

Etrion Corporation
(Formerly PetroFalcon Corporation)

Interim Consolidated Financial Statements
(Unaudited)
September 30, 2009 and 2008
(expressed in US dollars)

The accompanying unaudited interim consolidated financial statements of Etrion Corporation (the Company) for the three and nine months ended September 30, 2009 and 2008, have been prepared by Management and approved by the Audit Committee of the Company.

Etrion Corporation

Interim Consolidated Balance Sheets (Unaudited)

(expressed in US dollars)

	September 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	27,006,197	26,667,337
Restricted cash	43,934	-
Accounts receivable and deposits (note 6)	1,671,153	6,885,555
Income taxes recoverable	41,021	151,699
Prepaid expenses	49,585	86,567
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	28,811,890	33,791,159
Investments in oil and gas companies (note 5)	10,000,000	54,046,990
Property and equipment	451,950	565,926
Goodwill (note 1)	807,592	-
Intangible assets (note 1)	2,944,072	-
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	43,015,504	88,404,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	2,350,334	919,415
Exchange obligation (note 10)	5,857,200	-
Future tax liability (note 1)	877,177	-
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	9,084,711	-
Shareholders' equity		
Share capital (note 8)	107,556,978	107,556,978
Warrants (note 8)	1,867,386	1,867,386
Contributed surplus (note 8)	9,107,893	8,717,778
Accumulated deficit	(84,601,464)	(30,657,482)
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	33,930,793	87,484,660
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	43,015,504	88,404,075
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The accompanying notes are an integral part of these interim consolidated financial statements.

Etrion Corporation

Interim Consolidated Statements of Operations, Comprehensive Loss and Accumulated Deficit (Unaudited)

(expressed in US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Expenses				
General and administrative	1,228,025	2,167,365	4,110,322	5,364,323
Impairment loss from investments in oil and gas companies	44,046,990	-	44,046,990	-
Depreciation and amortization	51,724	35,716	167,354	87,427
Non-cash compensation expense	5,544,720	-	5,544,720	-
Stock-based compensation	323,222	28,501	390,115	783,546
	<u>51,194,681</u>	<u>2,231,582</u>	<u>54,259,501</u>	<u>6,235,296</u>
Loss before financing (expense) income	<u>(51,194,681)</u>	<u>(2,231,582)</u>	<u>(54,259,501)</u>	<u>(6,235,296)</u>
Financing income (expense)				
Interest income	59,355	282,259	264,769	452,624
Foreign currency exchange gain (loss)	190,914	(556,450)	50,750	(37,446)
Guarantee fee	-	(4,614,750)	-	(7,878,842)
Other income (expense)	-	-	-	490,894
	<u>250,269</u>	<u>(4,888,941)</u>	<u>315,519</u>	<u>(6,972,770)</u>
Net loss and comprehensive loss for the period	<u>(50,944,412)</u>	<u>(7,120,523)</u>	<u>(53,943,982)</u>	<u>(13,208,066)</u>
Accumulated deficit – Beginning of period	<u>(33,657,052)</u>	<u>(13,554,968)</u>	<u>(30,657,482)</u>	<u>(7,467,425)</u>
Accumulated deficit – End of period	<u>(84,601,464)</u>	<u>(20,675,491)</u>	<u>(84,601,464)</u>	<u>(20,675,491)</u>
Weighted average number of common shares outstanding (note 13)	<u>158,501,120</u>	<u>158,501,120</u>	<u>158,501,120</u>	<u>148,339,167</u>
Basic and diluted loss per share (note 13)	<u>(0.32)</u>	<u>(0.04)</u>	<u>(0.34)</u>	<u>(0.09)</u>

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

Etrion Corporation

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(50,944,412)	(7,120,523)	(53,943,982)	(13,208,066)
Items not affecting cash				
Depreciation and amortization	51,724	35,716	167,354	87,427
Non-cash compensation expense	5,544,720	-	5,544,720	-
Impairment loss from investments in oil and gas companies	44,046,990	-	44,046,990	-
Guarantee fee	-	4,614,750	-	7,878,842
Bad debt expense	-	-	-	72,923
Stock-based compensation	323,222	28,501	390,115	783,546
Write off of other investments	-	350,000	-	350,000
	(977,756)	(2,091,556)	(3,794,803)	(4,035,328)
Net changes in non-cash working capital items				
Accounts receivable	(154,119)	(4,595,354)	5,688,372	(4,645,993)
Accounts payable and accrued liabilities	128,916	185,938	113,406	(2,677,850)
Income taxes recoverable	78,812	102,321	110,858	(50,769)
Deposit in guarantee	-	5,000,000	-	-
Prepaid expenses	(49,289)	(601,568)	37,279	(601,568)
	(973,436)	(2,000,219)	2,155,112	(12,011,508)
Financing activities				
Repayment of short-term debt	-	-	-	(2,492,857)
Proceeds received on exercise of stock options	-	-	-	276,599
Private placement	-	-	-	5,110,000
	-	-	-	2,893,743
Investing activities				
Proceeds on sale of property and equipment	-	-	-	3,630,811
Sale (acquisition) of property and equipment	64,846	(79,986)	41,003	(266,566)
Baripetrol S.A pre-acquisition dividends	-	1,041,287	-	2,951,827
Baripetrol S.A advance of dividends	1,125,000	-	1,125,000	-
Acquisition of Lundin Latina de Petróleos, S.A.	-	-	-	21,155,541
Acquisition of Solar Resources Holding, Sàrl	(2,982,255)	-	(2,982,255)	-
	(1,792,409)	961,301	(1,816,252)	27,469,073
(Decrease) increase in cash and cash equivalents during the period	(2,765,845)	(1,038,918)	338,860	18,351,307
Cash and cash equivalents – Beginning of period	29,772,042	24,164,155	26,667,337	4,773,930
Cash and cash equivalents – End of period	27,006,197	23,125,237	27,006,197	23,125,237
Supplementary information				
Interest paid	-	-	-	588,852

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

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Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2009 and 2008

(expressed in US dollars)

1 Description of business

Etrion Corporation, formerly PetroFalcon Corporation, (“Etrion” or the “Company”) is focused on developing, financing, building, owning and operating global 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”). Unless otherwise stated herein, all dollar amounts are expressed in US dollars (“\$”).

Acquisition of Solar Resources Holding, Sàrl (“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) in cash. Etrion also advanced a loan to SRH in the amount of €1.35 million (\$1.91 million) 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 fair value of the intangible assets recognized as a result of the business combination, in the amount of \$2.9 million, is within the range established for the current development pipeline of renewable energy projects by an independent valuator. This intangible asset will be amortized over the total term of the credit facility signed by the Company’s subsidiary (note 14). Future income tax liabilities generated upon recognition of the intangible assets were allocated to the cost of the purchase.

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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
	<u>\$3,619,914</u>
Allocation of the purchase price:	
Fair value of SRH's identifiable net assets and liabilities (before future tax liability)	4,001,979
Less: Future tax liability	(877,177)
Fair value of SRH's identifiable net assets and liabilities	<u>\$3,124,802</u>
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
	<u>\$3,619,914</u>

Shareholders Agreement

Upon 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 €7,690,310 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 operations 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.

2 Summary of significant accounting policies

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These unaudited interim consolidated financial statements do not contain all of the disclosures required by Canadian GAAP and, therefore, should be read together with the most recent audited annual consolidated financial statements and the accompanying notes.

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The preparation of these unaudited interim consolidated financial statements is based on accounting policies and practices consistent with those used in the preparation of the Company's annual consolidated financial statements as at December 31, 2008, and for the year then ended, except for certain new accounting pronouncements that have been adopted effective January 1, 2009, as described in note 3.

3 Changes in accounting policies

The Canadian Institute of Chartered Accountants (CICA) has issued the following new standards that may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company adopted the requirements commencing in the quarter ended March 31, 2009.

CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew Emerging Issues Committee Abstract 27, Revenues and Expenditures During the Pre-operating Period. The Company concluded that the adoption of this standard does not have a material impact on the interim consolidated financial statements.

CICA Handbook Section 1582 replaces the former CICA Handbook Section 1581, Business Combinations, and is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. The Company will adopt this revised standard as of the effective date.

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Notes to Interim Consolidated Financial Statements

(Unaudited)

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(expressed in US dollars)

4 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2009	December 31, 2008
	\$	\$
Cash in Canadian banks	423,117	481,377
Cash in European banks	2,644,910	-
Cash in other foreign banks	384,466	1,294,450
Deposit notes in Canadian banks	23,553,704	24,891,510
	<u>\$27,006,197</u>	<u>\$26,667,337</u>

The Company's cash and cash equivalents are on deposit with highly rated banks in Canada, Luxembourg, Switzerland, Curacao and Venezuela. Short-term deposits in US dollars were at variable annual interest rates from 0.15% to 1.15% during the nine months ended September 30, 2009, and from 0.08% to 3.80% during the year ended December 31, 2008.

5 Investments in oil and gas companies

The Company's investments comprise the following:

	September 30, 2009	December 31, 2008
	\$	\$
PetroCumarebo	1,900,000	40,649,650
Baripetrol	8,100,000	13,397,340
	<u>\$10,000,000</u>	<u>\$54,046,990</u>

PetroCumarebo

Effective April 1, 2006, PFC Venezuela's Operating Service Agreements ("OSA") 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 nine months ended September 30, 2009, and the year ended December 31, 2008.

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Baripetrol

On February 1, 2008, Etrion acquired 100% of the issued and outstanding shares of Lundin Latina de Petróleos, 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 Company's common shares issued 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.

On August 14, 2009, the Company received \$1.1 million from Baripetrol as an advance of dividends for operations during 2008 (note 7).

Impairment of investments in oil and gas companies

According to the critical accounting policies, 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 income 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 in the amount of \$1.9 million, management has concluded, based on a risk-adjusted probability approach, that this is the fair value of the PetroCumarebo investment. Therefore, a write-down of \$38.7 million was recorded in the three months ended September 30, 2009.

Baripetrol

Management considered the history of dividends paid by Baripetrol, the advances 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, management has

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concluded that the fair value of this investment is approximately \$8.1 million. Therefore, a write-down of \$5.3 million was recorded in the three months ended September 30, 2009.

6 Accounts receivable and deposits

The Company's accounts receivable and deposits comprise the following:

	September 30, 2009	December 31, 2008
	\$	\$
Renewable energy segment		
Deposits with developers:		
Solar Ventures	292,860	-
Vega	116,047	-
Taurus	29,286	-
Value-added tax	35,777	-
	<u>473,970</u>	<u>-</u>
Oil and gas segment		
Chevron	-	5,762,698
Miller Insurance Services	-	226,953
PetroCumarebo	749,535	396,075
Value-added tax	702,507	694,868
Advances to employees	47,462	47,993
Advances to suppliers and others	28,315	77,366
	<u>1,527,819</u>	<u>7,205,953</u>
Bad debt provision	(330,636)	(320,398)
	<u>1,197,183</u>	<u>6,885,555</u>
	<u>\$1,671,153</u>	<u>\$6,885,555</u>

Renewable energy segment

Deposits with Solar Ventures Srl ("Solar Ventures") of €200,000 (\$292,860) are related to advance payments on the purchase price of 100% of the share capital of SVE Srl ("SVE"), an Italian company with permitted projects for the construction of four megawatts of photovoltaic solar plants in Puglia, 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. On October 20, 2009, the Company's subsidiary, SRH, completed the acquisition of SVE (note 14).

Deposits with Vega Srl ("Vega") of €79,251 (\$116,047) 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. According to the terms and conditions of the share purchase agreement, Vega undertakes to sell to SRH one or more project companies following completion of the contribution in kind of permitted projects for the construction of five megawatts of photovoltaic solar plants in Sicily, Italy. The advance payments will be deducted from the total purchase price at closing.

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(Unaudited)

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(expressed in US dollars)

Deposits with Taurus Progetto Sole Srl (“Taurus”) of €20,000 (\$29,286) are related to advance payments on the purchase price of 100% of the share capital of Tecla Sun Srl and Smart Energy Srl, two Italian companies with nearly permitted projects for the construction of four megawatts 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.

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.

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 September 30, 2009, and December 31, 2008, the provision for doubtful accounts reflects the amount of value-added tax from the Venezuelan subsidiary that is considered to be uncollectible.

7 Accounts payable and accrued liabilities

The Company’s accounts payable and accrued liabilities comprise the following:

	September 30, 2009	December 31, 2008
	\$	\$
Suppliers	497,194	253,577
Audit and non-audit fees	118,385	223,915
Legal fees	119,289	48,923
Director fees	77,250	161,275
Employee benefits	365,060	178,347
Social contributions	35,776	53,378
Baripetrol	1,125,000	-
Lundin Services BV	12,380	-
	<u>\$2,350,334</u>	<u>\$919,415</u>

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 that the dividends are declared and paid.

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8 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	-	-	390,115
As at September 30, 2009	158,501,120	\$107,556,978	\$9,107,893

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9 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. All 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. Under particular circumstances, the Compensation Committee of the Company may authorize different vesting periods for particular stock options granted.

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

	September 30, 2009		December 31, 2008	
	Number of stock options	Weighted average exercise price CAD\$	Number of stock options	Weighted average exercise price CAD\$
Outstanding – Beginning of period	9,333,660	1.77	10,796,494	1.81
Granted	4,210,000	0.47	450,000	1.24
Exercised	-	-	(330,000)	0.85
Forfeited	(1,330,020)	1.93	(1,582,834)	1.99
Outstanding – End of period	<u>12,213,640</u>	1.30	<u>9,333,660</u>	1.77
Options exercisable – End of period	<u>8,668,639</u>	1.61	<u>8,883,660</u>	1.80

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A summary of stock options outstanding as at September 30, 2009, is set out below:

Exercise Price CAD\$	Outstanding stock options		Exercisable stock options
	Number	Weighted average remaining contractual life	Number
0.25	100,000	4.19 years	-
0.35	1,670,000	4.62 years	665,000
0.55	2,540,000	4.95 years	333,333
1.00	2,520,300	3.64 years	2,520,300
1.00	850,000	7.75 years	850,000
1.23	150,000	7.24 years	150,000
1.30	13,340	4.00 years	13,340
1.37	100,000	3.87 years	33,333
1.55	310,000	6.44 years	310,000
1.59	250,000	8.57 years	83,333
1.93	550,000	6.50 years	550,000
2.20	230,000	4.50 years	230,000
2.35	1,165,000	4.70 years	1,165,000
2.39	865,000	5.70 years	865,000
3.28	900,000	5.18 years	900,000
	<u>12,213,640</u>		<u>8,668,639</u>

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

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	CAD\$0.42

During the three and nine months ended September 30, 2009, the Company recorded \$323,222 and \$390,115, respectively, in stock-based compensation expense, compared to \$28,501 and \$783,546 during the three and nine months ended September 30, 2008, respectively.

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10 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 three months ended September 30, 2009 and 2008, \$135,000 and \$165,000, respectively. The Company paid Pacific Oil and Gas for the nine months ended September 30, 2009 and 2008, \$459,000 and \$435,000, respectively. These payments include the salaries of Mr. Gumma and Etrion’s Chief Financial Officer, Garrett Soden, as well as administrative services from Pacific Oil and Gas.

Lundin Services BV

Etrion also 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 September 30, 2009 and 2008, the Company paid Lundin Services BV for professional services in the amounts of \$26,390 and \$80,170, respectively. For the nine months ended September 30, 2009 and 2008, the Company paid Lundin Services BV for professional services in the amounts of \$39,280 and \$80,170, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for Etrion’s business development activities.

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.

SRH Transaction

On August 11, 2009, the Company announced the signing of a share purchase agreement for the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy power projects, from 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.

As described in note 1, Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million (\$3.26 million) in cash. Included in this amount, Etrion purchased 4.425% of SRH at cost for €15,434 (\$163,524) from Ashley Heppenstall, a Director of Etrion and the President and Chief Executive Officer of Lundin Petroleum. Etrion also advanced a loan to SRH in the amount of €1.35 million (\$1.91 million) in order to repay an equivalent amount advanced to SRH by Lorito.

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Marco Northland's exchange right and the Shareholders Agreement

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 (\$5.9 million) as at the balance sheet date and a related non-cash compensation expense 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 that it is exercised or deemed to be exercised.

In addition, the agreement also provides for the additional issuance of in substance, at the money stock options on the date of future equity investments 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 of 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 \$8.9 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	€0.49

The Company does not estimate that the performance condition is likely to be met and therefore has not recorded an expense related to these in substance options during the period.

The Company will continue to evaluate at each reporting period the likelihood of the performance condition being met, and, should it become probable that the performance condition will be met for all or a portion of such options, the Company will expense the grant date fair value of the options over their vesting period. The vesting period is the period from the grant date until the funds are estimated to be invested because once the additional investments are made, Northland may leave the Company but does not forfeit his in substance options.

In addition, the Shareholders Agreement states that any additional funds required by SRH up to €17.7 million will be loaned by Etrion without a fixed term of repayment but bearing interest at 3.75%. At the date of SRH's acquisition, the Company advanced €1.35 million (\$1.91 million) to

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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 on such loan in the foreseeable future. As such, Northland's entitlement to 10% of interest is expensed as accrued on the loan. Should principal repayments be expected, Northland's entitlement would be expensed over the expected period to repayment.

In addition, under the terms of the employment agreement with Northland, he is entitled to contractual termination benefits of up to CHF 2.3 million (\$2.2 million) if terminated by the Company without cause or constructively dismissed within a period of 24 months of employment and benefits of CHF 0.8 million (\$0.7 million) thereafter. No amounts have been accrued in this respect.

11 Commitments

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 to Etrion's subsidiary one or more project companies following completion of the contribution in kind of permitted projects for the construction of solar plants. As at September 30, 2009, the Company has entered into five different 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 €7.6 million (\$11.1 million), and the Company has advanced to the potential sellers a total of €0.3 million (\$0.4 million). 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 6).

12 Income taxes

During the three and nine months ended September 30, 2009 and 2008, the Company did not record a current income tax expense.

Future income tax liabilities generated upon recognition of the intangible assets associated with the SRH acquisition were allocated to the cost of the purchase (note 1).

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13 Loss per common share

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net loss for the year	\$(50,944,412)	\$(7,120,523)	\$(53,943,982)	\$(13,208,066)
Weighted average number of outstanding shares	158,501,120	158,501,120	158,501,120	148,399,167
Basic and diluted loss per common share*	\$(0.32)	\$(0.04)	\$(0.34)	\$(0.09)

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

14 Subsequent events

On October 20, 2009, the Company's subsidiary, SRH, purchased the outstanding shares of an Italian entity, SVE, which owns the required permits for the construction of four solar power plants in southern Italy with a total generating capacity of four megawatts, for an aggregate purchase price of €1.3 million (equivalent to \$1.9 million at the date of acquisition).

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 June 2009.

On November 4, 2009, SVE signed a credit facility agreement with an Italian bank for the construction of the four solar power plants in southern Italy. The non-recourse loan provided is for €17.2 million (\$25.6 million) or 83% of the anticipated cost of the project. The debt facility has a term of 17.5 years and bears interest at six-month Euribor 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.