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Etrion Corporation

Management's discussion and analysis

Three and nine months ended September 30, 2018

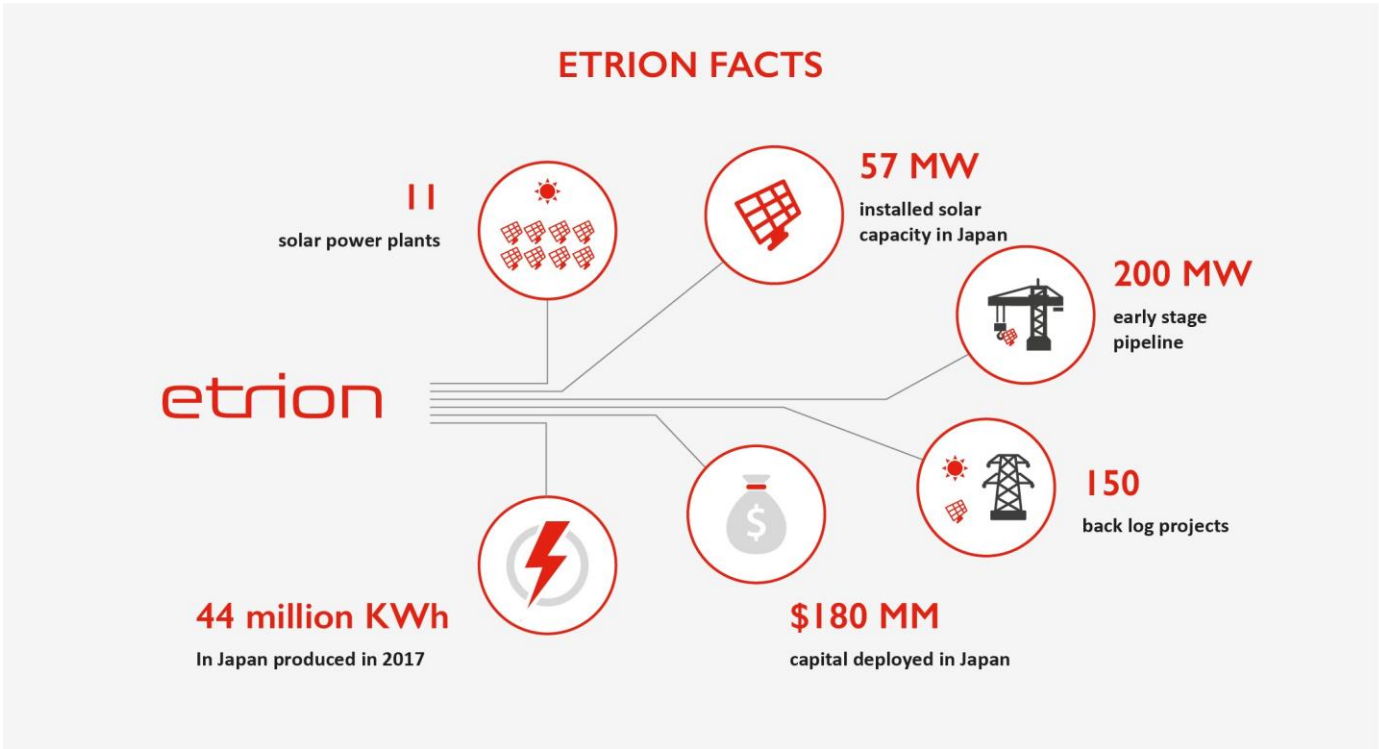
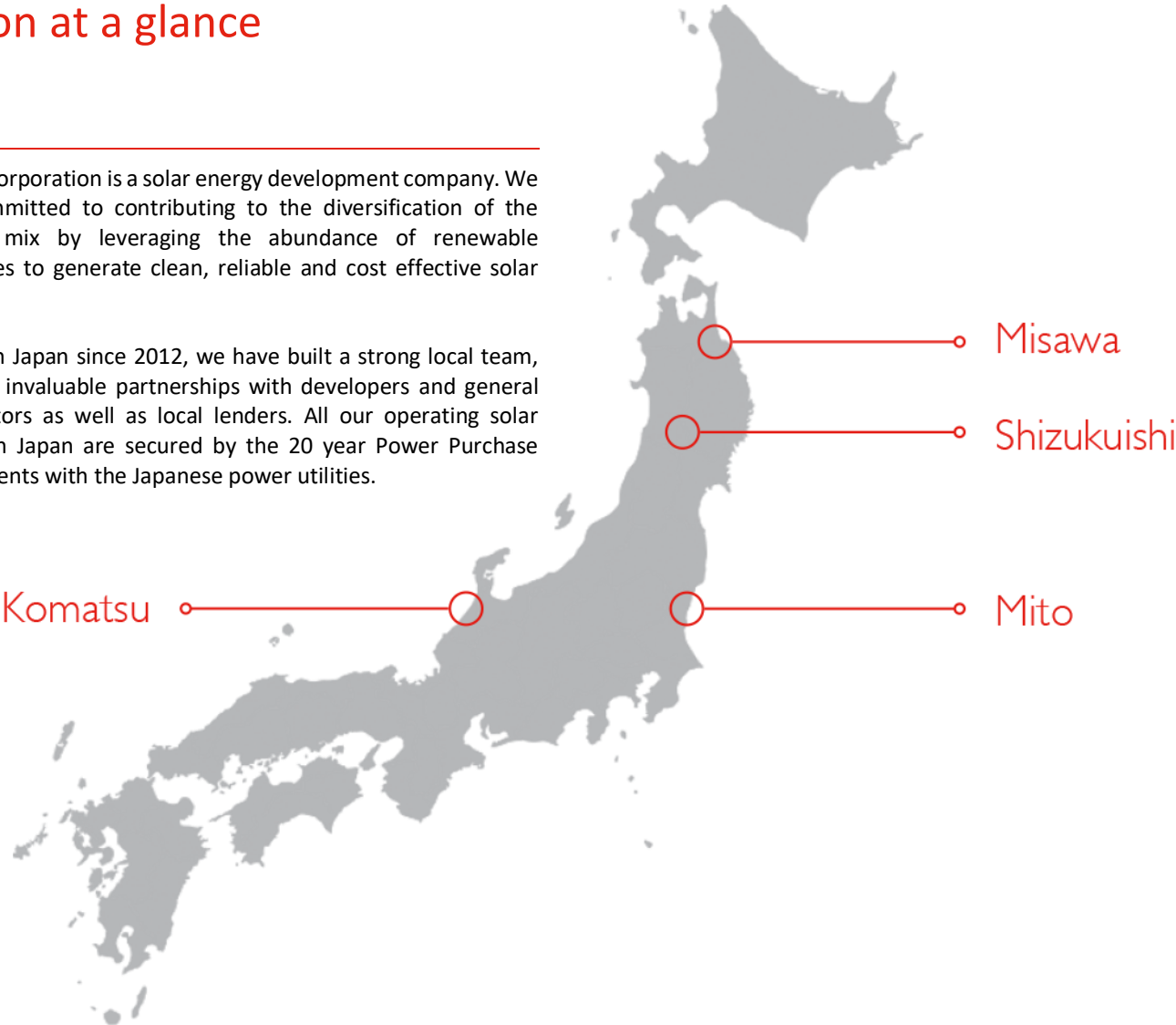


Misawa solar power project in northern Japan

Etrion at a glance

Etrion Corporation is a solar energy development company. We are committed to contributing to the diversification of the energy mix by leveraging the abundance of renewable resources to generate clean, reliable and cost effective solar energy.

Active in Japan since 2012, we have built a strong local team, secured invaluable partnerships with developers and general contractors as well as local lenders. All our operating solar assets in Japan are secured by the 20 year Power Purchase Agreements with the Japanese power utilities.



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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of November 6, 2018, should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2018. Financial information is reported in both United States dollars (" \$" or "USD") and in Euros ("€") because the Company's outstanding corporate bonds are denominated in the later currency. In addition, certain material financial information has also been reported in Japanese yen ("¥") because the Company has its main business activities in Japan. Exchange rates for the relevant currencies of the Group with respect to the \$ and the ¥ are as follows:

	€/¥	\$/¥	€/\$
Closing rate at September 30, 2018	131.81	113.44	1.1576
Closing rate at September 30, 2017	132.64	112.46	1.1806
Nine months average rate September 30, 2018	130.95	109.59	1.1949
Nine months average rate September 30, 2017	124.56	111.91	1.1132

NON-IFRS FINANCIAL MEASURES AND FORWARD-LOOKING STATEMENTS

The terms "adjusted net income (loss)", "earnings before interest, tax, depreciation and amortization" ("EBITDA"), "Adjusted EBITDA", "solar segments EBITDA" and "adjusted operating cash flow", used throughout this MD&A, are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently by the Company over all periods presented. Adjusted net income (loss) is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income (loss) as reconciled on page 20). EBITDA, including solar segments EBITDA, is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while Adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measures for both EBITDA and Adjusted EBITDA is net income (loss) as reconciled on page 21). In addition, adjusted operating cash flow is used by investors to compare cash flows from operating activities without the effects of certain volatile items that can positively or negatively affect changes in working capital and are viewed as not directly related to a company's operating performance (the most comparable IFRS measure is cash flow used in operations as reconciled on page 20). This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information contained herein. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 34.

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THIRD QUARTER 2018 HIGHLIGHTS

Third Quarter 2018 Highlights

OPERATIONAL HIGHLIGHTS

- Produced 18.4 million kilowatt-hours (“kWh”) of electricity from the Company’s 57 MW portfolio comprising 11 solar power plant sites in Japan.
- Etrion continues to advance on the development of two of the three backlog solar power projects in Japan with aggregate capacity of 105 MW¹ on a gross basis. As with any development, these projects remain at risk for delays or abandonment if the Company encounters issues that cannot be resolved. The Company is also evaluating several other early stage projects, defined as pipeline, with an aggregate capacity of 200 MW on a gross basis.
- On October 15, 2018, the Japanese Ministry of Economy, Trade and Industry (“METI”) announced proposed legislation to introduce new deadlines and certain measures for solar projects not yet connected which, if not met, would result in project feed-in-tariff (“FIT”) rates being reduced significantly. This new proposed legislation, if passed unchanged, could have a negative impact on our development activities for the remaining Etrion’s 305 MW pipeline. The Niigata 45 MW project would not be affected by the proposed new rules.

FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of \$6.1 million and \$5.1 million, respectively.
- On July 17, 2018, Etrion completed the redemption of the €40 million nominal amount of corporate bonds issued in 2014 that paid 8.0% annual interest and were to mature in April 2019. The 2014 bonds were redeemed at 101% of par plus accrued interest for a total net amount of €31.8 million (\$37.2 million) using the net proceeds from Etrion’s recently issued €40 million of senior secured bonds that have an annual interest rate of 7.25% and mature in May 2021.
- Closed the third quarter of 2018 with a cash balance of \$30.4 million, \$12.1 million of which was unrestricted and held at corporate level, and working capital of \$26.7 million. Etrion has sufficient liquidity to fund the backlog projects.

¹ The capacity of power plants in this document is described in approximate megawatts (“MW”) on a direct current basis, also referred to as megawatt-peak.

Third Quarter 2018 Highlights

Continued

USD thousands (unless otherwise stated)	Three months ended		Nine months ended	
	Q3-18	Q3-17 ⁽¹⁾	Q3-18	Q3-17 ⁽¹⁾
Electricity production (MWh)²	18,355	49,174	44,596	141,563
Financial results				
Revenues	6,185	7,005	15,452	19,245
Gross profit	2,737	1,204	5,942	2,353
EBITDA	4,131	2,512	7,043	4,474
Adjusted EBITDA	3,667	2,512	8,058	5,351
Net (loss) income	(1,453)	35,161	(6,052)	20,732
Adjusted net income (loss)	449	(2,558)	1,475	(10,089)
Cash flow				
Project cash distributions	1,524	4,362	2,135	7,704
Cash flow from (used in) operations	3,854	(1,493)	6,625	(3,052)
Adjusted operating cash flow	3,259	2,732	6,598	5,043
			September 30 2018	December 31 2017
Balance sheet				
Total assets			205,428	212,135
Operational assets			135,745	110,622
Unrestricted cash at parent level			12,089	30,385
Restricted cash at project level			18,332	12,818
Working capital			26,773	43,611
Consolidated net debt on a cash basis			145,759	136,173
Corporate net debt			27,018	10,110

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

²MWh=Megawatt-hour

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BUSINESS REVIEW

Business Review

BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants in Japan. The Company owns and operates 57 MW of installed solar capacity in Japan. Etrion has several projects at different stages of development in Japan. The Company has four operational projects (11 solar park sites). All operational projects in Japan benefit from revenues generated from 20 year FiT power purchase agreements (“PPAs”) that are fixed price contracts with local utilities for all the electricity generated.

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. Accordingly, the Group’s consolidated financial performance for the three and nine months ended September 30, 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 Company’s MD&A for the year ended December 31, 2017 and the disclosure under “Financial Review” in this MD&A.

Etrion’s current strategy is to focus exclusively on continuing to develop and operate solar power projects in Japan.

The Company’s business model focuses on seven key drivers for success: (1) long term contracts with stable revenues; (2) low risk jurisdictions; (3) strategic partnerships; (4) low equipment cost and operating expenses; (5) available long-term project financing; (6) low cost of debt, and (7) attractive liquid market for future divestiture.

The Company’s common shares are listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Frankfurt Stock Exchange Open Market. Etrion is based in Geneva, Switzerland and Tokyo, Japan. As of the date of this MD&A, the Company has a total of 27 employees.

Business Review

Continued

OPERATIONS REVIEW

THREE MONTHS ENDED SEPTEMBER 30

USD thousands (unless otherwise stated)	JAPAN	
	Q3-18	Q3-17
Operational data ⁽¹⁾		
Electricity production (MWh)	18,355	13,872
Operational performance ⁽¹⁾		
Electricity revenue		
Feed-in-Tariff ⁽²⁾	6,185	4,867
Total revenues	6,185	4,867
EBITDA ⁽³⁾	5,084	3,777
EBITDA margin (%)	82%	78%
Net income	1,627	1,021

1. Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.

2. FIT scheme under PPA with utilities.

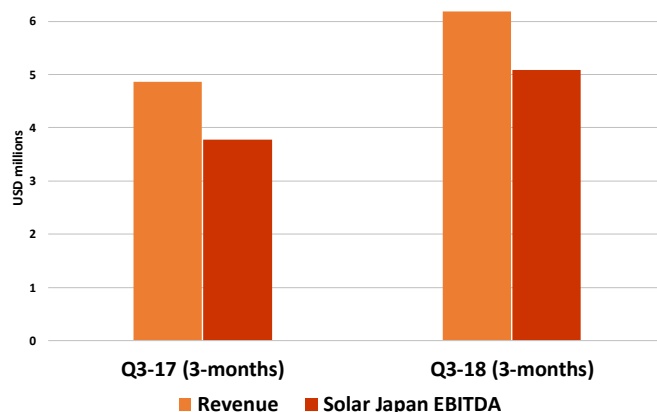
3. Refers to segment EBITDA as reconciled in the segment information section on page 21.

OPERATING PERFORMANCE IN JAPAN (3-months)

During Q3-18, the Group produced 32% more electricity in Japan compared to the same period in 2017, due primarily to the incremental production from the Misawa and Komatsu solar power projects.

The Group receives revenues denominated in Japanese yen from its operating solar projects. Revenues come from the FIT system, whereby a premium fixed price is received for each kWh of electricity produced through a 20-year PPA contract with the Japanese public utility, Tokyo Electric Power Company ("TEPCO"), Hokuriku Electric Power Co., Inc ("HOKURIKU") or Tohoku Electric Power Co., Inc. ("TOHOKU"), as applicable. During Q3-18, the Group received the FiT of ¥40 per kWh applicable to the Mito and Shizukuishi solar park sites, the FiT of ¥36 per kWh applicable to the solar park sites of the Misawa project and the FiT of ¥32 per kWh applicable to the solar park sites of the Komatsu project.

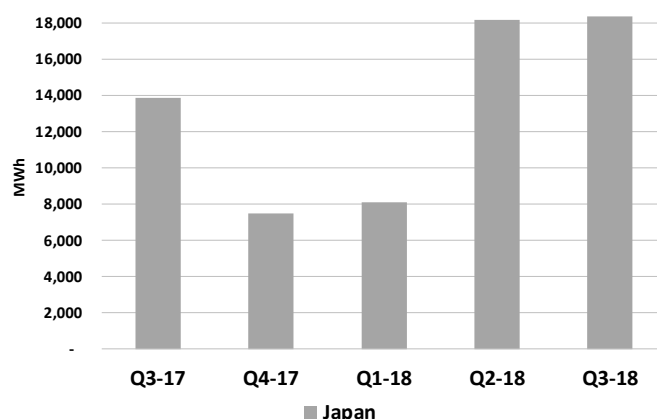
During Q3-18, the Group's revenue increased by 27%, compared to the same period in 2017, primarily due to the incremental installed capacity in Japan. In addition, project-level EBITDA in Japan increased by 35%, compared to the same period in 2017, also primarily due the increased installed capacity.



Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency (\$) using the corresponding Q3-18 average rates. Accordingly, changes in the ¥/\$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group's reported figures in USD.

HISTORICAL PRODUCTION

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. However, on an annual basis, solar irradiation is expected to vary less than 10% year-over-year. The historical quarterly electricity production in Japan is shown below, reflecting the impact of seasonality.



Business Review

Continued

OPERATIONS REVIEW

NINE MONTHS ENDED SEPTEMBER 30

USD thousands (unless otherwise stated)	JAPAN	
	Q3-18	Q3-17
Operational data ⁽¹⁾		
Electricity production (MWh)	44,596	36,201
Operational performance ⁽¹⁾		
Electricity revenue		
Feed-in-Tariff ⁽²⁾	15,452	12,720
Total revenues	15,452	12,720
EBITDA ⁽³⁾	11,701	9,687
EBITDA margin (%)	76%	76%
Net income	2,470	2,241

1. Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.

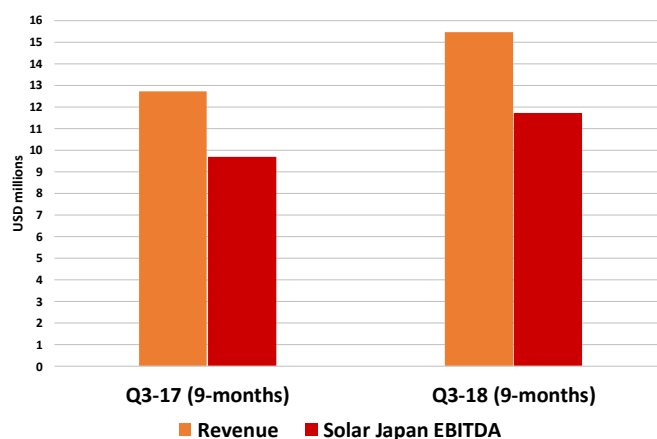
2. FIT scheme under PPA with utilities.

3. Refers to segment EBITDA as reconciled in the segment information section on page 21.

OPERATING PERFORMANCE IN JAPAN (9-months)

During the nine months ended September 30, 2018, the Group produced 22% more electricity in Japan compared to the same period in 2017, due primarily to the incremental production from the Misawa and Komatsu solar power projects.

During the nine months ended September 30, 2018, the Group's revenue and project-level EBITDA in Japan increased by 21% and 21%, respectively, compared to the same period in 2017, primarily due to the incremental installed capacity in Japan.



Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency (\$) using the corresponding Q3-18 average rates. Accordingly, changes in the ¥/\$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group's reported figures in USD.

Business Review

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OPERATING PROJECTS

The following map shows the locations of the Company's operating solar plants in Japan.



Mito

As of the date of this MD&A, the remaining PPA contract life of Mito is approximately 17 years. Details of the Group's 87%-owned operating solar power project in Japan are shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Mito-site 1	Ibaraki	1	1.3	Fixed-tilt	Jun-2015
Mito-site 2	Ibaraki	1	1.3	Fixed-tilt	Aug-2015
Mito-site 3	Ibaraki	1	1.3	Fixed-tilt	Jul-2015
Mito-site 4	Ibaraki	1	2.7	Fixed-tilt	May-2015
Mito-site 5	Ibaraki	1	2.7	Fixed-tilt	Jun-2015
Total		5	9.3		

Mito's solar power sites in Japan are capable of producing more than 10.3 million kWh of electricity on an annual basis.

Shizukuishi

As of the date of this MD&A, the remaining PPA contract life of Shizukuishi is approximately 18 years. Details of the Group's 87%-owned operating solar power project in Japan are shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Shizukuishi	Iwate	1	24.7	Fixed-tilt	Oct-2016
Total		1	24.7		

Shizukuishi's solar power plant in Japan is capable of producing approximately 26.1 million kWh of electricity per year.

Misawa

As of the date of this MD&A, the remaining PPA contract life of Misawa is approximately 19 years. Details of the Group's 60%-owned operating solar power project are shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Misawa	Tohoku	3-4	5.3	Fixed-tilt	Feb-2017
Misawa	Tohoku	1-2	4.2	Fixed-tilt	Jul-2017
Total		4	9.5		

Misawa is capable of producing approximately 10.7 million kWh of solar electricity per year.

Komatsu

As of the date of this MD&A, the remaining PPA contract life of Komatsu is approximately 20 years. Details of the Group's 85%-owned operating solar power project are shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Komatsu	Honsu	1	13.2	Fixed-tilt	May-2018
Total		1	13.2		

Komatsu is capable of producing approximately 14.2 million kWh of solar electricity per year.

Business Review

Continued

DEVELOPMENT ACTIVITIES

On October 15, 2018, METI held a meeting and appeared to have accepted several proposals to introduce strict measures to address the more than 20 gigawatt (“GW”) projects which have FiT of ¥40, ¥36 and, ¥32/kWh which are still under development and not connected and are holding grid capacity, preventing new players from developing alternate renewable energy projects in the affected grid areas. The new measures proposed by METI would apply to a subset of these projects which obtained their grid connection agreements by July 31, 2016, and so are not subject to the 3-year rule (See Japanese Market section). Under the proposed new rules, these projects would be potentially subject to a significant drop in the already allocated FiT. METI has requested public opinion until November 21, 2018, and is subsequently expected to announce final rules within 30 days.

At this point, since final rules have not yet been announced, Etrion is not in a position to assess the potential impact of new regulations on its backlog and pipeline projects. Based on the announcements to date by METI, the Greenfield Tk-2 project in the Niigata prefecture would not be impacted since it is already subject to the 3-year rule. With respect to the remaining Japanese backlog and early stage pipeline projects, the Company is awaiting for final rules to be published to determine any potential impact.

PROJECTS UNDER DEVELOPMENT – JAPAN

Until new METI rules are announced, Etrion continues to advance several projects that are at different stages of development and /or negotiation with third parties. Etrion also continues to actively work towards reaching Notice to Proceed (“NTP”) for the Japanese backlog. Management generally refers to NTP status when a project has obtained all permits and authorizations, secured land and secured the interconnection agreement, the Company has selected an engineering procurement and construction (“EPC”) contractor to build the solar project and financing has been secured. As explained further below, any project under development remains with a high degree of risk which may result in (a) delays to commence construction, (b) changes in the economics, (c) changes in capacity or (d) abandonment of the project. Changes (if any) to previously disclosed project size and details are due to optimizations during the development process. Final size and economics are only confirmed when financial close is reached. The Company classifies backlog projects as Brownfield or Greenfield. Brownfield projects are those originally developed by a third party and still in the development stage, with respect to which the Company has secured certain rights. Greenfield projects are those originally developed by the Company. The following table lists the current backlog projects.

Project	Prefecture	Sites	MW Gross	Target NTP
Brownfield Tk-1	Kumamoto	1	45	H2-19
Greenfield Tk-2	Niigata	1	45	H1-19
Brownfield Tk-3	Mie	1	60	H1-19
Total backlog		3	150	
Total early stage			200	
Total pipeline			350	

JAPANESE BACKLOG

Brownfield Tk-1. This project, located in the Kumamoto prefecture, is currently designed as a 45 MW solar park project. The project has secured the FiT of ¥36/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility before July 31, 2016.

The Company continues to advance discussions with land owners to secure property, however, progress has been minimal at this time. If and when land constraints are resolved and final land configuration is completed, the Company will file for the forest development authorization. The project does not require an environmental impact assessment. The project remains with a high degree of execution risk primarily due to the uncertainty of securing such property rights critical to it. Management remains cautiously optimistic that such issues will be resolved so that the project can proceed. However, at this time Etrion is unable to assess the feasibility of this project, but once new rules are announced by METI the Company will be able to communicate whether it will continue with the development or abandon it.

Greenfield Tk-2. This project, located in the Niigata prefecture, is currently configured as a 45 MW solar park project. The project has secured the FiT of ¥36/kWh. As per the latest METI communication, it appears the FiT for this project is not at risk. The project entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility after July 31, 2016 but before March 2017. This means that this project is subject to a three-year limit for development from March 31, 2017. In other words, if this project starts operation one year late (i.e. by March 31, 2021) it will have its FiT period shortened to 19 years. The project does not require an environmental impact assessment. The Company completed the purchase of all the land required for the project, except for certain public land parcels which are usually acquired at the later stage of development (after detailed layout design and forest development plans). The Company is currently in consultation with local communities and proceeding with land measurement and soil survey activities. It is also advancing on civil works and EPC contract negotiations and expects to reach the shovel ready stage and financial close by the first half of 2019.

Business Review

Continued

Brownfield Tk-3. This project, located in the Mie prefecture, was originally configured as a 50 MW facility but the Company is in advanced discussions with local authorities and other stakeholders to be expanded it to a 60 MW solar park project. The project has secured the FiT of ¥36/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility before July 31, 2016. The project has secured the environmental impact assessment and has recently filed for its forest development. The Company is in negotiations with the developer to amend certain terms of the development services agreement and management expects to reach agreement by the time this project is shovel ready. However, at this time Etrion is unable to assess the feasibility of this project, but once new rules are announced by METI the Company will be able to communicate whether it will continue with the development or abandon it.

Finally, the project located in the Saitama prefecture previously named Brownfield Tk-4 was re-assessed, and given the complexity of the site, the environmental impact assessment requirements, and the high cost of civil works management decided to abandon it. During 2018, the Company did not capitalize additional expenses to this project. All development costs incurred in this project up to the end of 2017 of US\$0.2 million were impaired as of December 31, 2017.

As of September 30, 2018, the Company has incurred approximately \$14.9 million of project advances and development costs associated with the Japanese backlog as follows:

Project	Advance to third parties	Development costs	TOTAL
Brownfield Tk-1	1.0	1.8	2.8
Greenfield Tk-2	-	5.7	5.7
Brownfield Tk-3	5.6	0.8	6.4
Total USD million	6.6	8.3	14.9

Project advances and incurred development costs will be fully credited from the “net to Etrion” equity contribution shown in the last column of the table below, upon financial close.

Project	Project Costs	Gross Debt	Net Equity Contribution ⁽¹⁾	Net to Etrion ⁽²⁾
Brownfield Tk-1	166	141	19	16
Greenfield Tk-2	157	127	18	18
Brownfield Tk-3	200	170	13	7
Total USD million	523	438	50	41

1. Net of development fee

2. Net of development fee and net to Etrion economic interest.

The equity needed to build most of these Japanese backlog projects is likely to be contributed throughout the construction period, typically two years, rather than at the start of construction. The net to Etrion equity contribution shown on the table above is net of development fees the Company charges to the project companies for securing financing and developing the project at NTP.

EARLY STAGE JAPANESE PIPELINE

The METI reported as of June 2018 total solar projects with valid FiT agreements but not yet under construction in the aggregate capacity of about 20 GW. Many of these projects are still in different stages of development and seeking development partners and investors to carry these projects to completion.

Etrion is awaiting the final publication of new rules from METI to determine how its pipeline of 200 MW could be potentially affected. The Company will continue to provide additional information on individual projects once it enters into a binding agreement with developer, completes due diligences to validate the interconnection agreement with the utilities, evaluates the land rights acquisition, reviews the status of permits and completes its economic analysis. Given the early stage nature of these projects the Company will not provide timing status until the projects reach backlog stage. The estimated aggregate capacity disclosed for the pipeline is management’s best estimates, however, final capacity may be adjusted based on permit restrictions, land availability and economics.

Business Review

Continued

SOLAR MARKET OVERVIEW

The market for renewable energy sources, including solar, biomass, wind, hydro and bio fuels, is driven by a variety of factors, such as legislative and policy support, technology, macroeconomic conditions, pricing and environmental concerns. The overall goal for the solar energy market is to reach grid parity, whereby the price of solar energy is competitive with traditional sources of electricity, such as coal and natural gas. Solar technology cost has dropped dramatically and continues to decrease. In addition, solar energy has reached grid parity in certain parts of the world where solar irradiation and electricity prices are high. As the cost of solar technology continues to decrease, new potential markets are expected to develop in areas where solar electricity is price-competitive with other sources of energy.

Solar power plants are an important source of renewable energy. They have very low operating and maintenance costs with minimal moving parts. The technology is essentially silent, emission-free and scalable to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from photovoltaic ("PV") cells and energy generated from solar collectors (i.e., thermal energy or heat).

JAPANESE MARKET

Japan is the world's third largest energy consumer and today is among the top five largest solar markets in the world. The use of solar power in Japan has accelerated since the Japanese FIT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster. This in turn led to most of the nation's 52 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 15% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2019, Japan is projected to have more than 52 GW of solar capacity.

On January 22, 2015, METI officially announced new rules with respect to the FIT regime. The rules apply to new projects and were designed to streamline the process between developers, METI and utilities. Projects with accepted existing grid connection are not affected. METI's main objective in announcing new rules was to address the increasing speculation from developers that have been applying for the FIT but not realizing projects, and at the same time to unblock the grid assessment applications that were put on hold by some of the utilities facing overloaded capacity.

The Act to amend the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (the "FIT Amendment Act") was promulgated on June 3, 2016. The FIT Amendment Act makes various changes to the rules for the Japanese renewable energy feed in tariff program including:

- to require certain categories of projects to commence operations within three years from 1 April 2017 (i.e. by 31 March 2020); this will likely result in reduced FIT payment periods after such three years period,
- to allow such projects to change their modules without triggering changes in the FIT rate; and
- to allow such projects to also reduce their project size by more than 20% without triggering a FIT rate reduction.

In Japan, the new curtailment system has been changed from the "30 day rule per annum" to an hourly basis per annum. Uncompensated curtailment up to 30 days, annually based on one-day units, will be changed to up to 360 hours annually. The hourly basis for curtailment expands the amount available for interconnection. Furthermore, utilities may impose installation of remote curtailment systems on PV plants.

On October 15, 2018, METI held a meeting of its Significant Development of Renewable Energy and Next Generation Electric Grid Network Committee (Saisei Kanou Enerugi Tairyō Dounyū /Jisedai Denryoku Network Sho linkai). A number of proposals were made to introduce strict new deadlines and other measures on solar project development, which, if not met, would result in project FIT rates being reduced significantly. According to METI, more than 20 GW of solar power projects which have FIT of ¥40, ¥36 and, ¥32/kWh have not reached commercial operations and are unreasonably taking up grid capacity, preventing new players from developing alternate renewable energy projects in the affected grid areas. The new measures proposed by METI would apply to the holders of projects with FIT of ¥40, ¥36 and, ¥32/kWh which obtained their grid connection agreements by July 31, 2016, and so are not subject to the 3-year rule ("Early High FIT Holders"). The new measures include (1) a new grid connection work application deadline (which if not met, will result in a significant reduction to the project FIT rate), 2) a new scheduled grid connection date ("Scheduled Grid Connection Date") deadline (which if not met, will also result in a significant reduction to the project FIT rate); and 3) a new general 1-year deadline for such projects to achieve their commercial operation date in any case (failing which they will have their PPA period reduced).

The new proposed measures have been released for public comment until November 21, 2018. However, many parties in the industry are actively advocating that the new rules (based on the reasons given by METI for pursuing these measures), should only apply to those projects whose development is uncertain and which are not significantly progressing towards completion.

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Financial Review

FINANCIAL RESULTS

THIRD QUARTER SELECTED FINANCIAL INFORMATION

During the third quarter of 2018, the Group's performance and results were positively impacted by the incremental production of electricity in Japan. However, on a consolidated basis revenue decreased in comparison with the same period in 2017, due to the deconsolidation of the Chilean operating subsidiary, which was effective September 30, 2017. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands (except per share data)	Three months ended		Nine months ended	
	Q3-18	Q3-17	Q3-18	Q3-17
Revenue	6,185	7,005	15,452	19,245
Japan	6,185	4,867	15,452	12,720
Chile	-	2,138	-	6,525
Gross profit	2,737	1,204	5,942	2,353
Net (loss) income attributable to owners of Etrion	(1,677)	36,080	(6,368)	23,717
Basic and diluted (loss) earnings per share:				
From total results attributable to owners of Etrion	\$(0.005)	\$0.11	\$(0.019)	\$0.07
Net (loss) income	(1,453)	35,161	(6,052)	20,732
Adjustments to net (loss) income for:				
Net income tax expense	453	464	1,190	1,113
Share of net profit on deconsolidation of subsidiary	-	(41,015)	-	(41,015)
Depreciation and amortization	2,157	3,138	5,804	8,726
Additional termination fee	(185)	-	-	-
Share-based payment expense	196	160	577	662
Net finance costs	2,359	4,727	5,330	14,760
Other expense (income)	(268)	97	(251)	65
Income tax paid	(153)	(448)	(760)	(1,034)
Additional termination fee paid	(1,294)	-	(1,294)	-
Changes in working capital	2,042	(3,777)	2,081	(7,061)
Operating cash flow	3,854	(1,493)	6,625	(3,052)

Summarized consolidated balance sheet information, prepared in accordance with IFRS, is as follows:

USD thousands	September 30 2018	December 31 2017
Non-current assets	160,773	153,751
Current assets	44,655	58,384
Total assets	205,428	212,135
Non-current liabilities	181,754	187,515
Current liabilities	17,882	14,773
Total liabilities	199,636	202,288
Net assets	5,792	9,847
Working capital	26,773	43,611
Dividends declared	-	-

Financial Review

Continued

SEGMENT INFORMATION

Management 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 has identified one reportable segment which is solar energy Japan. While the Company has determined it has only one reportable segment, 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. Following the Chilean subsidiary deconsolidation in September 30, 2017, the Group no longer reports financial performance of the Solar Chile segment.

Segment Information Three Months Ended September 30

Segment consolidated financial information for the three months ended September 30, prepared in accordance with IFRS, is as follows:

USD thousands	Three months ended						
	Q3-18			Q3-17			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	6,185	-	6,185	2,138	4,867	-	7,005
Operating expenses (Opex)	(1,330)	-	(1,330)	(1,645)	(1,062)	-	(2,707)
General and administrative (G&A)	(48)	(1,129)	(1,177)	(54)	(28)	(1,607)	(1,689)
Additional termination fee	-	185	185	-	-	-	-
Other income (expenses)	277	(9)	268	(1)	-	(96)	(97)
EBITDA	5,084	(953)	4,131	438	3,777	(1,703)	2,512
Gain on deconsolidation of subsidiary	-	-	-	-	-	41,015	41,015
Depreciation and amortization	(2,118)	(39)	(2,157)	(1,359)	(1,733)	(46)	(3,138)
Finance income	-	-	-	28	1	-	29
Finance costs	(1,008)	(1,966)	(2,974)	(2,607)	(743)	(1,443)	(4,793)
Income (loss) before income tax	1,958	(2,958)	(1,000)	(3,500)	1,302	37,823	35,625
Income tax expense	(331)	(122)	(453)	-	(281)	(183)	(464)
Net income(loss) for the period	1,627	(3,080)	(1,453)	(3,500)	1,021	37,640	35,161

Solar Japan: During Q3-18, the Group's Japanese solar segment generated revenues of \$6.1 million and EBITDA of \$5.1 million, representing an increase of 27% and 35%, respectively, in comparison with the same period in 2017. Revenue and EBITDA increased driven by the additional production from the Komatsu project. In addition, the Group's Japanese segment generated net income of \$1.6 million, in comparison with net income of \$1.0 million for the same period in 2017.

Corporate: During Q3-18, the Group's corporate segment generated negative EBITDA of \$1.0 million and a net loss of \$3.1 million, respectively. In comparison with the same period in 2017, negative EBITDA decreased primarily due to the cost reduction initiatives implemented in the last quarter of 2017 to streamline operations.

Solar Chile: 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 the Chilean subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines.

Financial Review

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Segment Information Nine Months Ended September 30

Segment consolidated financial information for the nine months ended September 30, prepared in accordance with IFRS, is as follows:

USD thousands	Nine months ended						
	Q3-18			Q3-17			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	15,452	-	15,452	6,525	12,720	-	19,245
Operating expenses (Opex)	(3,825)	-	(3,825)	(5,389)	(2,919)	-	(8,308)
General and administrative (G&A)	(204)	(3,337)	(3,541)	(269)	(157)	(5,972)	(6,398)
Additional termination fee	-	(1,294)	(1,294)	-	-	-	-
Other income (expenses)	278	(27)	251	(6)	43	(102)	(65)
EBITDA	11,701	(4,658)	7,043	861	9,687	(6,074)	4,474
Gain on deconsolidation of subsidiary	-	-	-	-	-	41,015	41,015
Depreciation and amortization	(5,685)	(119)	(5,804)	(4,034)	(4,550)	(142)	(8,726)
Finance income	5	486	491	28	92	-	120
Finance costs	(2,830)	(3,762)	(6,592)	(7,822)	(2,349)	(4,867)	(15,038)
Income (loss) before income tax	3,191	(8,053)	(4,862)	(10,967)	2,880	29,932	21,845
Income tax expense	(721)	(469)	(1,190)	-	(639)	(474)	(1,113)
Net income(loss) for the period	2,470	(8,522)	(6,052)	(10,967)	2,241	29,458	20,732

Solar Japan: During the nine months period ended September 30, 2018, the Group's Japanese solar segment generated revenues of \$15.5 million and EBITDA of \$11.7 million, representing an increase of 21% and 21%, respectively, in comparison with the same period in 2017. Revenue and EBITDA increased driven by the additional production from the Misawa and Komatsu solar projects. In addition, the Group's Japanese segment generated a net income of \$2.5 million, in comparison with the net income results of \$2.2 million for the same period in 2017.

Corporate: During the nine months period ended September 30, 2018, the Group's corporate segment generated negative EBITDA of \$4.7 million and a net loss of \$8.5 million, respectively. In comparison with the same period in 2017, negative EBITDA increased primarily due to the recognition of an additional termination fee as described on page 26, partially offset by the cost reduction initiatives implemented in the last quarter of 2017 to streamline operations.

Solar Chile: 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 the Chilean subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines.

Financial Review

Continued

Non-GAAP Performance Measures

Reconciliation of adjusted net loss to net loss	Three months ended		Nine months ended	
USD thousands	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Net (loss) income	(1,453)	35,161	(6,052)	20,732
Adjustments for non-recurring items:				
General and administrative expenses ⁽¹⁾	-	-	-	488
Additional termination fee	(185)	-	1,294	-
Write off guarantees	-	-	-	389
Gain on insurance reimbursement	(279)	-	(279)	-
Gain on deconsolidation of subsidiary	-	(41,015)	-	(41,015)
Adjustments for non-cash items:				
Depreciation and amortization	2,157	3,138	5,804	8,726
Fair value movements (derivative financial instruments)	13	(2)	131	(71)
Share-based payment expense	196	160	577	662
Adjusted net income (loss)	449	(2,558)	1,475	(10,089)

(1) Relates to extraordinary and non-recurring professional fees.

Reconciliation of adjusted operating cash flows to operating cash flows	Three months ended		Nine months ended	
USD thousands	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Operating cash flow	3,854	(1,493)	6,625	(3,052)
- Changes in working capital	(2,042)	3,777	(2,081)	7,061
- Additional termination fee paid	1,294	-	1,294	-
- Income tax paid	153	448	760	1,034
Adjusted operating cash flow	3,259	2,732	6,598	5,043

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

Financial Review

Continued

Non-GAAP Performance Measures

Reconciliation of Solar segments Adjusted EBITDA to EBITDA	Three months ended		Nine months ended	
USD thousands	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Net (loss) income	(1,453)	35,161	(6,052)	20,732
Adjustments for:				
Net income tax expense	453	464	1,190	1,113
Net finance costs	2,974	4,764	6,101	14,918
Depreciation and amortization	2,157	3,138	5,804	8,726
Gain on deconsolidation of subsidiary	-	(41,015)	-	(41,015)
EBITDA	4,131	2,512	7,043	4,474
Adjustments for non-recurring items:				
General and administrative expenses	-	-	-	488
Additional termination fee	(185)	-	1,294	-
Gain on insurance reimbursement	(279)	-	(279)	-
Write off deposits in guarantee	-	-	-	389
Adjusted EBITDA	3,667	2,512	8,058	5,351
Plus: Corporate G&A expenses after non-recurring items	1,138	1,703	3,364	5,197
Solar segments Adjusted EBITDA	4,805	4,215	11,422	10,548
Less: Solar Chile adjusted EBITDA	-	438	-	861
Solar Japan Adjusted EBITDA	4,805	3,777	11,422	9,687

QUARTERLY SELECTED FINANCIAL INFORMATION

Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands (except per share data)	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16
Revenue	6,185	6,357	2,910	2,603	7,005	7,042	5,198	4,979
Japan	6,185	6,357	2,910	2,603	4,867	5,256	2,597	2,327
Chile	-	-	-	-	2,138	1,786	2,601	2,652
Net (loss) income	(1,453)	(746)	(3,853)	(4,225)	35,161	(6,865)	(7,564)	20,981
Net (loss) income from continuing operations attributable to owners of Etrion	(1,677)	(1,029)	(3,663)	(4,165)	36,080	(5,865)	(6,497)	(5,981)
Net (loss) income attributable to owners of Etrion	(1,677)	(1,029)	(3,663)	(4,165)	36,080	(5,865)	(6,497)	23,128
Basic and diluted (loss) earnings per share:								
From continuing operations attributable to owners of Etrion	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$0.11	\$(0.02)	\$(0.02)	\$(0.02)
From total results attributable to owners of Etrion	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$0.11	\$(0.02)	\$(0.02)	\$0.07

Solar-related production and revenues experience seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months, resulting in lower revenues in the first and fourth quarters each year. In Japan, revenues are received in Japanese Yen and have been translated at the average ¥/\$ exchange rate for the corresponding period. Consequently, revenues expressed in \$ may fluctuate according to exchange rate variations. The Group's consolidated financial statements are presented in \$, which is the Group's presentation currency. The Company's functional currency is the ¥. The consolidated financial statements have been prepared in accordance with IFRS.

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

Financial Review

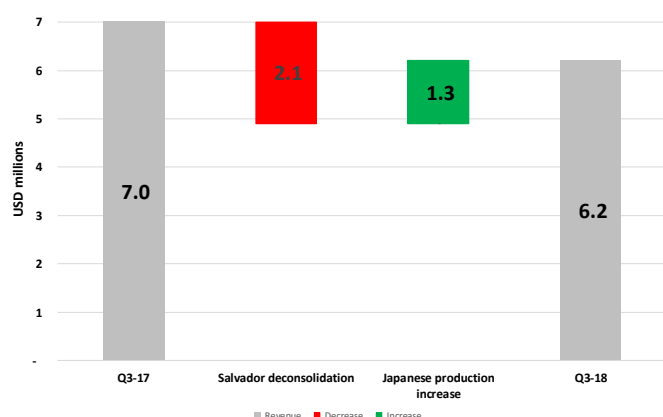
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REVENUE

USD thousands	Three months ended		Nine months ended	
	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
FIT revenue	6,185	4,867	15,452	12,720
Market Price revenue	-	249	-	727
PPA revenue	-	1,518	-	4,838
Other utility income	-	371	-	960
Total Revenue	6,185	7,005	15,452	19,245

During the three and nine months ended September 30, 2018 consolidated revenues decreased by \$0.8 million and \$3.8 million, respectively, compared to the same period of 2017, exclusively due to the deconsolidation of Salvador, effective September 30, 2017.

During Q3-18 the Group's revenue from its Japanese subsidiaries increased by \$1.3 million (27%) compared to the same period of 2017, driven by the additional production from the Komatsu solar projects. The reconciliation of total revenue in Q3-18 versus Q3-17 is as follows:



During the nine months ended September 30, 2018, the Group's revenue from its Japanese subsidiaries increased by \$2.7 million (21%) compared to the same period of 2017, driven by the additional production from the Misawa and Komatsu solar projects.

ADJUSTED CONSOLIDATED EBITDA

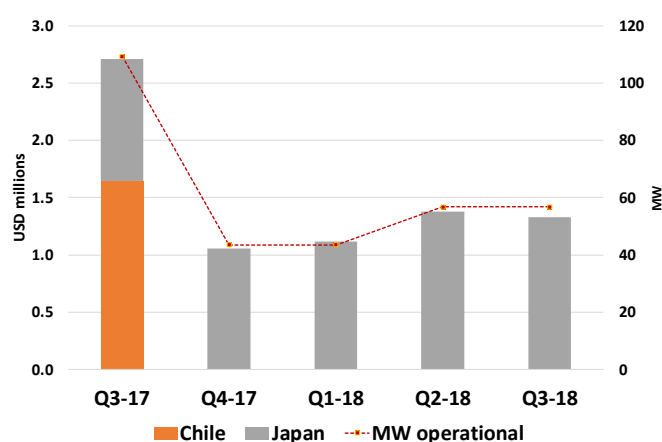
During the three and nine months ended September 30, 2018, adjusted consolidated EBITDA increased by \$1.2 million (46%) and \$2.7 million (51%), respectively, compared to the same period of 2017, mainly as a result of EBITDA being contributed by the Group's Japanese solar segment and material reduction of corporate overhead, partially offset by the deconsolidation of the Chilean subsidiary and the recognition of the additional termination fee as disclosed on page 26.

OPERATING EXPENSES

USD thousands	Three months ended		Nine months ended	
	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
O&M costs	287	722	810	2,111
Purchased power	-	540	-	2,013
Personnel costs	207	373	719	976
D&A	2,118	3,092	5,685	8,584
Property tax	298	263	909	774
Insurance	75	126	206	387
Land lease	252	239	732	713
Transmission cost	-	288	-	899
Other expenses	211	158	449	435
Total Operating expenses	3,448	5,801	9,510	16,892

During the three and nine months ended September 30, 2018, operating expenses decreased by \$2.4 million (41%) and \$7.4 million (44%), respectively, compared to the same period of 2017, primarily due to the deconsolidation of the Chilean subsidiary, effective September 30, 2017, partially offset by the incremental operational costs, operations and maintenance ("O&M") and other operating costs associated with the Misawa and Komatsu solar projects.

The chart below shows the historical operating expenses before depreciation and amortization over the last five quarters including the effect of the recently added projects in Japan.



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

Financial Review

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GENERAL AND ADMINISTRATIVE EXPENSES

USD thousands	Three months ended		Nine months ended	
	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Salaries and benefits	547	766	1,534	2,310
Board of directors' fees	69	69	204	203
Share-based payments	196	160	577	662
Professional fees	148	296	479	1,467
Listing and marketing	47	126	232	567
D&A	39	46	119	142
Office lease	75	156	228	294
Office, travel and other	95	114	287	506
Write off guarantees	-	-	-	389
Total general and administrative	1,216	1,733	3,660	6,540

During the three and nine months ended September 30, 2018, general and administrative expenses decreased by \$0.5 million (30%) and \$2.9 million (44%), respectively, compared to the same period in 2017, primarily due to a significant reduction of salary and benefit expenses due to internal restructuring, share-based payments reduction due to forfeitures, and a decrease in professional fees.

NET FINANCE COSTS

USD thousands	Three months ended		Nine months ended	
	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Interest on project loans	1,105	3,449	2,906	10,258
Interest on corporate bonds	925	1,020	2,776	2,884
Fair value movements	13	(2)	131	(71)
Foreign exchange (gain) loss	312	260	(486)	1,689
Other finance costs	619	37	774	158
Net finance cost	2,974	4,764	6,101	14,918

During the three and nine months ended September 30, 2018, net finance costs decreased by \$1.8 million (38%) and \$8.8 million (59%), respectively, compared to the same period in 2017, mainly due to the deconsolidation of the Chilean subsidiary, effective September 30, 2017.

During the three and nine months ended September 30, 2018, the Group capitalized \$nil and \$0.2 million, respectively (2017: \$0.1 million and \$0.3 million) of borrowing costs associated with credit facilities obtained to finance the construction of the solar power projects.

INCOME TAX EXPENSE

USD thousands	Three months ended		Nine months ended	
	Q3-18	Q3-17(*)	Q3-18	Q3-17(*)
Current income tax expense	(631)	(507)	(1,202)	(1,151)
Deferred tax expense	178	43	12	38
Net income tax expense	(453)	(464)	(1,190)	(1,113)

During the three and nine months ended September 30, 2018, the Group recognized an income tax expense of \$0.5 million and \$0.7 million, respectively (2017: \$0.1 million and \$0.5 million) associated with its solar power projects in Japan and an income tax expense of \$0.2 million and \$0.5 million (2017: \$0.4 million and \$0.7 million) associated with its management services subsidiaries.

In addition, the Group recognized a deferred income tax expense of \$0.2 million and \$12 thousand, respectively (2017: \$43 thousand and \$38 thousand) primarily due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

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

Financial Review

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FINANCIAL POSITION

LIQUIDITY AND FINANCING

CASH POSITION

USD thousands	September 30 2018	December 31 2017
Cash and cash equivalents:		
Unrestricted at parent level	12,089	30,385
Restricted at project level	18,332	12,818
Total cash and cash equivalents	30,421	43,203

UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at September 30, 2018, included unrestricted cash of \$12.1 million (December 31, 2017: \$30.4 million) held at the corporate level. Unrestricted cash decreased by \$18.3 million mainly as a result of the corporate bond settlement, land acquisition for the Greenfield Tk-2 project and corporate G&A, partially offset by cash flow from operations and project cash distributions received from the Japanese operating projects.

The Group has a fully-funded portfolio of operational and under construction projects. In addition, the Group expects to generate sufficient operating cash flows in 2018 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity, assets sale or debt financing and non-recourse project loans, as required.

RESTRICTED CASH ANALYSIS

USD thousands	September 30 2018	December 31 2017
Japan	18,332	12,818
Total restricted cash	18,332	12,818

The Group's cash and cash equivalents at September 30, 2018, included restricted cash held at the project level in Japan that is 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. Restricted cash increased by \$5.5 million (43%) mainly due to operating cash flow and proceeds from the credit facilities and operating cash flow from the projects.

WORKING CAPITAL

At September 30, 2018, the Group had working capital of \$26.7 million (December 31 2017: \$43.6 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but which are not expected to be settled in cash in the next 12 months without replacement. Excluding these derivative financial liabilities that are not expected to be settled in the near-term, the Group's working capital would have been \$28.2 million. (December 31, 2017: \$45.1 million).

At September 30, 2018, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2018	2019	2020	2021	2022	After 5 years	Total
Project loans	5,540	11,984	9,440	9,125	9,363	128,359	173,811
Corporate bond	-	2,848	2,848	31,192	-	-	36,888
O&M contracts	613	955	1,061	1,298	1,237	15,923	21,087
Operating leases	948	1,053	1,053	1,053	1,053	14,593	19,753
Trade payables	4,391	-	-	-	-	-	4,391
Total	11,492	16,840	14,402	42,668	11,653	158,875	255,930

All of the contractual obligations will be funded from existing cash available, future cash flows from operations and/or debt refinancing with no additional capital investments to be made by the Group.

NET EQUITY

During the nine months ended September 30, 2018, the total equity attributable to owners of the Company decreased by \$4.6 million from a net asset position of \$9.0 million at December 31, 2017, to a net asset position of \$4.4 million at September 30, 2018. This change was primarily due to the recognition of \$6.4 million of net loss during the period and the cumulative foreign exchange translation adjustment, partially offset by unrealized fair value gains recognized within other reserves associated with the Group's derivative financial instruments. Total equity attributable to owners of the Company at September 30, 2018, was negatively impacted by the cumulative fair value losses of \$11.5 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses, the total equity attributable to owners of the Company at September 30, 2018, would have resulted in a net asset position of \$16.0 million.

Financial Review

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BORROWINGS

NON-RECOURSE PROJECT LOANS

The following is a summary of the Group's non-recourse project loans and bond balances:

USD thousands	MW	Maturity	September 30 2018	December 31 2017
Shizukuishi	25	December 30, 2034	57,432	59,319
Mito	9	June 30, 2034	21,202	21,993
Misawa	10	June 30, 2036	25,423	28,415
Komatsu	13	December 30, 2036	33,717	29,286
Total			137,774	139,013

JAPANESE PROJECTS

The non-recourse project loans obtained by the Group's Japanese subsidiaries to finance the construction costs of the Group's Japanese solar power projects, mature between 2034 and 2036 and bear annual interest rates of Tokyo Interbank Offered Rate ("TIBOR") plus a margin ranging from 1.1% to 1.4%. The Japanese non-recourse project loans are 90% hedged through interest rate swap contracts during the operational period at an interest rate ranging from 1.72% to 3.13% all-in. At September 30, 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 September 30, 2018, and December 31, 2017.

During the nine months ended September 30, 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: ¥2,374 million and ¥267 million, respectively). At September 30, 2018, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥nil (2017: ¥3,433 million (\$30.6 million)). At September 30, 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 September 30, 2018, and December 31, 2017.

At September 30, 2018 and December 31, 2017, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

CORPORATE BORROWINGS

On June 15, 2018, Etrion completed an issue of €40 million of bonds ("New Bonds") in the Nordic bond market. The New Bonds have an annual interest rate of 7.25% and a bullet maturity in May 2021. The Company has listed the New Bonds on the Frankfurt Stock Exchange Open Market and plans to list them on the Oslo Stock Exchange within six months from the issue date. The Company's holding of €6.3 million in the Company's previously outstanding bonds ("Old Bonds") were rolled-over into the New Bonds, which is included in the issued amount, and can be sold at a later date if additional funding is required. In addition, on June 15, 2018, Etrion cancelled €2.8 million of the Old Bonds held by bondholders that agreed to roll such bonds over into the New Bonds.

The net proceeds from the New Bonds were used to refinance the Company's existing €40 million of Old Bonds that paid 8.0% annual interest and mature in April 2019. On July 17, 2018, Etrion completed the redemption of the remaining €40 million nominal amount of Old Bonds. The Old Bonds were redeemed at 101% of par plus accrued interest for a total net amount of €31.8 million (\$37.2 million) using the net proceeds from the New Bonds.

At September 30, 2018, the Group had €33.7 million (net of the Company's holdings of €6.3 million) of the New Bonds outstanding. The bonds were issued by the Company in June 2018 at 7.25% annual interest with a 3-year maturity. The carrying amount of the New Bonds as at September 30, 2018, including accrued interest net of transaction costs, was \$38.9 million (December 31, 2017: \$nil).

The agreement governing the New Bonds includes a call option that allows the Company to redeem the bonds early (in their entirety) at any time at a specified percentage over the par value. At June 30, 2018, no separate amount was recognised in relation to this call option as it was deemed to be out-of-the-money. The Old Bonds that were redeemed on July 17, 2018, also included a call option that was deemed to be in-the-money as of June 30, 2018. At September 30, 2018 and December 31, 2017, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

Financial Review

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NET DEBT RECONCILIATION

The Group's adjusted net debt position on a cash basis, (excluding non-cash items and VAT facilities) is as follows:

USD thousands	September 30 2018	December 31 2017
Total borrowings as per IFRS	176,764	179,701
VAT facilities	(2,729)	(2,441)
Accrued interest	(1,023)	(620)
Transaction costs	3,168	2,736
Adjusted borrowings	176,180	179,376
Cash and cash equivalents	(30,421)	(43,203)
Adjusted consolidated net debt	145,759	136,173
Adjusted corporate net debt	27,018	10,110

The Group's consolidated net debt increased during the nine months ended September 30, 2018, in comparison with December 31, 2017, mainly due to additional funds drawn from the credit facilities in Japan to fund the construction costs of Komatsu and use of unrestricted cash.

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (November 13, 2017: 334,094,324) and zero options to acquire common shares of the Company (November 13, 2017: 275,000) issued and outstanding.

In addition, the Company maintains the 2014 Restricted Share Unit Plan pursuant to which employees, consultants, directors and officers of the Group may be awarded RSUs. The RSUs have a contractual term of four years and are subject to certain time-based conditions and in certain cases are also subject to performance-based vesting conditions. At the date of this MD&A, the Company had 22,424,433 RSUs outstanding of which 22,099,727 are performance based.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at September 30, 2018, and December 31, 2017.

CAPITAL INVESTMENTS

The Group plans to allocate its unrestricted cash by prioritizing the Japanese market. Based on the current status, the Company does not anticipate beginning construction of its Japanese backlog project until the second quarter of 2019.

The equity needs to build the Japanese backlog project are likely to be contributed throughout the construction period, rather than at start of construction.

The Group will finance the development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

CONTINGENCIES

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 current stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation.

ADDITIONAL TERMINATION FEE

In May 2018, a Chilean arbitration court ruled against one of the Group's Chilean subsidiaries and ordered an additional \$1.5 million termination fee payment to one of the subsidiary's subcontractors. Management considered that payment was due since there is no appeal recourse. On August 29, 2018, parties in the arbitration process agreed to a final and definitive settlement of \$1.3 million paid in cash as of that date. During the three months ended September 30, 2018, the Group has recognized an adjustment of \$0.2 million to the previous full amount of the claim and it is presented under the corporate segment.

Financial Review

Continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 values 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 consolidated financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the consolidated financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results could differ from these 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 and nine months ended September 30, 2018, from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of January 1, 2018, as follows:

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.

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 on 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 Company's 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 will be applied from January 1, 2018 and, in accordance with the transitional provisions in IFRS 9, comparative figures will not be restated. Etrion will adopt 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.

Financial Review

Continued

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.

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 directly and through various investment trust approximately 36% of the Company’s common shares. All related party transactions are made on terms equivalent to those made on an arm’s length basis.

The related party transactions disclosed in the notes to the Company’s condensed consolidated interim financial statements for the three and nine months ended September 30, 2018, are summarized below.

RELATED PARTY TRANSACTIONS

LUNDIN PETROLEUM AB AND SUBSIDIARIES

The Group receives professional services from Lundin Petroleum AB and from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB for market and investor relation activities in Sweden and general and administrative expenses, respectively. During Q3-18 and the nine months ended September 30, 2018, the Group incurred general and administrative expenses of \$6 thousand and \$20 thousand, respectively (2017: \$6 thousand and \$24 thousand), respectively, from Lundin Petroleum AB and its subsidiary. At September 30, 2018, the Group had \$nil (December 31, 2017: \$1 thousand) outstanding in relation to these expenses.

LUNDIN FAMILY

During Q3-18 and the nine months ended September 30, 2018, the Group recognized \$76 thousand and \$97 thousand (2017: \$0.1 million and \$0.4 million) of interest expense, and recognized \$4 thousand and \$6 thousand, respectively (2017: \$13 thousand and \$35 thousand) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

LUNDIN SA

During Q3-18 and the nine months ended September 30, 2018, the Group recognized \$30 thousand and \$95 thousand, respectively (2017: \$30 thousand and \$90 thousand) under the service agreement with Lundin SA to make available fully staffed and equipped premises to serve members of its Board of Directors. The contract is renewed automatically, unless terminated by either party.

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer, Marco A. Northland and the Chief Financial Officer, Christian Lacueva.

During Q3-18 and the nine months ended September 30, 2018, the Group recognized \$0.3 million and \$1.0 million (2017: \$0.8 million and \$1.2 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At September 30, 2018, the Group had \$nil outstanding to key management personnel (December 31, 2017: \$0.5 million).

FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk. The Group’s overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group’s financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate risk exposures through interest rate swap contracts. However, the Group has not entered into any foreign exchange rate hedges as monetary assets and liabilities held by the Group’s subsidiaries are primarily held in the individual subsidiaries’ functional currencies. In addition, the Group is directly exposed to inflation in Japan, as the FiT contracts are not inflation-adjusted, but some of the operating costs will be impacted by inflation, if it increases or decreases in the future.

Financial Review

Continued

The Company's management carries out risk management procedures with guidance from the Audit Committee and Board of Directors. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2017, for further details relating to the Group's financial risk management.

DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments is as follows:

USD thousands	September 30 2018	December 31 2017
Derivative financial assets:		
Corporate bond call option	-	319
Total derivative financial assets	-	319
Derivative financial liabilities:		
Interest rate swap contracts		
Current portion	1,496	1,444
Non-current portion	7,189	8,788
Total derivative financial instruments	8,685	10,232

During the three and nine months ended September 30, 2018, the Group recognized a fair value loss of \$13 thousand and \$131 thousand, respectively, associated with the change in the fair value of the corporate bond call option.

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.

The fair market value of the interest rate swap contracts at September 30, 2018, decreased to a liability position of \$8.7 million (2017: \$10.2 million) due to a decrease in the forecasted TIBOR curve in comparison with December 31, 2017. At September 30, 2018, and December 31, 2017, 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 in to finance income/costs.

RISKS AND UNCERTAINTIES

The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. Certain of such risks are discussed below. For a more detailed discussion of risk factors applicable to the Group, see Etrion's Annual Information Form for the year ended December 31, 2017, which has been filed on SEDAR and is available under Etrion's profile at www.sedar.com. Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

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RISKS AND UNCERTAINTIES

Risks and Uncertainties

FINANCIAL RISKS

DEBT AND EQUITY FINANCING

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., equity financing, corporate debt, and/or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditures. In addition, the Group's level of indebtedness from time to time could impair its ability to obtain additional financing and to take advantage of business opportunities as they arise. Failure to comply with facility covenants and obligations could also expose the Group to the risk of seizure or forced sale of some or all of its assets.

CAPITAL REQUIREMENTS AND LIQUIDITY

Although the Group is currently generating significant cash flows from its operational projects, the construction and acquisition of additional projects will require significant external funding. Failure to obtain financing on a timely basis could cause the Group to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt and/or equity financing, or cash generated from operations, will be available or sufficient to meet these requirements or for other corporate purposes, or, if debt and/or equity financing is available, that it will be available on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material impact on the Group's business model, financial position and performance.

MARKET RISKS

The Group is exposed to financial risks such as interest rate risk, foreign currency risk, electricity price risk and third-party credit risk. The Company's management seeks to minimize the effects of interest rate risk by using derivative financial instruments to hedge risk exposures.

COST UNCERTAINTY

The Group's current and future operations are exposed to cost fluctuations and other unanticipated expenditures that could have a material impact on the Group's financial performance.

NON-FINANCIAL RISKS

LICENCES AND PERMITS

The Group's operations require licenses and permits from various governmental authorities that are subject to changes in regulation and operating circumstances. There is no assurance that the Group will be able to obtain all the necessary licenses and permits required to develop future renewable energy projects. At the date of this MD&A, to the best of the Company's knowledge, all necessary licenses and permits have been obtained for projects already built and under construction, and the Group is complying in all material respects with the terms of such licenses and permits.

GOVERNMENTAL REGULATION

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on current and future economic and political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar power projects and/or adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and continue operating in current markets. Specifically, reductions in the FiT payable to the Group on its existing solar power projects in Italy and Japan as well as other legislative or regulatory changes could impact the profitability of the Group's solar power projects.

COMPETITION

The renewable energy industry is extremely competitive and many of the Group's competitors have greater financial and operational resources. There is no assurance that the Group will be able to acquire new renewable energy projects in order to grow in accordance with the Company's strategy. The Group also competes in securing the equipment necessary for the construction of solar energy projects. Equipment and other materials necessary to construct production and transmission facilities may be in short supply, causing project delays or cost fluctuations.

PRICES AND MARKETS FOR ELECTRICITY

The Group is not exposed to significant electricity market price risk as the revenues generated by its operating solar power projects in Japan were secured by long-term contracts based on a FiT.

Risks and Uncertainties

Continued

INTERNATIONAL OPERATIONS

Renewable energy development and production activities are subject to significant political and economic uncertainties that may adversely affect the Group's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future FiTs/PPAs, a change in renewable energy pricing policies and a change in taxation policies or the regulatory environment in the jurisdictions in which the Group operates. These uncertainties, all of which are beyond the Group's control, could have a material adverse effect on the Group's financial position and operating performance. In addition, if legal disputes arise relating to any of the Group's operations, the Group could be subject to legal claims and litigation within the jurisdiction in which it operates.

Reliance on Contractors and Key Employees

The ability of the Company to conduct its operations is highly dependent on the availability of skilled workers. The labor force in many parts of the world is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group. The Group's business model relies on qualified and experienced contractors to design, construct and operate its renewable energy projects. There is a risk that such contractors are not available or that the price for their services impairs the economic viability of the Group's projects.

Other Disclosures

ETRION OUTLOOK AND GUIDANCE

On March 13, 2018, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2018. The Group has reviewed the previously released guidance in light of the three months' performance and have concluded that at this stage there is no basis to modify the guidance for the full year. The Group will continue to reassess its guidance and will make any adjustments and disclosures as may be warranted.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 Certification of Disclosures in Issuers Annual and Interim Filings, the Company's Chief Executive Officer and Chief Financial Officer are required to:

- design or supervise the design and evaluate the effectiveness of the Group's disclosure controls and procedures ("DC&P"); and
- design or supervise the design and evaluate the effectiveness of the Group's internal controls over financial reporting ("ICFR").

The Company's Chief Executive Officer and Chief Financial Officer have not identified any material weakness in the Group's DC&P and ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan); expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; and expectations relating to grid parity. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; risks associated with the regulatory frameworks in the jurisdictions in which the Company operates, or expects to operate, including the possibility of changes thereto; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users;

uncertainties relating to the availability and costs of financing needed in the future; the risk that the Company's solar projects may not produce electricity or generate revenues and earnings at the levels expected; the risk that the construction or operating costs of the Company's projects may be higher than anticipated; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; and other factors, many of which are beyond the Group's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. In addition to the assumptions set out elsewhere in this MD&A, such assumptions include, but are not limited to: the ability of the Group to obtain the required permits in a timely fashion and project and debt financing on economic terms and/or in accordance with its expectations; the ability of the Group to identify and acquire additional solar power projects, and assumptions relating to management's assessment of the impact of the new Japanese FiT regime. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

Additional information regarding the Company, including its Annual Information Form, may be found on the SEDAR website at www.sedar.com or by visiting the Company's website at www.etrion.com.