized loss on derivative financial instruments	467,093	-
Bad debt expense	-	349,664
Write-off of other investments	-	350,000
Non-cash compensation expense	5,449,920	-
Stock-based compensation	1,423,007	797,365
	(7,450,046)	(6,876,248)
Net change in non-cash working capital items		
Accounts receivable	5,612,448	473,622
Accounts payable and accrued liabilities	1,464,660	(2,649,703)
Income tax payable	91,706	-
Prepaid expenses	(157,088)	-
Income taxes recoverable	103,305	807,108
	(335,015)	(8,245,221)
Financing activities		
Long-term debt	1,279,197	-
Repayment of short-term debt	-	(2,492,857)
Proceeds received on exercise of share options and warrants	-	276,598
Private placement	-	5,110,000
	1,279,197	2,893,741
Investing activities		
Sale (acquisition) of property and equipment, net	(443,223)	3,140,059
Acquisition of Lundin Latina de Petroleos, S.A.	-	21,153,541
Acquisition of Solar Resources Holding, Sarl	(2,982,255)	-
Acquisition of SVE, Srl	(1,863,263)	-
Baripetrol advance of dividends	1,125,000	-
Baripetrol pre-acquisition dividends	-	2,951,287
	(4,163,741)	27,244,887
Net increase (decrease) in cash during year	(3,219,559)	21,893,407
Cash and cash equivalents – Beginning of year	26,667,337	4,773,930
Cash and cash equivalents – End of year	23,447,778	26,667,337
Supplementary information		
Interest paid	-	161,265
Income taxes paid	-	-

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

(expressed in US dollars)

1 Description of business

Etrion Corporation ("Etrion" or the "Company"), formerly PetroFalcon Corporation, is focused on developing, building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic, solar thermal and wind. Etrion also continues to hold oil and gas investments in Venezuela through its wholly owned Venezuelan subsidiary, PFC Oil and Gas, C.A., formerly Vinccler Oil and Gas, C.A., ("PFC Venezuela"), which owns 40% of PetroCumarebo, S.A. ("PetroCumarebo") and 5% of Baripetrol, S.A. ("Baripetrol"). The Company previously held its interest in Baripetrol through another Venezuelan subsidiary, Lundin Latina de Petroleos, S.A. ("Lundin Venezuela"). Effective December 31, 2008, Lundin Venezuela was merged with PFC Venezuela and ceased to exist. Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("$").

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 power 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 ($3.26 million at the acquisition date) in cash. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million at the acquisition date) 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.

The excess of the purchase consideration over the adjusted carrying values of SRH's assets and liabilities has been allocated to goodwill. The initial fair value of the intangible assets recognized as a result of the business combination, in the amount of $2.9 million, relates to the development pipeline of renewable energy projects. This intangible asset will be amortized over the expected life of the project once the construction of the solar power plants is completed. Future income tax liabilities generated upon recognition of the intangible assets were allocated to the cost of the acquisition.

(expressed in US dollars)

The allocation of the purchase price is summarized in the table below:

Cost of acquisition:	**$**
Cash consideration for 90% of SRH	3,437,914
Acquisition costs	182,000
	$3,619,914
Allocation of the purchase price:	
Fair value of SRH's identifiable net assets and liabilities	4,001,979
Less: Future tax liability	(877,177)
Fair value of SRH's identifiable net assets and liabilities	$3,124,802
90% of share participation on adjusted fair value of net assets acquired	2,812,322
Excess of the purchase consideration over the net asset value	807,592
	$3,619,914

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 putting up additional capital until such time as Etrion has advanced an aggregate of €17,690,310 to SRH. Northland also has the right to maintain his 10% equity ownership through purchases of 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 €80,000,000 in SRH.

Northland also has the right under the Shareholders Agreement, for a period of five years, 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.

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, which owns the required permits for the construction of four solar power plants in southern Italy, for an aggregate purchase price of €1.3 million (equivalent to $1.9 million at the date of acquisition). A contingent consideration was recognized at the time of acquisition for €180,000 ($266,400) related to additional payments due upon connection to the Italian electricity grid.

(expressed in US dollars)

At the date of acquisition, SVE owned permitted projects with a carrying value of €121,000 (equivalent to $174,000 at the date of acquisition) that were contributed by the seller before the execution of the share purchase agreement.

The allocation of the purchase price to the fair value of the assets acquired is summarized below:

	$
Cash consideration for 100% of SVE	1,894,400
Contingent consideration	266,400
	$2,160,800
Intangible assets (permitted projects)	2,159,905
Income tax recoverable	895
Sub-total	$2,160,800
Future income tax liability allocated to the acquired assets	819,614
Total	$2,980,414

The acquisition of SVE has been accounted for by Etrion as an asset acquisition. The excess of the purchase consideration over the carrying value of the underlying assets of $1.9 million has been allocated to intangible assets. Future income tax liabilities generated upon recognition of the acquired assets have been allocated to the intangible asset.

2 Summary of significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these financial statements:

a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of all subsidiaries. All inter-company balances and transactions are eliminated upon consolidation.

b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Accounts that require management to make material estimates in determining amounts recorded include allocation of the purchase price to fair values on the acquisition of businesses and assets, contingent liabilities, tax provisions and future income tax balances, assumptions used in impairment testing of oil and gas investments, property, plant and equipment, depreciation and amortization, equity instruments, stock-based compensation measurements, financial and derivative instruments valuations, valuation of intangibles and other accrued liabilities. Actual results may differ from these estimates.

(expressed in US dollars)

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term and demand deposits with an initial term to maturity of three months or less that are readily convertible into cash.

d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of operations within 'general and administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the statement of operations.

e) Subsidiaries, variable interest entities, investments and interests in joint ventures

Investments over which the Company holds a controlling interest are consolidated in these financial statements. The Company consolidates subsidiaries and entities that are subject to control on a basis other than ownership of a majority of the voting interests, or variable interest entities.

Investments over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income, and for accounting changes that relate to periods subsequent to the date of acquisition. When there is a loss in value of an equity accounted investment which is other than temporary, the investment is written down to recognize the loss by a charge included in net results. Investments where the Company does not have significant influence are classified as assets available for sale carried at fair value.

Interests in joint ventures arise when the Company enters contractual agreements that provide for the sharing among two or more parties of the continuing power to determine the strategic operating, investing and financing activities of an entity. The Company proportionately consolidates its interests in joint ventures. Under the proportionate consolidation method, the Company's pro rata share of each of the assets, liabilities, revenues and expenses subject to joint control are combined with similar items in the Company's consolidated financial statements.

(expressed in US dollars)

f) Derivatives

The Company may enter into derivative instruments to mitigate exposures to interest rate fluctuations. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as derivative instruments and recorded at fair value with realized and unrealized gains or losses arising from changes in the fair value recorded in operations.

Fair values for derivative instruments are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date.

Realized gains and losses are recorded as a component of operating cash flows. Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract.

g) Property, plant, equipment and other fixed assets

Property, plant and equipment are related to solar power plants under construction, furniture and other assets and are stated at cost less accumulated depreciation and any accumulated impairment charges. Depreciation is computed using the straight-line method with depreciation rates based upon the estimated useful life of the asset. For furniture and other assets the useful life is generally three years. Costs relating to property, plant and equipment in the course of construction are capitalized. Upon commissioning, these costs are amortized over the useful life of the asset. The Company does not capitalize interest related to the credit facilities for the construction of the solar power plants because the building period is normally less than twelve months.

h) Goodwill

Acquisitions of businesses are accounted for using the purchase method of accounting whereby all identifiable assets and liabilities are recorded at their fair values as at the date of acquisition. Any excess of the purchase price over the aggregate fair value of net assets plus or minus the amounts recognized for future income taxes is recorded as goodwill. Goodwill is identified and allocated to power project units by preparing estimates of the fair value of each project unit and comparing this amount to the fair value of the assets and liabilities and related future income tax balances of the project unit at the date of acquisition. Goodwill is not amortized.

Goodwill is tested annually for impairment or more frequently if current events or changes in circumstances indicate that the carrying value of the goodwill of a project unit may exceed its fair value. A two-step impairment test is used to identify potential impairment in goodwill and to measure the amount of goodwill impairment, if any. In the first step, the fair value of a project unit is compared with its carrying value, including goodwill. When the fair value of a project unit exceeds its carrying amount, goodwill of the project unit is considered not to be impaired and the second step of the impairment test is not undertaken. When the carrying amount of a project unit exceeds its fair value, the fair value of the project unit's goodwill (determined on the same basis as the value of goodwill is determined in a business combination) is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of project unit goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(expressed in US dollars)

i) Intangible assets

Permitted projects and licenses acquired in a business combination are recognised at fair value at the acquisition date. Permitted projects and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of permitted projects and licenses over their estimated useful lives, which are usually determined according to the term of the energy supply contract signed with the local grid operator for the solar power projects.

j) Foreign currency translation

The functional and reporting currency of the Company is the US dollar. The Company's wholly-owned subsidiaries are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization, which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising from the translation of monetary assets and liabilities are included in the determination of income for the current period.

During the year ended December 31, 2007, the Company reviewed the accounting for foreign currency transactions in Venezuela due to the increasing spread between the official rate and the implied market rate in Venezuela. It was determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar ("Bs") as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bolivars to US dollars using the official rate was no longer appropriate. As a result, management determined that Bolivar balances would be translated at implied market rates of 5.97 Bs/USD and 5.70 Bs/USD for the years ended December 31, 2009, and 2008, respectively.

k) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in the enacted tax rate is included in income in the period in which the change is substantially enacted. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

l) Provision for pension obligations

The Company's Swiss subsidiary has a funded defined contribution pension plan that is managed through a private fund. The cost of the defined contribution pension plan is determined annually by independent actuaries, and the Swiss subsidiary pays an 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

(expressed in US dollars)

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. The pension expense recognized for this plan in 2009 and 2008 is equal to the Company's contribution of $34,940 and nil, respectively.

m) Stock-based compensation

The Company has a stock-based compensation plan that is described in note 12. The Company accounts for stock options using the fair value method. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in note 12. Upon exercise of stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period of the options with a corresponding increase recorded to contributed surplus.

n) Earnings per share

Basic earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the year. Diluted earnings or loss per share are computed using the "treasury stock method". The treasury stock method assumes that all "in the money" option or warrants are exercised and that the proceeds are used to purchase common shares of the Company at the average market price during the year. Loss per share is the same as basic loss per share since the exercise of options and warrants would be anti-dilutive (note 20).

o) Impairment of oil and gas investments

The Company evaluates the carrying amount of its interests in oil and gas companies when there is objective evidence that an investment may be impaired. When measuring and recognizing impairment losses, the Company compares the investment carrying amount against the Company's share participation in the sum of the undiscounted cash flows expected to result from the production of proved reserves associated with its oil and gas interests. If the carrying amount exceeds the undiscounted cash flows, the Company then compares the carrying amount against the Company's share participation in the fair value of proved and probable reserves associated with its oil and gas interests. Under certain circumstances, management uses the "expected cash flows approach" to calculate the fair value. Under the expected cash flows approach, management compares the investment's carrying amount against its share participation in the sum of future cash flows resulting from the production of proved and probable reserves associated with its oil and gas interests. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability), considering historic payment experience from PetroCumarebo and Baripetrol and available current information from the latest meetings of their boards of directors. Accordingly, impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value.

(expressed in US dollars)

p) Financial instruments

Financial instruments have been classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are de-recognized or impaired, with the exception of investments in equity instruments that do not have a quoted market price in an active market that are measured at cost. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. The Company made the following classifications:

Cash and cash equivalents	*Held-for-trading*
Accounts receivable and deposits	*Loans and receivables*
Investment in oil and gas companies	*Available-for-sale*
Accounts payable and accrued liabilities	*Other financial liabilities*
Exchange obligation	*Other financial liabilities*
Long-term debt	*Other financial liabilities*
Derivative instruments	*Other financial liabilities*

q) Changes in accounting policy and future accounting changes

Adoption of new accounting standards

Effective January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) accounting standards:

Asset Recognition including Goodwill and Intangible Assets

On January 1, 2009, the Company adopted the amendments to the CICA Handbook Section 1000, “Financial Statement Concepts” and the new CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaced CICA Handbook Section 3062, “Goodwill and Other Intangible Assets”. This guidance reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Under the amendments to CICA Handbook Section 1000, effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The adoption of this new guidance had no impact on the reported results of the Company.

Financial Instruments – Disclosures

In 2009, the Company adopted the amendments to CICA Handbook Section 3862, “Financial Instruments – Disclosures”. The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in the financial statements.

(expressed in US dollars)

Impairment of Financial Assets

In August 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", to achieve consistency with international standards on impairment of debt securities. The amendments changed the definition of a loan such that debt securities not quoted in an active market could be classified as a loan and measured at amortized cost. Impairment of debt securities classified as loans will be assessed and recorded using the incurred credit loss model of CICA Handbook Section 3025, "Impaired Loans". Debt securities that are classified as available-for-sale securities continue to be written down to their fair value through earnings when the impairment is considered other-than-temporary. However, the impairment loss can be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The Company adopted these amendments for fiscal 2009, and the adoption of this new guidance had no impact on the reported results of the Company.

Emerging Issues Committee ("EIC") - 173

In January 2009, the CICA issued EIC - 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements.

Future accounting changes

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish new standards in respect of accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standard 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as

(expressed in US dollars)

of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

r) Comparative information

Certain comparative figures have been reclassified to conform to the current year presentation.

3 Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	2009 $	2008 $
Cash at Canadian banks	85,481	481,377
Cash at European banks	8,841,859	-
Cash at other foreign banks	194,158	1,294,450
Deposit notes at Canadian banks	14,326,280	24,891,510
	$23,447,778	$26,667,337

The Company's cash and cash equivalents are on deposit with highly-rated banks in Canada, Luxembourg, Switzerland, Italy, Curacao and Venezuela. Short-term deposits in US dollars were at variable annual interest rates from 0.15% to 2.20% in 2009 and from 0.80% to 3.08% in 2008.

(expressed in US dollars)

4 Accounts receivable and deposits

The Company's accounts receivable and deposits are comprised of the following:

	2009 $	2008 $
Renewable energy segment		
Deposits with developers:		
Vega	118,848	-
Taurus	57,624	-
Value-added tax	170,098	-
Advances to suppliers and others	28,250	
	374,820	-
Oil and gas segment		
Chevron	-	5,762,698
Miller Insurance Services	-	226,953
PetroCumarebo	450,348	396,075
Value-added tax and other tax credits	1,164,569	1,189,432
Advances to employees	47,074	47,993
Advances to suppliers and others	44,650	77,366
	2,081,461	7,700,517
Doubtful allowance account	(308,520)	(320,398)
	$1,772,941	$7,380,119
Current portion	1,019,467	6,885,555
Long-term portion	753,474	494,564

Renewable energy segment

Deposits with Vega, Srl ("Vega") of €82,500 ($118,848) are related to advance payments on the purchase price of 100% of the share capital of one or more Italian companies 100% owned by Vega. After evaluating the project status as of December 2009, SRH decided to reject all projects according to the agreement. The carrying value of the account receivable from Vega is the amount that Vega is due to reimburse SRH in March 2010.

Deposits with Taurus Progetto Sole, Srl ("Taurus") of €40,000 ($57,624) are related to advance payments on the purchase price of 100% of the share capital of Smart Power, Srl, an Italian company with nearly permitted projects for the construction of photovoltaic solar plants in Lazio, Italy. According to the terms and conditions of the share purchase agreement, the advance payments will be deducted from the total purchase price at closing.

(expressed in US dollars)

Oil and gas segment

Accounts receivable from PetroCumarebo include the cost of PFC Venezuela's personnel assigned to the technical operations of the oil and gas fields in Venezuela. In addition, this includes the outstanding balance of value-added tax paid by PFC Venezuela on behalf of PetroCumarebo during 2006 and 2007.

Value-added tax and other tax credits relate to accumulated credits from PFC Venezuela's former operating service agreements for the East and West Falcon blocks becoming a 40% investment in the mixed company, PetroCumarebo. Management expects that these balances will be recovered through compensation with certain tax assessments raised by the Venezuelan tax authority (note 14) and through sale at a discount. The portion that will not be recovered from the sale has been provided for and included in the doubtful allowance account.

On October 22, 2009, PFC Venezuela received Bs 1.5 million ($278,000) as a reimbursement for PFC Venezuela's cost of personnel assigned to PetroCumarebo for the calendar year 2008 through July 2009.

On January 19, 2009, PFC Venezuela received $5.8 million from Chevron as reimbursement for PFC Venezuela's past Cardon III expenses and accrued interest.

As at December 31, 2009, and 2008, the provision for doubtful accounts reflects the amount of value-added tax and other tax credits from the Venezuelan subsidiary that is considered to be uncollectible.

5 Investments

The Company's investments consisted of the following:

	2009 $	2008 $
PetroCumarebo	1,900,000	40,649,650
Baripetrol	8,100,000	13,397,340
	$10,000,000	$54,046,990

PetroCumarebo

Effective April 1, 2006, PFC Venezuela's operating service agreements for the East and West Falcon blocks became a 40% investment in the mixed company, PetroCumarebo.

In 2007, Etrion re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, effective January 1, 2007, Etrion's investment in PetroCumarebo did not meet the criteria for proportionate consolidation or equity method accounting. Accordingly, Etrion has accounted for PetroCumarebo using the cost method of accounting for the years ended December 31, 2009 and 2008.

(expressed in US dollars)

Baripetrol

On February 1, 2008, Etrion acquired 100% of the issued and outstanding shares of Lundin Latina de Petroleos, S.A. ("Lundin Venezuela") from Lundin Petroleum BV ("Lundin BV") in consideration for the issuance of 57,254,505 common shares of the Company. Concurrent with the completion of the acquisition, Lundin BV subscribed for 6,665,995 units of the Company at a purchase price of CAD$0.80, for aggregate proceeds of $5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that an aggregate of 5,000,000 warrants were issued. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of the Company on payment of CAD$1.20 per share. Lundin Venezuela was subsequently merged with PFC Venezuela and ceased to exist.

The value of the common shares issued by the Company was calculated using the average share price of common shares during the five days before, the day of and five days after the announcement of the acquisition. The excess of the purchase consideration over the adjusted carrying values of Lundin Venezuela's assets and liabilities was allocated to the 5% interest in Baripetrol.

PetroCumarebo and Baripetrol dividends

Under Venezuelan law, dividends can only be declared to the extent that a company has net and available profits as stated in a company's approved financial statements. Therefore, if there are sufficient net and available profits, subject to the prior approval of the shareholders, Etrion may receive annual dividends in US dollars, or quarterly loans against those projected dividends from Baripetrol and PetroCumarebo.

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008 (note 9). During the year ended December 31, 2008, Lundin Venezuela received $2.9 million of dividends from Baripetrol for operations between January and December 2007. The $2.9 million in dividends was credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to pre-acquisition earnings.

Impairment of investments in oil and gas companies in 2009

The Company evaluates the carrying amount of its investments when there is objective evidence that a financial asset might be impaired. Management conducted an impairment test of its oil and gas investments as at September 30, 2009, and concluded that due to the lack of significant cash flow generation and the political risk in Venezuela, the carrying amounts of the investments in PetroCumarebo and Baripetrol exceeded their fair value. The Company used primarily an expected cash flow approach that consisted of applying weighted probabilities to potential future cash flow scenarios to determine the fair value of the investments.

PetroCumarebo

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 has 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.

(expressed in US dollars)

Baripetrol

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.

Management has conducted an update of the main assumptions used at September 30, 2009, to evaluate the impairment of the oil and gas investments in Venezuela and has also updated the impairment tests for its oil and gas investments as at December 31, 2009. Based on the results of management's analysis, considering all available information and evidence related to the operating and economic conditions of the oil and gas assets of PetroCumarebo and Baripetrol, management has concluded that the carrying amount of the investments in Baripetrol and PetroCumarebo as at December 31, 2009, does not exceed their fair value.

Impairment of investments in oil and gas companies in 2008

Management conducted an impairment test of its oil and gas investments for the year ended December 31, 2008, and concluded that the carrying amount of the investment in Baripetrol exceeded its fair value. The fair value calculation considers the Company's 5% share participation in the discounted future after-tax cash flow projections of the proved and probable reserves associated with Baripetrol's assets covering the period until the end of Baripetrol's contract. As a result, management recorded an impairment loss of $6.8 million against the carrying value of the investment, included in the statement of operations.

6 Property, plant and equipment

Property, plant and equipment consist of:

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	190,246	-	190,246	-	-	-
Solar power plants	470,554	-	470,554	-	-	-
Furniture & fixtures	99,740	14,197	85,543	100,519	37,107	63,412
Leasehold improvements	12,386	2,009	10,377	152,825	1,119	151,706
Equipment	608,905	482,116	126,789	414,822	212,101	202,721
Vehicles	77,074	77,074	-	590,818	442,731	148,087
	$1,458,905	$575,396	$883,509	$1,258,984	$693,058	$565,926

(expressed in US dollars)

7 Goodwill

The following table summarizes changes to the carrying value of goodwill:

	2009		
	Renewable Energy Segment	Oil and Gas Segment	Total
Goodwill, beginning of year	-	-	-
Goodwill from acquisitions	807,592	-	807,592
Goodwill, end of year	$807,592	-	$807,592

Goodwill resulting from the SRH acquisition was allocated to the Italian solar power project unit and is related to the current project in the Puglia region of southern Italy (note 1).

8 Intangible assets

The following table summarizes changes to the carrying value of intangible assets:

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Permitted projects in Italy	5,924,738	-	5,924,738	-	-	-
	$5,924,738	-	$5,924,738	-	-	-

The aggregate fair value of the intangible assets recognized as a result of the acquisitions of SRH and SVE is $5.9 million. Future income tax liabilities generated upon recognition of the acquired assets were allocated to the intangible asset.

(expressed in US dollars)

9 Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are comprised of the following:

	2009 $	2008 $
Suppliers	1,339,717	253,575
Audit and non-audit fees	268,513	223,916
Legal fees	86,846	48,923
Director fees	42,206	161,275
Employee benefits	336,932	178,347
Social contributions	37,424	53,378
Baripetrol	1,125,000	-
	$3,236,638	$919,414

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 an advance until such time as the dividends are declared and paid.

10 Long-term debt and derivative instruments

Credit facility

As of December 31, the Company's long-term debt consisted of the following:

	2009 $	2008 $
Due to Centrobanca with a term of 17.5 years (35 repayments, beginning June 2011), a fixed rate of 3.9% on 90% of the principal and a floating 6-month Euribor rate on 10% of the principal, plus margin.	1,279,197	-
	$1,279,197	-

On November 4, 2009, SVE signed a credit facility agreement with Centrobanca, an Italian bank owned by UBI Group, for the construction of solar power plants in southern Italy. The non-recourse loan provided is for €17.2 million ($25.6 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. The loan agreement has been classified as "other financial liabilities", which are initially recognized at fair value and subsequently measured at amortized cost. However, since it is a floating rate instrument, the application of the effective interest rate method is not necessary. At December 31, 2009, the Company had drawn €1.8 million of the credit facility, and the remaining balance is scheduled to be drawn during 2010.

(expressed in US dollars)

The minimum principal repayment obligations are scheduled as follows:

	Total
2010	-
2011	524,621
2012	622,849
2013	598,655
2013 and thereafter	15,497,826
Total	**€17,243,951**

In addition, SVE paid transaction costs of €933,000 ($1.3 million) to legal and technical advisors in order to execute and sign the credit facility. Transaction costs have been deducted from the first draw down and are amortized using the straight-line amortization method over the period of the loan.

The most critical debt covenants in the facility agreement stipulate that after the start of operations and during the duration of the loan, SVE is obliged every June and December before the scheduled debt repayments to provide proof of meeting the following financial parameters: Loan Life Cover Ratio (LLCR) equal or above 1.05, Average Debt Service Cover Ratio (ADSCR) equal or above 1.10 and Debt to Equity Ratio equal or below 83%/17%.

The LLCR is calculated as the ratio between: (a) the sum of operational financial flows as defined in the loan agreement (taken at the end of each semester) until the final maturity date, discounted by the average applicable interest rate; and (b) the overall amount that has been drawn and not repaid on the base facility and the DSR Facility. The ADSCR is calculated as the ratio between (a) operational financial flows; and (b) debt service, referring to the twelve months before a calculation date. The debt to equity ratio is calculated as the ratio between: (a) the amount of the Base Facility and the DSR Facility that has been drawn and is outstanding; and (b) the amount of equity.

Derivative instrument

The following table summarizes the Company's net position for derivative instruments:

	December 31, 2009		**December 31, 2008**	
	Assets	Liability	Assets	Liability
Interest rate hedge	231,429	698,522	-	-
Less non-current portion	(231,429)	-	-	-
Current portion	-	$698,522	-	-

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

(expressed in US dollars)

also entered into a hedging contract to cap 90% of the interest at 3.9% for a duration of 17.5 years, consistent with the terms of the loan. The fair market value of the instrument results in a net liability of $467,093 as at December 31, 2009, comprised of a current liability of $698,522 and a long-term asset of $231,429. The Company has recognized a corresponding loss of $467,093.

11 Shareholders' equity

The Company's authorized share capital comprises an unlimited number of common shares and preferred shares issuable in series. The common shares of Etrion are all of the same class, are voting and entitle shareholders to receive dividends as and when declared by the Board of Directors.

Issued shares and contributed surplus

Changes in common shares and contributed surplus were as follows:

	Number of shares	Amount $	Contributed surplus $
As at December 31, 2007	86,581,336	51,680,606	8,072,330
Private placement	6,665,995	5,110,000	-
Acquisition of Lundin Venezuela	57,254,505	43,890,000	-
Issuance of brokers' shares	569,284	436,400	-
Issuance of shares (for options exercised)	330,000	428,516	(151,918)
Agents' warrants	-	(1,867,386)	-
Guarantee fee paid to Lundin Petroleum	7,100,000	7,878,842	-
Stock-based compensation expense	-	-	797,366
As at December 31, 2008	158,501,120	107,556,978	8,717,778
Stock-based compensation expense	-	-	1,423,007
As at December 31, 2009	158,501,120	$107,556,978	$10,140,785

Acquisition of Lundin Venezuela and private placement

The Company issued 57,254,505 common shares at a price of CAD$0.80 per share in connection with the Lundin Venezuela acquisition. Concurrent with the acquisition of Lundin Venezuela, Lundin BV subscribed for 6,665,995 units of the Company at a purchase price of CAD$0.80 per unit, resulting in additional proceeds to the Company of approximately $5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that Lundin BV received an aggregate of 5,000,000 warrants. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of the Company upon payment of CAD$1.20 per share. In connection with the acquisition and private placement, the Company paid a cash finder's fee in the amount of $543,600 and issued 569,284 common shares of the Company to an investment bank.

(expressed in US dollars)

12 Stock-based compensation

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

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

	2009		2008	
	Share Options	**Weighted average exercise price CAD$**	**Share Options**	**Weighted average exercise price CAD$**
Outstanding – beginning of year	9,333,660	1.77	10,796,494	1.81
Granted	4,510,000	0.48	450,000	1.24
Exercised	-	-	(330,000)	0.85
Forfeited	(2,460,020)	2.20	(1,582,834)	1.99
Outstanding – end of year	11,383,640	1.17	9,333,660	1.77
Options exercisable – end of year	7,571,972	1.47	8,883,660	1.80

(expressed in US dollars)

A summary of stock options outstanding at December 31, 2009, is set out below:

	Outstanding stock options		Exercisable stock options
Exercise price CAD$	**Number**	**Weighted average remaining contractual life**	**Number**
0.25	100,000	3.94 years	33,333
0.35	665,000	1.19 years	665,000
0.35	1,005,000	4.37 years	-
0.55	2,540,000	4.70 years	333,333
0.60	300,000	4.81 years	-
1.00	1,090,000	1.19 years	1,090,000
1.00	1,680,300	3.44 years	1,680,300
1.00	600,000	7.48 years	600,000
1.23	150,000	6.99 years	150,000
1.30	13,340	3.75 years	13,340
1.37	100,000	3.61 years	33,333
1.55	270,000	6.19 years	270,000
1.59	250,000	8.32 years	83,333
1.93	390,000	6.24 years	390,000
2.20	230,000	4.25 years	230,000
2.35	735,000	4.45 years	735,000
2.39	665,000	5.45 years	665,000
3.28	600,000	4.93 years	600,000
	11,383,640		7,571,972

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

	2009	2008
Risk-free interest rate	2.70%	3.26%
Expected volatility	103.28%	86.73%
Dividend yield rate	0.00%	0.00%
Weighted average expected life of options	5 years	5 years
Weighted average expected grant date fair value	CAD$0.42	CAD$0.51

During the year ended December 31, 2009, the Company recorded $530,983 in stock-based compensation expense compared to $797,365 during the year ended December 31, 2008.

(expressed in US dollars)

13 Related party transactions and balances

Pacific Oil and Gas

Pacific Oil and Gas, LLC ("Pacific Oil and Gas") is controlled by Etrion's former Vice Chairman and current board member, Clarence Cottman, and Etrion's former President and Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the years ended December 31, 2009 and 2008, $562,500 and $613,000, respectively. As at December 31, 2009 and 2008, the outstanding balance with Pacific Oil and Gas amounts to $36,218 and nil, respectively.

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 years ended December 31, 2009 and 2008, the Company paid Lundin Services BV for professional services $114,770 and $80,170, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for Etrion's business development activities in the oil and gas segment. As at December 31, 2009 and 2008, the outstanding balance with Lundin Services BV amounts to $16,680 and nil, respectively.

Lundin Petroleum SA

Etrion also receives technical services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. For the years ended December 31, 2009 and 2008, the Company paid Lundin Petroleum SA for professional services $19,191 and nil, respectively. These payments for professional services include management and legal advice for Etrion's renewable energy business. As at December 31, 2009 and 2008, the outstanding balance with Lundin Petroleum SA amounts to $9,910 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.

Lundin Petroleum AB

On April 7, 2008, the Company announced the signing of a binding sale and purchase agreement for the acquisition of 100% of the issued and outstanding shares of Anadarko Venezuela Company ("Anadarko Venezuela") from an affiliate of Anadarko Petroleum Corporation ("Anadarko Petroleum") for $200 million in cash. The agreement was subject to the approval of the Venezuelan Ministry of Energy and Petroleum ("MEP"), which was subsequently denied.

Lundin Petroleum AB ("Lundin Petroleum") provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, the Company agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, the Company issued 7.1 million of these shares to Lundin Petroleum, which, as of December 31, 2009, indirectly owned 45% of the issued and outstanding shares of the Company. The initial shares were expensed by the Company as stock-based financing fees over the effective period of the

sale and purchase agreement. The remaining 10 million shares that would have been due at closing were not issued, in accordance with the agreement with Lundin Petroleum.

Marco Northland's exchange right and the Shareholders Agreement

Guaranteed floor

The SRH Shareholders Agreement provides Northland with a right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in Etrion with a guaranteed floor on the exchange value of his interest of €4.0 million. Any portion of Northland's equity interest in SRH that has not been exchanged for shares of the Company at the end of the five-year period will be automatically exchanged. The Company has recognized a liability related to this exchange right of €4.0 million ($5.8 million) as at the balance sheet date and a related non-cash compensation expense of $5.5 million for the excess of this amount over the fair value of his 10% equity interest in SRH at the date of the acquisition. 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.

Carried interest on the initial investments

The Shareholders Agreement also provides that any additional funds required by SRH up to €17.7 million will be loaned by Etrion without a fixed term of repayment. The funds advanced to date by Etrion bear interest at 3.75% per annum. At the date of SRH's acquisition, the Company advanced €1.35 million ($1.91 million) to SRH as a loan. Under the agreement, Northland is entitled to 10% of any interest or principal repayments on such loan. At this time, the Company does not expect to make any repayments of principal or payment of interest on such loan in the foreseeable future. Should principal repayments or interest payments be expected, Northland's entitlement would be expensed over the expected period to repayment.

Carried interest on the additional investments

In addition, the Shareholders Agreement also provides for the additional issuance of in substance, at the money stock options on the date of future equity investments above the initial €17.7 million by Etrion to SRH. Northland will receive at the money stock options of up to €8.0 million based on 10% of future equity investments by Etrion. That is, if the parent company invests €80.0 million in additional equity into the subsidiary, Northland will receive the equivalent of €8.0 million of at the money stock options at the date of the advance.

The Company has viewed these options as being granted, subject to a performance condition relating to future investments that it may make in its subsidiary, SRH. The grant date fair value of these options has been calculated as $6.6 million using a Black-Scholes model based on the following assumptions:

Risk-free interest rate	2.56%
Expected volatility	101.71%
Dividend yield rate	0.00%
Weighted average expected life of stock options	5 years
Weighted average grant date fair value	€0.08

(expressed in US dollars)

The Company reassessed the performance condition as at December 31, 2009, and considered that it is likely that Etrion will invest €80.0 million in additional equity into the subsidiary over a period of 3.5 years from the balance sheet date and therefore has recorded a non-cash compensation expense of $0.9 million related to these in substance, at the money options. The total fair value of the stock options will be vested in accordance with the performance condition schedule over 3.5 years from the balance sheet date based on its probability of occurrence using the graded vesting attributed method. Under the graded method, each instalment of the graded-vesting feature is treated as a separate option, and the fair value for each instalment differs.

14 Other long-term liabilities

The Company has accrued an amount of Bs 2.8 million ($0.4 million) related to tax assessments in Venezuela from the National Integrated Customs and Tax Administration Service (“SENIAT”), the Venezuelan tax authority, with respect to the income tax returns for the years ended December 31, 2001 to 2004 plus interest and penalties of Bs 1.4 million ($0.3 million). The Company has filed several positions and has submitted compensation requests to SENIAT in order to off-set the owed amounts with VAT credits. However, as of December 31, 2009, the Company has not received a response from SENIAT. If the Venezuelan tax authority rejects the Company’s request, the Company will have to pay the accrued amount as at December 31, 2009 of $0.7 million.

15 Financial instruments

Financial instruments and 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 subsidiary with the Venezuelan tax authorities and third party credits (note 4). The Company has no concentration of credit risk. Value added tax receivables are collectable from the Venezuelan government as of December 31, 2009, excluding amounts already provided for. Management considers 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 (note 3).

(expressed in US dollars)

Liquidity risk

At December 31, 2009, 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 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 0.80% to 3.08% (note 3). The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by highly-rated 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 risk interest has been mitigated by an interest rate hedge agreement pursuant to the loan agreement (note 10).

(ii) Foreign currency risk

Etrion's functional currency is the US dollar. Any 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 Bolivars to US dollars 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 178% over the official rate as of December 31, 2009. 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 US dollar bank 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.

(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 movements and volatility. The Company closely monitors oil prices to determine the appropriate

(expressed in US dollars)

course of action to be taken by the Company, to the extent possible, through its participation on the board of directors of PetroCumarebo and in Baripetrol (note 5).

Sensitivity analysis

As of December 31, 2009, the carrying values of the Company's financial instruments approximate fair value. Based on management's knowledge and experience of the financial markets, Etrion considers the following movements are "reasonably possible" to have affected the twelve-month period ended December 31, 2009:

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a negative change in rates of one percentage point would have affected net loss by $61,500 for the year ended December 31, 2009 ($250,000 for the year ended December 31, 2008).

(ii) Balances in foreign currency of the Company's wholly-owned subsidiary in Venezuela may be subject to foreign currency exchange fluctuations. Sensitivity to a plus or minus change of ten percent of devaluation or revaluation of the implied market rates against the US dollar would have affected net loss by $99,702 or $81,574, respectively, for the year ended December 31, 2009 ($60,125 or $73,000, respectively, for the year ended December 31, 2008).

(iii) Balances in foreign currency of the Company's wholly-owned subsidiaries in Europe may be subject to foreign currency exchange fluctuations. Sensitivity to a plus or minus change of ten percent of devaluation or revaluation of the Euro market rates against the US dollar would have affected net loss by $472,293, for the year ended December 31, 2009.

(iii) Net loss would not be impacted by changes in average realized oil prices since the Company did not recognize any dividend income from its oil and gas investments in Venezuela for the twelve-month periods ended December 31, 2009 and 2008.

(expressed in US dollars)

Valuation techniques that are used to measure fair value

The fair value hierarchy established by CICA Handbook Section 3862 – Financial Instruments – Disclosures ("Section 3862") establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity).

Assets (liabilities) measured at fair value on a recurring basis as at December 31, 2009 include:

	Level 2	**Level 3**
Short-term investments	14,326,280	-
Long-term debt	1,279,197	-
Derivative instruments	467,093	-
Investments in oil and gas companies	-	10,000,000
Total	**$16,072,570**	**$10,000,000**

The valuation techniques that are used to measure fair value are as follows:

Held for trading:

At December 31, 2009, the Company had short-term deposits in US dollars at variable annual interest rates from 0.15% to 2.20% in 2009 and from 0.80% to 3.08% in 2008. The investments are short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value. The Company has classified the determination of fair value of these investments as level 2 since the valuation methodology used by the Company includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Derivative instruments:

The fair value of derivative instruments is based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet date. Therefore, derivative instruments are classified within Level 2 of the fair value hierarchy established by Section 3862. As at December 31, 2009, the fair value of the Centrobanca hedge agreement was determined using a valuation technique in the absence of an active market and incorporating a risk-free rate and a credit risk as market inputs, and the Company has recognized €324,000 (equivalent to $467,000) as a loss on the interest hedge instrument.

(expressed in US dollars)

Investments in oil and gas companies:

The fair value of these investments is based on a valuation technique that uses the expected cash flow approach. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability). This is classified within Level 3 of the fair value hierarchy established by Section 3862. The investment in oil and gas companies relates to the Company's participation in the share capital of oil and gas entities that are not quoted in an active market.

Other financial instruments:

The carrying values of cash, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The Centrobanca loan agreement qualifies as other financial liabilities, which are initially recognized at fair value and subsequently measured at amortized cost. However, since it is a floating rate instrument, the application of the effective interest rate method is not necessary, and the carrying value approximates its fair value.

16 Capital management

The Company's objectives when managing capital are to preserve cash and maintain flexibility between providing liquidity for investment opportunities in the renewable energy segment and providing acceptable returns to shareholders. These objectives are primarily met through cash management and continuous review of attractive acquisition and development opportunities. In order to maintain or adjust the capital structure, Etrion may obtain long-term debt, and/or project-based financing sufficient to maintain and expand its presence in Europe. There are no assurances that such financing will be available on terms acceptable to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

The Company defines capital as shareholders' equity, long-term debt (excluding non-recourse debt and transaction costs), short-term borrowings and non-controlling interests less cash and cash equivalents (excluding cash and cash equivalents from joint ventures and other interests not exclusively controlled by the Company). The Company currently has no externally imposed capital requirements.

17 Commitments

Development pipeline and fees

The operations of the Company require it to enter into share purchase agreements with local developers of renewable energy projects in Europe, pursuant to which, subject to certain conditions, local legal entities undertake to sell the Company one or more project companies following contribution in kind of permitted projects for the construction of solar plants. As at December 31, 2009, the Company had entered into certain agreements with Italian local developers for the acquisition of 100% of the outstanding shares of one or more project companies for a total purchase price of €1.3 million ($1.9 million), and the Company had advanced to the potential sellers a total of €40,000 ($58,000). According to the terms and conditions of

the share purchase agreements, the advance payments will be deducted from the total purchase price at closing (note 4).

Project in southern Italy

According to the engineering, procurement and construction (EPC) contract signed between SVE and SunPower, SVE is to pay €4.2 million per megawatt for full turn-key construction of the plants in Puglia, Italy. Payments are due upon reaching specified milestones in the construction program. The project is scheduled to be finished by July 2010 and operational by September 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. If the construction is delayed or cannot be started due to permit or technical issues, SVE can cancel the contract without any penalty.

18 Income tax

During the year ended December 31, 2009, Etrion recorded a current income tax expense of $92,698 related to taxable income in the Swiss subsidiary. During the year ended December 31, 2008, Etrion recorded no income tax expense as the Company had no taxable income for the period.

The reconciliation of income taxes computed at Canadian statutory tax rates to the Company's income tax expense for the years ended December 31, 2009 and 2008, is as follows:

	2009 $	2008 $
Net loss before taxes	(58,964,450)	(23,190,057)
Combined statutory income tax	29.0%	29.5%
	(17,099,691)	(6,841,067)
Increase (decrease) resulting from:		
Difference in foreign tax rates	(2,327,051)	(151,976)
Expiry of prior year tax losses	2,842,951	-
Non taxable transactions	(628,205)	1,343,732
Non deductible expenses	14,290,887	5,818,122
Other	233,642	(772,892)
Change in valuation allowance	2,920, 393	604,081
Income tax expense	$92,698	-

PFC Venezuela files its Venezuelan income tax return using the Venezuelan Bolivar as the reporting currency in accordance with the Venezuelan income tax law that also provides regular adjustments for inflation until December 31, 2009. PFC Venezuela recognized the effects of the inflation in non-monetary assets and liabilities through the application of the General Consumer Price Index, based on procedures established in Venezuelan tax legislation. This adjustment for inflation is considered to be a taxable gain or, in the case of deflation, a deductible loss in determining the taxable income. Since the majority of PFC Venezuela's net monetary assets are held in US dollars, and the tax return is filed in Venezuelan Bolivars, foreign currency

(expressed in US dollars)

exchange adjustments will produce either a taxable gain or a deductible loss. The variation between the Venezuelan statutory tax rate of 34% and the income tax rate presented in these financial statements is due to the adjustments required for inflation and foreign currency translation.

Temporary differences and loss carry-forwards that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are as follows:

	2009 **$**	**2008** **$**
Future income tax assets		
Loss carry-forwards	3,175,997	2,842,951
Investments	2,587,347	-
	5,763,344	2,842,951
Valuation allowance	(5,763,344)	(2,842,951)
	-	-
Future income tax liability		
Intangible asset acquired from SRH	877,177	-
Intangible asset acquired from SVE	819,614	-
	1,696,791	-
Net future income tax liability	**$1,696,791**	**-**

The expiry date by jurisdiction of the loss carry-forwards as at December 31, 2009, are as follows:

Year of expiry	**Canada**	**Venezuela**	**Italy**	**Luxembourg**	**Total**
2010	-	957,934	-	-	957,934
2011	-	-	-	-	-
2012	-	982,611	-	-	982,611
2013	-	-	-	-	-
2013 and thereafter	4,540,146	-	253,044	4,882,594	9,675,784
	$4,540,146	**$1,940,545**	**$253,044**	**$4,882,594**	**$11,616,329**

(expressed in US dollars)

19 Segment disclosure

The Company has two reportable operating segments: the Oil and Gas Segment, which includes the investments in Venezuela, and the Renewable Energy Segment, which includes the solar power projects in Europe. The accounting policies of the segments are the same as that described in the summary of significant accounting policies (note 2). The following table shows the contribution from each of the Company's operating segments and includes inter-segment transactions. The inter-segment transactions are eliminated in order to arrive at consolidated results in accordance with Canadian GAAP.

By generation source:	Oil and Gas Segment		Renewable Energy Segment		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
For the year ended December 31,						
Revenue	-	-	-	-	-	-
Loss before undernoted	(6,872,927)	(8,676,207)	-	-	(6,872,927)	(8,676,207)
Depreciation and amortization	(205,679)	(112,964)	(14,342)	-	(220,021)	(112,964)
General and administrative	(5,454,797)	(8,217,813)	(1,941,066)	-	(7,395,863)	(8,217,813)
Impairment of oil and gas assets	(44,046,991)	(6,824,974)	-	-	(44,046,991)	(6,824,974)
Interest income (expense)	336,902	890,377	(32,793)	-	304,109	890,377
Other income (expense)	(96,646)	473,364	118,146	-	21,500	473,364
Foreign exchange gain (loss)	(419,504)	(721,840)	132,340	-	(287,164)	(721,840)
Loss on derivative instruments	-	-	(467,093)	-	(467,093)	-
Income tax expense	-	-	(92,628)	-	(92,628)	-
Net loss	(56,759,642)	(23,190,057)	(2,297,436)	-	(59,057,078)	(23,190,057)
Capital assets as at December 31,	10,139,366	54,612,916	7,476,473	-	17,615,839	54,612,916
Total assets	$26,271,861	$88,898,638	$17,107,614	-	$43,379,475	$88,898,638

(expressed in US dollars)

20 Earnings per share

	2009	**2008**
Net loss	($59,057,078)	($23,190,057)
Weighted average number of outstanding shares	158,501,120	150,945,412
Basic and diluted loss per share*	($0.37)	($0.15)

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

21 Subsequent events

On January 28, 2010, PFC Venezuela received Bs 244,000 ($40,809) as a reimbursement for PFC Venezuela's cost of personnel assigned to PetroCumarebo from August 2009 through October 2009.

On February 1, 2010, Lundin BV's 5,000,000 Etrion warrants expired unexercised (note 5).

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 in Puglia, Italy.

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 1MW may apply for a tax credit equal to 20% of the project costs. SVE's Visco Sud tax credit is €4.1 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 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.

On March 5, 2010, following receipt of the Visco Sud tax credit approval, SRH paid an additional €240,000 according to the terms of the SVE share purchase agreement.