



Q118

ETRION CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2018

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The accompanying condensed consolidated interim financial statements for Etrion Corporation for the three months ended March 31, 2018, have been prepared by management. The Company's independent auditor has not performed a review of these financial statements. Readers are cautioned that these condensed consolidated interim financial statements may not be appropriate for their purposes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000

		Three months ended	
		Q1-18	Q1-17(*)
	Note		
Revenue	5	2,910	5,198
Operating expenses	6	(2,794)	(5,415)
Gross profit (loss)		116	(217)
General and administrative expenses	7	(1,138)	(2,405)
Other expense (income)		(38)	29
Operating loss		(1,060)	(2,593)
Finance income	8	-	12
Finance costs	8	(2,498)	(4,887)
Net finance costs		(2,498)	(4,875)
Loss before income tax		(3,558)	(7,468)
Income tax expense	9	(295)	(96)
Net loss for the period		(3,853)	(7,564)
Other comprehensive loss			
Items that may be reclassified to profit and loss:			
Gain on currency translation		1,628	1,591
Gain (loss) on cash flow hedges, net of tax	18	113	(540)
Total other comprehensive gain		1,741	1,051
Total comprehensive loss for the period		(2,112)	(6,513)
Loss attributable to:			
Common shareholders		(3,663)	(6,497)
Non-controlling interest	11	(190)	(1,067)
Total comprehensive loss attributable to:			
Common shareholders		(1,982)	(4,355)
Non-controlling interest	11	(130)	(2,158)
Basic and diluted loss per share from loss of the period	10	\$(0.01)	\$(0.02)

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

(*) 2017 comparative figures include the financial performance of the Company's Chilean subsidiary, PV Salvador SpA., which is no longer consolidated with the Group. **Note 1**

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT MARCH 31, 2018

Expressed in US\$'000

		March 31 2018	December 31 2017
	Note		
Assets			
Non-current assets			
Property, plant and equipment	12	155,936	140,608
Intangible assets	13	11,231	9,725
Deferred income tax assets	9	2,794	2,771
Trade and other receivables		666	647
Total non-current assets		170,627	153,751
Current assets			
Derivative financial instruments		245	319
Trade and other receivables		16,108	14,862
Cash and cash equivalents (including restricted cash)	14	38,059	43,203
Total current assets		54,412	58,384
Total assets		225,039	212,135
Equity			
Attributable to common shareholders			
Share capital	15	111,304	111,304
Contributed surplus		12,726	12,538
Other reserves		(12,085)	(13,766)
Accumulated deficit		(104,710)	(101,047)
Total attributable to common shareholders		7,235	9,029
Non-controlling interest	11	688	818
Total equity		7,923	9,847
Liabilities			
Non-current liabilities			
Borrowings	17	184,107	170,784
Derivative financial instruments	18	9,446	8,788
Provisions		4,850	4,620
Other liabilities		3,651	3,323
Total non-current liabilities		202,054	187,515
Current liabilities			
Trade and other payables		1,972	3,493
Current tax liabilities	9	367	535
Borrowings	17	10,877	8,917
Derivative financial instruments	18	1,534	1,444
Other liabilities		312	384
Total current liabilities		15,062	14,773
Total liabilities		217,116	202,288
Total equity and liabilities		225,039	212,135

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000

	Attributable to common shareholders				Total	Non-controlling interest	Total equity
	Share capital	Contributed surplus	Other reserves	Accumulated deficit			
Balance at January 1, 2017	111,304	11,989	(17,340)	(120,768)	(14,815)	(31,474)	(46,289)
Comprehensive loss:							
Loss for the period	-	-	-	(6,497)	(6,497)	(1,067)	(7,564)
Other comprehensive loss:							
Cash flow hedges (net of tax)	-	-	(476)	-	(476)	(64)	(540)
Currency translation	-	-	2,618	-	2,618	(1,027)	1,591
Total comprehensive loss	-	-	2,142	(6,497)	(4,355)	(2,158)	(6,513)
Transactions with owners in their capacity as owners:							
Share-based payments	-	263	-	-	263	-	263
Loans conversion	-	-	-	-	-	19,510	19,510
Balance at March 31, 2017	111,304	12,252	(15,198)	(127,265)	(18,907)	(14,122)	(33,029)
Balance at January 1, 2018	111,304	12,538	(13,766)	(101,047)	9,029	818	9,847
Comprehensive loss:							
Loss for the period	-	-	-	(3,663)	(3,663)	(190)	(3,853)
Other comprehensive loss:							
Cash flow hedges (net of tax)	-	-	99	-	99	14	113
Currency translation	-	-	1,582	-	1,582	46	1,628
Total comprehensive loss	-	-	1,681	(3,663)	(1,982)	(130)	(2,112)
Transactions with owners in their capacity as owners:							
Share-based payments	-	188	-	-	188	-	188
Balance at March 31, 2018	111,304	12,726	(12,085)	(104,710)	7,235	688	7,923

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000

		Three months ended	
		Q1-18	Q1-17 (*)
	Note		
Operating activities:			
Net Loss for the period		(3,853)	(7,564)
Adjustments for the following non-cash items:			
Depreciation and amortization	6/7	1,718	2,650
Current income tax expense	9	230	288
Deferred income tax expense	9	65	(192)
Share-based payment expense	7/16	188	263
Interest expense	8	1,287	3,882
Interest expense relating to interest rate swap contracts	8	342	309
Amortization of transaction costs	8	104	132
Foreign exchange loss	8	629	546
Fair value changes associated with derivative financial instruments	8	81	(7)
Other expenses (income)		38	(29)
Sub-total		829	278
Changes in working capital:			
Trade and other receivables		(2,180)	1,821
Trade and other payables		(1,040)	(4,383)
Income tax paid		(404)	(537)
Total cash flow used in operating activities		(2,795)	(2,821)
Investing activities:			
Purchases of property, plant and equipment	12	(8,723)	(7,616)
Purchases of intangible assets	13	(270)	(297)
Total cash flow used in investing activities		(8,993)	(7,913)
Financing activities:			
Interest paid	17	-	(2,580)
Proceeds from borrowings	17	4,853	23,601
Contributions from non-controlling interest		119	156
Total cash flow from financing activities		4,972	21,177
Net (decrease) increase in cash and cash equivalents		(6,816)	10,443
Effect of exchange rate changes on cash and cash equivalents		1,672	1,588
Cash and cash equivalents (including restricted cash) at the beginning of the period		43,203	61,174
Cash and cash equivalents (including restricted cash) at the end of the period:		38,059	73,205

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

(*) 2017 comparative figures include the financial performance of the Company's Chilean subsidiary, PV Salvador SpA., which is no longer consolidated with the Group. **Note 1**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

1. GENERAL INFORMATION

Etrion Corporation ("Etrion" or the "Company" or, together with its subsidiaries, the "Group") is incorporated under the laws of the Province of British Columbia, Canada. The address of its registered office is 1600-925 West Georgia Street, Vancouver, British Columbia V6Z 3L2, Canada. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden under the same ticker symbol, "ETX".

Etrion is an independent power producer that develops, builds, owns and operates solar power generation plants. The Company owns 44 megawatts ("MW") of installed solar capacity in Japan. The Company has 13.2 MW of solar projects under construction as of the date of approval of this condensed consolidated interim financial statements and 390 MW of greenfield solar power projects which it is pursuing in Japan.

Effective September 30, 2017, the Group no longer consolidates PV Salvador SpA, the subsidiary that owns the 70 MW Salvador solar power project in Northern Chile. Therefore, the Group's consolidated financial performance for the three months ended March 31, 2018, is not fully comparable with the same period in 2017. The Group has not restated previous year's figures because Salvador is still owned by the Group. See "Deconsolidation of Subsidiary" disclosures in the 2017 audited consolidated financial statements.

These condensed consolidated interim financial statements are presented in United States ("US") Dollars ("\$"), which is the Group's presentation currency.

However, since the Group is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these condensed consolidated interim financial statements has been presented in Canadian dollars ("CAD\$"). The Company's Board of Directors approved these condensed consolidated interim financial statements on May 4, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

(a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year

ended December 31, 2017. These condensed consolidated interim financial statements have been prepared on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2017. Certain reclassifications have been made to information from previous year in order to conform to the current presentation.

(b) GOING CONCERN

The Company's condensed consolidated interim financial statements for the three months ended March 31, 2018, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future. At March 31, 2018, the Group had cash and cash equivalents of \$38.1 million, \$21.4 million of which was unrestricted and held at the parent level (December 31, 2017: \$43.2 million and \$30.4 million, respectively) and working capital of \$39.4 million (December 31, 2017: \$43.6 million). During the three months ended March 31, 2018, the Group recognized a net loss of \$3.9 million (2017: \$7.6 million). The Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these condensed consolidated interim financial statements. These condensed consolidated interim financial statements for the three months ended March 31, 2018, do not include the adjustments that would result if the Group were unable to continue as a going concern.

(c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15, Revenue from contracts with customers: This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

IFRS 15 assessment: The Group has completed the assessment and full impact of IFRS 15 and has adopted this standard in the accounting period beginning January 1, 2018. Etrion's solar power plants produce electricity, which is measured based on kWh. The selling price of electricity is also calculated with reference to kWh and the single performance obligation is to deliver kWh of electricity produced in the measuring point of the electricity grid. Therefore, revenue is recognized when the performance obligation is satisfied. This is overtime, when electricity produced is measured by the meters and therefore the Company will use the right to invoice practical expedient as per IFRS 15.B16. The IFRS 15 right to invoice practical expedient method is not different from the Company's accounting policies currently in place.

IFRS 15 transition: The Company has elected to use the modified retrospective method to all contracts with customers. In practice, the IFRS 15 revenue recognition requirements have no effect on timing or amount of revenue and cash flows arising from contracts with customers, because of the fixed-price long term contracts with the power utilities in Japan. The IFRS 15 adoption has no quantitative impact in the Company's financial statements and therefore there is no impact on the accumulated deficit balance.

IFRS 9, Financial Instruments: This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing IAS 39 Financial Instruments: Recognition and Measurement. Management expects IFRS 9 to affect the Companies' hedge accounting processes and controls. The Group has completed the process of evaluating the impact of the IFRS 9 on the financial statements and on its internal controls and has adopted this standard on January 1, 2018. The new accounting policies based on IFRS 9 are effective from January 1, 2018 and, in accordance with the transitional provisions in IFRS 9, comparative figures will not be restated. Etrion has adopted IFRS 9 retrospectively with transition adjustments recognized through equity as at January 1, 2018, except for the hedge accounting provisions of IFRS 9, which were applied prospectively effective January 1, 2018. The adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018.

Classification of financial instruments: IFRS 9 introduces a new model for classifying financial assets. The classification of financial assets depends on the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial assets. The classification and measurement of financial liabilities under IFRS 9 remains the same as in IAS 39 except where an entity has chosen to measure a financial liability at fair value with changes through profit and loss. Etrion identified its financial assets under the scope of IFRS 9 and have run them through the classification principles of the

standard in order to assess the contractual cash flow characteristics (SPPI test) and to identify the applicable business model. As a result of this assessment the financial assets of the Company will be classified under amortized costs and fair value through profit and loss.

Impairment of financial assets: IFRS 9 establishes a new model for recognition and measurement of impairments in loans and receivables that are measured at Amortized Cost or FVOCI—the so-called “expected credit losses” model. Expected credit losses are calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an expected credit loss associated with it—from the moment of its origination or acquisition. Etrion's accounts receivables arising from the sale of electricity in Japan have a 30 days payment terms and none of the operating Japanese entities have experience any payment delays since the first invoice was issued. Based on past experience and also based on future expectations and credit rating of the counterparties (Japanese utilities) no calculation or assessment of impairment losses is required as of the adoption date.

3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believes to be relevant at the time the condensed consolidated interim financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results may differ from the assumptions and estimates, and such differences could be material. There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2018, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

4. SEGMENT REPORTING

The Board of Directors considers reportable segments from a geographical perspective and measures performance based on EBITDA and reviews and monitors performance of the Group on this basis. The Company's management identified two reportable segments, solar energy Chile ("Solar Chile") and solar energy Japan ("Solar Japan"). Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary.

While the Company's management has determined that the Company has only two reportable segments, the Company has decided to disclose additional information about its corporate activities as it believes that this information is useful for readers of the consolidated financial statements.

The Group's country of domicile is Canada. However, all consolidated revenues from external customers are derived from Japan. The Group's electricity production in Japan is sold to the Japanese public utilities, Tokyo Electric Power Company ("TEPCO") and Tohoku Electric Power Co., Inc. ("TOHOKU"). The Group's revenues, EBITDA and results from continuing operations are presented as follows:

	Q1-18			Q1-17			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	2,910	-	2,910	2,601	2,597	-	5,198
Operating expenses	(1,116)	-	(1,116)	(2,189)	(622)	-	(2,811)
General and administrative	(52)	(1,046)	(1,098)	(37)	(56)	(2,266)	(2,359)
Other (expense) income	(12)	(26)	(38)	-	42	(13)	29
EBITDA	1,730	(1,072)	658	375	1,961	(2,279)	57
Depreciation and amortization	(1,678)	(40)	(1,718)	(1,330)	(1,273)	(47)	(2,650)
Finance income	-	-	-	-	12	-	12
Finance costs	(892)	(1,606)	(2,498)	(2,633)	(709)	(1,545)	(4,887)
Loss before income tax	(840)	(2,718)	(3,558)	(3,588)	(9)	(3,871)	(7,468)
Income tax (expense) recovery	(153)	(142)	(295)	-	45	(141)	(96)
Net (loss) income for the period	(993)	(2,860)	(3,853)	(3,588)	36	(4,012)	(7,564)

The Group's assets and liabilities can be presented as follows:

	March 31, 2018			December 31, 2017		
	Solar Japan	Corporate	Total	Solar Japan	Corporate	Total
Property, plant and equipment	155,868	68	155,936	140,563	45	140,608
Intangible assets	6,432	4,799	11,231	5,327	4,398	9,725
Cash and cash equivalents	16,661	21,398	38,059	12,818	30,385	43,203
Other assets	10,803	9,010	19,813	8,747	9,852	18,599
Total assets	189,764	35,275	225,039	167,455	44,680	212,135
Borrowings	152,332	42,653	194,985	139,013	40,688	179,701
Trade and other payables	950	1,022	1,972	1,460	2,033	3,493
Other liabilities	19,126	1,339	20,465	17,603	1,491	19,094
Total liabilities	172,408	45,014	217,116	158,076	44,212	202,288

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

5. REVENUE

	Three months ended	
	Q1-18	Q1-17(*)
Feed-in Tariff ("FiT")	2,910	2,597
Spot market price	-	328
PPA agreement	-	2,001
Other utility income	-	272
Total revenue	2,910	5,198

Solar-related production is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months.

Spot market price, PPA agreement and other utility income refers to revenue items from the Chilean subsidiary deconsolidated in 2017. [Note 1](#)

6. OPERATING EXPENSES

	Three months ended	
	Q1-18	Q1-17 (*)
O&M	207	674
Purchased power	-	950
Personnel costs	243	300
D&A	1,678	2,603
Property tax	294	31
Insurance	62	120
Land lease	235	234
Transmission costs	-	416
Other operating expenses	75	87
Total Opex	2,794	5,415

O&M costs relate to fees paid in connection with the operation and maintenance activities of the Group's operating solar power projects in Japan and Chile. Purchased power and transmission costs refers to expense items from the Chilean subsidiary deconsolidated in 2017. [Note 1](#)

Depreciation and amortization relate to the Group's operating solar power projects producing electricity during the period.

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	Q1-18	Q1-17(*)
Salaries and benefits	468	763
Board of directors fees	69	67
Share-based payments	188	263
Professional fees	136	517
Listing and marketing	73	71
D&A	40	47
Office lease	80	91
Office, travel and other	84	197
Write-off guarantees	-	389
Total G&A	1,138	2,405

8. FINANCE INCOME AND COSTS

	Three months ended	
	Q1-18	Q1-17(*)
Finance income:		
Changes in fair values of derivative financial instruments:		
- Ineffective portion reclassified from other comprehensive income	-	7
Other finance income	-	5
Total finance income	-	12
Finance costs:		
Interest rate expense:		
- Credit facilities and non-recourse loans Note 17	519	3,055
- Interest rate swap contracts associated with non-recourse loans	342	309
- Corporate bond Note 17/19	806	832
- Credit facility with non-controlling interest	56	65
- Amortization of transaction costs	114	146
Changes in fair values of derivative financial instruments:		
Corporate bond call option	81	-
Foreign exchange loss	629	546
Other finance costs	56	18
Total finance costs before deducting amounts capitalized	2,603	4,971
Amounts capitalized on qualifying assets Note 12	(105)	(84)
Total finance costs	2,498	4,887
Net finance costs	2,498	4,875

The Group has four floating-rate credit facilities outstanding associated with its operating solar power projects and assets under construction in Japan. These credit facilities are hedged using interest rate swap contracts. Refer to [Note 17](#) and [Note 18](#) for further details on the Group's credit facilities and derivative financial instruments.

Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment. [Note 12](#)

During the three months ended March 31, 2018, the Group recognized a net fair value gain of \$0.2 million (2017: net fair value loss of \$0.5 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

(*) 2017 comparative figures include the financial performance of the Company's Chilean subsidiary, PV Salvador SpA., which is no longer consolidated with the Group. [Note 1](#)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

9. INCOME TAXES

(a) INCOME TAX EXPENSE

	Three months ended	
	Q1-18	Q1-17(*)
Current income tax expense:		
Corporate income tax	(230)	(288)
Total current income tax expense	(230)	(288)
Deferred income tax recovery:		
Temporary differences	(65)	192
Total deferred income tax recovery	(65)	192
Total income tax (expense) recovery	(295)	(96)

The Group recognized an income tax expense of \$0.1 million (2017: \$0.2 million) associated with its solar power projects in Japan and an income tax expense of \$0.1 million (2017: \$0.1 million) associated with its management services subsidiaries. In addition, the Group recognized a deferred income tax expense of \$.1 million (2017: \$0.2 million income tax recovery) primarily due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

(b) CURRENT INCOME TAX LIABILITIES

	March 31 2018	December 31 2017
Corporate income tax	180	265
Provincial income tax	187	270
Total current income tax liabilities	367	535

10. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the net loss for the period attributable to owners of the Company by the weighted average number of shares outstanding during the period. The calculation of basic and diluted loss per share is as follows:

	Three months ended	
	Q1-18	Q1-17(*)
Loss attributable to common shareholders:		
Total loss for the period	(3,663)	(6,497)
	Number of shares	
Weighted average number of thousand shares outstanding	334,094	334,094
Total basic and diluted loss per share	\$(0.011)	\$(0.019)

Diluted loss per share equals basic loss per share as, due to losses incurred in the three months ended March 31, 2018 and 2017, there is no dilutive effect from the existing stock options. [Note 16](#)

11. NON-CONTROLLING INTERESTS

The Group's subsidiaries in which there is a non-controlling interest ("NCI") are Shizukuishi Solar GK ("Shizukuishi"), Etrion Energy 1 GK ("Mito"), Etrion Energy 4 GK ("Komatsu"), Etrion Energy 5 GK ("Misawa"), all together the "Japanese entities".

The non-controlling interest at March 31, 2018, of \$0.7 million (December 31, 2017: \$0.8 million), represents the value attributable to non-controlling interests in the Japanese project companies.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Japanese project companies, other than those imposed by the lending banks related to cash distributions.

(*) 2017 comparative figures include the financial performance of the Company's Chilean subsidiary, PV Salvador SpA., which is no longer consolidated with the Group. [Note 1](#)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

Expressed in US\$'000 unless otherwise stated

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations:

	March 31, 2018			December 31, 2017		
	Current assets (liabilities)	Non-current assets (liabilities)	Net assets (Liabilities)	Current assets (liabilities)	Non-current assets (liabilities)	Net assets (Liabilities)
Shizukuishi	1,902	(3,949)	(2,047)	1,730	(2,606)	(876)
Mito	909	819	1,728	663	781	1,444
Misawa	3,210	(1,605)	1,605	2,652	(1,028)	1,624
Komatsu	6,322	(5,723)	599	2,374	(1,739)	635
Total net assets (liabilities)	12,343	(10,458)	1,885	7,419	(4,592)	2,827

The summarized income statement for the Japanese entities and Salvador including the portion allocated to NCI for the three months ended March 31, is as follows:

	Q1-18			Q1-17		
	(Loss) income for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI	(Loss) income for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI
Shizukuishi	(1,219)	(1,165)	(153)	(520)	(310)	(41)
Mito	148	265	35	157	230	30
Misawa	(117)	(17)	(7)	147	233	93
Komatsu	(20)	(35)	(5)	(10)	(918)	(137)
Salvador	-	-	-	(3,589)	(3,589)	(2,103)
Total	(1,208)	(952)	(130)	(3,815)	(4,354)	(2,158)

The net change in participating non-controlling interests in operating entities is as follows:

	Shizukuishi	Mito	Komatsu	Misawa	Total
As at December 31, 2017	(116)	189	95	650	818
Net (loss) income attributable to non-controlling interest	(160)	19	(3)	(47)	(190)
Other comprehensive (loss) income attributable to non-controlling interest	7	17	(3)	39	60
As at March 31, 2018	(269)	225	89	642	688
Interest held by third parties	13%	13%	15%	40%	

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Solar power projects	Assets under construction	Other PPE	Total
Cost:					
At December 31, 2017	2,673	113,264	29,155	3,863	148,955
Additions	6,932	3	1,946	31	8,912
Disposal	-	-	-	(18)	(18)
Exchange differences	276	6,363	1,607	212	8,458
At March 31, 2018	9,881	119,630	32,708	4,089	166,308
Accumulated depreciation:					
At December 31, 2017	-	7,969	-	378	8,347
Depreciation	-	1,496	-	54	1,550
Disposals	-	-	-	(18)	(18)
Exchange differences	-	475	-	18	493
At March 31, 2018	-	9,940	-	432	10,372
Net book value:					
At December 31, 2017	2,673	105,295	29,155	3,485	140,608
At March 31, 2018	9,881	109,690	32,708	3,657	155,936

During the three months ended March 31, 2018, the Group capitalized as assets under construction \$1.9 million (2017: \$10.5 million) of incurred capital expenditures associated with the Komatsu solar power project in Japan. In January 2018, the Group completed the acquisition of land plots in Japan of \$7.0 million to be used for the construction of one of the solar power projects currently in the development pipeline. In addition, during the first quarter of 2018, advances of \$0.2 million associated with land costs were reclassified from trade and other receivables to land. In addition, during the first quarter of 2018, the Group capitalized \$0.1 million (2017: \$0.1 million) of borrowing costs associated with credit facilities obtained to finance the construction of the Komatsu project. [Note 8](#) and [Note 17](#)

13. INTANGIBLE ASSETS

	Licenses and permits	Internally generated development costs and other	Total
Cost:			
At December 31, 2017	6,906	5,862	12,768
Additions	-	1,224	1,224
Impairment	-	(35)	(35)
Exchange differences	388	235	623
At March 31, 2018	7,294	7,286	14,580
Accumulated amortization:			
At December 31, 2017	1,579	1,464	3,043
Amortization	107	35	142
Exchange differences	128	36	164
At March 31, 2018	1,814	1,535	3,349
Net book value:			
At December 31, 2017	5,327	4,398	9,725
At March 31, 2018	5,480	5,751	11,231

During the months ended March 31, 2018, general and administrative expenses of \$0.4 million (2017: \$0.3 million) representing internally-generated costs of \$0.3 million (2017: \$0.3 million) and third-party costs of \$0.1 million (2017: \$ nil) were capitalized during the period within intangible assets as they directly related to the Group's development activities in Japan. In addition, during the first quarter of 2018, advances of \$0.9 million previously given to developers were reclassified from trade and other receivables to intangible assets.

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14. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents (including restricted cash) are held in banks in Canada, Luxembourg, Switzerland, United States and Japan with high and medium grade credit ratings assigned by international credit agencies. The fair value of cash and cash equivalents approximates their carrying value due to short maturities. Included within cash and cash equivalents is restricted cash relating to the Group's solar power projects as follows:

	March 31 2018	December 31 2017
Unrestricted cash at parent level	21,398	30,385
Restricted cash at project level	16,661	12,818
Total	38,059	43,203

Restricted cash relates to cash and cash equivalents held at the project level that are restricted by the lending banks for future repayment of interest and principal and working capital requirements related to each project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, through repayment of shareholder loans, payment of interest on shareholder loans or dividend distributions.

15. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,094,324 are issued and outstanding at March 31, 2018 (December 31, 2017: 334,094,324). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as and when declared by the Board of Directors. No dividends were declared during the three months ended March 31, 2018 and 2017. **Note 16**

16. SHARE-BASED PAYMENTS

The Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, directors and officers. RSUs have a contractual term of approximately four years and have time-based and performance-based vesting conditions that are market and non-market based. In addition, the Company maintains an equity-settled stock option awards scheme for employees, consultants, directors and officers. All outstanding stock options have a contractual term ranging from five to ten years and generally vest over a period of three years with the exercise price set equal to the market price at the date of grant. During the three months ended March 31, 2018, the Group recognized share-based payment expenses of \$0.2 million (2017: \$0.3 million) related to its RSUs and stock option award schemes. **Note 7.**

During the first quarter of 2018, there were no changes in the Company's outstanding RSUs totaling 22,424,433, of which 22,099,727 are performance based.

During the first quarter of 2018, there were no changes in the Company's outstanding stock options totaling 150,000 at an exercise price of CAD\$1.59.

The Company recognizes an expense within general and administrative expenses when stock options are granted to employees, consultants, directors and officers using the fair value method at the date of grant. Share-based compensation is calculated using the Black-Scholes option pricing model for stock options and the grant date share fair value for RSUs with service and non-market performance conditions. For RSUs with market-based performance conditions share-based compensation is calculated using an adjusted grant date share fair value calculated with a valuation model that incorporates all the variables included in the market vesting conditions.

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17. BORROWINGS

	Corporate bond	Project loans	Total
At January 1, 2018	40,688	139,013	179,701
Proceeds from loans	-	4,853	4,853
Accrued interest	806	516	1,322
Amortization of transaction costs	72	42	114
Exchange difference	1,087	7,907	8,994
At March 31, 2018	42,653	152,331	194,984
- Current portion	1,449	9,428	10,877
- Non-current portion	41,204	142,903	184,107

At March 31, 2018, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings and non-recourse project loans.

(a) CORPORATE BORROWINGS

At March 31, 2018, the Group had €33.7 million (net) of corporate bonds outstanding. The bond was issued by the Company in April 2014 at 8.0% annual interest with a 5-year maturity. The carrying amount of the corporate bond as at March 31, 2018, including accrued interest net of transaction costs, was \$42.7 million (December 31, 2017: \$40.7 million).

(b) NON-RECOURSE PROJECT LOANS

Japanese subsidiaries

During the three months ended March 31, 2018, the Group's Japanese subsidiaries with solar power projects under construction drew down a total of ¥491 million (\$4.6 million) and ¥35 million (\$0.3 million) under the senior financing agreements and under the VAT credit facility, respectively (2017: ¥2,530 million and ¥210 million, respectively). At March 31, 2018, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥nil (2017: ¥3,321 million (\$29.7 million)). At March 31, 2018, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. All the Japanese interest rate swap contracts qualified for hedge accounting at March 31, 2018, and December 31, 2017.

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18. DERIVATIVE FINANCIAL INSTRUMENTS

	March 31 2018	December 31 2017
Derivative financial assets:		
Corporate bond call option	245	319
Total derivative financial assets	245	319
Derivative financial liabilities:		
Interest rate swap contracts		
- Current portion	1,534	1,444
- Non-current portion	9,446	8,788
Total derivative financial liabilities	10,980	10,232

Corporate bond call option

During the first quarter of 2018, the Group recognized a fair value loss of \$81 thousands associated with the change in the fair value of the corporate bond call option.

Interest rate swap contracts

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts, the observable TIBOR interest rate forward yield curves and an appropriate discount factor.

At March 31, 2018, all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is recorded into finance income/costs.

19. RELATED PARTIES

For the purposes of preparing the Company's condensed consolidated interim financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns through various trusts approximately 24.3% of the Company's common shares (2017: 24.3%).

RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2018, and 2017, the Group entered into the following transactions with related parties:

	Three months ended	
	Q1-18	Q1-17
General and administrative expenses:		
Lundin Services BV	-	3
Lundin Petroleum AB	7	6
Lundin SA	30	30
Finance costs:		
Lundin family:		
- Interest expense	10	127
- Transaction costs	1	10
Total transactions with related parties	48	176

Amounts outstanding to related parties at March 31, 2018 and December 31, 2017 are as follows:

	March 31 2018	December 31 2017
Current liabilities:		
Lundin Services BV:		
General and administrative expenses	-	1
Lundin family share in corporate bond	17	7
Key management personnel	265	384
Total current liabilities	282	392
Non-current liabilities:		
Lundin family share in corporate bond	490	475
Total non-current liabilities	490	475
Total amounts outstanding	772	867

There were no amounts outstanding from related parties at March 31, 2018 and December 31, 2017.

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21. COMMITMENTS

Contractual commitments

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of March 31, 2018, the Group had a contractual obligation over one year to acquire construction services in the amount of \$1.1 million related to the construction of the 13.2 MW Komatsu solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level and/or from the Group's unrestricted cash balance upon financial close.

22. CONTINGENT LIABILITIES

On August 10, 2015, the Group received a litigation notice from a former employee alleging unreconciled labor-related differences. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself. Given the early stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation and has not included a provision for liability under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, in these condensed consolidated interim financial statements.