2018

etrion

Etrion Corporation

Management's discussion and analysis

Year ended December 31, 2018

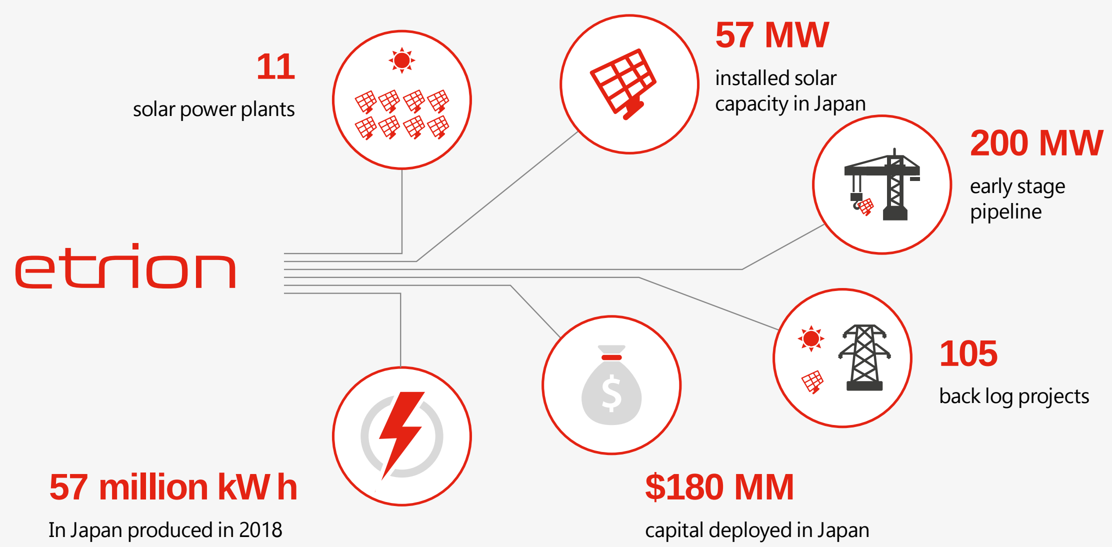
Komatsu solar power project in Japan

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 industrial players, financial institutions and local developers. All our operating solar assets in Japan are secured by the 20 year Power Purchase Agreements with the Japanese power utilities.

ETRION FACTS



Contents

01 2018 Highlights

- Operational Highlights 6
- Financial Highlights 6

02 Business Review

- Business Overview 9
- Development Activities 15
- Solar Market Overview 18

03 Financial Review

- Financial Results 20
- Financial Position 27
- Capital Investments 29
- Critical Accounting Policies and Estimates 30
- Related Parties 32
- Financial Risk Management 32
- Derivative Financial Instruments 33

04 Risks and Uncertainties

- Financial Risks 35
- Non-Financial Risks 35

05 Other disclosures

- Etrion Outlook and Guidance 38
- Disclosure Controls and Internal Control over Financial Reporting 38
- Cautionary Statement Regarding Forward-Looking Information 39
- Additional Information 39

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 March 12, 2019, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 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 December 31, 2018	126.46	110.40	1.145
Closing rate at December 31, 2017	134.62	112.65	1.199
Average rate 2018	130.41	110.10	1.181
Average rate 2017	126.67	112.16	1.129

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 23). 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 24). 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 23). 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 39.

01

2018 HIGHLIGHTS

- Operational Highlights 6
- Financial Highlights 6

2018 Highlights

OPERATIONAL HIGHLIGHTS

- On May 15, 2018, Etrion connected the 13.2 MW[1] Komatsu project in Ishikawa prefecture, Japan. The project was completed on budget, ahead of schedule and is generating revenues from the sale of electricity.
- Etrion produced 56.7 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 the backlog solar power projects in Japan with aggregate capacity of 105 MW 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 December 5, 2018, the Japanese Ministry of Economy, Trade and Industry ("METI") announced the details of a new legislation introducing 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. For Etrion's backlog, the new legislation has not affected the 45 MW Niigata project and Etrion will continue with the development programs as planned. The 60 MW project in the Mie prefecture is likely to be minimally affected since most of the permits have already been obtained.
- During December 2018, Etrion decided to sell its rights of the Brownfield Tk-1, 45 MW Kumamoto solar park project, due to its high risk of being materially affected by the new METI rules. The Company entered into an agreement with the developer and sold its rights for a total amount of ¥610 million ($5.5 million) of which ¥310 million ($2.8 million) have been already paid and the additional ¥300 million ($2.7 million) are contingent to certain conditions associated with the future permitting of the project, which are expected to be completed by the third quarter of 2019.

FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of $19.5 million and $14.6 million, respectively.
- On June 15, 2018, Etrion completed a €40 million senior secured bond issue (the "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's holding of €6.3 million in the Company's previous outstanding bonds have been 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.
- The net proceeds from the New Bonds were used to refinance the Company's previous existing €40 million senior secured bonds that paid 8.0% annual interest and were to mature in April 2019. The existing bonds were called for redemption in accordance with their terms at a price of 101% of par plus accrued interest and were redeemed on July 17, 2018.
- Closed 2018 with a cash balance of $24.7 million, $9.3 million of which was unrestricted and held at corporate level, and working capital of $22.8 million. Etrion has sufficient liquidity to fund the backlog projects.
- In the December 2018, Etrion recovered $0.2 million associated with all past development costs incurred in the Saitama project, that was previously impaired in 2017.

[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.

2018 Highlights

Continued

USD thousands (unless otherwise stated)	Three months ended Q4-18	Q4-17	Twelve months ended 2018	2017[(1)]
Electricity production (MWh)[2]	**12,190**	**7,485**	**56,786**	**149,048**
Financial results				
Revenues	4,048	2,603	19,500	21,848
Gross profit	645	39	6,587	2,392
EBITDA	510	(628)	7,553	3,846
Adjusted EBITDA	(22)	(628)	8,036	4,723
Net (loss) income	(2,566)	(4,225)	(8,618)	16,507
Adjusted net income (loss)	(456)	(2,774)	1,019	(12,863)
Cash flow				
Project cash distributions	-	-	2,135	7,704
Cash flow from (used in) operations	2,171	1,700	8,795	(1,352)
Adjusted operating cash flow	1,360	(1,388)	7,958	3,655

	December 31 2018	December 31 2017
Balance sheet		
Total assets	203,226	212,135
Operational assets	138,842	110,622
Unrestricted cash at parent level	9,328	30,385
Restricted cash at project level	15,399	12,818
Working capital	22,835	43,611
Consolidated net debt on a cash basis	151,918	136,173
Corporate net debt	29,476	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.

[2]MWh=Megawatt-hour

02

BUSINESS REVIEW

- Business Overview 9
- Development Activities 15
- Solar Market Overview 18

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 ("Salvador"), the subsidiary that owns the 70 MW Salvador solar power project in northern Chile. Accordingly, the Group's consolidated financial performance for the year ended December 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 Company's MD&A for the year ended December 31, 2018 and the disclosure under "Financial Review" in this MD&A.

Etrion's current strategy is to focus exclusively on continuing to develop, to grow its installed capacity 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 divesture.

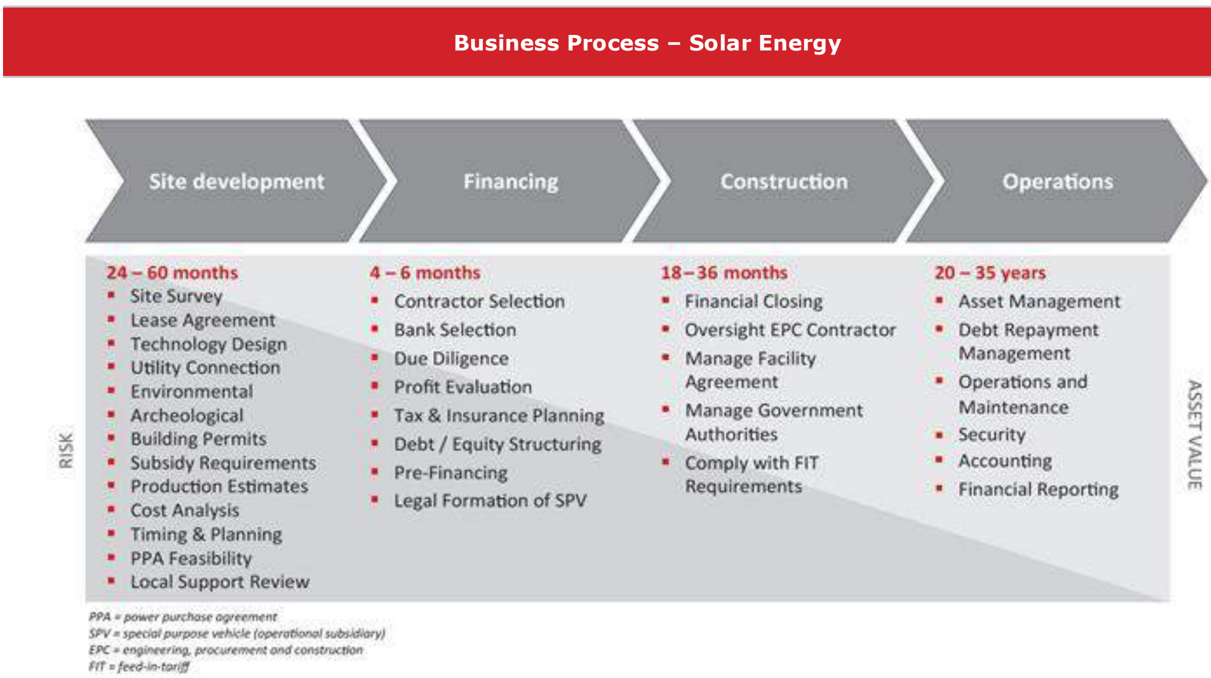
The Company's common shares are listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Frankfurt Stock Exchange Open Market and also in the Oslo Stock Exchange in Norway. Etrion is based in Geneva, Switzerland and Tokyo, Japan. As of the date of this MD&A, the Company has a total of 22 employees.

Business Review

Continued

The development of a solar power plant can be described as going through four phases: (1) site development, (2) project financing, (3) construction and (4) operations and asset management.

- Phase 1 represents the period in which a project secures all permitting risks, authorizations and utility interconnection agreements to build a solar power plant. Depending on the jurisdiction, this process may vary in length between 24 to 60 months. Where projects are developed from their infancy ("greenfield" projects), and no environmental impact assessment is required, the development time will generally be close to two years. However, Etrion often enters into co-development agreements with local development companies to reduce development time and risk. The Company may also acquire permits at advanced stages from local developers to further reduce the time to market. In all cases, whether the projects in the pipeline are greenfield, co-development or acquired, they go through a rigorous development process to de-risk the projects before any material investments are made. In addition to evaluating all development risks, Etrion works extensively with engineering, procurement and construction ("EPC") contractors and civil works companies to optimize the design and reduce construction costs to further improve each project's economics.
- Phase 2 generally takes 4 to 6 months, during which the Company assesses and selects various contractors and lenders, including EPC contractors responsible for the construction of the solar power plant. The Company analyzes the financial aspects of the project, assessing tenor, debt/equity structuring, cost and the selection of lenders. Furthermore, in phase 2, the Company evaluates potential legal structure of the special purpose vehicle that will function as the local operating subsidiary. This phase ends when the project secures the financing and is ready to being construction.
- Phase 3 generally requires 18 to 36 months of work. During this phase, the Company enters into an EPC contract, and the projects are built with a view to ensuring that the local operating subsidiary complies with the FiT or PPA requirements. Under an EPC contract, the contractor is generally hired on a turn-key fixed-price basis and is required to, at its own risk, design the installation for the project, procure the necessary materials and construct the project by a certain date. As a result, the contractor generally bears a portion of the risk for scheduling as well as budgeting in return for a guaranteed fixed price.
- Phase 4 solar projects are designed to operate with a minimum life time of 35 years. The Company has in-country resources engaged in the operation of the solar power plants. Activities include, managing day to day project level accounting, administration, tax reporting and overall administration of all project related compliance with regulations. In this phase, the Company usually retains the EPC contractor to also provide operations and maintenance ("O&M") services based on fixed price contracts.



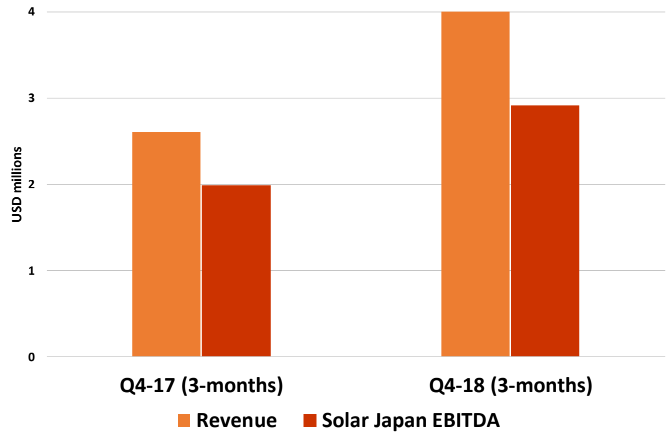
Business Review

Continued

OPERATIONS REVIEW
THREE MONTHS ENDED DECEMBER 31

	JAPAN	
USD thousands (unless otherwise stated)	**Q4-18**	**Q4-17**
Operational data (1)		
Electricity production (MWh)	12,190	7,485
Operational performance (1)		
Electricity revenue		
Feed-in-Tariff (2)	4,048	2,603
Total revenues	**4,048**	**2,603**
EBITDA (3)	**2,946**	**1,987**
EBITDA margin (%)	**73%**	**76%**
Net income (loss)	**47**	**(114)**

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 24.



OPERATING PERFORMANCE IN JAPAN (3-months)

During Q4-18, the Group produced 63% more electricity in Japan compared to the same period in 2017, due primarily to the incremental production from the Komatsu solar power project that started operations in May 2018.

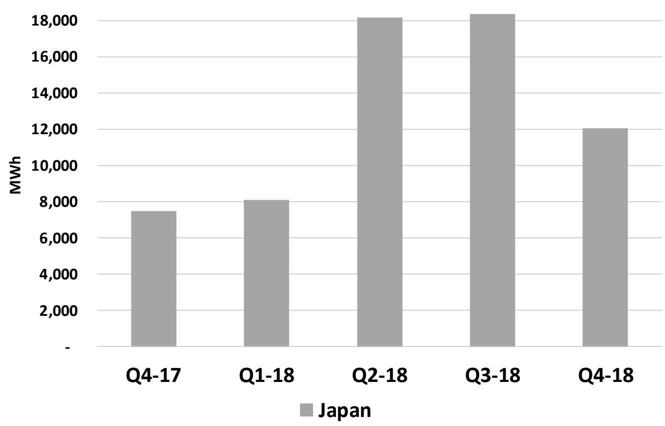
The Group receives revenues denominated in Japanese yen from its operating solar projects. Revenues come from the FiT system, whereby a premium fixed price is received for each kWh of electricity produced through a 20-year PPA contract with the Japanese public utility, Tokyo Electric Power Company ("TEPCO"), Hokuriku Electric Power Co., Inc ("HOKURIKU") or Tohoku Electric Power Co., Inc. ("TOHOKU"), as applicable. During Q4-18, 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 site of the Komatsu project.

During Q4-18, the Group's revenue increased by 55%, 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 48%, 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 ($) using the corresponding implied Q4-18 average rates. Accordingly, changes in the ¥/$ 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.



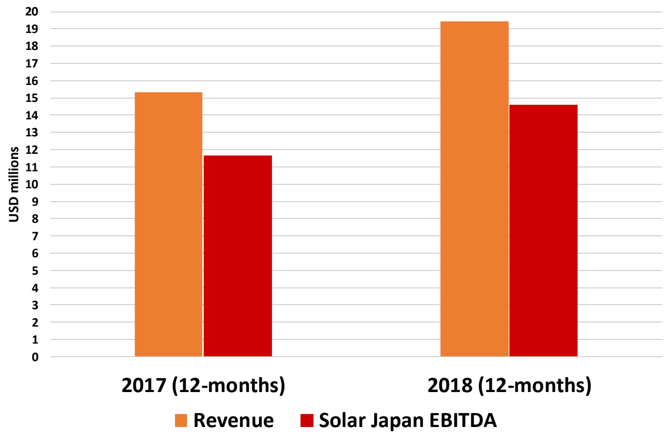
Business Review

Continued

OPERATIONS REVIEW
TWELVE MONTHS ENDED DECEMBER 31

	JAPAN	
USD thousands (unless otherwise stated)	**2018**	**2017**
Operational data [(1)]		
Electricity production (MWh)	56,786	43,686
Operational performance [(1)]		
Electricity revenue		
Feed-in-Tariff [(2)]	19,500	15,323
Total revenues	**19,500**	**15,323**
EBITDA [(3)]	**14,647**	**11,674**
EBITDA margin (%)	**75%**	**76%**
Net income	**2,517**	**2,127**

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 24.



OPERATING PERFORMANCE IN JAPAN (12-months)

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

During 2018, the Group's revenue and project-level EBITDA in Japan increased by 27% and 25%, respectively, compared to the same period in 2017, primarily due to the incremental installed capacity in Japan.

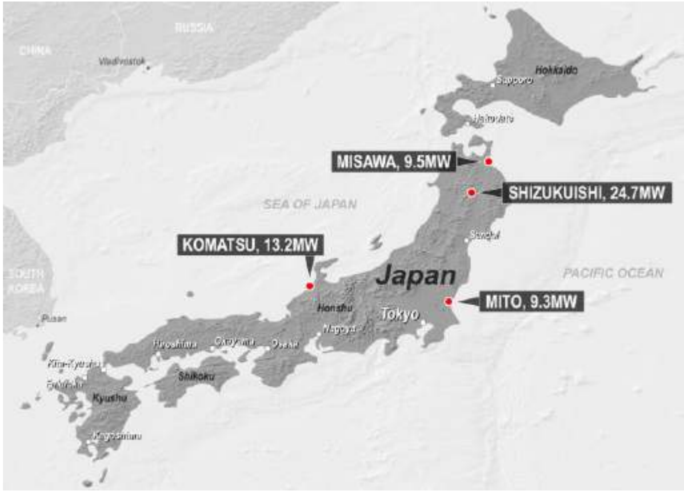
Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency ($) using the corresponding 2018 average rates. Accordingly, changes in the ¥/$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group's reported figures in USD.

Business Review

Continued

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. Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the last site connected in August 2015. The solar power plant was built on 28.3 hectares of leased land, and the facilities connect through TEPCO. In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company receives ¥40 per kWh produced (approximately \$0.34 per kWh). The remaining three PPAs were signed in March 2015. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) was financed 80% through non-recourse project debt from Sumitomo Mitsui Trust Bank ("SMTB") with the remaining approximately 20% equity portion funded by the Group and Hitachi High-Tech ("HHT") based on their respective ownership interests of approximately 87% and 13%. Mito has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Mito project with a net development fee of approximately ¥162 million (\$1.6 million).

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. Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant on one site in the Iwate Prefecture of Japan. Construction-related work began in October 2014 and on October 20, 2016, Shizukuishi achieved its commercial operation date, became 100% operational and started collecting revenues from its electricity production. The solar power plant was built on 51 hectares of leased land, and the facility was connected to TOHOKU. The project entered into a 20-year PPA with TOHOKU to receive ¥40 per kWh produced (approximately \$0.34 per kWh). The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is financed 80% with non-recourse project debt from SMTB, with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Shizukuishi project with a net development fee of approximately ¥677.4 million (\$6.7 million).

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's solar power sites are capable of producing approximately 10.7 million kWh of solar electricity per year. Misawa is a 9.5 MW utility-scale solar photovoltaic power plant, located in Misawa city in the Aomori prefecture of the Tohoku region in Japan. Construction-related works began in July 2016. The first two sites of the this solar project totalling 5.3 MW were connected to the grid and started recognizing revenues as of the end of February 2017. The last two solar park sites, representing 4.2 MW were connected in July 2017. The solar power plant was built on 16.3 hectares of owned land, and the facilities were connected to TOHOKU. Each project site entered into a 20-year PPA with TOHOKU to receive ¥36 per kWh produced (approximately $0.31 per kWh). The total project cost of approximately ¥3,483 billion (approximately $34 million) was financed 85% with non-recourse project debt from SMTB with the remaining approximately 15% equity portion funded by the Group, HHT and Tamagawa Holdings Co ("Tamagawa") based on their respective ownership interests of 60%, 10% and 30%, respectively. Misawa entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Misawa project with a net development fee of approximately ¥177 million ($1.7 million).

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's solar power plant is capable of producing approximately 14.2 million kWh of solar electricity per year. Komatsu is a 13.2 MW utility-scale solar photovoltaic power plant, located in the Ishikawa prefecture of the Honsu region in Japan. Pre-construction-related works began in February 2017 and the project was connected to the electricity grid in May 2018. The solar power plant was built on 30.5 hectares of leased land and the facilities will connect through HOKURIKU. The project company entered into a 20-year PPA with HOKURIKU to receive ¥32 per kWh produced (approximately $0.27 per kWh). The total project cost of approximately ¥4,285 billion (approximately $38 million) was financed 83% with non-recourse project debt from SMTB with the remaining approximately 17% equity portion already funded by the Group and HHT based on their respective ownership interests of 85.1% and 14.9%, respectively. Komatsu has entered into a long-term fixed price O&M agreement with HHT. Etrion has charged the Komatsu project with a net development fee of approximately ¥239 million ($2.0 million).

DEVELOPMENT ACTIVITIES

NEW METI RULES

On October 15, 2018, METI held a meeting where several proposal were accepted 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 consequently holding grid capacity, preventing new players from developing alternate renewable energy projects in the affected grid areas.

On December 5, 2018, METI announced officially the details on the measures concerning procurement of electricity from renewable energy sources by electricity utilities (the "FiT Amendment Act Ordinance"). The FiT Amendment Act Ordinance sets out new rules to address solar projects under development that hold FiT of ¥40, ¥36 and ¥32/kWh.

ETRION ASSESSMENT OF NEW METI RULES

Etrion's management considers that the new solar rules announced in Japan are less stringent than expected. For Etrion's backlog, the new legislation has not affected the Greenfield Tk-2 (45 MW) project located in the Niigata prefecture and Etrion will continue with the development program as planned. The Brownfield Tk-3, (60 MW) project located in the Mie prefecture is likely to be minimally affected with potential loss of six to twelve months of the 20 year PPA, depending on when the project is connected to the grid, since most of the permits have already been obtained.

In general, the new METI rules have created opportunities for Etrion in Japan. Many developers will need help to accelerate their solar projects in order to avoid potential FiT changes under the new rules. Etrion is actively screening the market to identify affected projects that can benefit from Etrion's market position and local expertise.

PROJECTS UNDER DEVELOPMENT – JAPAN

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, selected an EPC contractor 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
Greenfield Tk-2	Niigata	1	45	H1-19
Brownfield Tk-3	Mie	1	60	H2-19
Total backlog		**2**	**105**	
Total early stage			**200**	
Total pipeline			**305**	

JAPANESE BACKLOG

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 final new METI rules, 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, secured agreements with all members of the local community and has filed for the forest development permit, expected to be obtained in the second quarter of 2019.
The Company is finalizing civil works and EPC contract negotiations and expects to reach the shovel ready stage and financial close by the first half of 2019.

Brownfield Tk-3. This project, located in the Mie prefecture, is currently designed as a 60 MW facility. 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 permit. The Company entered into a development service agreement ("DSA") with the developer in 2015, which outlines all the development responsibilities and deliverables. The Company filed in December 2018 a lawsuit against the local developer to enforce full compliance with the DSA. The Company remains optimistic the court will issue a decision favourable to the Company enforcing the developer to comply with all its obligations. This project is likely to be minimally affected by the new METI rules since most of the permits have already been obtained. Etrion remains cautiously optimistic to begin construction of this project in 2019.

During 2018 and 2017, Etrion decided to abandon the development of the two projects indicated below and instead sell and monetize the development to date as follows:

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

After the introduction of the new METI rules, the risk of the project materially increased. As a result, the Company decided to sell its rights to the original developer. In December 2018, Etrion reached an agreement and transferred all the rights to the original developer for a total consideration of ¥ 610 million ($5.5 million) of which ¥310 million ($2.8 million) have already been paid to Etrion and the remaining ¥300 million ($2.7 million) are expected to be received by the third quarter of 2019, contingent to certain conditions associated with the future permitting of the project.

Brownfield Tk-4, 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 not pursue the development and instead sold the METI license to the original developer. 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. However, in December 2018, Etrion recovered $0.2 million associated with all past development costs incurred in the Saitama project, through the sale of 99% of the economic participation in the subsidiary that had the grid connection agreement.

As of December 31, 2018, the Company has incurred approximately $12.9 million of project advances and development costs associated with the Japanese backlog as follows:

Project	Advance to third parties	Development costs	TOTAL
Greenfield Tk-2	-	6.4	6.4
Brownfield Tk-3	5.6	0.9	6.5
Total USD million	**5.6**	**7.3**	**12.90**

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)
Greenfield Tk-2	140	132	6	6
Brownfield Tk-3	200	170	13	7
Total USD million	**340**	**302**	**19**	**13**

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.

Business Review

Continued

EARLY STAGE JAPANESE PIPELINE

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.

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.

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 Energi Tairyou Dounyu /Jisedai Denryoku Network Sho Iinkai). 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").

On December 5, 2018, METI announced officially the details on the measures concerning procurement of electricity from renewable energy sources by electricity utilities (the "FiT Amendment Act Ordinance"). The FiT Amendment Act Ordinance sets out new rules to address solar projects under development that hold FiT of ¥40, ¥36 and ¥32/kWh.

More specifically, the new rules include (a) exceptions for projects already close to construction, (b) new grid connection work application submission and acceptance deadlines, (c) requirements for land rights and specific permits to be obtained before a grid connection work application can be submitted, (d) FiT rate reduction penalties if grid connection work applications are submitted without the required land rights and permits, (e) new scheduled grid connection deadlines to be set by the utility (although there will now be no FiT rate reduction if such deadlines are not met), (f) new commercial operation deadlines (which if not met, will result in the power purchase agreement period shortening on a month by month basis but not in an FiT rate reduction), and (g) relaxation of the module change rules for projects that are subject to the new measures.

03

FINANCIAL REVIEW

- Financial Results 20
- Financial Position 27
- Capital Investments 29
- Critical Accounting Policies and Estimates 30
- Related Parties 32
- Financial Risk Management 32
- Derivative Financial Instruments 33

Financial Review

FINANCIAL RESULTS

SELECTED FINANCIAL INFORMATION

During 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:

	Three months ended		Twelve months ended		
USD thousands (except per share data)	**Q4-18**	**Q4-17**	**2018**	**2017**	**2016**
Revenue	**4,048**	**2,603**	**19,500**	**21,848**	**15,233**
Japan	4,048	2,603	19,500	15,323	5,723
Chile	-	-	-	6,525	9,510
Gross profit (loss)	**645**	**39**	**6,587**	**2,392**	**(3,566)**
Net (loss) income from continuing operations attributable to owners of Etrion	(2,510)	(4,166)	(8,878)	19,551	(79,113)
Net (loss) income attributable to owners of Etrion	(2,510)	(4,166)	(8,878)	19,551	(43,153)
Basic and diluted (loss) earnings per share:					
From continuing operations attributable to owners of Etrion	**$(0.01)**	**$(0.01)**	**$(0.03)**	**$0.06**	**$(0.24)**
From total results attributable to owners of Etrion	**$(0.01)**	**$(0.01)**	**$(0.03)**	**$0.06**	**$(0.13)**

Net (loss) income	**(2,566)**	**(4,225)**	**(8,618)**	**16,507**	**(110,378)**
Adjustments to net (loss) income for:					
Net income tax expense	22	12	1,212	1,125	7,450
Share of net profit on deconsolidation of subsidiary	-	-	-	(41,015)	-
Depreciation and amortization	2,108	1,551	7,912	10,277	10,957
Impairment	-	225	-	225	75,953
Share-based payment expense	184	(96)	761	566	442
Net finance costs	1,724	1,744	7,054	16,504	15,381
Other expense (income)	(112)	(599)	(363)	(534)	(300)
Income tax paid	(272)	(2)	(1,032)	(1,036)	(1,172)
Additional termination fee paid	-	-	(1,294)	-	-
Changes in working capital	1,083	3,090	3,163	(3,971)	(1,590)
Operating cash flow	**2,171**	**1,700**	**8,795**	**(1,352)**	**(3,257)**

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

USD thousands	**December 31 2018**	**December 31 2017**	**December 31 2016**
Non-current assets	163,576	153,751	214,290
Current assets	39,650	58,384	74,351
Total assets	**203,226**	**212,135**	**288,641**
Non-current liabilities	183,482	187,515	305,836
Current liabilities	16,815	14,773	29,094
Total liabilities	**200,297**	**202,288**	**334,930**
Net assets	**2,929**	**9,847**	**(43,289)**
Working capital	22,835	43,611	45,257
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 DECEMBER 31

Segment consolidated financial information for the three months ended December 31, prepared in accordance with IFRS, is as follows:

USD thousands	**Q4-18**			**Q4-17**		
	Solar Japan	**Corporate**	**Total**	**Solar Japan**	**Corporate**	**Total**
Revenue	**4,048**	**-**	**4,048**	**2,603**	**-**	**2,603**
Operating expenses	(1,334)	-	(1,334)	(1,055)	-	(1,055)
General and administrative	(92)	(2,337)	(2,429)	(94)	(2,681)	(2,775)
Other income (expenses)	324	(99)	225	533	66	599
EBITDA	**2,946**	**(2,436)**	**510**	**1,987**	**(2,615)**	**(628)**
Impairment	-	-	-	(18)	(207)	(225)
Depreciation and amortization	(2,069)	(39)	(2,108)	(1,509)	(42)	(1,551)
Finance income	68	731	799	-	319	319
Finance costs	(997)	(748)	(1,745)	(810)	(1,318)	(2,128)
Loss before income tax	**(52)**	**(2,492)**	**(2,544)**	**(350)**	**(3,863)**	**(4,213)**
Income tax recovery (expense)	99	(121)	(22)	236	(248)	(12)
Net income (loss) for the period	**47**	**(2,613)**	**(2,566)**	**(114)**	**(4,111)**	**(4,225)**

Solar Japan: During Q4-18, the Group's Japanese solar segment generated revenues of $4.0 million and EBITDA of $2.9 million, representing an increase of 55% and 48%, 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 $47 thousand, in comparison with net loss of $0.1 million for the same period in 2017.

Corporate: During Q4-18, the Group's corporate segment generated negative EBITDA of $2.4 million and a net loss of $2.6 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.

SEGMENT INFORMATION YEAR ENDED DECEMBER 31

Segment consolidated financial information for the year ended December 31, prepared in accordance with IFRS, is as follows:

USD thousands	2018			2017			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	**19,500**	**-**	**19,500**	**6,525**	**15,323**	**-**	**21,848**
Operating expenses	(5,159)	-	(5,159)	(5,389)	(3,974)	-	(9,363)
General and administrative	(296)	(5,674)	(5,970)	(269)	(251)	(8,653)	(9,173)
Additional termination fee	-	(1,294)	(1,294)	-	-	-	-
Other income (expenses)	602	(126)	476	(6)	576	(36)	534
EBITDA	**14,647**	**(7,094)**	**7,553**	**861**	**11,674**	**(8,689)**	**3,846**
Gain on deconsolidation of subsidiary	-	-	-	-	-	41,015	41,015
Impairment	-	-	-	-	(18)	(207)	(225)
Depreciation and amortization	(7,754)	(158)	(7,912)	(4,034)	(6,059)	(184)	(10,277)
Finance income	73	1,217	1,290	28	92	319	439
Finance costs	(3,827)	(4,510)	(8,337)	(7,822)	(3,159)	(6,185)	(17,166)
Income (loss) before income tax	**3,139**	**(10,545)**	**(7,406)**	**(10,967)**	**2,530**	**26,069**	**17,632**
Income tax expense	(622)	(590)	(1,212)	-	(403)	(722)	(1,125)
Net income (loss) for the year	**2,517**	**(11,135)**	**(8,618)**	**(10,967)**	**2,127**	**25,347**	**16,507**

Solar Japan: During 2018, the Group's Japanese solar segment generated revenues of $19.5 million and EBITDA of $14.6 million, representing an increase of 27% and 25%, 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 $2.1 million for the same period in 2017.

Corporate: During 2018, the Group's corporate segment generated negative EBITDA of $7.1 million and a net loss of $11.1 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, partially offset by the recognition of an additional termination fee as described on page 29.

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 income (loss) to net income (loss)	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17**	**2018**	**2017[1]**
Net (loss) income	**(2,566)**	**(4,225)**	**(8,618)**	**16,507**
Adjustments for non-recurring items:				
General and administrative expenses[1]	-	-	-	488
Impairment	-	225	-	225
Additional termination fee	-	-	1,294	-
Write off guarantees	-	-	-	389
Gain on insurance reimbursement	(323)	-	(602)	-
Gain on sale of subsidiary	209		209	-
Gain on deconsolidation of subsidiary		-	-	(41,015)
Adjustments for non-cash items:		-		-
Depreciation and amortization	2,108	1,551	7,912	10,277
Fair value movements (derivative financial instruments)	(68)	(229)	63	(300)
Share-based payment expense	184	(96)	761	566
Adjusted net income (loss)	**(456)**	**(2,774)**	**1,019**	**(12,863)**

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

Reconciliation of adjusted operating cash flows to operating cash flows	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17(*)**	**2018**	**2017(*)**
Operating cash flow	**2,171**	**1,700**	**8,795**	**(1,352)**
- Changes in working capital	(1,083)	(3,090)	(3,163)	3,971
- Additional termination fee paid	-	-	1,294	-
- Income tax paid	272	2	1,032	1,036
Adjusted operating cash flow	**1,360**	**(1,388)**	**7,958**	**3,655**

(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.

Financial Review

Continued

Non-GAAP Performance Measures

Reconciliation of Solar segments Adjusted EBITDA to EBITDA	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17**	**2018**	**2017[1]**
Net (loss) income	**(2,566)**	**(4,225)**	**(8,618)**	**16,507**
Adjustments for:				
Net income tax expense	22	12	1,212	1,125
Net finance costs	946	1,809	7,047	16,727
Depreciation and amortization	2,108	1,551	7,912	10,277
Impairment	-	225	-	225
Gain on deconsolidation of subsidiary	-	-	-	(41,015)
EBITDA	**510**	**(628)**	**7,553**	**3,846**
Adjustments for non-recurring items:				
General and administrative expenses	-	-		488
Additional termination fee	-	-	1,294	-
Gain on insurance reimbursement	(323)	-	(602)	-
Gain on sale of subsidiary	(209)		(209)	-
Write off deposits in guarantee	-	-	-	389
Adjusted EBITDA	**(22)**	**(628)**	**8,036**	**4,723**
Plus: Corporate G&A expenses after non-recurring items	2,968	2,615	6,611	7,812
Solar segments Adjusted EBITDA	**2,946**	**1,987**	**14,647**	**12,535**
Less: Solar Chile adjusted EBITDA	-	-	-	861
Solar Japan Adjusted EBITDA	**2,946**	**1,987**	**14,647**	**11,674**

QUARTERLY SELECTED FINANCIAL INFORMATION

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

USD thousands (except per share data)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenue	**4,048**	**6,185**	**6,357**	**2,910**	**2,603**	**7,005**	**7,042**	**5,198**
Japan	4,048	6,185	6,357	2,910	2,603	4,867	5,256	2,597
Chile	-	-	-	-	-	2,138	1,786	2,601
Net (loss) income	**4,048**	**(1,453)**	**(746)**	**(3,853)**	**(4,225)**	**35,161**	**(6,865)**	**(7,564)**
Net (loss) income from continuing operations attributable to owners of Etrion	(2,510)	(1,677)	(1,029)	(3,663)	(4,165)	36,080	(5,865)	(6,497)
Net (loss) income attributable to owners of Etrion	(2,510)	(1,677)	(1,029)	(3,663)	(4,165)	36,080	(5,865)	(6,497)
Basic and diluted (loss) earnings per share:								
From continuing operations attributable to owners of Etrion	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$0.11	$(0.02)	$(0.02)
From total results attributable to owners of Etrion	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$0.11	$(0.02)	$(0.02)

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.

(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.

Financial Review

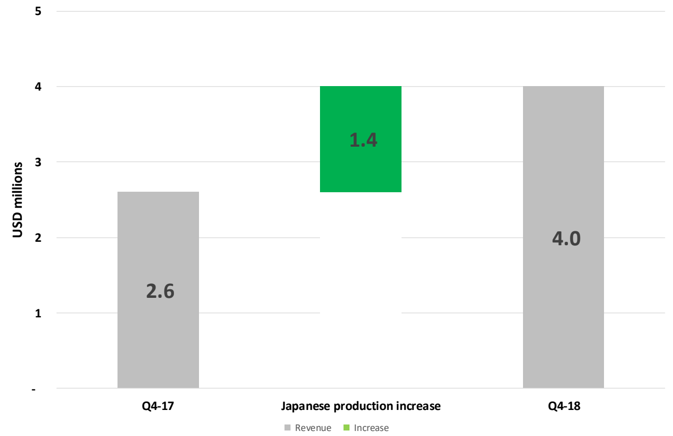
Continued

REVENUE

USD thousands	Three months ended Q4-18	Q4-17	Twelve months ended 2018	2017[1]
FiT	4,048	2,603	19,500	15,323
Market Price	-	-	-	727
PPA	-	-	-	4,838
Other utility income	-	-	-	960
Total Revenue	**4,048**	**2,603**	**19,500**	**21,848**

During the three and twelve months ended December 31, 2018 consolidated revenues increased by $1.4 million and decreased $2.3 million, respectively, compared to the same period of 2017.The 13.2 MW Komatsu solar project connected in May 2018 contributed significantly to the revenue increase in 2018. During 2018, revenues from sources different to FiT decreased exclusively due to the deconsolidation of Salvador, effective September 30, 2017.

During Q4-18 the Group's revenue from its Japanese subsidiaries increased by $1.4 million (55%) compared to the same period of 2017, driven by the additional production from the Komatsu solar project. The reconciliation of total revenue in Q4-18 versus Q4-17 is as follows:



During the year ended December 31, 2018, the Group's revenue from its Japanese subsidiaries increased by $4.2 million (27%) compared to the same period of 2017, driven by the additional production from the Misawa and Komatsu solar project.

ADJUSTED CONSOLIDATED EBITDA

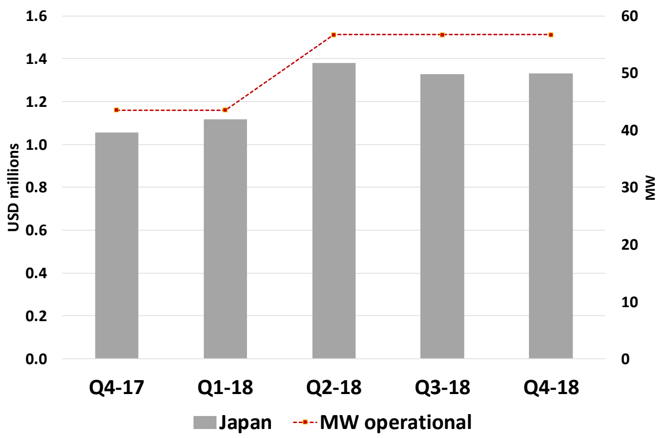
During the three and twelve months ended December 31, 2018, adjusted consolidated EBITDA increased by $0.6 million and $3.3 million, respectively, compared to the same period of 2017, mainly as a result of EBITDA being contributed by the Group's Japanese solar segment and material reduction of corporate overhead.

OPERATING EXPENSES

USD thousands	Three months ended Q4-18	Q4-17	Twelve months ended 2018	2017[1]
O&M costs	258	192	1,068	2,303
Purchased power	-	-	-	2,013
Personnel costs	270	233	989	1,209
D&A	2,069	1,509	7,754	10,093
Property tax	294	256	1,203	1,030
Insurance	97	61	303	448
Land lease	248	227	980	940
Transmission cost	-	-	-	899
Other expenses	167	86	616	521
Total operating expenses	**3,402**	**2,564**	**12,913**	**19,456**

During the three and twelve months ended December 31, 2018, operating expenses increased by $0.8 million (33%) and decreased $6.5 million (34%), respectively, compared to the same period of 2017. Operating expenses increased during the fourth quarter of 2018 due to additional O&M and other operating costs associated with the Komatsu solar projects In addition, total operating expenses decreased in 2018, primarily due to the deconsolidation of the Chilean subsidiary, effective September 30, 2017, partially offset by the incremental O&M and other operating costs associated with the Komatsu solar project.

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.



(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.

Financial Review

Continued

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17**	**2018**	**2017(1)**
Salaries and benefits	1,356	1,397	2,890	3,707
Pension costs	98	114	98	114
Board of directors' fees	68	73	272	276
Share-based payments	184	(96)	761	566
Professional fees	352	831	831	2,298
Listing and marketing	57	69	289	636
D&A	39	42	158	184
Office lease	77	(23)	305	271
Office, travel and other	237	410	524	916
Write off guarantees	-	-	-	389
Total general and administrative	**2,468**	**2,817**	**6,128**	**9,357**

During the three and twelve months ended December 31, 2018, general and administrative expenses decreased by $0.3 million (12%) and $3.2 million (35%), respectively, compared to the same period in 2017, primarily due to a significant reduction of salary and benefit expenses due to internal restructuring, and a decrease in professional fees.

NET FINANCE COSTS

	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17**	**2018**	**2017(1)**
Project loans	953	877	3,859	11,135
Corporate bonds	732	908	3,508	3,792
Fair value movements	(68)	(229)	63	(300)
Foreign exchange (gain) loss	(729)	222	(1,215)	1,911
Other finance costs	58	31	832	189
Net finance cost	**946**	**1,809**	**7,047**	**16,727**

During the three and twelve months ended December 31, 2018, net finance costs decreased by $0.9 million (48%) and $9.7 million (58%), respectively, compared to the same period in 2017, mainly due the refinancing of the corporate bonds, foreign exchange gains and the deconsolidation of the Chilean subsidiary, effective September 30, 2017.

During the three and twelve months ended December 31, 2018, the Group capitalized $nil and $0.2 million, respectively (2017: $0.1 million and $0.4 million) of borrowing costs associated with credit facilities obtained to finance the construction of the solar power projects.

INCOME TAX EXPENSE

	Three months ended		Twelve months ended	
USD thousands	**Q4-18**	**Q4-17**	**2018**	**2017(1)**
Corporate income tax	46	(131)	1,248	1,020
Deferred tax expense	(24)	143	(36)	105
Income tax expense	**22**	**12**	**1,212**	**1,125**

During the three and twelve months ended December 31, 2018, the Group recognized a current income tax expense of $0.6 million (2017: $0.3 million) associated with its solar power projects in Japan, and an income tax expense of $0.6 million (2017: $0.7 million) associated with its holding and management services subsidiaries.

In addition, the Group recognized a deferred income tax income of $36 thousand (2017 deferred income tax expense: $0.1 million) due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts..

(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.

Financial Review

Continued

FINANCIAL POSITION

LIQUIDITY AND FINANCING

CASH POSITION

USD thousands	December 31 2018	December 31 2017
Cash and cash equivalents:		
Unrestricted at parent level	9,328	30,385
Restricted at project level	15,399	12,818
Total cash and cash equivalents	**24,727**	**43,203**

UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at December 31, 2018, included unrestricted cash of $9.3 million (December 31, 2017: $30.4 million) held at the corporate level. Unrestricted cash decreased by $21.0 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 projects. In addition, the Group expects to generate sufficient operating cash flows in 2019 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	December 31 2018	December 31 2017
Japan	15,399	12,818
Total restricted cash	**15,399**	**12,818**

The Group's cash and cash equivalents at December 31, 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 $2.6 million (20%) mainly due to proceeds from the credit facilities and operating cash flow from the Japanese solar power projects.

WORKING CAPITAL

At December 31, 2018, the Group had working capital of $22.8 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 $24.2 million. (December 31, 2017: $45.1 million).

At December 31, 2018, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2019	2020	2021	2022	2023	After 5 years	Total
Project loans	11,642	9,154	8,745	8,934	9,512	112,527	160,514
Corporate bond	2,836	2,844	39,760	-	-	-	45,440
O&M contracts	918	1,021	1,248	1,190	762	14,554	19,693
Operating leases	1,270	1,013	1,013	1,013	1,013	13,023	18,346
Trade payables	3,997	-	-	-	-	-	3,997
Total	**20,664**	**14,033**	**50,766**	**11,137**	**11,287**	**140,104**	**247,991**

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 2018, total equity attributable to owners of the Company decreased by $7.2 million from a net asset position of $9.0 million at December 31, 2017, to a net asset position of $1.8 million at December 31, 2018. This change was primarily due to the recognition of $8.9 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 December 31, 2018, was negatively impacted by the cumulative fair value losses of $12.5 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 December 31, 2018, would have resulted in a net asset position of $14.3 million.

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	December 31 2018	December 31 2017
Shizukuishi	25	December 30, 2034	57,708	59,319
Mito	9	June 30, 2034	21,250	21,993
Misawa	10	June 30, 2036	25,635	28,415
Komatsu	13	December 30, 2036	33,872	29,286
Total			**138,465**	**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 December 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 December 31, 2018, and December 31, 2017.

During 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: ¥5,113 million ($45.5 million) and ¥423 million ($3.8 million), respectively). At December 31, 2018, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥nil (2017: ¥525 million ($4.6 million)). At December 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 December 31, 2018, and December 31, 2017.

At December 31, 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 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 on the Oslo Stock Exchange. 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 December 31, 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 December 31, 2018, including accrued interest net of transaction costs, was $38.1 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 December 31, 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 December 31, 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

Continued

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	December 31 2018	December 31 2017
Total borrowings as per IFRS	**176,607**	**179,701**
VAT facilities	(2,804)	(2,441)
Accrued interest	(120)	(620)
Transaction costs	2,961	2,736
Adjusted borrowings	**176,645**	**179,376**
Cash and cash equivalents	(24,727)	(43,203)
Adjusted consolidated net debt	**151,918**	**136,173**
Adjusted corporate net debt	**29,476**	**10,110**

The Group's consolidated net debt increased during 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 (March 12, 2018: 334,094,324) and nil options to acquire common shares of the Company (March 12, 2017: 150,000) 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 15,491,706 RSUs outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at December 31, 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.

Financial Review

Continued

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In connection with the preparation of the Company's consolidated 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.

New standards and amendments issued and not yet adopted by the Group

The following new standards and amendments, applicable to the Group, available for application and not yet adopted, are as follows:

IFRS 16, Leases: This standard addresses the measurement and recognition of leases which will result in almost all lease contracts being recognized in the balance sheet, as the distinction between operating and finance leases is removed. IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the existing commitments under the solar projects land lease contracts. As at the reporting date, the Group has non-cancellable operating lease commitments of US$ 18.3 million (Note 29). Of these commitments, approximately US$0.3 million relate to short-term and low value office leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately $10.5 million on January 1, 2019, (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax assets of $3.0 million. Overall net assets will be approximately $3.0 million higher, and net current assets will be $1.0 million lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net results after tax will decrease by approximately $3.4 million for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately $1.0 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately $1.0 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply IFRS 16 from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied.

New standards and amendments adopted by the Group

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.

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 occurs over-time, when electricity produced is measured by the meters and therefore the Company will use the right to invoice practical expedient as per IFRS 15. The IFRS 15 right to invoice practical expedient method is not different from the Company's accounting policies previously 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 have not been 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 the conclusions of the assessment performed and particularly based on past experience, future expectations and credit rating of the counterparties (Japanese utilities) no impairment losses was necessary as of the adoption date.

There are no other IFRS or interpretations that are not yet effective and that would be expected to have a material impact on the Group.

DECONSOLIDATION OF SUBSIDIARY

On September 30, 2017 the Group concluded that in accordance with IFRS it no longer had control of Salvador, the 70%-owned subsidiary that owns the licenses and rights to operate the 70 MW solar power project in Northern Chile. As a result of the deemed loss of control the Group no longer consolidates Salvador's financial position and performance from September 30, 2017. The Group derecognized its share in the net liabilities of Salvador, resulting in a non-cash extraordinary gain of US$41.0 million. In addition, the Group derecognized the equity value attributable to non-controlling interests in Salvador of $17.6 million.

The financial position below was used as the basis for calculating the net gain on deconsolidation:

PV Salvador SpA September 30, 2017	**$ thousands**
Assets	
Property, plant and equipment	84,259
Intangibles	6,959
Trade receivables and other assets	3,577
Cash	2,584
Total assets	**97,379**
Liabilities	
Borrowings	154,015
Trade payables and other	1,957
Total liabilities	155,972
Net liabilities	**58,593**
Non-Controlling Interest share in net liabilities	17,578
Etrion share in net liabilities	41,015
Etrion share in net liabilities	41,015
Fair value of retained investment in Salvador	-
Gain on deconsolidation of subsidiary	**41,015**

RELATED PARTIES

For the purposes of preparing the Company's consolidated 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 consolidated financial statements for the three and twelve months ended December 31, 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 2018, the Group incurred general and administrative expenses of $27 thousand (2017: $8 thousand), from Lundin Petroleum AB and its subsidiary. At December 31, 2018, the Group had $nil (December 31, 2017: $1 thousand) outstanding in relation to these expenses.

LUNDIN FAMILY

During 2018, the Group recognized $0.1 million (2017: $0.6 million) of interest expense, and recognized $7 thousand (2017: $48 thousand) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

Investment companies associated with the Lundin family subscribed for €3 million ($3.5 million) of the New Bonds issue completed in June 2018. As at December 31, 2017, the total corporate bonds held by the Lundin family amounted to €3.0 million ($3.5 million).

LUNDIN SA

During 2018, the Group recognized $0.1 million (2017: $0.1 million) 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.

ASSET MANAGEMENT SERVICES

During 2018, the Group invoiced asset management services of $0.8 million (2017: $0.6 million) to Salvador, associated with operating and engineering services of the 70 MW solar power project in Chile. These asset management services are not eliminated on consolidation since September 30, 2017, the date when Salvador was deconsolidated and are presented as a reduction of corporate G&A.

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 2018, the Group recognized $1.7 million (2017: $2.1 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 December 31, 2018, the Group had $0.3 million 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. 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, 2018, 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	December 31 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	1,452	1,444
Non-current portion	8,706	8,788
Total derivative financial instruments	**10,158**	**10,232**

During the 2018, the Group recognized a fair value loss of $0.1 million, 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 December 31, 2018, decreased to a liability position of $10.1 million (2017: $10.2 million) due to a increase in the forecasted TIBOR curve in comparison with December 31, 2017. At December 31, 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.

04

RISKS AND UNCERTAINTIES

- Financial Risks 35
- Non-Financial Risks 35

Risks and Uncertainties

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, 2018, 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.

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.

05

OTHER DISCLOSURES

Other Disclosures

ETRION OUTLOOK AND GUIDANCE

Etrion prepares and updates on a quarterly basis forecasts for project level production, revenues and EBITDA information regarding its operational and fully-funded solar parks in Japan. The purpose of these forecasts is to provide investors with management's view on the expected performance of the Company's solar assets over the coming fiscal year. Readers are advised to not place undue reliance on this forecasted financial and operational information. Etrion's consolidated project-level forecast for 2019 is in the following ranges:

2019 Guidance **USD million otherwise stated**	**Low end**	**High end**
Energy generation (MWh)	46,800	51,800
Revenue	15.9	17.6
Project-level EBITDA	12.0	13.3

(1) on a net basis (Net to Etrion's interest)

JAPAN

Revenue, project-level EBITDA and production forecast for the Japanese business, incorporated in the above consolidated guidance, are based on Etrion's ownership over the 57 MW operational Japanese portfolio comprising the Mito, Shizukuishi, Misawa and Komatsu solar parks, located in central and northern Japan, respectively, and are incorporated on a net basis. These projects benefit from 20-year PPAs with the Japanese public utilities, under which they will receive between ¥32 and ¥40 per kWh produced (approximately between US$0.27 and US$0.34 per kWh).

In Japan, revenues are received in Japanese Yen and are translated using the ¥/$ exchange rate of the corresponding period. Consequently, revenues expressed in $ may fluctuate according to exchange rate variations.

Basis of preparation of the forecasts

The revenue forecasts have been prepared on a basis consistent with the accounting policies that are expected to be used in the Group's consolidated financial statements for the year to be then ended. These policies are consistent with those set out in the accounting policies in the Group's consolidated financial statements for the years ended December 31, 2018 and 2017, including the impact of IFRS 16 effective January 1, 2019. The project-level EBITDA forecasts have been prepared using a non-IFRS widely accepted methodology which consist of earnings before interest, tax, depreciation and amortization and is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions. Electricity production forecasts have been prepared using the installed production capacity of the solar power plants, the guaranteed availability and irradiation levels based on historical data from the various solar park locations. Revenue and project-level EBITDA forecasts have been prepared using the project currency and translated, where applicable, to US dollars using the 2018 average of ¥/US$ 1: 110.40

PREVIOUS FORECASTS

On March 13, 2018, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2018. Actual results in comparison with the revised guidance with primary focus on the Japanese assets are shown in the table below:

Actual results in comparison with the guidance are shown in the table below:

2018 Guidance results **USD million otherwise stated**	**Low end**	**Actual results**	**High end**
Energy generation (MWh)	37,517	46,400	41,466
Revenue	12.9	16.0	14.3
Project-level EBITDA	8.7	11.6	9.6

Japanese production, revenue and project-level EBITDA in 2018 met or exceeded the high end of the revised guidance provided on March 13, 2018. The performance of the operating solar assets in Japan during 2018 were exceptional and this was reflected in production and revenue being 12% above the high end of the guidance. EBITDA in 2018 was well above the high end due to the combination of higher than expected production, earlier connection of the Komatsu plant and optimization of the contingency budgets.

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.

Other Disclosures

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.