etrion

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2013

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INTRODUCTION

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 environments. This MD&A, prepared as of March 12, 2014, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2013. Financial information is reported in United States ("US") dollars ("$"). However, as the Group primarily operates in Europe, in the Americas and Asia certain financial information has been reported in Euros ("€"), Canadian dollars ("CAD$") and Japanese yen ("¥") and ("JPY"). At December 31, 2013, the €/$ exchange rate was 1.38 (2012: 1.32), and the average exchange rate for the year then ended was 1.33 (2012: 1.28). 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.

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 within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 30.

FOURTH QUARTER AND FULL YEAR 2013 HIGHLIGHTS

	Three months ended December 31		Twelve months ended December 31	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Revenue[(1)]	7,761	7,385	53,911	55,662
Gross profit (loss)	319	(1,262)	25,431	29,736
EBITDA[(2)]	5,437	3,576	40,372	43,131
EBITDA margin (%)	70%	48%	75%	77%
Net loss	(5,666)	(7,292)	(10,304)	(8,458)
Adjusted net (loss)/income before non-recurring and non-cash items[(2)]	(5,279)	(2,351)	6,154	10,562
Operating cash flow[(3)]	14,630	14,524	44,499	40,570
Working capital[(4)]	47,461	17,703	47,461	17,703

Notes:

(1) Revenues are received in Euros and have been translated at the average €/$ exchange rate for 2013 of 1.33 (2012: 1.28). The average price per kilowatt-hour ("kWh") produced increased from $0.51 in 2012 to $0.52 in 2013, primarily as a result of foreign exchange rate variations partially offset by a reduction to the spot market price in Italy from €0.07 per kWh in 2012 to €0.06 per kWh in 2013.

(2) Refer to "Financial Review – Financial Results" on pages 15 and 16 for an overview of the Group's adjusted net income before non-recurring and non-cash items and earnings before interest, tax, depreciation and amortization ("EBITDA") (both of which are non-International Financial Reporting Standard ("IFRS") measures). Adjusted net income/loss before non-recurring and non-cash items and EBITDA are useful metrics to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements. In addition, EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting policy decisions.

(3) Operating cash flow refers to cash flows before investing and financing activities and the effects of foreign exchange rate differences (refer to "Financial Review – Financial Results" on page 15).

(4) Working capital refers to current assets less current liabilities (refer to "Financial Review – Financial Results" on page 15).

FOURTH QUARTER AND FULL YEAR 2013 HIGHLIGHTS (CONTINUED)

BUSINESS DEVELOPMENT HIGHLIGHTS

- Chile: Partnered with Total S.A. ("Total") to build, own and operate a 70 megawatt ("MW") solar project in northern Chile ("Project Salvador") owned initially 70% by Etrion, 20% by Total and 10% by Solventus Energías Renovables. Notice to proceed with construction was given to SunPower Corporation in December 2013, and site preparation works commenced in January 2014.

- Japan: Partnered with Hitachi High-Technologies Corporation ("HHT"), a subsidiary of Hitachi, Ltd., for the development, financing, construction, ownership and operation of utility-scale solar power plants in Japan. The project pipeline in Japan is expected to reach at least 100 MW of solar power generation facilities under construction or shovel-ready by 2015. Etrion and HHT secured the Feed-in-Tariff ("FiT") of ¥40 (US$0.38) per kWh and executed land agreements for two initial projects with a combined capacity of 34 MW, and construction is expected to begin later this year. Etrion's ownership in the first two projects will be 85%, and HHT will own the remaining 15%.

OPERATIONAL HIGHLIGHTS

- Production: Produced 104.9 million (2012: 107.8 million) kilowatt hours ("kWh") of solar electricity during the year ended December 31, 2013, from 17 solar power plants in Italy.

- Plant Availability: Improved asset management in Italy with weighted average solar plant availability of 99.5% in 2013 compared to 98.9% in 2012. A solar park's availability measures the amount of time it is able to generate power during daylight hours.

FINANCIAL HIGHLIGHTS

- Revenue: Generated revenues of US$53.9 million (2012: US$55.7 million) during the year ended December 31, 2013, from 17 solar power plants in Italy.

- EBITDA: Recognized earnings before interest, taxes, depreciation and amortization ("EBITDA") of US$40.4 million (2012: US$43.1 million) during the year ended December 31, 2013.

- Project Financing: Closed project financing with the Overseas Private Investment Corporation ("OPIC"), the U.S. government's development finance institution, to finance 70% of the approximately US$200 million cost for Project Salvador in Chile through long-term, non-recourse project debt.

- Sale of Non-Core Assets: Sold the Company's subsidiary, PFC Oil & Gas, CA ("PFC"), for total cash consideration of US$5.0 million. The non-core assets were carried on Etrion's balance sheet at US$1.1 million, resulting in a net gain of US$3.9 million.

- Working Capital: Closed 2013 with a cash balance of US$94.9 million (2012: US$37.8 million) and positive working capital of US$47.5 million (2012: US$17.7 million).

- Equity Financing: Completed an equity financing in January 2014 through a private placement of 124,633,571 new common shares issued at SEK 4.15 (approximately CAD$0.70) per share for gross proceeds of SEK 517,229,320 (approximately US$80.0 million).

BUSINESS REVIEW

BUSINESS OVERVIEW

Etrion is an independent power producer that builds, owns and operates utility-scale power generation plants. The Company currently owns and operates 17 solar photovoltaic ("PV") power plants in Italy with approximately 60 MW of installed capacity. During 2013, the Group made significant progress in its development activities in Chile and entered Japan, extending the range of opportunities to position Etrion with a global platform for growth.

Once new projects in Chile and Japan are connected to the electricity grid, Etrion will have a diversified solar power generation platform, in terms of both revenues (i.e., revenues generated pursuant to FiT contracts, complemented by revenues from long-term power purchase agreements ("PPAs") and revenues from projects operating on a spot market/merchant basis) and geography (i.e., Europe, the Americas and Asia), complementing Etrion's current 60 MW operating platform in Italy and providing counter-seasonal revenues.

Etrion's strategy is focused on:

- **Geographic Diversity** – Entering new regions with high electricity prices, large energy demand and abundant renewable resources or strong mandates to diversify energy mix with attractive government incentives.
- **Revenue Diversity** – Complementing FiT revenues with revenues derived from long-term PPAs or spot (merchant) pricing.
- **Yield** – Creating a platform for dividends to shareholders by 2015.
- **Growth** – Building a large pipeline of renewable energy development projects through key partnerships.

The Company's business model focuses on six key drivers for success: (1) stable revenues; (2) abundant renewable resources; (3) high wholesale electricity prices; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

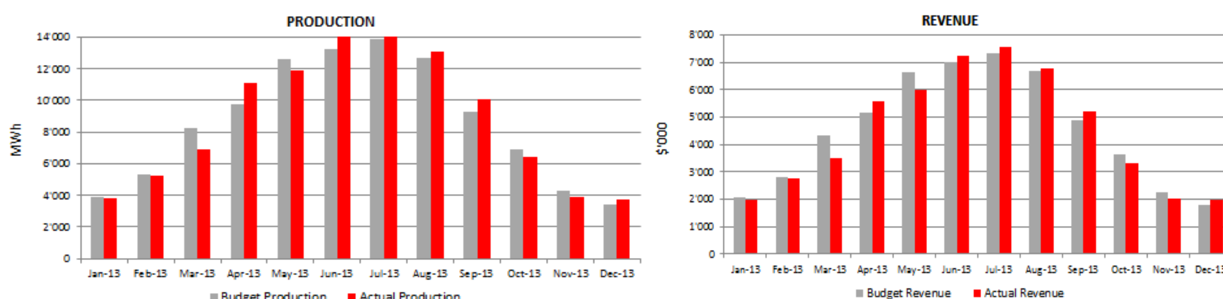
The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion is based in Geneva, Switzerland with offices in Rome, Italy, Tokyo, Japan and Santiago, Chile.

OPERATIONS REVIEW

OPERATING PERFORMANCE

During 2013, the Group recognized revenues from seven solar power projects in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising seventeen solar power plants.

Solar-related revenues are subject to seasonality over the year due to the variability of daily sun hours in the summer versus winter months. However, on an annual basis, expected solar irradiation in Italy varies less than 10%. The impact of seasonality on the Group's business should decrease over time as the Group secures additional projects in Chile given the northern and southern hemisphere profile. The following summarizes the Group's 2013 actual and budgeted revenue and production information and the effects of seasonality:



The Group has substantial revenues and cash flows from operations, and its current platform of approximately 60 MW continues to perform above expectations.

OPERATIONS REVIEW (CONTINUED)

OPERATING PERFORMANCE (CONTINUED)

Performance against budget

Actual production and revenue for the twelve months ended December 31, 2013, compared to budget, are as follows:

	Performance against budget			
	Actual	Budget	Variance	
Production[1] (MWh)	104,918	103,511	1,407	1.4%
Revenue ($'000)	53,911	54,615	(704)	(1.3)%

Note:

(1) Production is based on megawatt-hours ("MWh") of electricity produced.

During 2013, the Group produced approximately 1.4% more electricity than budgeted, primarily due to higher than expected availability and solar irradiation.

The Group's revenues were adversely impacted by a lower average spot price per kWh due to a reduction in the spot market price in Italy. The Group received an average of $0.08 (€0.06) per kWh during 2013 compared to expectations of $0.09 (€0.07) per kWh. This resulted in 2013 revenues being 1.3% less than budgeted while production increased 1.4% in the same period in comparison to budget.

Performance against prior year

Production and revenue for the twelve months ended December 31, 2013, compared to 2012, are as follows:

	Performance against prior year			
	2013	2012	Variance	
Production (MWh)	104,918	107,805	(2,887)	(2.7)%
Revenue ($'000)	53,911	55,662	(1,751)	(3.1)%

Pricing information for the twelve months ended December 31, 2013, compared to 2012 is as follows:

	2013			2012		
	MWh	Price[1] ($/kWh)	Revenue $'000	MWh	Price[1] ($/kWh)	Revenue $'000
FiT revenues (based on actual production)[2]	104,918	0.44	45,922	107,805	0.42	45,626
Market Price revenues (based on evacuated production)[3]	103,001	0.08	7,989	105,827	0.09	10,036
Total revenue			**53,911**			**55,662**

Notes:

(1) Prices are received in Euros and have been translated at the average €/$ exchange rate for 2013 of 1.33 (2012: 1.28). The average price per kWh produced increased from $0.51 in 2012 to $0.52 in 2013, primarily as a result of foreign exchange rate variations partially offset by a reduction to the spot market price ("Market Price") in Italy from €0.07 per kWh in 2012 to €0.06 per kWh in 2013.

(2) The FiT is received for each kWh of electricity produced.

(3) The Market Price is received in addition to the FiT and is based on evacuated production (i.e., electricity produced less transmission losses).

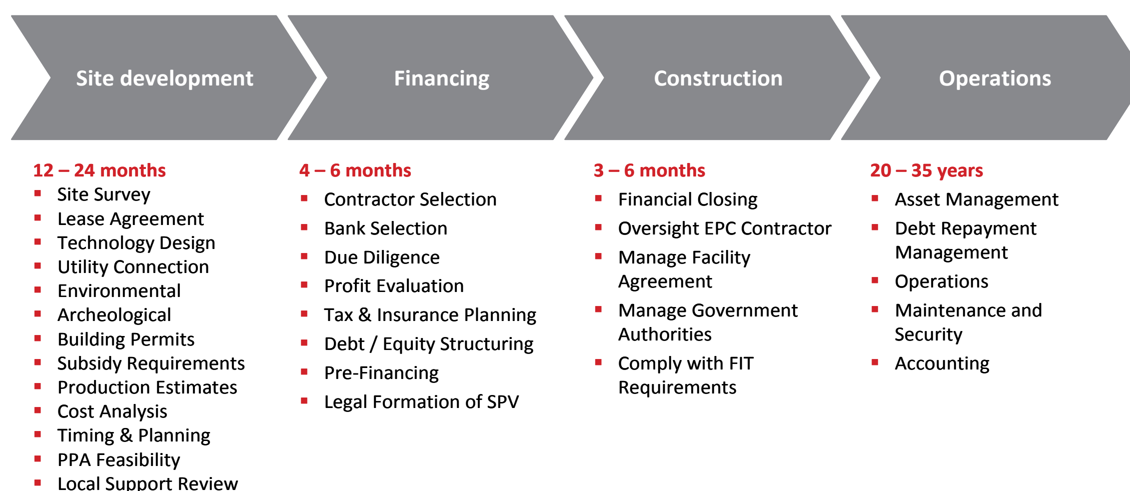
As outlined above, the Group receives revenues from two sources: (1) the FiT system, which is secured by 20-year contracts with the Italian government, as outlined on page 11 within "Business Review – Solar Market Overview"; and (2) the Market Price which is subject to the spot price fluctuations in Italy.

During 2013, the Group produced approximately 3% less electricity and generated approximately 3% less revenues, compared to 2012, due primarily to lower solar irradiation and poor weather conditions in 2013, while irradiation and weather conditions in 2012 were significantly better than expected. The Group's revenue during 2013 was also adversely impacted by an approximately 3% reduction to the average price per kWh expressed in Euros (average of €0.39 per kWh during 2013, compared to €0.40 per kWh during 2012), due to a reduction in the Market Price in Italy (as the Group received an average of €0.06 per kWh during 2013, compared to €0.07 per kWh during 2012). This reduction in revenues was partially offset by a strengthening of the Euro against the US dollar in 2013, resulting in the US dollar average price per kWh of $0.52 in 2013 compared to $0.51 per kWh in 2012.

BUSINESS OVERVIEW

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

- Phase 1, represents the period in which a project secures all required permits, authorizations and utility interconnection agreements to build a solar power plant. Depending on the jurisdiction, this process may vary in length between 12 to 24 months. Where projects are developed from their infancy, also called "Greenfields", the development time will generally be close to 2 years. However, in Etrion's case, often enters into co-development agreements with local development companies to reduce development time and reduce development 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 investments are allocated to them. In addition to evaluating permitting risk, Etrion continuously updates the project economics to ensure it meets Etrion's investment criteria.
- Phase 2, which generally takes 4 to 6 months, during which the Company assesses and selects various partners, including EPCs (i.e. contractors responsible for the engineering, procurement and construction ("EPC") of the solar power plant), to be involved in the project. The Company also analyses the financial aspects of the project, assessing pre-financing, debt/equity structuring, vendor financing and the selection of lenders. Furthermore, in phase 2, the Company evaluates potential revenue levels and the legal structure of the special purpose entity which will function as the local operating subsidiary. This process may be shortened when the projects are pre-financed directly by the Company and then refinanced once construction and grid connection is complete.
- Phase 3, generally requires 3 to 9 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 requirements. Under an EPC contract, the contractor is generally hired on a 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 risk for scheduling as well as budgeting in return for a guaranteed price.
- Phase 4, which typically lasts for a minimum period of 20 years, involves the Company's local operating subsidiary being engaged in the operation of the solar power plant and the repayment of existing debt facilities established in connection with the project. In this phase, the Company usually retains the EPC contractor on a 20-year operating and maintenance contract ("O&M").



OPERATIONS REVIEW (CONTINUED)

OPERATING PROJECTS

A summary of the Group's current operating solar power projects, all located in Italy, at December 31, 2013, is as follows:

Project	Region	Sites	Capacity (MW)	Technology	Contractor	Panels	Inverters	Connection date	FiT[1]
Cassiopea (Montalto, Lazio)	Lazio	1	24.0	Single axis	SunPower	SunPower	SMA	Nov-09	€0.353
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Aug-11	€0.250
Centauro (Montalto, Lazio)	Lazio	1	8.8	Single axis	SunPower	SunPower	SMA	Jul-10	€0.346
Helios ITA (Brindisi, Mesagne)[2]	Puglia	7	6.4	Single axis	Solon	Solon	Santerno	Dec-09	€0.353
Etrion Lazio (Borgo Piave, Rio Martino)[3]	Lazio	2	5.3	Fixed-tilt	Phoenix	Trina	SMA	Apr-11	€0.346
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Dec-10	€0.346
Sagittario (Nettuno, Lazio)	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Aug-11	€0.250
Total		**17**	**60.0**						

Notes:

(1) FiT per kWh based on connection date. In Italy, revenues are derived from the FiT system and Market Price, both received for each kWh of electricity produced. The weighted average remaining contract life is approximately 17 years.

(2) Six of the Helios ITA solar parks benefit from the 2009 FiT of €0.353 per kWh, and the last park built benefits from the 2010 FiT of €0.346 per kWh.

(3) Etrion Lazio was installed at the end of 2010. However, the project was not connected to the electricity grid until April 2011.

Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 23.9 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower Corporation ("SunPower"), a US-based solar panel manufacturer and installer, using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Cassiopea has an O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2009 FiT of €0.353 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

Helios ITA-3

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5 MW) and Mesagne (5 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB S.p.A. ("ABB"), the Swiss power and automation technology group, using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance. Both solar parks benefit from the August 2011 FiT of €0.250 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

Centauro

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.7 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2010 FiT of €0.346 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009 and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon poly-crystalline modules and Santerno inverters. The original O&M contractor was Solon. In July 2012, the Group entered into a new O&M contract, including preventive and corrective maintenance, with ABB. Six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefit from the 2009 FiT of €0.353 per kWh plus the Market Price for 2013 approximately €0.06 per kWh. The last park built (0.6 MW) benefits from the 2010 FiT of €0.346 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

OPERATIONS REVIEW (CONTINUED)

OPERATING PROJECTS (CONTINUED)

Etrion Lazio

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.7 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar ("Phoenix"), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance. Both solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Matino (1 MW) and Ruffano (1 MW). All three solar parks were connected to the electricity grid in December 2010. The SVE solar parks were built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance. All three solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price for 2013 approximately €0.06 per kWh.

Sagittario

The Sagittario project in Lazio, Italy, consists of one ground-mounted solar PV park with a total capacity of 2.6 MW. The solar park was completed and connected to the electricity grid in August 2012. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Sagittario has an O&M contract with Phoenix, including preventive and corrective maintenance. The solar park benefits from the August 2011 FiT of €0.250 per kWh plus the Market Price of approximately €0.06 per kWh.

Refer also to "Business Review – Solar Market Overview" on page 11 for an overview of the renewable energy market in Italy.

DEVELOPMENT ACTIVITIES

Etrion is pursuing renewable energy projects in Chile and Japan. The cost of solar power generation has dropped significantly, enabling Etrion to provide competitive electricity solutions, particularly in areas of high solar irradiation without the need for government subsidies.

CHILE

Etrion is pursuing renewable energy projects in South America, with an initial focus on Chile. Chile has with an investment grade AA- rating (per Standard & Poor's) and an abundance of renewable resources (i.e., strong solar irradiation) and high wholesale electricity prices and a large energy demand, making it an ideal country for Etrion to grow and diversify through new opportunities. Etrion's business development activities in Chile are focused on solar power generation that is carried along two of the existing electricity networks, Sistema Interconectado del Norte Grande "SING" and Sistema Interconectado Central "SIC", which provide service to industrial users who are particularly concerned with electricity shortages as a result of the high growth in energy demand. Together the SING and SIC account for approximately 90% of Chile's total electricity production. Northern Chile has among the highest solar irradiation in the world (25% above Nevada, USA / 50% above Spain).Refer to "Business Review – Solar Market Overview" on page 12 for an overview of the renewable energy market in Chile.

PROJECTS UNDER DEVELOPMENT OR CONSTRUCTION

A summary of the Group's projects under development and/or construction in Chile is as follows:

Project	Region	Sites	Gross Capacity (MW)	Net Capacity (MW)	Technology	Contractor	Status	Expected start of construction	Expected start of operations	Contract regime
Salvador	Atacama	1	70.0	49.0(1)	Single axis	SunPower	Construction	Q4-2013(2)	Q1-2015	Merchant(3)
Aguas Blancas	Antofagasta	3	72.0	72.0	Single axis	TBD	Development	Q1-2015	Q1-2016	PPA/merchant
Las Luces	Atacama	1	27.0	27.0	Single axis	TBD	Development	Q1-2015	Q1-2016	PPA/merchant
Total		**5**	**169.0**	**148.0**						

Notes:

(1) Etrion will initially own a 70% interest in Project Salvador, a 70 MW solar power project, resulting in a net capacity of 49 MW to Etrion. Following payback of the original equity contribution (of approximately $42 million), Etrion's ownership will decrease to 50.01%. After 20 years, Etrion's ownership will reduce to 0%.

(2) Construction commenced in December 2013.

(3) Project Salvador will initially operate on a merchant basis where the electricity produced will be sold on the spot market and delivered to the SIC electricity network, with the ability to secure future PPAs.

Project Salvador

In September 2013, Etrion signed a purchase agreement with Total Energie Development ("Total Energie") and Solventus Chile SpA ("Solventus") to build, own and operate a 70 MW solar project in the Atacama region in northern Chile. Pursuant to the purchase agreement, Etrion, Total Energie and Solventus have acquired 70%, 20%, and 10% interests, respectively, in the project company, which holds the licenses, land rights and permits necessary to build, own and operate Project Salvador.

Project Salvador will initially operate on a merchant basis where the electricity produced will be sold on the spot market and delivered to the SIC electricity network, with the ability to secure future PPAs. The solar power plant will be built on 133 hectares leased from the Chilean government through a long-term concession. Once operational, Project Salvador is expected to produce approximately 200 million kWh of solar electricity per year.

The total project cost of approximately $200 million will be financed 70% through non-recourse project debt financing provided by OPIC, the US Government development finance institution and the remaining 30% equity portion will be funded by Etrion, Total Energie and Solventus, based on their respective ownership interests, resulting in a total capital commitment by Etrion of approximately $42 million.

Project Salvador will be built using SunPower high-efficiency, single-axis tracker technology. Construction of Project Salvador commenced in the fourth quarter of 2013, and the solar project is expected to be operational by the first quarter of 2015.

DEVELOPMENT ACTIVITIES (CONTINUED)

Aguas Blancas

The Aguas Blancas solar project was originally an 8.8 MW solar PV park under development in the Antofagasta region of Chile that was recently moved and expanded into a larger project of 72 MW. The project is owned 100% by Etrion and is expected to sell part of its electricity to the Aguas Blancas iodine mine in northern Chile through a 15-year take-or-pay, US dollar-denominated PPA with Atacama Minerals Chile S.C.M ("Atacama Minerals").

The parent company of Atacama Minerals, RB Energy Inc ("RB Energy") announced in December 2013 a temporary reduction in production at the Aguas Blancas mine due to softening iodine prices. Operations at part of the mine will be temporarily suspended, and the expansion of the mine will be delayed. RB Energy anticipates that operations at the mine will be restarted early in 2015, and the expansion of the mine will follow shortly thereafter.

The Aguas Blancas solar park was expected to be under construction by the first quarter of 2014 and to be operational by July 2014. However, given RB Energy's recent announcement in December 2013, Etrion expects construction of the solar park to be delayed by twelve months. Furthermore, in February 2014, Etrion's management evaluated the progress and likelihood to continue with the Aguas Blancas project and concluded that the project would not be executed as originally intended and instead would be moved to a new physical location in the same region but with new technical specifications as part of a larger project. During 2013 an impairment of $0.4 million was recognized for those costs related to technical, legal and permitting activities costs that cannot be used under the new project structure.

The total estimated project cost for the 72 MW project, including costs related to the licenses, permits, development and construction, is $155.0 million, which is expected to be financed by up to 85% non-recourse project debt with the remaining equity portion to be funded by Etrion.

Construction of Aguas Blancas is now expected to commence in the first quarter of 2015, subject to Etrion arranging the necessary debt financing, and the solar project is expected to be operational in the first quarter of 2016.

Etrion is also pursuing other opportunities in Chile to develop and/or acquire additional renewable energy projects, in varying stages of development and expects additional projects to be secured throughout 2014 and beyond.

Las Luces

The Group plans to build, own and operate a 27 MW solar project in the Atacama region in northern Chile ("Las Luces"). Las Luces was originally expected to be 22 MW, but the permits have recently been expanded to 27 MW.

The total project cost, including costs related to the licences, permits, development and construction, is estimated to be $58.0 million, which is expected to be financed with up to 85% non-recourse project debt with the remaining equity portion to be funded by Etrion.

Construction of Las Luces is expected to commence in the first quarter of 2015, subject to Etrion arranging the necessary debt financing, and the solar project is expected to be operational in the first quarter of 2016.

DEVELOPMENT ACTIVITIES (CONTINUED)

JAPAN

Etrion is pursuing renewable energy projects in Asia, with an initial focus on Japan, due to the attractive solar FiT program and low financing costs. In January 2014, Etrion announced a strategic partnership with HHT a subsidiary of Hitachi, Ltd., for the development, financing, construction, ownership and operation of utility-scale solar power plants in Japan. The agreement to develop a project pipeline in Japan is expected to result in at least 100 MW of solar power generation facilities under construction or shovel-ready by 2015. Refer to 'Business Review – Solar Market Overview' on page 13 for an overview of the renewable energy market in Japan.

PROJECTS UNDER DEVELOPMENT

A summary of the Group's projects under development in Japan is as follows:

Project	Region	Sites	Gross Capacity (MW)	Net Capacity (MW)	Technology	Contractor	Status	Expected start of construction	Expected start of operations	Contract regime
Mito	Ibaraki	5	9.3	7.9[1]	Single axis	Hitachi	Development	Q3-2014	Q2-2015	20-year FiT
Shizukuishi	Iwate	1	24.7	21.0[1]	Single axis	Hitachi	Development	Q3-2014	Q4-2015	20-year FiT
Total		**6**	**34.0**	**28.9**						

Notes:

(1) Etrion's ownership in the first two projects will be 85%, and HHT will own the remaining 15%.

Mito

Etrion has entered into a development agreement with HHT to build, own and operate a solar park, Mito, with a total capacity of 9.3 MW in the Ibaraki region in central Japan. The electricity will be sold through a local energy utility and injected into the Japanese electricity network under the fixed-price JPY-denominated Feed-in Tariff FiT, already secured for 20 years, equivalent to JPY 40 per kWh ($0.38 per kWh). Once operational, Mito is expected to produce approximately 10 million kWh of solar electricity per year. Construction of the Mito solar park is expected to commence in the third quarter of 2014, subject to Etrion and HHT closing the necessary debt financing and completing the permitting process. The solar project is expected to be operational in the first half of 2015. The total project cost, including costs related to the licenses, permits, development and construction, is $30 million, which is expected to be financed mostly by long-term, non-recourse project debt in local currency from a Japanese financial institution on competitive terms. The remaining equity portion is expected to be funded 85% by Etrion and 15% by HHT, according to their respective ownership interests.

Shizukuishi

Etrion has also entered into a development agreement with HHT to build, own and operate a second solar park, Shizukuishi, with a total capacity of 24.7 MW in the Iwate region in northern Japan. In addition, Etrion has entered into a cooperation agreement with the city of Shizukuishi to assist the Company with the permitting process. The electricity will be sold through a local energy utility and injected into the Japanese electricity network under the fixed-price JPY-denominated FiT, already secured for 20 years, equivalent to JPY 40 per kWh ($0.38 per kWh). Once operational, Shizukuishi is expected to produce approximately 24 million kWh of solar electricity per year. Construction of the Shizukuishi solar park is expected to commence in the second half of 2014, subject to Etrion and HHT closing the necessary debt financing and completing the permitting process. The solar project is expected to be operational in the fourth quarter of 2015. The total estimated project cost, including costs related to the licenses, permits, development and construction, is estimated to be approximately $75 million, which is expected to be financed mostly by long-term, non-recourse project debt in local currency from a Japanese financial institution on competitive terms. The remaining equity portion is expected to be funded 85% by Etrion and 15% by HHT, according to their respective ownership interests.

Etrion is also pursuing other opportunities in Japan to develop and/or acquire additional renewable energy projects, in varying stages of development and expects additional projects to be secured throughout 2014 and beyond.

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, natural gas and nuclear energy. 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 (e.g., Chile). As the cost of solar technology continues to drop, 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 PV cells (i.e., PV energy) and energy generated from solar collectors (i.e., thermal energy or heat).

The key drivers for growth within the renewable energy sector are:

- Increasing global demand for energy due to population and economic growth combined with finite oil and gas reserves;
- Improving technologies and accelerated cost reductions for renewable energy;
- Increased concern about long-term climate change and focus on reducing carbon emissions from energy generation using fossil fuels;
- Political commitment at national and regional levels to support the development and use of renewable energy sources; and
- Attractive government incentives, such as FiT, capital subsidies and tax incentives in markets that have not yet reached grid parity.

ITALIAN MARKET

In 2005, the Italian government introduced a FiT system in order to encourage expansion of solar energy. The FiT system, combined with strong solar irradiation and high electricity prices, has led to significant growth in the installed capacity of solar generating facilities since 2005. The Italian state-owned company, Gestore Servizi Energetici ("GSE"), is responsible for managing the incentive program. However, the actual cost of the incentive is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT entails a 20-year commitment from the government to purchase 100% of solar electricity production at a premium constant rate based on the connection date. Since 2005, the Italian FiT for new projects has been revised to account for the decreasing cost to build solar power plants. A summary of the actual FiT received by the Group for its ground-mounted solar PV power projects connected in 2009, 2010 and 2011 is as follows:

	2011	2010	2009
FiT (€/kWh)	€0.250	€0.346	€0.353
Duration	20 years	20 years	20 years

In addition to the FiT, solar power generators in Italy receive the spot market rate on a per kWh basis. The Market Price during 2013 was approximately €0.06 ($0.08) per kWh of electricity produced.

In January, 2014, the Italian industry ministry approved the decree called "Destinazione Italia" in which a change was introduced to the minimum guaranteed prices that applied to electricity production from solar power plants of up to 1 MW. The previous legislation had a minimum guarantee tariff of €0.08 per kWh and from the date of application of the new decree, the selling price is now based on the higher of the Market Price and the new minimum guaranteed price of €0.038 per kWh. Etrion's management has considered the impact of this legislative change and concluded that it would only be applicable to the electricity produced by the solar plants relating to the Helios ITA and SVE projects, where revenue could be reduced by approximately €0.3 million per year in aggregate. In addition, the decree introduced the option to maintain the current structure of FiT for 20 years or to increase it to 27 years, resulting in a lower FiT, with the possibility of changing the panels with new technology. In this regard, Etrion believes the current term of the FiT is in accordance with Etrion's business plan and economic models and does not anticipate opting for a change.

SOLAR MARKET OVERVIEW (CONTINUED)

CHILEAN MARKET

Chile's energy demand has been growing rapidly since 1990 due to increased power consumption by the mining sector, the country's single largest industry, and large urban areas such as the capital city, Santiago. The increased demand combined with scarce fossil fuel resources has made the country a net importer of energy and module prices are at an all-time low, with a continued drop in price due to technology improvements and scale. The energy sector is largely privatised which enables energy producers to enter into bilateral agreements directly with industrial clients. In addition, the mining growth in Chile is expected to result in $66.4 billion of investment by 2020, with very limited sources of energy to meet demand.

Due to the size of Chile's economy and its well-established capital markets, manufacturers and finance providers are available to support the growing demands for energy consumption. Today, mini-hydro is Chile's primary source of renewable energy. However, there is a large opportunity for growth in the solar sector, especially in the northern part of the country where more than 90 per cent of the electricity consumption is by industrial users, such as mining operations. In September 2013, the Chilean government passed the 20/25 law, requiring 20 per cent of electricity to be generated from renewable sources by 2025 (an increase from the previous "clean energy" law requiring 10 per cent of electricity to be generated from renewable sources by 2024) demonstrating strong support for the development and use of renewable energy sources.

There are two ways in which a solar producer like Etrion can operate in Chile:

- **Through PPAs** – solar power producers can sell the electricity produced through a long-term fixed price take-or pay US dollar-denominated contract with industrial users (such as mining companies). For example, the Group has entered into a 15-year PPA for its Aguas Blancas solar project in northern Chile.
- **Through Spot market/merchant basis –** solar power producers can sell the electricity produced on the spot market, delivered to the relevant electricity network. For example, Project Salvador will initially operate on a merchant basis with the ability to secure future PPAs.

Chile's electricity network is divided into four independent non-connected networks:

- **SING** – Sistema Interconectado del Norte Grande, the northern grid, accounts for approximately 25.4% of total electricity production in Chile. The SING is primarily served by thermoelectric plants.
- **SIC** – Sistema Interconectado Central, the central grid, accounts for approximately 74% of the total electricity production in Chile and serves approximately 90% of its population. The SIC is primarily served by hydroelectric plants, in addition to diesel and thermoelectric plants. Project Salvador, which will initially operate on a spot market/merchant basis, is located along the SIC.
- **Aysen** – located in southern of Chile, this mainly hydro network accounts for approximately 0.2% of total electricity production in Chile.
- **Magallanes** – located in the most southern part of Chile, this hydro network accounts for approximately 0.4% of total electricity production in Chile.

Etrion's business development activities are focused on solar power generation that is carried along the SING and SIC, which provide service to industrial users who are particularly concerned with electricity shortages as a result of strong growth in energy demand. Together, the SING and SIC account for approximately 90% of Chile's total electricity production.

SOLAR MARKET OVERVIEW (CONTINUED)

JAPANESE MARKET

Solar power in Japan has been expanding since the late 1990s. Japan is the world's third largest energy consumer, leading manufacturer of solar panels and is today the fourth largest solar market based on installed capacity. The use of solar power in Japan has accelerated since the FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the repercussions of the Fukushima disaster, which has led to all of the nation's 48 reactors to be idled due to safety concerns. While current renewable energy usage remains low (currently 7.2% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2013, Japan had installed more than 14 GW of solar capacity. Due to the new FIT, an estimated 10GW of generation capacity will be added in 2014.

Japan is a relatively low-risk jurisdiction with an attractive solar FiT program and low financing costs. The government has instituted a strong mandate to increase the use of renewable energy in its energy mix in order to reduce the country's reliance on nuclear power. The government plans to increase power supply from renewable sources from 10% in 2011 to 25-35% by 2030. Japan has a national solar power target of 28 GW by 2020. In order to encourage solar power generation, Japan has implemented an attractive 20-year FiT program of JPY 40 per kWh ($0.38 per kWh) for projects secured by March 31,2013, and JPY 36 per kWh ($0.34 per kWh) for projects secured the following year. The government has also announced various other policy actions including regulatory easing, tax incentives and energy sector reforms.

Etrion and HHT have signed a development agreement and have been working closely together for more than one year to form a joint development team. The partnership is developing a pipeline that is expected to reach at least 100 MW of solar power generation facilities under construction or shovel-ready in Japan by 2015. Both parties have been providing the key functions required to successfully execute projects, such as local content, relationships with utilities and banks, engineering, procurement and construction, non-recourse project finance as well as operations, maintenance and asset management services. Etrion and HHT plan to start construction of the first solar power plant during the remainder of 2014.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets (including Europe and North America) and are a key driver for market growth. The objective of these incentives is to increase investment in renewable energy generation in order to deliver greater efficiency and cost reductions. In addition, as the cost of renewable power generation continues to drop, Etrion will be able to compete with traditional sources of electricity in new markets with abundant renewable resources (i.e., strong solar irradiation) and high electricity prices. Specifically, the Group is currently evaluating opportunities to expand into other regions of South America, where it will enter into long-term PPAs with industrial users or the local utility.

SOLAR MARKET OVERVIEW (CONTINUED)

COMPETITION

There are different sources of competition in the solar market value chain. In the upstream, there are many solar panel suppliers, with significant financial strength and production capacity. The suppliers in the upstream continue to go through adjustments to better plan their capacity to meet demand. Today, Etrion believes the expansion to be more moderate, with continued strong competition for market share. Some of the upstream suppliers are also participating in the downstream market, while others are looking to expand into the downstream in order to increase their ability to market and sell their panels. In the downstream, companies like Etrion find competition at different levels, including competition for financing, land and/or human resources. As the downstream solar market continues to expand, Etrion believes competition will increase as more established utilities and infrastructure funds realize the opportunities ahead for solar. Etrion's strategy, as a downstream player, is generally to only deploy capital to build new solar parks if such investments meet its investment criteria. In the event that potential investments do not meet Etrion's criteria, investment may be delayed until prices drop further (if at all), or abandoned with minimum financial impact. 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. Etrion 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. Depending on the financial climate, the Company may also face competition when seeking to raise equity and/or external debt for planned projects. .

PERFORMANCE DRIVERS

The Company's management has identified the following key drivers of success for its renewable energy operations:

- Stable revenues:
  - Premium price for solar electricity generation under long-term contracts (i.e., FiT regime or PPAs);
  - Abundant renewable resources (i.e., solar irradiation varying less than 10% annually); and
  - Economic growth increasing power demand and wholesale electricity prices.
- Low equipment and operating costs:
  - Cost reduction through increased supply, competition and technological improvements; and
  - Fixed price O&M contracts, including preventive and corrective maintenance.
- Available long-term financing with low cost of debt:
  - Project financing up to 80% using non-recourse project loans; and
  - Long-term hedging arrangements to minimize interest rate risk.

FINANCIAL REVIEW

FINANCIAL RESULTS

FOURTH QUARTER AND YEAR-END SELECTED FINANCIAL INFORMATION

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

	Three months ended December 31		Twelve months ended December 31		
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2011 $'000**
Revenue	**7,761**	**7,385**	**53,911**	**55,662**	**51,910**
Gross profit	**319**	**(1,262)**	**25,431**	**29,736**	**29,762**
Net loss[1]	**(5,666)**	**(7,292)**	**(10,304)**	**(8,458)**	**(26,289)**
Adjustments for non-recurring items:					
- Other income (exchange right)[2]	(4,539)	(4)	(3,919)	(1,375)	-
- Special tax benefit	(1,673)	-	(1,673)	-	-
- Impairment[3]	825	-	825	-	9,672
- Equity-based financing fee[4]	731	-	731	-	3,246
- Liquidation damages	(96)	(51)	(96)	(105)	(3,107)
- Insurance proceeds	-	(178)	-	(178)	-
- EPC cancellation fee	-	-	-	-	185
- Termination and severance payments	-	-	-	62	211
Adjusted net loss before non-recurring items[5]	**(10,418)**	**(7,525)**	**(14,436)**	**(10,054)**	**(16,082)**
Adjustments for non-cash items:					
- Depreciation and amortization	5,374	5,057	20,491	19,896	18,992
- Fair value movements (derivative financial instruments)	(297)	(76)	(408)	225	239
- Share-based payment expense	62	193	507	495	1,105
Adjusted net income before non-recurring and non-cash items[5]	**(5,279)**	**(2,351)**	**6,154**	**10,562**	**4,254**
Net loss	**(5,667)**	**(7,292)**	**(10,304)**	**(8,458)**	**(28,289)**
Adjustments for:					
- Net income tax expense/(recovery)	(2,237)	(767)	2,164	4,045	5,508
- Impairment	-	-	-	-	9,672
- Depreciation and amortization	5,374	5,057	20,491	19,896	18,992
- Share-based payment expense	62	193	507	495	1,105
- Net finance costs	7,878	6,482	27,555	27,253	29,424
- Other expense/(income) (exchange right)	(3,701)	(4)	(3,081)	(1,375)	-
- Income tax paid	(3,909)	(7,114)	(5,758)	(9,961)	(4,934)
- Changes in working capital	16,830	17,969	12,925	8,675	(35,631)
Operating cash flow	**14,630**	**14,524**	**44,499**	**40,570**	**(2,153)**

Notes:

(1) Net loss for the period/year includes both the net loss from continuing operations and the net loss attributable to owners of the Company and non-controlling interests. Basic and diluted loss per share for the years ended December 31, 2013, 2012 and 2011 was $0.05, $0.04 and $0.14, respectively.

(2) During 2013, the net results were positively impacted by non-recurring other income of $3.9 million obtained on the sale of the Venezuelan subsidiary, PFC. During 2012, the net results were positively impacted by non-recurring other income of $1.4 million related to the 10% equity interest in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), previously held by Marco A. Northland, the Company's Chief Executive Officer and Director ("Mr. Northland") in respect of an adjustment to a share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion of Mr. Northland interest in SRH in accordance with *IFRS 2, Share-based Payments* ("IFRS 2").

(3) During 2011, the net results were negatively impacted by a non-recurring impairment loss of $9.7 million associated with the Group's oil and gas investments ($7.9 million) and development pipeline in Italy ($1.8 million).

(4) During 2013 and 2011, the net results were negatively impacted by a non-recurring equity-based financing fee of $0.8 million and $3.2 million, respectively, for shares issued (2.5 million and 6.5 million, respectively) to investment companies associated with the Lundin family.

(5) Adjusted net loss before non-recurring items and adjusted net income before non-recurring and non-cash items are a non-IFRS measure.

	2013 $'000	**2012 $'000**	**2011 $'000**
Non-current assets	401,410	385,166	408,144
Current assets	116,841	67,611	59,432
Total assets	**518,251**	**452,777**	**467,576**
Non-current liabilities	460,209	417,515	425,696
Current liabilities	69,380	49,908	39,318
Total liabilities	**529,589**	**467,423**	**465,014**
Working capital (current assets less current liabilities)	47,461	17,703	20,114
Dividends declared	-	-	-

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

QUARTERLY SELECTED FINANCIAL INFORMATION

Selected consolidated financial information, prepared in accordance with IFRS (presented in $'000, except for per share data, which is presented in $):

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	7,761	19,414	18,414	8,322	7,385	18,341	19,198	10,738
Net loss[1]	(5,666)	1,056	(238)	(5,456)	(7,292)	379	756	(2,301)
Basic and diluted (loss)/earnings per share	0.027	0.005	0.001	0.027	(0.036)	0.002	0.004	(0.012)

Note:

(1) Net loss for the period includes both the net loss from continuing operations and the net loss attributable to owners of the parent company.

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months, resulting in lower revenues in the first and fourth quarter of 2013. The impact of seasonality on the Group's business should decrease over time as the Group secures additional solar power projects in Chile. Revenues are received in Euros and have been translated at the average €/$ exchange rate of the corresponding period and, due to fluctuations in the exchange rates, revenues expressed in US dollars fluctuate in the same direction. The Group's revenues have been also affected by a drop in the Market price associated with the electricity sold at the spot market rate in Italy; however these market revenues represented in average only 15% and 18% of total revenues during 2013 and 2012, respectively.

YEAR-END RESULTS

EBITDA

	2013			2012		
	Renewable energy[1] $'000	Corporate[1] $'000	Total $'000	Renewable energy[1] $'000	Corporate[1] $'000	Total $'000
Revenue	53,911	-	53,911	55,662	-	55,662
Operating expenses[2]	(8,359)	-	(8,359)	(6,320)	-	(6,320)
General and administrative expenses[2]	(1,554)	(6,707)	(8,261)	(1,583)	(6,579)	(8,162)
Other income	(134)	3,215	3,081	403	1,548	1,951
EBITDA[3]	**43,864**	**(3,492)**	**40,372**	**48,162**	**(5,031)**	**43,131**
Non-recurring items[4]:						
- Other income (exchange right)	-	(3,919)	(3,919)	-	(1,375)	(1,375)
- Equity-based financing fee	-	731	731	-	-	-
- Liquidation damages	(96)	-	(96)	(105)	-	(105)
- Insurance proceeds	-	-	-	(178)	-	(178)
Adjusted EBITDA[3]	**43,768**	**(6,680)**	**37,088**	**47,879**	**(6,406)**	**41,473**

Notes:

(1) The renewable energy segment includes only the Group's solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes the Group's passive oil and gas investments and all corporate overhead.

(2) Operating expenses and general and administrative expenses shown here are for the purposes of calculating EBITDA.

(3) EBITDA is a non-IFRS measure and adjusted EBITDA excludes non-recurring items recognized during the relevant year as well as depreciation and amortization expenses.

(4) Refer to "Financial Review – Financial Results" on page 15 for an overview of the non-recurring items that occurred during the relevant year.

Revenue

	2013 $'000	2012 $'000
FiT revenue	45,922	45,626
Market Price revenue	7,989	10,036
Total revenue	**53,911**	**55,662**

Revenues decreased by $1.8 million (3%) during 2013, compared to 2012, due primarily to lower solar irradiation and poor weather conditions in comparison with 2012. In addition, the Group's revenue during 2013 was also adversely impacted by a 14% reduction in the spot price in Italy (from $0.09 per kWh during 2012 to $0.08 per kWh during 2013), only partially offset by the strengthening of the Euro against the US dollar during the period.

FINANCIAL RESULTS (CONTINUED)

YEAR-END RESULTS (CONTINUED)

Operating expenses

	2013 $'000	2012 $'000
Operating and maintenance ("O&M") costs	3,464	1,936
Operating personnel costs	1,032	991
Depreciation and amortization (operating solar power projects)	20,121	19,606
Taxes (other than income tax)	1,880	1,541
Insurance	434	461
Land lease	211	200
Other operating expenses	1,338	1,191
Total operating expenses	**28,480**	**25,926**

Operating expenses increased by $2.5 million (10%) during 2013 compared to 2012 primarily due to additional O&M expenses associated with three of the Group's solar power projects that commenced after the second year of operations, as well as a result of to the application of a "shared-revenue" clause with the O&M contractor, higher property taxes associated with the Group's solar power projects due to a change in the Italian property tax legislation and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar).

The Group's solar power projects (included within property, plant and equipment) and licences and permits (included within intangible assets) are depreciated and amortized over 20 years.

General and administrative expenses

	2013 $'000	2012 $'000
Salaries and benefits	3,042	2,739
Pension costs	136	171
Board of Directors fees	344	240
Share-based payment expense (non-cash item)	507	495
Corporate and professional fees	2,729	2,502
Listing, filing and marketing expenses	334	392
Depreciation and amortization (corporate assets)	370	290
Office lease expenses	477	445
Office, travel and other general and administrative expenses[1]	692	1,178
Total general and administrative expenses	**8,631**	**8,452**

General and administrative expenses increased by $0.1 million (1%) during 2013 compared to 2012 due primarily to foreign exchange rate differences (due to a strengthening of the Euro against the US dollar). This was partially offset by the capitalization of $3.4 million of internally-generated costs within intangible assets directly attributable to the Group's business development activities, a reduction in corporate and professional fees and a reduction in office, travel and other general and administrative expenses.

Disposal of oil and gas investments

In October 2013, Etrion sold all of its shares in its previously wholly-owned subsidiary, PFC, for total cash consideration of $5.0 million, of which $3.0 million was paid at the transaction closing date and the balance of $2.0 million is expected to be received in March 2014. PFC owns 40% of PetroCumarebo and 5% of Baripetrol, two Venezuelan oil and gas companies controlled by Petróleos de Venezuela, the national oil company. The Company's holding in PetroCumarebo and Baripetrol were considered passive investments classified as available for sale. The non-core assets were carried on Etrion's balance sheet at $1.1 million at the disposal date, comprised of available for sale investments of $2.1 million, offset by trade and other payables of $1.0 million (relating to advance dividends received), generating a net gain on disposal of subsidiary of $3.9 million.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

YEAR-END RESULTS (CONTINUED)

Other income

	2013 $'000	2012 $'000
Gain on disposal of subsidiary	3,919	-
Exchange right (non-cash compensation)	-	1,375
Impairment related to business development activities	(825)	-
Right of use	48	44
Liquidation damages	96	105
Insurance proceeds	-	178
Other	(157)	249
Total other income	**3,081**	**1,951**

During 2013, the Group had impairment costs of $0.8 million associated with its business development activities in Chile related to projects it is no longer pursuing, including $0.4 million of technical, legal and permitting costs related to the original Aguas Blancas project structure. In addition during 2013, the Group recognized a gain of $0.1 million (2012: $0.1 million) from liquidation damages from the O&M contractor for one of the Group's solar power projects in Italy due to a loss of revenue during the year.

During 2012, the Group recognized other income of $1.4 million related to the 10% equity interest in the Company's subsidiary, SRH, previously held by Mr. Northland, in respect of an adjustment to a share-based payment expense previously recognized by the Group for the portion of a performance condition not met at conversion of Mr. Northland interest in SRH in accordance with IFRS 2. In addition during 2012, the Group received $0.2 million of insurance proceeds during the year related to theft at one of the Group's solar power projects.

Net finance costs

	2013 $'000	2012 $'000
Interest expense associated with non-recourse project loans[(1)]	19,823	20,131
Interest expense associated with corporate borrowings[(1)]	7,527	7,179
Net fair value movements associated with derivative financial instruments	(408)	225
Equity-based fee	731	-
Foreign exchange	478	(51)
Other net finance costs	(130)	164
Net finance costs	**28,021**	**27,648**

Note:
(1) Interest expense shown here includes transaction costs and is net of any borrowing costs capitalized during the relevant year.

Finance costs increased by $0.4 million (2%) during 2013 compared to 2012 primarily due to the equity-based fee paid in consideration for the $42 million letter of credit issued on behalf the Company and foreign exchange loss during the year offset by a reduction of interest expenses at the project level due to the self-amortizing nature of the Group's non-recourse project loans, the recognition of fair value gains associated with the Group's derivative financial instruments and the recognition of other finance income (due to interest income recognized on an outstanding VAT reimbursement in Italy).

Refer to "Financial Review – Financial Position" on pages 21 and 22 for an overview of the Group's non-recourse project loans and corporate borrowings. All of the Group's non-recourse project loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at December 31, 2013 and 2012.

Income tax expense

	2013 $'000	2012 $'000
Current income tax expense	4,647	6,504
Deferred income tax recovery	(2,483)	(2,459)
Total income tax expenses	**2,164**	**4,045**

In 2013, the Italian government expanded the scope of the "Robin Hood" tax (applicable to companies operating in the energy sector) currently affecting five of the Group's operating solar projects (previously only applicable to one of the Group's operating solar projects), which resulted in an increase to the corporate income tax rate in Italy from 27.5% to 38%. In 2014, the incremental tax associated with the Robin Hood tax legislation will be reduced to 6.5%, reducing the corporate income tax rate to 34% for 2014 and beyond for the solar projects affected by this additional tax.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

YEAR-END RESULTS (CONTINUED)

Income tax expense (continued)

Total income tax expenses decreased by $2.0 million (5%) in 2013, compared to 2012, due to an increase in the deferred income tax recovery, primarily attributable to the higher tax rate, and a decrease to the current income tax expense due to the reduction to the taxable income recognized during the period, partially offset by the higher tax rate.

In addition, during 2013, one of the Group's Italian subsidiaries, Etrion Lazio, fulfilled the legal requirements for the applicability of the "Tremonti Ambienti" regime, as issued and approved by the Italian government whereby the taxable income of small and medium-size enterprises may be reduced by an amount equal to a percentage of investments of environmental nature. As a result, the Group recognized a total tax benefit of $1.7 million, of which $0.8 million related to previous fiscal years and $0.9 million of which is available for use in the future reducing, the net income tax expense of 2013 in comparison with 2012.

The deferred income tax recovery of $2.5 million (2012: $2.5 million) relates to unutilized tax losses related to non-deductible interest carried forward in Italy (i.e., 30% of EBITDA), offset by temporary differences arising between the tax bases of assets and liabilities and their carrying values.

FOURTH QUARTER 2013

The Group recognized a net loss of $5.6 million during the fourth quarter of 2013 compared to a net loss of $7.3 million in the comparable period of 2012, due to the following:

- a gain on the disposal of PFC in October 2013 of $3.9 million (associated with the Group's oil and gas investments in Venezuela);
- an increase to general and administrative expenses of $2.1 million (due to higher compensation benefits and higher headcount in comparison with 2012 and foreign exchange rate movements due to a strengthening of the Euro against the US dollar);
- an increase to net finance costs of $1.4 million (primarily due to interest expenses associated with the Lundin family bridge loan, an equity-based fee paid to the Lundin family and foreign exchange losses in the period);
- the recognition of $0.4 million of impairment losses associated with the Company's business development activities in Chile;
- an increase to revenues of $0.4 million (primarily a result of foreign exchange rate movements due to the strengthening of the Euro against the US dollar); and
- a reduction to net income tax expenses of $1.5 million (primarily due to lower tax losses in the fourth quarter of 2013, resulting in a lower income tax recovery being recognized, and the recognition of special tax credits of $1.7 million for one of the Italian operating projects).

FINANCIAL POSITION

During 2013, the Group's total equity position increased by $2.3 million (16%) from a net liability position of $14.6 million at December 31, 2012, to a net liability position of $12.3 million at December 31, 2013. This was due to the unrealized fair value gains of $11.4 million recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts), share-based payment expenses of $0.5 million, capital increase from stock options exercised of $0.5 million, written call options of $0.1 million and an equity-based fee of $0.8 million, offset by foreign currency translation adjustments of $0.7 million and the $10.3 million net loss recognized by the Group during the period.

The Group's total equity at December 31, 2013, was adversely impacted by unrealized fair value losses of $11.3 million recognized within other reserves associated with the Group's derivative financial instruments that are not expected to be realized (i.e., the interest rate swap contracts will be held until the maturity of the associated non-recourse project loans). Excluding these fair value losses, the Group's total equity at December 31, 2013, would have been negative $1.0 million. In January 2014, Etrion completed a private placement transaction that exceeded management's expectations and raised gross proceeds of approximately $80 million. Accordingly, the Group secured financing for its anticipated growth and development activities and its equity position became positive.

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING

Cash and cash equivalents

At December 31, 2013, the Group had cash and cash equivalents of $94.9 million (December 31, 2012: $37.8 million) and positive working capital (i.e., current assets less current liabilities) of $47.5 million (December 31, 2012: $17.7 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 are not expected to be settled in cash in the next 12 months. After this derivative financial liability that is not expected to be settled in the short-term, the Group's working capital would have been $83.8 million. The Group's cash and cash equivalents at December 31, 2013, included restricted cash of $86.4 million (December 31, 2012: $30.8 million), which relates to cash and cash equivalents held at the project level that is restricted by the lending banks for future repayment of interest and principal and working capital requirements related to the specific project. Restricted cash and cash equivalents can be distributed from the project companies, subject to approval from the lending banks, either through repayment of shareholder loans, payment of interest on shareholder loans or dividend distributions.

In addition, during January 2014, Etrion completed a private placement transaction that exceeded management's expectations and raised gross proceeds of approximately $80 million. Accordingly, an aggregate of 124,633,571 common shares were issued at a price of SEK 4.15 (approximately CAD$0.70) per share for gross proceeds of SEK 517,229,320.

The proceeds from the private placement will be used to: (i) fund Etrion's remaining share of the equity requirements relating to its initial project developments in Chile and Japan; (ii) repay the approximately $18 million shareholder loan outstanding to Lorito Holdings (Guernsey) Limited ("Lorito Guernsey"),a company associated with Etrion's major shareholder, the Lundin family; (iii) fund other business development activities; and (iv) fund general corporate expenses.

In October 2013, Etrion sold all of its shares in its previously wholly-owned subsidiary, PFC, for total cash consideration of $5.0 million, of which $3.0 million was paid at closing and the balance of $2.0 million is expected to be received in March 2014.Refer to 'Financial Review – Financial Position' on page 23 for an overview of the Group's going concern assessment and working capital requirements.

The Group expects to generate sufficient operating cash flows in 2014 from its 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 or debt financing, vendor financing and non-recourse project loans, as required.

At December 31, 2013, the Group's contractual obligations for the next five years and thereafter are as follows:

	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	After five years $'000	Total $'000
EPC contracts	137,845	15,316	-	-	-	-	153,161
Non-recourse project loans repayments	25,338	24,311	24,069	29,896	31,773	266,246	401,633
Corporate borrowings repayments	7,126	82,745	-	-	-	-	89,871
O&M contracts	2,347	2,389	2,431	2,475	2,539	33,317	45,498
Operating leases	593	551	556	561	454	4,830	7,545
Trade and other payables	35,284	-	-	-	-	-	35,284
Total contractual obligations	208,533	125,312	27,056	32,932	34,766	304,393	732,992

Borrowings

All of the Group's borrowings are denominated in Euros, and the minimum principal repayment obligations are as follows:

	2013 $'000	2012 $'000
Less than 1 year	19,787	30,024
Between 1 and 5 years	192,889	139,475
More than 5 years	225,908	230,272
Total borrowings	**438,584**	**399,771**

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

The Group's adjusted net debt position, excluding non-cash items at December 31, 2013 and 2012, is as follows:

	2013 $'000	2012 $'000
Total borrowings (per consolidated financial statements)	**438,584**	**399,771**
Value added tax ("VAT") facilities[1]	(4,448)	(20,054)
Accrued interest[2]	(2,968)	(2,867)
Transaction costs[2]	12,343	10,952
Total borrowings (excluding non-cash items)	**443,511**	**387,802**
Cash and cash equivalents (including restricted cash)	(94,914)	(37,750)
Adjusted net debt	**348,599**	**350,052**

Notes:

(1) VAT facilities are excluded from total borrowings as these facilities are to be repaid using the proceeds from input VAT received from the Italian tax authorities.

(2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

At December 31, 2013 and 2012, the Group was not in breach of any of the imposed operational and financial covenants associated with its non-recourse project loans and corporate borrowings.

Corporate borrowings

Corporate bond

In April 2011, the Company issued €60 million of corporate bonds in the Norwegian bond market with an annual interest rate of 9% and a 4-year maturity. At December 31, 2013, the amount outstanding, including accrued interest and net of transaction costs, was $84.0 million (December 31, 2012: $80.0 million). The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in full or in part) after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At December 31, 2013, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

Lundin family bridge loan

In September 2013, the Group obtained a $42 million unsecured loan facility from Lorito Guernsey , at an annual interest rate of 12% with a 12-month maturity, in order to fund its business development activities in Chile. At December 31, 2013, $18 million were drawn under the loan facility, and in January 2014 the total outstanding amount including interest was repaid.

Non-recourse project loans

The following is a summary of the Group's non-recourse project loans denominated in Euros and in US dollars, translated to US dollars at the closing €/$ exchange rate of 1.38 at December 31, 2013, and 1.34 at December 31, 2012:

				Balance outstanding[1]	
	Capacity (MW)	Financial institution	Maturity	2013 $'000	2012 $'000
Cassiopea	24.0	BIIS[2], Societe Generale and Portigon	March 31, 2024	129,198	140,370
Helios ITA-3	10.0	Natixis, Portigon and Mediocreval	June 30, 2027	43,946	45,317
Centauro	8.8	Barclays	September 30, 2028	50,162	50,736
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2024	37,171	37,214
Etrion Lazio	5.3	Natixis, Portigon and Mediocreval	June 30, 2027	21,110	21,027
SVE	3.0	Centrobanca	June 30, 2028	15,863	16,032
Sagittario	2.6	Natixis, Portigon and Mediocreval	June 30, 2027	8,979	9,008
Salvador[3]	70.0	OPIC	June 1, 2033	48,205	-
Total	**130.0**			**354,634**	**319,704**

Notes:

(1) Balances outstanding include the VAT facilities associated with the loans (to be repaid using the proceeds from input VAT from the Italian tax authorities) and accrued interest net of transaction costs (in accordance with IFRS). According to the facility agreements, the VAT facilities are to be repaid within forty-eight months from the amounts collected from the Italian tax authorities for input VAT on the Group's construction activities.

(2) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).

(3) At December 31, 2013, the Group had $105 million undrawn on the non-recourse project loan facility with OPIC.

FINANCIAL POSITION (CONTINUED)

Non-recourse project loans (continued)

Group's Italian subsidiaries

The non-recourse project loans held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's solar power projects, mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin, ranging from 2.22% to 2.75%. At December 31, 2013 and December 31, 2012, all non-recourse projects loans were hedged through interest rate swap contracts. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into with the GSE and the proceeds from the collection of input VAT accumulated for construction costs.

Group's Chilean subsidiaries

In November 2013, the Group's Chilean subsidiary, Salvador, entered into a senior secured financing agreement with OPIC for an aggregate amount of $155 million (including a contingency tranche of $15 million), in order to finance 70% of the construction costs of Project Salvador. This credit facility has a term of 19.5 years, matures on June, 2033 and bears a contractual fixed interest rate that is set at the time of every drawdown depending on the market conditions plus a margin of 3.4%. The repayment of this facility is secured principally by the proceeds from the sale of electricity in the spot market, once the solar plant is completed and operational. On December 23, 2013, the first drawdown under this credit facility of $50 million was made with a total interest fixed rate of 7.51% and as of December 31, 2013 the Group's subsidiary undrawn amount was $105 million. Total transaction costs related to the first drawdown amounted to $1.8 million.

The agreement related to the facility contains customary representations, warranties, covenants and undertakings, restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The value of the Salvador's fixed assets held as collateral at December 31, 2013 was $22.7 million (2012: $nil).

In November 2013, Salvador also entered into a VAT credit facility agreement denominated in Chilean pesos with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial service company, to finance the related VAT capital disbursements of Project Salvador. This credit facility has a term of 2.3 years, matures on February 2016 and bears a contractual fixed interest rate of 6% plus a margin of 1.5% for a total rate of 7.5% on the total facility principal amount. As of December 31, 2013 the undrawn amounts associated with this facility amounted $35 million.

GOING CONCERN

The Company's consolidated financial statements for the year ended December 31, 2013, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future.

At December 31, 2013, the Group had cash and cash equivalents of $94.9 million (2012: $37.7 million) and positive working capital (i.e., current assets less current liabilities) of $47.5 million (2012: $17.7 million). During 2013, the Group recognized a net loss of $10.3 million (2012: $8.5 million). The Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of this MD&A. In January 2014, Etrion completed a private placement transaction that exceeded management's expectations and raised gross proceeds of approximately $80 million. Accordingly, the Group secured financing for its anticipated growth and development activities.

The Company's consolidated financial statements for the year ended December 31, 2013, do not include the adjustments that would result if the Group was unable to continue as a going concern.

FINANCIAL POSITION (CONTINUED)

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 333,852,657 common shares (March 11, 2013: 205,746,419) and employee options to purchase up to 6,190,000 common shares (March 11, 2013: 7,450,000) issued and outstanding. The options expire at various dates between May 13, 2014, and April 28, 2018, with exercise prices in CAD$ ranging between CAD$0.24 and CAD$1.59 per share.

In October 2013, the Company issued 2,500,000 shares at a deemed price of CAD$0.31 to Lorito Guernsey (a company wholly-owned by Lundin family trusts) in consideration for the provision of a $42 million letter of credit issued on behalf of the Company. Refer to "Financial Review – Related Parties" on page 25 for an overview of this transaction.

During 2013, the Company issued 972,667 common shares as a result of stock options being exercised during the year. No stock options were exercised in 2012.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements in 2013 and 2012.

CAPITAL INVESTMENTS

The Group plans to make capital investments in 2014-2015 in order to develop and build ground-mounted solar PV power plants in Chile and Japan. The following table summarizes the Group's 2014-2015 capital expenditures forecast for projects currently under construction or expected to begin construction in 2014.

	Status	Gross capacity (MW)	Etrion's ownership	Budgeted capital expenditures $'000	Etrion's anticipated contribution $'000
Projects under development/construction in Chile					
Salvador[(1)]	Construction	70.0	70%	177	27
Aguas Blancas	Development	72.0	100%	155	39
Las Luces	Development	27.0	100%	58	15
Projects under development in Japan					
Mito	Development	9.3	85%	30	7
Shizukuishi	Development	24.7	85%	80	14
Total 2014-2015 planned capital expenditure		**198.0**		**500**	**102**

Notes:

(1) Etrion will initially own a 70% interest in Project Salvador, a 70 MW solar power project, resulting in a net capacity of 49 MW to Etrion. Following payback of the original equity contribution (of approximately $42 million), Etrion's ownership will decrease to 50.01%. After 20 years, Etrion's ownership will decrease to 0%.

Etrion finances the development and construction of its projects with a combination of cash and cash equivalents, additional corporate debt or equity financing, non-recourse project loans and vendor financing, as required. In January 2014, Etrion successfully completed an approximately $80 million private placement transaction, partially securing financing for its anticipated growth and development activities in Chile and Japan.

Chilean projects

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of March 12, 2014, the Group had contractual obligations to acquire construction services in the amount of $153 million associated with the construction of Project Salvador, of which 70% is financed through the non-recourse loan already secured from OPIC.

Japanese projects

The total expected Japanese project costs for the 34 MW under development, including costs related to the licenses, permits, development and construction, is estimated to be approximately $105 million, which is expected to be financed mostly by long-term, non-recourse project debt in local currency from a Japanese financial institution on competitive terms. The remaining equity portion is expected to be funded 85% by Etrion and 15% by HHT, according to their respective ownership interests. As of March 12, 2014, the Group had no committed capital expenditures outstanding in connection with engineering, procurement and construction agreements for the Japanese projects.

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 adopted by the Group

There are no IFRS or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued effective for financial years beginning on or after January 1, 2013, that would have a material impact on the Company's consolidated financial statements. The following standards applicable to the Group have been adopted for the first time for the financial year beginning on or after January 1, 2013:

- *Amendment to IAS 1, Financial Statement Presentation:* This amendment requires items presented in other comprehensive income to be grouped on the basis of whether they can potentially be subsequently reclassified to profit or loss (i.e., reclassification adjustments).
- *IAS 19 (revised), Employee Benefits ("IAS 19"):* The revised standard clarifies what is included in annual costs for defined benefit plans, requires actuarial gains and losses to be recognized immediately in comprehensive income and requires additional disclosures regarding the characteristics of the entity's benefit plans, amounts recognized in the financial statements, impacts on future cash flows and risks arising from the defined benefit plans. The Group assessed the full impact of IAS 19 (revised) and concluded that the financial impact of the adoption is a net reduction in the pension liability and a reduction to accumulated deficit of $32.5. Based on IAS 8, the Group concluded that the adoption does not have a significant impact on the annual consolidated financial statements for the year ended December 31, 2013, and consequently has not restated the previous reporting periods. The effects of the adoption were recognized in the statement of comprehensive income in 2013, and the Group has fully adopted all of the new disclosure requirements for the year ended December 31, 2013.
- *IFRS 10, Consolidated Financial Statements ("IFRS 10"):* This standard builds on the existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group assessed the full impact of IFRS 10 and concluded that the adoption does not have a significant impact on the annual consolidated financial statements for the year ended December 31, 2013.
- *IFRS 12, Disclosures of interests in other entities:* This standard includes the disclosures requirements for all forms of interest in other entities, including joint arrangements, associates, structured entities and other off-balance sheet vehicles. The Group assessed the full impact of IFRS 12 and concluded that the adoption does not have a significant impact on the annual consolidated financial statements for the year ended December 31, 2013, although additional disclosure requirements were introduced.
- *IFRS 13, Fair Value Measurement ("IFRS 13"):* This standard aims to improve consistency and reduce complexity by providing precise definitions of fair value, a single source of fair value measurement and disclosure requirements for use across all IFRS. IFRS 13 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group assessed the full impact of IFRS 13 and concluded that the adoption does not have a significant impact on the annual consolidated financial statements for the year ended December 31, 2013, although additional disclosure requirements were introduced.
- *Amendments to IAS 36,* Impairment of assets, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

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 9, Financial Instruments ("IFRS 9"): This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing parts of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The Group has yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015.

New standards and amendments not yet adopted by the Group

The following new standards and amendments, applicable to the Group, issued but not effective for the financial year beginning January 1, 2013, and not early adopted are as follows:

- *IFRIC 21, 'Levies',* sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to payment of a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

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

The Company's management believes the critical accounting policies outlined below and on page 26 affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

IMPAIRMENT OF GOODWILL, PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

The Group assesses goodwill for impairment on an annual basis and property, plant and equipment and intangible assets when indicators of impairment exist. Determining whether goodwill, property, plant and equipment and intangible assets are impaired requires the Company's management to estimate the recoverable amount of the Cash Generating Units ("CGUs") (to which goodwill is allocated) using value-in-use calculations. The value-in-use calculations require the Company's management to estimate the future cash flows expected to arise from the CGUs and to select a suitable discount rate in order to calculate the net present value. The value-in-use calculations are based on the forecasted EBITDA over the expected life (i.e., up to 20 years, representing the term of the electricity sale agreements) derived from the business models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These business models include various assumptions such as future market prices for solar energy, the fixed rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2013, the discount rate used was 7.3% (2012: 7.7%), representing the Group's pre-tax weighted average cost of capital, and no growth rate was applied (as the Group's operating solar power projects are operating at full capacity). A 2% increase to the Group's discount rate (to 9.3%) would have resulted in an impairment loss of $3.6 million being recognized in 2013. The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2013, no impairment was provided in relation to the Group's previously recognized goodwill, property, plant and equipment and intangible assets.

ACQUISITIONS

The acquisition of subsidiaries is accounted for using the acquisition method of accounting in accordance with IFRS 3, which requires measuring the assets acquired and liabilities assumed at their fair values at the date of acquisition. The Company's management estimates the fair value of the assets acquired and liabilities assumed using business models developed by the Company's management used to value the solar power projects, which include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. These changes could affect the fair value of the assets acquired and liabilities assumed and the amount of goodwill or negative goodwill recognized in the financial statements. The Group did not acquire any subsidiaries during 2013.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

FAIR VALUE OF FINANCIAL AND DERIVATIVE FINANCIAL INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management uses judgement to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. For financial instruments carried at amortized cost, with a stated maturity, for which a quoted market price is not available, the estimated fair value is based on the expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments normally approximates their carrying value. At December 31, 2013, the Group recognized financial liabilities of $36.1 million (2012: $50.2 million) associated with its derivative financial instruments.

DEFERRED INCOME TAX ASSETS

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with *IAS 12, Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the business models used to value the solar power projects. Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2013, the Group recognized $6.5 million (2012: $7.5 million) of deferred income tax assets.

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 owned personally and through various investments companies approximately 24.3% of the Company's share capital. 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 year ended December 31, 2013 are summarized below and on page 26.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives technical and legal services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a director of the Company. During 2013, the Group incurred general and administrative expenses relating to the technical and legal services from Lundin Services BV of $31,000 (2012: $37,000). At December 31, 2013, the Group had $5,000 (2012: $nil) outstanding in relation to these expenses.

In April 2011, Lundin Services BV subscribed for €8.9 million of the corporate bonds issued by the Company. In April and May of 2012, Lundin Services BV sold €1.3 million of the corporate bonds, reducing its position to €7.6 million at December 31, 2013 (2012: €7.6 million). During 2013, the Group recognized $0.9 million (2012: $0.8 million) of interest expense and $25,000 (2012: $22,000) of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV.

Lundin family

Corporate bond

In April 2011, investment companies associated with the Lundin family subscribed for €15 million of the corporate bonds issued by the Company. During 2013, the Group recognized $1.8 million (2012: $1.7 million) of interest expense and $49,000 (2012: $43,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family. At December 31, 2013, the Lundin family continued to hold €15 million of the corporate bonds issued by the Company.

Lundin family bridge Loan and short term loan

In September 2013, the Group obtained a $42 million unsecured loan facility from Lorito Guernsey, at an annual interest rate of 12% with a 12-month maturity, in order to fund its business development activities in Chile. At

REALTED PARTIES (CONTINUED)

RELATED PARTY TRANSACTIONS (CONTINUED)

December 31, 2013, $18 million was drawn under the loan facility, and in January 2014 the total outstanding amount including interest was repaid.

In December 2012, the Group received $1.5 million from the Lundin family, in order to fund certain business development activities. The short-term loan was non-interest bearing and was fully repaid in February 2013.

Letter of credit

In October 2013, in connection with the Project Salvador transaction, Lorito Guernsey, arranged for the issuance of a $42 million letter of credit to Total on behalf of Etrion for total consideration of 2,500,000 common shares in Etrion. As Etrion funds its equity portion of Project Salvador, the availability under the letter of credit will be reduced accordingly. As a result, the Lundin family increased their interest by approximately 0.9% in the Company, collectively held through various trusts.

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, Mr. Northland and the Chief Financial Officer, Garrett Soden.

During 2013, the Group recognized $2.5 million (2012: $1.6 million) within general and administrative expenses associated with the remuneration of key management personnel related to salaries and short-term benefits, termination benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At December 31, 2013, the Group had $1.4 million outstanding to key management personnel for 2013 bonus compensation and fees payable to the Board of Directors. At December 31, 2012, the Group had $0.2 million outstanding to key management personnel for 2012 bonus compensation and fees payable to the Board of Director.

Mr. Northland's exchange right

During 2012, upon the conversion by Mr. Northland of his 10% equity interest in the Company's subsidiary, SRH, for 18,210,299 common shares in the Company, an adjustment was made to release the previously recognized financial liability and contributed surplus of $5.3 million and $4.7 million, respectively, increasing the Group's share capital by $10 million. In addition, the Group recognized other income of $1.4 million during the three months ended March 31, 2012, in respect of an adjustment to the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion of Mr. Northland interest in SRH in accordance with IFRS 2, Share-based Payments.

FINANCIAL INSTRUMENTS

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, cash flow interest rate risk and 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 risk exposures (i.e., interest rate swap contracts). However, the Group has not entered into any foreign exchange rate hedges as the effects of foreign exchange rate movements have an insignificant impact on the Group's annual and quarterly results, due to the fact that monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currency.

The Company's management carries out risk management procedures with guidance from the Audit Committee. The Board of Directors also provides regular guidance on the Group's overall risk management procedures.

Refer to the Company's consolidated financial statements for the year ended December 31, 2013, for further details relating to the Group's financial risk management.

FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments at December 31, 2013 and 2012 is as follows:

	2013 $'000	2012 $'000
Derivative financial liabilities:		
Interest rate swap contracts		
- Current portion	9,110	9,662
- Non-current portion	27,019	40,558
Total derivative financial liabilities	**36,129**	**50,220**

Note:

(1) All of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting at December 31, 2013 and 2012.

INTEREST RATE SWAP CONTRACTS CLASSIFIED AS CASH FLOW HEDGES

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to hedge the risk of variations in the Group's cash flows as a result of floating interest rates on the Group's non-recourse project loans. At December 31, 2013 and 2012, all of the Group's derivative financial instruments were classified as cash flow hedges, qualifying for hedge accounting, in accordance with *IAS 39, Financial Instruments: Recognition and Measurement*. As a result, any gain or loss associated with changes to the fair value (net of tax) of these derivative financial instruments is recognized within other reserves within equity with the ineffective portion of these derivative financial instruments included within finance income/costs.

At December 31, 2013, the notional amount of the Group's interest rate swap contracts was $304.5 million (2012: $300.5 million), all of which was denominated in Euros. Due to a higher than forecasted Euribor curve in comparison with projections at the end of 2012, the fair market value of the instruments at December 31, 2013, decreased to a liability position of $36.1 million (2012: $50.2 million).

The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor interest rate forward yield curve and an appropriate discount factor. Refer to 'Business Review – Financial Results' on page 15 for further information on the finance income/costs recognized by the Group during the periods.

At December 31, 2013 and 2012, 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 transferred to finance income/costs). However, during 2012, due to the de-designation of one of the Group's interest rate swap contracts, a net fair value gain of $0.3 million was recognized within finance income/costs.

In addition, during 2013, the Group recognized a fair value gain of $11.1 million (2012: fair value loss of $12.8 million) within other reserves associated with the effective portion of the Group's interest rate swap contracts and a net fair value gain of $0.9 million (2012: $3,000) within finance income/costs related to the ineffective portion.

WRITTEN CALL OPTIONS

According to the terms of the shareholder agreement relating to Project Salvador, Etrion will initially own a 70% interest in Project Salvador, and following payback of the original equity contribution (of approximately $42 million), Etrion's ownership will decrease to 50.01% and 0% as of February 2035. Under the terms of the shareholders agreement, Etrion is deemed to be the underwriter of two call options in relation to its 70% shareholding in Salvador. The call options will give the right but not the obligation to Total Energie and Solventus to acquire from Etrion all of its shares in Salvador in two separate transactions for a total consideration of $2 during the life of the solar project. As per the contract, the first call option will become exercisable once Etrion has recovered its initial investment of $42 million, expected by June 30, 2019, depending on spot price assumptions, and the second call option will become exercisable at the end of the life of the contract on February 28, 2035. The fair value at grant of the first call option was $1.8 million and will be expensed during the vesting period through the statement of comprehensive income using the graded method. Upon exercise, Etrion will release the value of the derivative financial instrument against the carrying value of its equity investment in Salvador with cash received recognized as other income. The fair value of the options has been calculated using the Black-Scholes model with a deemed stock price of $20.17, a strike price per option of $nil, volatility of 106.51% and a risk-free rate of 1.30%. The fair value of the second option has been calculated as zero as the dividend yield is higher than 100%.

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. 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., corporate debt, equity financing, vendor financing 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 expenditure. 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 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 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, price risk and credit risk. The Company's management seeks to minimize the effects of these risks 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

LICENSES 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 the current and future economic or 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 to continue operating in current markets. Specifically, reductions in the FiT payable to the Group on its existing solar power projects in Italy as well as other legislative or regulatory changes could impact the profitability of the Group's future solar power projects. Refer to "Business Review – Solar Market Overview" on pages 11, 12 and 13 for an overview of the renewable energy market.

NON-FINANCIAL RISKS (CONTINUED)

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. Etrion 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

Etrion is not exposed to significant commodity price risk as the majority of its current revenues generated by the Company's solar power projects are secured by long-term contracts based on a FiT. However, in Chile, the Company is exposed to price risks associated with the electricity sold at the spot rate, which may be subject to change based on competition, economic, political and other conditions.

A decline in the costs of other sources of electricity, such as fossil fuels or nuclear power, could reduce the wholesale price of electricity. A significant amount of new electricity generation capacity becoming available could also reduce the wholesale price of electricity. Broader regulatory changes to the electricity trading market (such as changes to integration of transmission allocation and changes to energy trading and transmission charging) could have an impact on electricity prices. A decline in the market price of electricity could materially adversely affect the price of electricity generated by renewable assets in Chile and thus the Company's business, financial position, results of operations and business prospects.

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 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 Europe 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: Etrion's plans for future growth and development activities (including, but not limited to, the anticipated size and timing of additional solar projects in Japan and Chile and expansion into other areas in South America, and expectations relating to the timing of construction and operation for various projects); expectations relating to cash flow in 2014 and 2015 and the expected sufficiency and uses thereof; 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; expectations relating to grid parity; the expected recovery by Etrion of its initial investment in Project Salvador and the anticipated timing thereof; the expected key drivers for growth; expectations with respect to future mining growth in Chile; the anticipated use of the proceeds from the private placement that was completed in January 2014; the expected receipt by the Company of the balance of the consideration for the sale of the Company's interest in PFC and the timing thereof; and future dividend distributions. 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; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Company's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; the lack of confirmation or reduction of the applicable FiT and the Market Price for electricity sales; management's expectations with respect to the impact of the decree approved in January 2014 by the Italian industry ministry; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FiT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company 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; opportunities available to or pursued by the Company; and other factors, many of which are beyond the Company'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. Such assumptions include, but are not limited to: confirmation of the applicable FiT and spot market price for electricity sales; the ability of the Company to obtain required permits in a timely fashion and project financing on economic terms; the ability of the Company to identify and acquire additional solar power projects; expectations with respect to the declining impact of seasonality on the Company's business and assumptions relating to management's assessment of the decree approved in January 2014 by the Italian industry ministry. 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**.