

## PRESS RELEASE

**Etrion Releases Second Quarter 2015 Results**

August 12, 2015, Geneva, Switzerland – Etrion Corporation (“Etrion” or the “Company”) (TSX: ETX) (OMX: ETX), a solar independent power producer, today released its condensed consolidated interim financial statements and related management’s discussion and analysis (“MD&A”) for the three and six months ended June 30, 2015.

**Operational Highlights**

- Production Italy: Produced 36.7 million (2014: 35.4 million) and 53.7 million (2014: 51.9 million) kilowatt-hours (“kWh”) of solar electricity during the three and six months ended June 30, 2015, respectively, from the Company’s 100%-owned 60 megawatt (“MW”) portfolio comprising 17 solar power plants in Italy.
- Production Chile: Produced 35.1 million (2014: nil) and 76.7 million (2014: nil) kWh of solar electricity during the three and six months ended June 30, 2015, respectively, from the Company’s 70%-owned 70 MW Salvador solar power plant in Chile.
- Production Japan: Produced 0.6 million (2014: nil) and 0.6 million (2014: nil) kWh of solar electricity during the three and six months ended June 30, 2015, respectively, from the Company’s 87%-owned 9.3 MW Mito solar power project in Japan. The first three sites of the Mito solar project were completed in the second quarter of 2015. The last two sites were completed in July and August 2015.

**Financial Highlights**

- Revenue: Generated revenues of US\$17.1 million (2014: US\$17.8 million) and US\$27.4 million (2014: US\$26.1 million) during the three and six months ended June 30, 2015, respectively.
- EBITDA: Recognized earnings before interest, taxes, depreciation and amortization (“EBITDA”) of US\$9.2 million (2014: US\$14.2 million) and US\$14.7 million (US\$18.0 million) during the three and six months ended June 30, 2015, respectively.
- Cash and Working Capital: Closed the second quarter of 2015 with a cash balance of US\$69.1 million (December 2014: US\$95.5 million) and positive working capital of US\$59.7 million (December 2014: US\$36.5 million).

**Management Comments**

Marco A. Northland, the Company’s Chief Executive Officer, commented, “We are pleased to recognize our first electricity sales from Japan in the second quarter of 2015. We reported slightly lower revenue and EBITDA than last year due to lower prices in Italy, the lower EUR/USD exchange rate and extraordinary impairment charges in Chile, but we look forward to adding more installed capacity in Japan over the next 12 months.”

**Results**

During the three months ended June 30, 2015, Etrion reported a net loss of US\$10.1 million (loss per share of US\$0.028) compared to a net loss of US\$1.4 million (loss per share of US\$0.005) for the comparable period in 2014. Despite negative consolidated net results, primarily attributable to lower electricity prices, exchange rates and the impairment of US\$2.5 million in capitalized development costs in Chile, the Company reported a gross profit of US\$8.5 million (2014: US\$10.6 million) and generated adjusted operating cash flow of US\$11.8 million (2014: US\$13.8 million).

During the six months ended June 30, 2015, Etrion reported a net loss of US\$12.5 million (loss per share of US\$0.032) compared to a net loss of US\$9.6 million (loss per share of US\$0.031) for the comparable period in 2014. The net results in the second half of 2015 were adversely impacted by lower electricity prices, exchange rates and the impairment of capitalized development costs in Chile.

### **Earnings Call**

A conference call/webcast to present the Company's second quarter 2015 results will be held on Wednesday, August 12, 2015, at 10:00 a.m. Eastern Daylight Time (EDT) / 4:00 p.m. Central European Summer Time (CEST).

#### Dial-in details:

North America: +1-647-788-4919 / Toll Free: +1-877-291-4570 / Sweden Toll Free: 02-079-4343

#### Webcast:

A webcast will be available at <http://www.investorcalendar.com/IC/CEPage.asp?ID=173522>

The earnings call presentation, along with the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015, and related management's discussion and analysis will be available on the Company's website ([www.etrion.com](http://www.etrion.com)).

A replay of the telephone conference will be available until September 12, 2015.

#### Replay dial-in details:

North America: +1-416-621-4642 / Toll Free: +1-800-585-8367

Pass code for replay: 61914412

### **About Etrion**

Etrion Corporation is an independent power producer that develops, builds, owns and operates utility-scale solar power generation plants. The Company owns 139 MW of installed solar capacity in Italy, Chile and Japan. Etrion has 25 MW of solar projects under construction in Japan and is also actively developing greenfield solar power projects in Japan and Chile. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden under ticker symbol "ETX". Etrion's largest shareholder is the Lundin family, which owns approximately 24% of the Company's shares directly and through various trusts.

For additional information, please visit the Company's website at [www.etrion.com](http://www.etrion.com) or contact:

Pamela Chouamier – Investor Relations

Telephone: +41 (22) 715 20 90

*Note: The capacity of power plants in this release is described in approximate megawatts on a direct current ("DC") basis, also referred to as megawatt-peak ("MWp").*

*Etrion discloses the information provided herein pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication in Sweden at 08:05 Central European Time on August 12, 2015.*

*Non-IFRS Measures:*

*This press release includes non-IFRS measures not defined under IFRS, specifically EBITDA and adjusted operating cash flow. Non-IFRS measures have no standardized meaning prescribed under IFRS and therefore such measures may not be comparable with those used by other companies.*

*EBITDA is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements. 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. In addition, adjusted operating cash flow is used by investors to compare cash flows from operating activities without the effects of certain volatile items that can positively or negatively affect changes in working capital such as value added taxes paid during construction of the Company's solar power plants as they are viewed as not directly related to a company's operating performance. Refer to Etrion's MD&A for the three and six months period ended June 30, 2015, for a reconciliation of EBITDA and adjusted operating cash flow reported during the period.*

*Forward-Looking Information:*

*This press release contains certain "forward-looking information". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to solar electricity revenue which with respect to the Company's Italian projects is subject to confirmation of both the applicable feed-in-tariff ("FiT") to which the Company is entitled by the state-owned company Gestore Servizi Energetici and the applicable spot market price by the local utilities for electricity sales to the national grid and the Company's anticipated development pipeline in Japan and Chile) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company as well as certain assumptions including, without limitation, confirmation of the applicable FiT and spot market price for electricity sales in Italy, the ability of the Company to execute on its development pipeline in Japan and Chile on economic terms and in a timely manner. Forward-looking information is subject to a number of significant risks and uncertainties and other factors that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to, the lack of confirmation or reduction of the applicable FiT and the spot market price for electricity sales by the designated Italian entities, the risk that the Company may not be able to obtain all applicable permits for the development of projects in Japan and Chile and the associated project financing on economic terms for the development of such projects and the risk of unforeseen delays in the development and construction of such projects.*

*Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.*



Q2

# **ETRION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
THREE AND SIX MONTHS ENDED JUNE 30, 2015

etrion

**Etrion is an independent power producer that develops, builds, owns and operates utility-scale solar power generation plants.**



Etrion owns 139 MW of gross installed solar capacity in Italy, Chile and Japan. Etrion also has 25 MW of gross solar projects under construction in Japan and is actively developing greenfield solar power projects in Japan and Chile.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of August 11, 2015, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2015. Financial information is reported in United States of America dollars ("\$" or "USD"). However, as the Group operates in Europe, the Americas and Asia, certain financial information has also been reported in Euros ("€"), Canadian dollars ("CAD\$") and Japanese yen ("¥"). Exchange rates for the relevant currencies of the Group with respect to the US dollar and the Euro are as follows:

	€/¥	\$/¥	€/£
Closing rate at June 30, 2015	136.54	122.25	1.1189
Closing rate at June 30, 2014	138.42	101.39	1.3658
Six months average rate June 30, 2015	134.17	120.21	1.1159
Six months average rate June 30, 2014	140.40	102.45	1.3705

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.

## NON-IFRS FINANCIAL MEASURES AND FORWARD-LOOKING STATEMENTS

The terms "adjusted net income (loss)", earnings before interest, tax, depreciation and amortization ("EBITDA"), "adjusted EBITDA", and "adjusted operating cash flow" are used throughout this MD&A, are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. Adjusted net income (loss) is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income (loss) as reconciled on page 16). EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measure is net income (loss) as reconciled on page 16). In addition, adjusted operating cash flow is used by investors to compare cash flows from operating activities without the effects of certain volatile items that can positively or negatively affect changes in working capital and are viewed as not directly related to a company's operating performance. 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 25.

## SECOND QUARTER 2015 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- Produced 36.7 million kilowatt-hours (“kWh”) of solar electricity from the Company’s 100%-owned 60 MW portfolio comprising 17 solar power plants in Italy.
- Produced 35.1 million kWh of solar electricity from the Company’s 70%-owned 70 MW Salvador solar power plant in Chile (“Project Salvador”).
- Connected the Mito first three solar park sites of the Mito solar project in Japan, representing 6.7 MW of the 9.3 MW total planned capacity. The last two sites were connected in July and August 2015.
- Produced 0.6 million kWh of solar electricity from the Company’s 87%-owned 9.3 MW Mito solar power plant in Japan.

### FINANCIAL HIGHLIGHTS

- Generated revenues and project-level EBITDA of \$17.1 million and \$13.9 million, respectively, from the Company’s 21 solar power plants in Italy, Chile and Japan.
- Closed the second quarter of 2015 with a cash balance of \$69.1 million, \$26.5 million of which was unrestricted and held at the parent level, and working capital of \$59.7 million.

USD thousands (unless otherwise stated)	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Electricity production (MWh)</b>	72,501	35,407	131,028	51,865
<b>Financial results and cash flow</b>				
Revenues	17,060	17,764	27,447	26,131
Gross profit	8,475	10,641	10,854	11,509
EBITDA	9,237	14,217	14,741	17,990
Adjusted EBITDA	11,705	14,217	17,209	18,794
Adjusted EBITDA margin (%)	69%	80%	63%	72%
Net loss	(10,057)	(1,434)	(12,540)	(9,642)
Adjusted net (loss) income	(1,386)	5,206	2,004	4,325
Project cash distributions	1,982	-	3,371	3,956
Cash flow (used in) from operations	(2,534)	15,160	(10,609)	752
Adjusted operating cash flow	11,762	13,790	17,357	17,463

	June 30 2015	December 31 2014
<b>Balance sheet</b>		
Total assets	641,830	668,112
Operational assets	480,657	307,123
Unrestricted cash at parent level	26,554	33,886
Restricted cash at project level	42,509	61,643
Working capital	59,680	36,450
Net debt on a cash basis	439,106	413,860

## BUSINESS REVIEW

### BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns 139 MW of gross installed solar capacity in Italy, Chile and Japan. Etrion has 25 MW of gross solar projects under construction in Japan and is completing its development in Chile and advancing its pipeline in Japan.

With projects in Italy, Chile and Japan, Etrion has a diversified solar power generation platform in terms of both revenues and geography. Revenues are expected from Feed-in-Tariff (“FiT”) contracts, long-term power purchase agreements (“PPAs”) and the spot/merchant market. Etrion’s geographic footprint covers Europe, the Americas and Asia with counter-seasonal revenues expected from the northern/southern hemisphere profile. Etrion’s strategy is focused on:

- **Geographic Diversity** – Entering new regions with high electricity prices, robust 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 the spot/merchant market.
- **Yield** – Creating a platform with the option to declare dividends to shareholders.
- **Growth** – Building a large pipeline of renewable energy development projects through key partnerships.

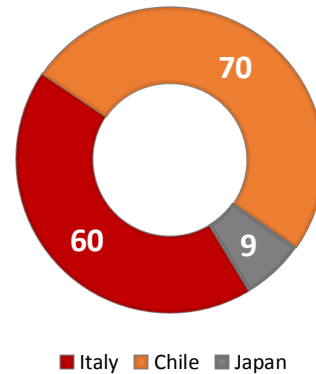
The Company’s business model focuses on six key drivers for success:

- (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 (“NASDAQ OMX”). Etrion has a corporate bond listed on the Oslo stock exchange in Norway. Etrion is based in Geneva, Switzerland with offices in Miami, United States of America; Rome, Italy; Tokyo, Japan and Santiago, Chile. As of the date of this MD&A, the Company has a total 35 employees working throughout these five jurisdictions.

As of the date of this MD&A, Etrion’s current operating projects in Italy, Chile and Japan constitute a diversified solar power generation platform in terms of both revenues and geography.

GROSS INSTALLED MW BY COUNTRY





## OPERATIONS REVIEW

### OPERATIONS REVIEW – THREE MONTHS ENDED JUNE 30

USD thousands (unless otherwise stated)	Q2-15				Q2-14			
	Italy	Chile	Japan	Total	Italy	Chile	Japan	Total
<b>Operational data</b>								
Electricity production (MWh)	36,759	35,111	631	<b>72,501</b>	35,407	-	-	<b>35,407</b>
<b>Operational performance</b>								
<b>Electricity revenue</b>								
Feed-in-Tariff	12,465	-	210	<b>12,675</b>	16,061	-	-	<b>16,061</b>
Market price	1,535	2,850	-	<b>4,385</b>	1,703	-	-	<b>1,703</b>
<b>Total revenues</b>	<b>14,000</b>	<b>2,850</b>	<b>210</b>	<b>17,060</b>	<b>17,764</b>	-	-	<b>17,764</b>
<b>Project-level EBITDA</b>	<b>12,298</b>	<b>1,490</b>	<b>126</b>	<b>13,914</b>	<b>15,674</b>	-	-	<b>15,674</b>
<b>Project-level EBITDA margin (%)</b>	<b>88%</b>	<b>52%</b>	<b>60%</b>	<b>82%</b>	<b>88%</b>	-	-	<b>88%</b>
<b>Net income (loss)</b>	<b>2,965</b>	<b>(3,593)</b>	<b>69</b>	<b>(559)</b>	<b>3,149</b>	-	-	<b>3,149</b>

## OPERATING PERFORMANCE

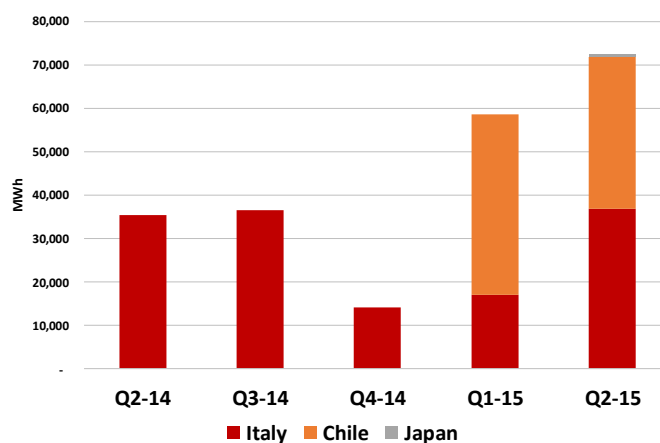
### Power Production

During Q2-15, the Group produced 105% more electricity compared to the same period in 2014, due primarily to better solar irradiation in Italy, the addition of Project Salvador in Chile and 6.7 MW of the 9.3 MW Mito project in Japan.

Project Salvador and the first three solar park sites of the Mito project became fully operational on January 10, 2015, and during the second quarter of 2015, respectively.

Solar-related production is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months. However, on an annual basis, solar irradiation is expected to vary less than 10% year-over-year.

The historical quarterly electricity production of the Group based on megawatt-hours of electricity produced is shown as follows, including the impact of seasonality and production from its newly added solar projects in Chile and Japan:



Etrion's solar power plants are expected to produce more than 300 million kWh on an annual basis.

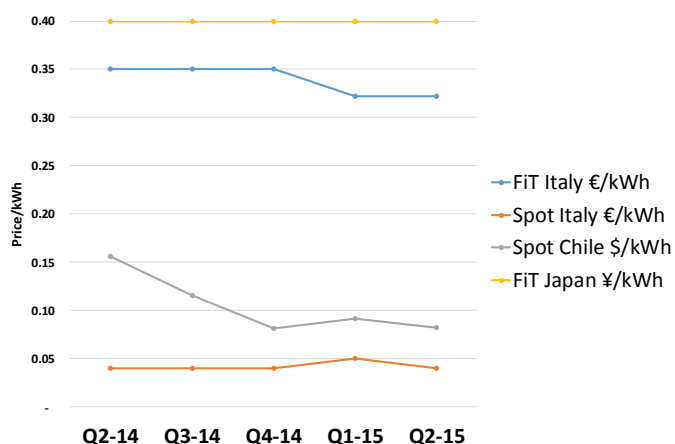
## Electricity prices

The Group receives revenues denominated in Euros, USDs and Japanese yen from its operating solar projects. Revenues come from two components: (1) the FiT system, whereby a premium constant price is received for each kWh of electricity produced through a 20-year contract with the Italian or the Japanese public utility, Tokyo Electric Power Company (“TEPCO”), as applicable, and (2) the spot market price (“Market Price”) received for each kWh of electricity evacuated in Chile and Italy.

During Q2-15, the FiT in Italy decreased 8% compared to the same period in 2014 due to the FiT reduction (see page 11), and the average Market Price increased by approximately 8.0% as the Group received an average of €0.040 per kWh during the second quarter of 2015, compared to €0.037 per kWh during the same period in 2014.

In Chile, the average Market Price received by the Group during Q2-15 for Project Salvador was \$0.081 per kWh. In Japan, the Group started receiving the FiT of ¥40 per kWh applicable to the first three solar park sites of the Mito project connected in Q2-15.

The chart below shows the evolution of average electricity reference prices applicable to the solar power plants operated by the Group during the last four quarters:



The decrease in the FiT price in Italy was due to the 8% reduction introduced by the Italian government in 2014 and effective January 1, 2015.

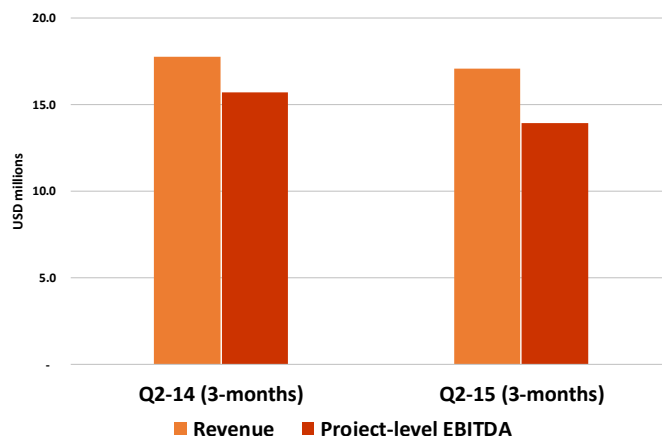
The slight increase in the average Market Price in Italy during 2015 is mainly due to a marginal increase in the internal electricity demand driven by economic recovery and general economic activity increase.

The volatility in the Market Price in Chile affecting Project Salvador is primarily due to the Sistema Interconectado Central (“SIC”) electricity network congestion as a result of the increase in the electricity supply that is expected to continue until 2017 when the country’s two main electricity networks are interconnected and also due to a decrease in demand in the industrial and mining sector driven by low commodity prices.

In Q2-15, the Group’s revenue from spot market prices represented 26% of the total revenue.

## Revenue and project-level EBITDA

During Q2-15, the Group’s revenue and project-level EBITDA decreased 4% and 11%, respectively, compared to the same period in 2014, mainly as a result of the 8% FiT reduction in Italy, and the 22.8% decrease of the average Euro/USD exchange rate, partially offset by the incremental electricity production from Project Salvador in Chile and 6.7 MW of the 9.3 MW Mito project in Japan.

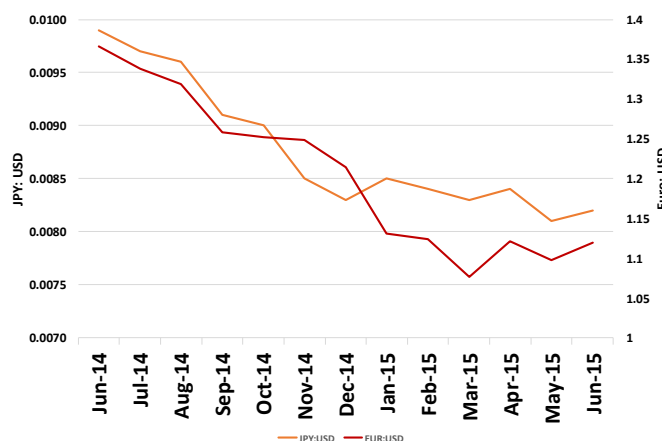


However, during Q2-15, project-level EBITDA was positively impacted by management’s continued efforts to reduce operating cost and streamline the operations in Italy.

Revenues from Italy and Japan are received in Euros and in Japanese yen, respectively, and have been translated to the Group’s functional and presentation currency at the applicable €/¥ and €//\$ average rates.

The Company does not enter into forward contracts to hedge against changes in the exchange rate of the Euro or Japanese yen versus the USD because the functional currency of the Group is the Euro, and the Group is not expecting to make cash distributions in the near term from Japan. Therefore, changes in the applicable exchange rates have an impact in the accounting conversion process of the income statement and the Group’s reported figures in USD but have no effect on the Group’s project-level cash distributions.

The movements of the Euro and the Japanese yen exchange rates versus the USD are represented in the chart below, where the approximately 18% devaluation year-over-year has affected the reported Revenue and EBITDA figures in Q2-15 compared to Q2-14.



## OPERATIONS REVIEW – SIX MONTHS ENDED JUNE 30

USD thousands (unless otherwise stated)	Q2-15				Q2-14			
	Italy	Chile	Japan	Total	Italy	Chile	Japan	Total
<b>Operational data</b>								
Electricity production (MWh)	53,725	76,672	631	<b>131,028</b>	51,865	-	-	<b>51,865</b>
<b>Operational performance</b>								
<b>Electricity revenue</b>								
Feed-in-Tariff	18,269	-	210	<b>18,479</b>	23,470	-	-	<b>23,470</b>
Market price	2,494	6,474	-	<b>8,968</b>	2,661	-	-	<b>2,661</b>
<b>Total revenues</b>	<b>20,763</b>	<b>6,474</b>	<b>210</b>	<b>27,447</b>	<b>26,131</b>	-	-	<b>26,131</b>
<b>Project-level EBITDA</b>	<b>17,141</b>	<b>4,171</b>	<b>108</b>	<b>21,420</b>	<b>21,414</b>	-	-	<b>21,414</b>
<b>Project-level EBITDA margin (%)</b>	<b>83%</b>	<b>64%</b>	<b>51%</b>	<b>78%</b>	<b>82%</b>	-	-	<b>82%</b>
<b>Net income (loss)</b>	<b>275</b>	<b>(5,689)</b>	<b>52</b>	<b>(5,362)</b>	<b>109</b>	-	-	<b>109</b>

### OPERATING PERFORMANCE

#### Power Production and Electricity Prices

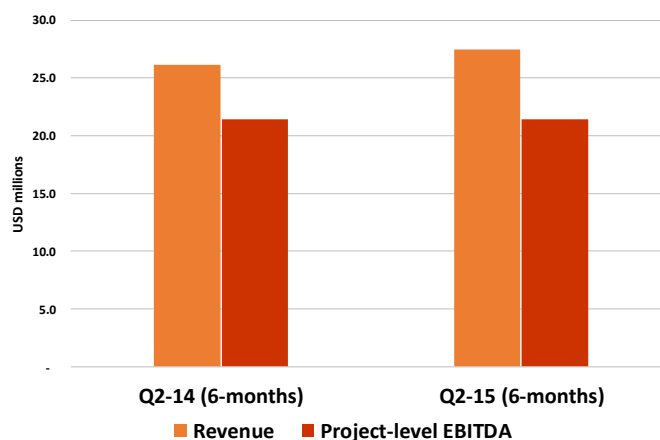
During the first half of 2015, the Group produced 153% more electricity compared to the same period of 2014, due primarily to better solar irradiation in Italy, the addition of Project Salvador and 6.7 MW of the 9.3 MW Mito project. Project Salvador and the first three solar park sites of the Mito project became fully operational on January 10, 2015 and during Q2-15, respectively.

During the first half of 2015, the FiT in Italy decreased 8% compared to the same period in 2014 due to the FiT reduction, and the average Market Price in Italy increased by approximately 5% as the Group received an average of €0.042 per kWh during the second half of 2015, compared to €0.040 per kWh during the same period in 2014.

In Chile, the average Market Price received by the Group in the first half of 2015 for Project Salvador was \$0.084 per kWh. In Japan, the Group started receiving the FiT of ¥40 per kWh applicable to Mito's first three solar park sites connected during Q2-15.

#### Revenue and project-level EBITDA

During the first half of 2015, the Group's revenue and EBITDA increased 5% and 0%, respectively, compared to the same period in 2014, mainly as a result of the incremental electricity production added from Project Salvador in Chile and 6.7 MW of the 9.3 MW Mito project. However, the Group's increase in revenue and project-level EBITDA due to higher production was partially impacted by the 8% FiT reduction in Italy, and the 22.8% decrease in the Euro/USD exchange rate.



## OPERATING PROJECTS - ITALY

As of the date of this MD&A, the weighted average remaining contract life of the Italian operating projects is approximately 15 years. A summary of the Group's 100%-owned operating solar power projects in Italy is as follows:



Project	Region	Sites	Gross MW	Technology	Connection date
Cassiopea	Lazio	1	24.0	Single axis	Nov-09
Helios ITA-3	Puglia	2	10.0	Single axis	Aug-11
Centauro	Lazio	1	8.8	Single axis	Jul-10
Helios ITA	Puglia	7	6.4	Single axis	Dec-09
Etrion Lazio	Lazio	2	5.3	Fixed-tilt	Apr-11
SVE	Puglia	3	3.0	Single axis	Dec-10
Sagittario	Lazio	1	2.6	Fixed-tilt	Aug-11
<b>Total</b>		<b>17</b>	<b>60.1</b>		

### Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar photovoltaic ("PV") park with a total capacity of 24 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower, a US-based solar panel manufacturer and installer, using high-efficiency SunPower modules mounted on single axis trackers with power conversion provided by SMA Solar Technology AG ("SMA") inverters. Cassiopea has an O&M contract with SunPower. During the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 40% and to eliminate the previous revenue sharing provision. During the second quarter of 2015, the solar park benefited from the 2009 revised FiT of €0.325 per kWh plus the average Market Price of approximately €0.04 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, the Swiss power and automation technology group, using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion provided by Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB. Etrion recently renegotiated the Helios ITA-3 O&M contract with ABB effective June 2015, to reduce the annual fee by more than 20% and to increase the level of service. During the second quarter of 2015, both solar parks benefited from the August 2011 revised FiT of €0.23 per kWh plus the average Market Price of approximately €0.04 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 8.8 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 provided by SMA inverters. Centauro has an O&M contract with SunPower. During the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 40% and to eliminate the previous revenue sharing provision. During the second quarter of 2015, the solar park benefited from the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.04 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, 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 with ABB. Etrion recently renegotiated the Helios ITA O&M contract with ABB effective May 2015 to reduce the annual fee by more than 20%, to eliminate the previous revenue sharing provision and to increase the level of service. During the second quarter of 2015, six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefited from the 2009 revised FiT of €0.325 per kWh plus the average Market Price of approximately €0.04 per kWh. The last park built (0.6 MW) benefited from the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.04 per kWh.

### 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 (1.8 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 provided by SMA inverters. Etrion Lazio has an O&M contract with SMA (acquired from Phoenix). Etrion is planning to renegotiate the Etrion Lazio O&M contract with SMA effective July 2015, to reduce the annual fee by more than 20% and to increase the level of service. During the second quarter of 2015, both solar parks benefited from the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.04 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 provided by Siemens inverters. SVE has an O&M contract with SunPower. During the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 15%. During the second quarter of 2015, all three solar parks benefited from the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.04 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 2011. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion provided by SMA inverters. Sagittario has an O&M contract with SMA (acquired from Phoenix). Etrion is planning to renegotiate the O&M contract with the purpose of reducing the annual fee and improving the level of service. During the second quarter of 2015, the solar park benefited from the August 2011 revised FiT of €0.23 per kWh plus the average Market Price of approximately €0.04 per kWh.

Etrion’s solar power plants in Italy are expected to produce more than 100 million of kWh on an annual basis.

### OPERATING PROJECTS - CHILE

A summary of the Group’s operating solar power projects in Chile, as of the date of this MD&A, is as follows:



Project	Region	Sites	Gross MW	Technology	Connection date
Salvador	Atacama	1	70	Single axis	Nov-14
<b>Total</b>		<b>1</b>	<b>70</b>		

#### Salvador

Project Salvador is located in the Atacama region of northern Chile and consists of one ground-mounted solar PV park with a total capacity of 70 MW. The solar park was built by SunPower using SunPower high-efficiency, single-axis tracker technology and ABB inverters. Project Salvador has an O&M contract with SunPower and is currently operating on a merchant basis where the electricity produced is sold on the spot market and delivered to the SIC electricity network. Project Salvador has executed a long-term PPA with EE-ERNC-1, an investment grade off-taker. The PPA is for approximately 35% of Project Salvador’s production for 15 years starting January 1, 2016, with the electricity price denominated in USD and inflated according to the US Consumer Price Index (“CPI”). Project Salvador is expected to produce approximately 200 million kWh of electricity per year. Etrion currently owns 70% of Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion’s ownership will decrease to 50.01%. After 20 years of operation, Etrion’s ownership will decrease to 0%. Project Salvador was connected to the electricity grid on November 3, 2014, and reached full operational capacity on January 10, 2015.



## OPERATING PROJECTS - JAPAN

As of the date of this MD&A, the weighted average remaining contract life of the Japanese operating project is approximately 20 years. A summary of the Group's operating solar power project in Japan, as of the date of this MD&A, is as follows:



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

### Mito

Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the last site connected in August 2015. The solar power plants were built on 28.3 hectares of leased land, and the facilities connect through TEPCO. In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company receives ¥40 per kWh produced (approximately \$0.33 per kWh). The remaining three PPAs were signed in March 2015. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) was financed 80% through non-recourse project debt from SMTB with the remaining approximately 20% equity portion funded by the Group and Hitachi High-Tech ("HHT") based on their respective ownership interests of approximately 87% and 13%. Mito has entered into a long-term fixed price O&M agreement with HHT. Mito is expected to produce approximately 10.5 million kWh of solar electricity per year. Etrion charged the Mito project with a net development fee of approximately ¥162 million (\$1.6 million).

## DEVELOPMENT ACTIVITIES

### PROJECTS UNDER DEVELOPMENT - CHILE

Etrion's growth prospects in Chile have been adversely impacted by the decrease in electricity demand as a result of reduced investments in the mining sector and the accelerated growth in electricity supply from renewable sources. As a result of these externalities, spot prices in Chile have significantly declined as well as the demand for long-term power contracts from industrial clients. The Company currently has nearly 100 MW of projects shovel-ready but has postponed its plans to build until long-term PPAs are available.

As a result of management's assessment of the current economic and business environment in Chile, an impairment charge of \$2.5 million was recognized in Q2-15 for the total costs capitalized as internally generated intangible assets associated with the development pipeline in Chile. The Company will continue to monitor developments in the Chilean electricity market and proceed with these projects when long-term PPAs are secured.

A summary of the Group's 100%-owned projects under development in Chile is below:

Project	Region	Sites	Gross MW	Technology
Aguas Blancas 2A	Antofagasta	1	32	Single axis
Aguas Blancas 2B	Antofagasta	1	24	Single axis
Aguas Blancas 2C	Antofagasta	1	16	Single axis
Las Luces	Atacama	1	27	Single axis
<b>Total</b>		<b>4</b>	<b>99</b>	

### Aguas Blancas

The Aguas Blancas solar projects in the Antofagasta region of Chile include three sites, 2A, 2B and 2C, with a total capacity of 72 MW in the Sistema Interconectado del Norte Grande ("SING") electricity network.

Aguas Blancas 2A is a shovel-ready 32 MW site. The land concession has been assigned, and the final decree is expected in four months. The environmental impact assessment has been received, the mining rights have been secured and the interconnection contract has been agreed.

Aguas Blancas 2B is a shovel-ready 24 MW site. The land concession decree has been signed, the environmental impact assessment has been received and the mining rights have been secured. The interconnection contract and the PPA with a mining company are under advanced negotiations.

Aguas Blancas 2C is a shovel-ready 16 MW site. The land concession has been signed, the environmental impact assessment has been received, the mining rights have been secured and the interconnection contract has been agreed.

Etrion should be in a position to start construction of the Aguas Blancas projects once the Company secures PPAs and long-term, non-recourse project finance. The projects are expected to be operational within nine months from the date construction commences.

## Las Luces

The Las Luces solar project in the Atacama region includes one shovel-ready site with a total capacity of 27 MW in the SIC electricity network. The land concession decree has been signed, the environmental impact assessment has been received and the mining rights have been secured. The interconnection contract is in advanced negotiations, and the PPA negotiations with a mining company have begun.

Etrion should be in a position to start construction of Las Luces once the Company secures PPAs and long-term, non-recourse project finance. The project is expected to be operational within nine months from the date construction commences.

## PROJECTS UNDER DEVELOPMENT - 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. Japan is one of the largest solar PV markets in the world with over 25 gigawatts (“GW”) of installed capacity and is expected to reach 36 GW by the end of 2015. The Japanese government has a strong mandate to increase the use of renewable energy in Japan’s energy mix in order to reduce the country’s reliance on nuclear power.

In 2012, the Group and HHT signed a development agreement to jointly develop a pipeline of solar assets in Japan. The companies are targeting to reach at least 100 MW of utility-scale solar projects under construction or shovel-ready by the first quarter of 2016. Under this agreement, both parties provide the key functions necessary to successfully develop, build and operate solar projects in Japan (including, but not limited to, obtaining the relevant permits and authorizations to build and operate the solar power facilities, developing relationships with local utilities and land owners, engineering, procurement and construction (“EPC”) and securing non-recourse project finance, as well as operations, maintenance and asset management services).

A summary of the Group’s projects under construction in Japan as follows:



Project	Region	Sites	Gross MW	Technology	Expected Connection date
Shizukuishi	Iwate	1	24.7	Fixed-tilt	Oct-2016
<b>Total</b>		<b>1</b>	<b>24.7</b>		

### Shizukuishi

Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant under construction on one site in the Iwate Prefecture of Japan. Construction-related works began in October 2014, and the solar project is expected to connect to the grid in October 2016. The solar power plant is being built on 51 hectares of leased land, and the facility will connect through Tohoku Electric Power Co., Inc. (“Tohoku Electric Power utility”). The project has entered into a 20-year PPA with the Tohoku Electric Power utility to receive ¥40 per kWh produced (approximately \$0.33 per kWh). The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is being financed 80% with non-recourse project debt from SMTB with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. Once operational, Shizukuishi is expected to produce approximately 25.6 million of kWh of solar electricity per year. Etrion charged the Shizukuishi project with a net development fee of approximately ¥677.4 million (\$6.7 million).

In addition to the Shizukuishi project under construction, the joint Etrion-HHT development team is reviewing a large pipeline of opportunities in different stages of development and in different stages of negotiation with third parties. The three most advanced projects totaling over 70 MW, listed in the table below, are expected to be shovel-ready by Q1-16. Etrion expects to own up to 85% in the Japanese projects, with HHT and/or local development partners owning the remainder.

Project	Region	Sites	MW	Technology
Greenfield 1	Central	1	13	Fixed-tilt
Brownfield 1	South	1	51	Fixed-tilt
Brownfield 2	North	1	9	Fixed-tilt
<b>Total advanced projects</b>		<b>3</b>	<b>73</b>	
<b>Total additional projects</b>		<b>TBD</b>	<b>193</b>	<b>TBD</b>
<b>Total</b>			<b>266</b>	

Japan Greenfield Project 1 is a 13 MW solar project in central Japan with the FiT secured. Etrion expects to sign the land contract after completion of the grid impact study. The project is expected to be shovel-ready by the first quarter of 2016.

Japan Brownfield Project 1 is a 51 MW solar project in southern Japan with the FiT secured and the land contract signed. Etrion has secured exclusivity with the developer, and the grid impact studies are complete. The project is expected to be shovel-ready by the first quarter of 2016.

Japan Brownfield Project 2 is a 9 MW solar project in northern Japan with the FiT, land contract and grid impact studies in progress. Etrion has secured exclusivity with the developer, which is working with the land owner to secure the land. The project is expected to be shovel-ready by the first quarter of 2016.

The previously disclosed 25 MW Greenfield 1 solar project located in southern Japan has been put on hold because the utility communicated that the project was subject to unlimited curtailment. Once the rules for curtailment are defined, expected by year-end, the Company will evaluate the potential impact to project economics and bankability and will decide whether to continue with the project, abandon or sell it.

The above three projects are in advanced development stages and while the Company believes they have a high degree of probability to reach shovel-ready status, they may be replaced by other projects within the next twelve months in order to accelerate construction or improve project economics.

The estimated total project costs associated with the development and construction of the late-stage Japanese projects, including costs related to the licenses, permits, financing and construction are summarized below. Total project costs are expected to be financed 75% by non-recourse project debt with the remaining equity portion to be funded by the Group and HHT.

Project	Project Costs	Equity	Debt
Greenfield 1	31.4	6.3	25.1
Brownfield 1	156.8	31.4	125.4
Brownfield 2	26.3	5.3	21.0
<b>Total USD millions</b>	<b>214.5</b>	<b>43.0</b>	<b>171.5</b>

Etrion expects to charge these projects with development fees that effectively reduce the Company's net equity contribution.



## SOLAR MARKET OVERVIEW

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

Solar power plants are an important source of renewable energy. They have very low operating and maintenance costs with minimal moving parts. The technology is essentially silent, emission-free and scalable to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from PV cells 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 like storage 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 FiTs, capital subsidies and tax incentives in markets that have not yet reached grid parity.

## ITALIAN MARKET

### FiT system

In 2005, the Italian government introduced an FiT system in order to encourage expansion of solar energy. The FiT system, combined with strong solar irradiation and high spot electricity prices, led to significant growth in the installed capacity of solar generating facilities. 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 of building solar power plants.

On June 24, 2014, the Italian government published a new decree outlining, among other things, certain proposed changes to the current Italian FiT regime. On August 7, 2014, the decree was approved by the Italian Parliament. The approved changes impacted the revenues received by solar power producers by reducing the annual FiT incentive paid by the GSE. Specifically, the approved decree outlined three options for solar power producers to reduce the original FiT effective January 1, 2015.

Producers could choose a reduction of between 17% and 25%, depending on the remaining incentive period, offset by an extension of the incentive period from 20 to 24 years. Alternatively, solar power producers could elect a flat 6%-8% reduction, depending on the capacity of the plant, for the remaining incentive period without an extension. Lastly, producers could choose to have the FiT reduced by approximately 15% in the near-term and increased by an equivalent amount in the long-term using a re-modulation ratio established by the Italian Ministry for Economic Development.

In addition, the approved decree introduced certain changes to the payment of the FiT, whereby, effective July 1, 2014, 10% of the FiT payment by GSE would be delayed until June of the following year. However, the GSE subsequently indicated that their systems were not ready to support the new decree and that they would activate the new payment mechanism starting January 1, 2015.

Etrion's management believe the new decree is discriminatory and violates the rights of solar plant owners and foreign investors. The Company's Italian operating subsidiaries have therefore filed domestic legal action in the Italian courts to seek a declaration that the new decree is unconstitutional (similar to the Robin Hood Tax described below) or alternatively to obtain compensation for damages resulting from the changes to the FiT regime.

Since Etrion's management considers the new decree unconstitutional, the Company did not communicate any election to the Italian government by the November 30, 2014, deadline. According this new decree, in the absence of a formal election by solar plants owners, the 6-8% flat reduction is applicable as of January 1, 2015.

A summary of the revised 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
Original FiT (€/kWh)	€0.250	€0.346	€0.353
Revised FiT (€/kWh)	€0.230	€0.318	€0.325
Remaining life	15.5 years	14.5 years	13.5 years

In addition to the FiT, solar power generators in Italy receive the spot market rate for each kWh produced. The average Market Price during the first half of 2015 was approximately €0.04 (\$0.06) per kWh.

## Robin Hood tax

On February 11, 2015, the Italian Constitutional Court published a ruling that declared the so-called “Robin Hood” tax unconstitutional and eliminated it from February 2015 onwards. The removal of the Robin Hood tax reduces the ordinary income tax rate applicable to most energy companies in Italy from 34% to 27.5%. The Robin Hood tax was a surtax introduced in 2008 that increased the overall corporate income tax rate applicable to large Italian energy companies from 27.5% to 38%. In 2011, the Robin Hood tax was expanded to include renewable energy companies. In 2013, the Italian government lowered the revenue threshold for the application of the surtax. In 2014, the government reduced the surtax, thereby reducing the overall income tax rate from 38% to 34%. Operators contested the Robin Hood tax as unconstitutional due to the higher overall tax rate being applied to energy companies compared to the ordinary tax rate for Italian companies in general. Management has used the revised corporate tax of 27.5% to measure deferred tax assets and liabilities as at June 30, 2015.

## 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. The energy sector is largely privatized, which enables energy producers to enter into US dollar-denominated bilateral agreements directly with industrial clients.

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, hydro and thermoelectric power are Chile’s primary source of renewable energy. Despite the current drop in energy prices and reduced investments in the mining sector, the market fundamentals in the medium to long-term remain attractive for solar due to its continued cost reduction trajectory. Growth is expected to pick up once the mining sector rebounds, especially in the northern part of the country where more than 90% of the electricity consumption arises from industrial users. In September 2013, the Chilean government passed the so-called “20/25” law, requiring 20% of electricity to be generated from renewable sources by 2025 (an increase from the previous “clean energy” law requiring 10% 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) or distribution companies (addressing the regulated market).
- **On a spot market/merchant basis** – solar power producers can sell the electricity produced on the spot market, delivered to the relevant electricity network. Project Salvador is initially operating on a merchant basis.

The Company has secured a 15-year PPA for 35% of the capacity, starting January 1, 2016. The Company will continue to seek other PPAs for the balance of the energy not contracted.

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

- **SING** – Sistema Interconectado del Norte Grande (“SING”), the northern grid, accounts for approximately 25% of total electricity production in Chile. The SING is primarily served by thermoelectric plants.
- **SIC** – Sistema Interconectado Central (“SIC”), the central grid, accounts for approximately 74% of 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 is located in the SIC.
- **Aysen** – Located in southern 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 securing long-term contracts with mining and industrial clients to secure predictable revenues for the development pipeline. Together, the SIC and SING account for more than 99% of Chile’s total electricity production. Works have commenced to interconnect the SIC and SING networks by 2018, which is expected to result in a more stable long-term spot market price for the combined networks.

During the first half of 2015, electricity market prices in the SIC network at the Diego de Almagro node applicable to Project Salvador were particularly volatile in the range of \$32-\$177 per MWh. The weighted average market price in the last 12 months was approximately \$92 per MWh. The recent spot market volatility is mainly due to a reduction in energy demand as a result of the collapse in commodity prices, a delay in mine expansions, the significant increase in installed solar power generation compared to forecasts and the effect of the reduction in oil and gas and coal prices. Spot market electricity prices are expected to remain volatile until the SIC electricity grid near Project Salvador is expanded and the SIC-SING are interconnected in 2017-2018.

## JAPANESE MARKET

Japan is the world's third largest energy consumer and today is the third largest solar market. The use of solar power in Japan has accelerated since the Japanese FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster, which has led to most of the nation's 52 reactors being 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 2014, Japan had installed more than 25 GW of solar capacity.

Japan has implemented an attractive 20-year FiT program of ¥40 per kWh for projects secured by March 31, 2013, ¥36 per kWh for projects secured by March 31, 2014, and ¥32 per kWh for projects secured by March 31, 2015. The FiT was recently changed to ¥29 for projects secured from April 2015, and ¥27 from July 2015. The next FiT is expected to be changed from April 2016.

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

The new rules addressed various aspects of the FiT and utility operations. The most important rules outlined the process for:

- **FiT application** – The timing when the FiT is determined has changed from "when interconnection request is made" to "when interconnection agreement is executed." If an interconnection agreement has not been reached due to the utility's delay, there is a backstop date for the solar developer whereby the FiT level from 270 days following the connection request is used.
- **Change in power output or in PV module specifications prior to start of operations** These changes must now be submitted for METI approval, and an increase in power output or a change in PV module manufacturer prior to start of operations will be subject to a revision of the FiT. Exceptions will be made where change in output is related to interconnection evaluation by the utility. Changes to PV module manufacturer, type or conversion efficiency (excluding increases in efficiency) will also be subject to a change in the FiT. Exceptions will be made if objective proof is provided related to discontinued module type and in cases of PV power plants of less than 10 kW.

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

Management believes Etrion's previously communicated joint development target with HHT of reaching 100 MW shovel-ready or under construction in Japan by the first quarter of 2016 should not be affected by the changes to the Japanese FiT regime described above.

## OTHER MARKETS

Etrion has effectively established presence in three key regional markets (Asia, Europe and the Americas). Solar growth is expected to continue given the compelling long-term cost reduction curve resulting in a continued reduction of the levelized cost of energy. Although most of the Company's efforts and development capital is being directed towards Japan, the Company is periodically exploring new markets that could be developed leveraging existing partnerships.

## FINANCIAL REVIEW

### FINANCIAL RESULTS

#### SECOND QUARTER SELECTED FINANCIAL INFORMATION

During Q2-15 and the first half of 2015, the Group's performance and results were positively impacted by the additional production of electricity from its newly connected projects in Chile and Japan. However, revenue and EBITDA were impacted by the 8% reduction of the FiT in Italy and the significant reduction in the Euro/USD exchange rate. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Revenue</b>	<b>17,060</b>	<b>17,764</b>	<b>27,447</b>	<b>26,131</b>
Gross profit	8,475	10,641	10,854	11,509
<b>Net loss</b>	<b>(10,057)</b>	<b>(1,434)</b>	<b>(12,540)</b>	<b>(9,642)</b>
<b>Adjustments for:</b>				
Net income tax expense (recovery)	1,451	2,242	1,260	(135)
Depreciation and amortization	5,800	5,279	11,372	10,551
Impairment	2,468	-	2,468	-
Share-based payment expense	223	62	447	129
Net finance costs	11,878	7,828	14,328	16,747
Other income (expenses)	(1)	(187)	22	(187)
Income tax paid	(339)	(2,463)	(673)	(2,463)
Changes in working capital	(13,957)	3,833	(27,293)	(14,248)
<b>Operating cash flow</b>	<b>(2,534)</b>	<b>15,160</b>	<b>(10,609)</b>	<b>752</b>

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

USD thousands	June 30	December 31
	2015	2014
Non-current assets	515,445	525,845
Current assets	126,385	142,267
<b>Total assets</b>	<b>641,830</b>	<b>668,112</b>
Non-current liabilities	548,580	529,365
Current liabilities	66,705	105,817
<b>Total liabilities</b>	<b>615,285</b>	<b>635,182</b>
<b>Net assets</b>	<b>26,545</b>	<b>32,930</b>
Working capital	59,680	36,450
Dividends declared	-	-

## SEGMENT INFORMATION THREE MONTHS ENDED JUNE 30

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

USD thousands	Q2-15			Q2-14		
	Renewable	Corporate	Total	Renewable	Corporate	Total
<b>Revenue</b>	<b>17,060</b>	-	<b>17,060</b>	<b>17,764</b>	-	<b>17,764</b>
Operating expenses	(2,872)	-	(2,872)	(1,934)	-	(1,934)
General and administrative expenses	(336)	(2,186)	(2,522)	(336)	(1,464)	(1,800)
Other income (expenses)	62	(23)	39	180	7	187
Impairment	-	(2,468)	(2,468)	-	-	-
<b>EBITDA</b>	<b>13,914</b>	<b>(4,677)</b>	<b>9,237</b>	<b>15,674</b>	<b>(1,457)</b>	<b>14,217</b>
Depreciation and amortization	(5,713)	(87)	(5,800)	(5,189)	(90)	(5,279)
Finance income	(34)	49	15	11	11	22
Finance costs	(7,332)	(4,726)	(12,058)	(5,120)	(3,032)	(8,152)
<b>Income (loss) before income tax</b>	<b>835</b>	<b>(9,441)</b>	<b>(8,606)</b>	<b>5,376</b>	<b>(4,568)</b>	<b>808</b>
Income tax expense	(1,394)	(57)	(1,451)	(2,227)	(15)	(2,242)
<b>Net (loss) income for the period</b>	<b>(559)</b>	<b>(9,498)</b>	<b>(10,057)</b>	<b>3,149</b>	<b>(4,583)</b>	<b>(1,434)</b>

During Q2-15, the Group's renewable energy segment generated revenues of \$17.1 million and EBITDA of \$13.9 million, which represented a decrease of 4% and 11%, respectively, in comparison with the same period in 2014. In addition, the Group's renewable energy segment generated a net loss of \$0.6 million which represented a decrease in comparison with the net income results in 2014. The main reasons for the adverse net result in this segment were the 8% reduction of the FiT in Italy and the significant reduction in the Euro/USD exchange rate, partially offset by the addition of Project Salvador in Chile and the first three solar park sites of the Mito project. The Group's corporate segment generated negative EBITDA of \$4.7 million and negative results of \$9.5 million due to finance costs associated with the Company's corporate bond, impairment charges and corporate general and administrative expenses.

## SEGMENT INFORMATION SIX MONTHS ENDED JUNE 30

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

USD thousands	Q2-15			Q2-14		
	Renewable	Corporate	Total	Renewable	Corporate	Total
<b>Revenue</b>	<b>27,447</b>	-	<b>27,447</b>	<b>26,131</b>	-	<b>26,131</b>
Operating expenses	(5,390)	-	(5,390)	(4,250)	-	(4,250)
General and administrative expenses	(640)	(4,224)	(4,864)	(647)	(3,431)	(4,078)
Other income/(expenses)	3	13	16	180	7	187
Impairment	-	(2,468)	(2,468)	-	-	-
<b>EBITDA</b>	<b>21,420</b>	<b>(6,679)</b>	<b>14,741</b>	<b>21,414</b>	<b>(3,424)</b>	<b>17,990</b>
Depreciation and amortization	(11,203)	(169)	(11,372)	(10,372)	(179)	(10,551)
Finance income	(73)	3,740	3,667	154	16	170
Finance costs	(14,368)	(3,948)	(18,316)	(11,300)	(6,086)	(17,386)
<b>Income/(loss) before income tax</b>	<b>(4,224)</b>	<b>(7,056)</b>	<b>(11,280)</b>	<b>(104)</b>	<b>(9,673)</b>	<b>(9,777)</b>
Income tax expense	(1,138)	(122)	(1,260)	213	(78)	135
<b>Net income/(loss) for the period</b>	<b>(5,362)</b>	<b>(7,178)</b>	<b>(12,540)</b>	<b>109</b>	<b>(9,751)</b>	<b>(9,642)</b>

During the first half of 2015, the Group's renewable energy segment generated revenues of \$27.4 million and EBITDA of \$21.4 million, which represented an increase of 5% and 0%, respectively, in comparison with the same period in 2014. In addition, the Group's renewable energy segment generated a net loss of \$5.4 million, which represented a decrease in comparison with the net income result in 2014. The main reasons for the adverse net result in this segment were the 8% reduction of the FiT in Italy and the significant reduction in the Euro/USD exchange rate, partially offset by the addition of Project Salvador in Chile and the first three solar park sites of the Mito project. The Group's corporate segment generated negative EBITDA of \$6.7 million and negative results of \$7.2 million due to finance costs associated with the Company's corporate bond, impairment charges and corporate general and administrative expenses.

## NON-GAAP PERFORMANCE MEASURES

### Reconciliation of adjusted net (loss) income to net loss

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Net loss</b>	<b>(10,057)</b>	<b>(1,434)</b>	<b>(12,540)</b>	<b>(9,642)</b>
<b>Adjustments for non-recurring items:</b>				
Operational items	2,468	-	2,468	804
Financing items	-	1,033	-	1,033
<b>Adjustments for non-cash items:</b>				
Depreciation and amortization	5,800	5,279	11,372	10,551
Fair value movements (derivative financial instruments)	180	266	257	1,450
Share-based payment expense	223	62	447	129
<b>Adjusted net (loss) income</b>	<b>(1,386)</b>	<b>5,206</b>	<b>2,004</b>	<b>4,325</b>

### Reconciliation of adjusted operating cash flows to operating cash flow

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Operating cash flow</b>	<b>(2,534)</b>	<b>15,160</b>	<b>(10,609)</b>	<b>752</b>
- Changes in working capital	13,957	(3,833)	27,293	14,248
- Income tax paid	339	2,463	673	2,463
<b>Adjusted operating cash flow</b>	<b>11,762</b>	<b>13,790</b>	<b>17,357</b>	<b>17,463</b>

### Reconciliation of Adjusted EBITDA to EBITDA

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Net loss</b>	<b>(10,057)</b>	<b>(1,434)</b>	<b>(12,540)</b>	<b>(9,642)</b>
Adjustments for:				
Net income tax expense (recovery)	1,451	2,242	1,260	(135)
Net finance costs	12,043	8,130	14,649	17,216
Depreciation and amortization	5,800	5,279	11,372	10,551
<b>EBITDA</b>	<b>9,237</b>	<b>14,217</b>	<b>14,741</b>	<b>17,990</b>
Non-recurring items				
- Operating Items	-	-	-	343
- General and administrative items	2,468	-	2,468	461
<b>Adjusted EBITDA</b>	<b>11,705</b>	<b>14,217</b>	<b>17,209</b>	<b>18,794</b>

## QUARTERLY SELECTED FINANCIAL INFORMATION

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

USD thousands (except per share data)	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14	Q4-13	Q3-13
Revenue	17,060	10,387	6,368	17,129	17,764	8,367	7,761	19,414
Net (loss) income <sup>(1)</sup>	(10,057)	(2,483)	(8,006)	1,193	(1,434)	(8,208)	(5,666)	1,056
Basic and diluted (loss) earnings per share	(0.028)	(0.005)	(0.024)	0.004	(0.005)	(0.025)	(0.027)	0.005

Notes:

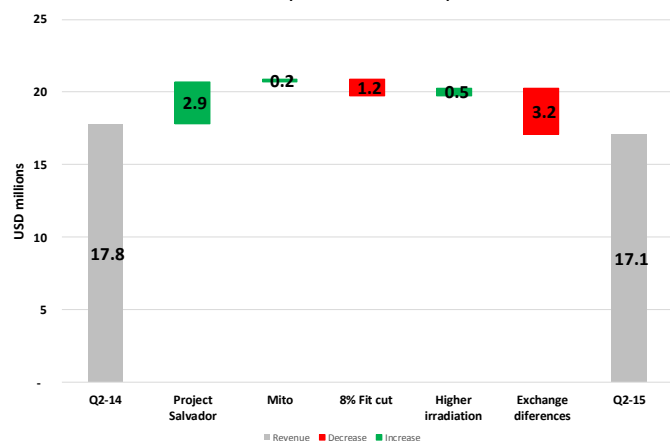
(1) Net (loss) income for the period includes both the net (loss) income from continuing operations and the net (loss) income attributable to owners of the Company and non-controlling interests.

Solar-related production and revenues experience seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months, resulting in lower revenues in the first and fourth quarters each year. In Italy, revenues are received in Euros and have been translated at the average €/€ exchange rate for the corresponding period. Consequently, revenues expressed in USD may fluctuate according to exchange rate variations.

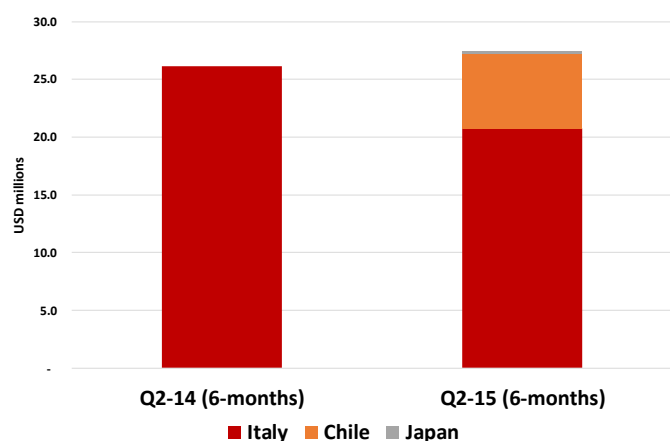
## REVENUE

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
FiT revenue	12,675	16,061	18,479	23,470
Market price revenue	4,385	1,703	8,968	2,661
<b>Total revenue</b>	<b>17,060</b>	<b>17,764</b>	<b>27,477</b>	<b>26,131</b>

Revenues decreased by \$0.7 million (4.0%) during Q2-15 compared to the same period of 2014, mainly due to the lower FiT received in Italy and foreign exchange rate differences, partially offset by higher solar irradiation in Italy and the addition of electricity production from Project Salvador in Chile and Mito's first three solar park sites in Japan.

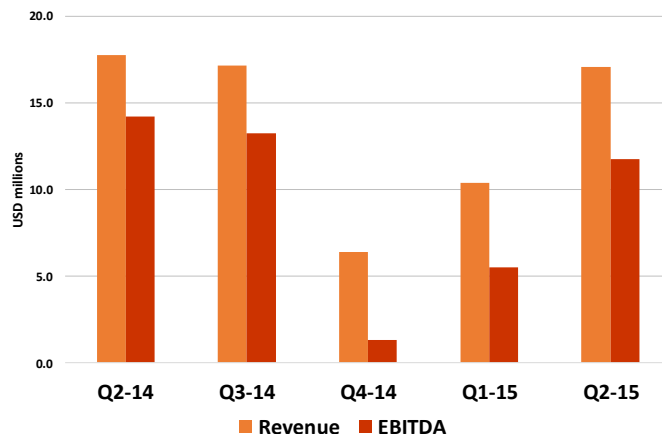


Revenues increased by \$1.3 million (5.0%) during the first half of 2015 compared to the same period of 2014, mainly due to higher solar irradiation in Italy and the addition of electricity production from Project Salvador in Chile and Mito's first three solar park sites in Japan, offset by the lower FiT received in Italy and foreign exchange rate differences.



## EBITDA

EBITDA decreased by \$1.8 million (11%) during Q2-15 and remained flat during the first half of 2015 compared to the same periods of 2014 due to the impact of the lower FiT in Italy and foreign exchange rate differences offset by higher electricity production from Italy, and new projects in Chile and Japan.



Etrion's EBITDA associated with its Italian operating projects fluctuates as revenues are subject to seasonality, while operating expenses are fixed.

## OPERATING EXPENSES

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
O&M costs	1,328	995	2,390	1,914
Personnel costs	314	301	555	539
D&A	5,713	5,189	11,203	10,372
Property tax	411	578	824	1,063
Insurance	239	97	373	194
Land lease	59	54	110	109
Transmission costs	185	-	503	-
Other expenses	336	(91)	635	431
<b>Total operating expenses</b>	<b>8,585</b>	<b>7,123</b>	<b>16,593</b>	<b>14,622</b>

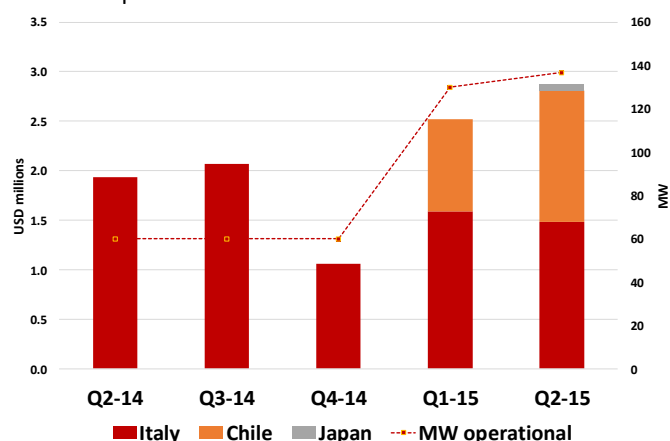
Operating expenses increased by \$1.5 million (21%) during Q2-15 and \$1.9 million (13%) during the first half of 2015 compared to the same period of 2014 primarily due to the incremental cost associated with the O&M contracts of Project Salvador and Mito's first three solar parks sites. This was partially offset by the effect of the change in the estimated useful life of the Group's solar power plants in Italy, from the original estimate of 20 years to 24 years. The increase in operating expenses was also partially offset by foreign exchange rate differences.

Etrion has been re-negotiating the O&M contracts of its Italian projects in order to reduce associated costs while keeping a high level of service. As a result O&M costs in Italy are expected to decrease further starting in the second semester of 2015.

Transmission costs incurred during the three and six months ended June 30, 2015, relate to fees associated with the utilization of the private electricity grid in the SIC area in Chile to deliver electricity to final consumers that is paid by the electricity producers.

According to certain legal changes being introduced and not yet approved in the Chilean transmission sector, all the transmission and sub-transmission costs will pass through to final clients. Starting in 2018, it is expected there will be a reduction of 10% in transmission costs paid by generators each year until reaching 0% in 2027.

The chart below shows the historical operating expenses before depreciation and amortization over the last eight 8 quarters including the effect of the recently added projects in Chile and Japan.



## GENERAL AND ADMINISTRATIVE EXPENSES

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Salaries and benefits	789	424	1,673	1,474
Board of directors fees	85	126	175	156
Share-based payments	223	62	447	129
Professional fees	904	833	1,538	1,429
Listing and marketing	161	131	289	252
D&A	87	90	169	179
Office lease	82	96	165	219
Office, travel and other	278	128	577	419
<b>Total general and admin</b>	<b>2,609</b>	<b>1,890</b>	<b>5,033</b>	<b>4,257</b>

General and administrative expenses increased by \$0.7 million (38%) during Q2-15 and \$0.8 million (18%) during the first half of 2015 compared to 2014, primarily due to share-based payment expenses associated with the Company's outstanding restricted share units, partially offset by foreign exchange rate differences (due to the weakening of the Euro against the US dollar), and also due to lower capitalizations of internally-generated costs within intangible assets directly attributable to the Group's business development activities.

## IMPAIRMENT

During the three months ended June 30, 2015, and as a result of the challenging market environment to secure long-term power purchase agreements in Chile, the Company decided to impair the total development costs of \$2.5 million capitalized as internally generated intangible assets associated with the development pipeline in Chile.

## NET FINANCE COSTS

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Interest project loans	6,713	4,625	13,181	9,372
Interest corporate bond	2,249	3,784	4,456	5,802
Net fair value movements	180	266	257	1,450
Foreign exchange (gain)/loss	2,759	(790)	(3,543)	180
Other net finance costs	142	245	298	412
<b>Net finance cost</b>	<b>12,043</b>	<b>8,130</b>	<b>14,649</b>	<b>17,216</b>

Finance costs increased by \$3.9 million (48%) during Q2-15 compared to 2014 primarily due to a decrease in foreign exchange gains during the quarter resulting from the approximately 4% recovery of the Euro exchange rate versus the US dollar and also due to interest expenses associated with Project Salvador that are no longer capitalized but instead recognized in profit and loss.

Finance costs decreased by \$3.9 million (15%) during the first half of 2015 compared to 2014 primarily due to an increase in foreign exchange gains during the semester resulting from the approximately 9% devaluation of the Euro exchange rate versus the US dollar.

During Q2-15 and the first half of 2015, the Group capitalized \$0.3 million and \$0.8 million (2014: \$1.6 million and \$2.9 million), respectively, of borrowing costs associated with credit facilities obtained to finance the construction of Project Salvador, Shizukuishi and Mito.

## INCOME TAX EXPENSE

USD thousands	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Current income tax	(3,126)	(3,804)	(1,936)	(729)
Deferred income tax	1,675	1,562	676	864
<b>Net income tax expense</b>	<b>(1,451)</b>	<b>(2,242)</b>	<b>(1,260)</b>	<b>135</b>

Net income tax expense decreased by \$0.8 million (35%) during Q2-15 compared to the same period of 2014 mainly due to lower taxable gains recognized during the period, primarily due to the 8% FiT reduction in Italy, the application of the 27.5% reduced tax rate and foreign exchange differences, partially offset by the impact of a lower depreciation expense in Italy following the change in the useful life of the solar assets.

Net income tax expense increased by \$1.4 million during the first half of 2015 compared to the same period of 2014 mainly due to higher taxable gains recognized during the period in Italy due to the the impact of a lower depreciation expense following the change in the useful life of the solar assets, offset by the 8% FiT reduction in Italy and the application of the 27.5% reduced tax rate.



## FINANCIAL POSITION

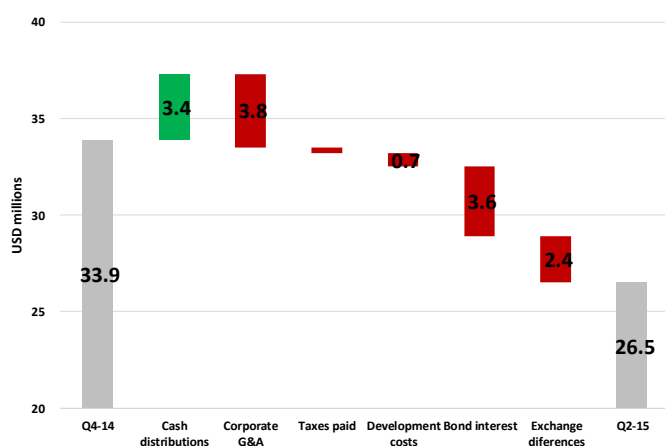
### LIQUIDITY AND FINANCING

#### CASH POSITION

USD thousands	June 30 2015	December 31 2014
Cash and cash equivalents:		
Unrestricted at parent level	26,554	33,886
Restricted at project level	42,509	61,463
<b>Total cash and cash equivalents</b>	<b>69,063</b>	<b>95,349</b>

#### UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at June 30, 2015, included unrestricted cash of \$26.5 million (December 31, 2014: \$33.9 million) held at the parent level. The chart below reconciles the unrestricted cash balance during the first half of 2015:



The Group has a fully-funded portfolio of operational and under construction projects. In addition, the Group expects to generate sufficient operating cash flows in 2015 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity or debt financing and non-recourse project loans, as required.

## RESTRICTED CASH ANALYSIS

USD thousands	June 30 2015	December 31 2014
Italy	19,345	28,384
Chile	10,731	28,366
Japan	12,433	4,713
<b>Total restricted cash</b>	<b>42,509</b>	<b>61,463</b>

The Group's cash and cash equivalents at June 30, 2015, included restricted cash held at the project level in Italy, Chile and Japan that is restricted by the lending banks for future repayment of interest and principal and working capital requirements related to specific projects. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, through repayment of shareholder loans, through payment of interest on shareholder loans or through dividend distributions.

#### WORKING CAPITAL

At June 30, 2015, the Group had working capital of \$59.7 million (December 31, 2014: \$36.5 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. Excluding these derivative financial liabilities that are not expected to be settled in the near-term, the Group's working capital would have been \$67.6 million. (December 31, 2014: \$44.7 million)

There have been no significant changes to the Group's contractual obligations as outlined in the Company's MD&A for the year ended December 31, 2014. All of the contractual obligations will be funded from existing cash available or future cash flows from operations with no additional capital investments to be made by the Group.

#### NET EQUITY

During the first half of 2015, the Group's total equity decreased by \$4.7 million from a net asset position of \$30.0 million at December 31, 2014, to a net asset position of \$25.3 million at June 30, 2015. This change was primarily due to the net loss reported by the Group during the period partially offset by unrealized fair value gains recognized within other reserves associated with the Group's derivative financial instruments.

The Group's total equity at June 30, 2015, was negatively impacted by cumulative fair value losses of \$25 million recognized within other reserves that are associated with the Group's derivative financial instruments and that are not expected to be realized. Excluding these fair value losses, the Group's total equity at June 30, 2015, would have been \$52.8 million.

## BORROWINGS

### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans balances at June 30, 2015, and December 31, 2014:

USD thousands	MW	Maturity	Q2-15	Q4-14
Cassiopea	24.0	March 31, 2024	97,872	108,478
Helios ITA-3	10.0	September 30, 2027	33,208	36,932
Centauro	8.8	September 30, 2028	35,676	39,468
Helios ITA	6.4	September 30, 2024	28,490	31,050
Etrion Lazio	5.3	September 30, 2027	15,966	17,796
SVE	3.0	September 30, 2028	11,519	12,862
Sagittario	2.6	September 30, 2027	6,813	7,593
Salvador	70.0	June 1, 2033	165,064	164,024
Shizukuishi	24.7	September 30, 2032	19,676	5,005
Mito	9.3	December 30, 2032	23,471	5,334
<b>Total</b>	<b>164.0</b>		<b>437,755</b>	<b>428,542</b>

### Italian projects

The non-recourse project loans obtained by the Group's Italian subsidiaries to finance the construction of the Group's Italian solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At June 30, 2015, the Group had no undrawn amounts associated with these facilities. At June 30, 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Italian project loans.

### Chilean projects

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador, to finance the construction of Project Salvador matures in 2033. The loan was drawn in three tranches and bears an average fixed interest rate of 7.1%. At June 30, 2015, there were no undrawn amounts under this credit facility. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market.

In addition, Salvador has a local currency VAT credit facility with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial services company, to finance the VAT associated with the construction costs of Project Salvador. The VAT credit facility bears variable interest rates set every quarter plus a margin. The average applicable interest rate during the three months ended June 30, 2015, was approximately 6%. At June 30, 2015, there were no undrawn amounts under this credit facility.

At June 30, 2015, and December 31, 2014, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

### Japanese projects

The Group's Japanese subsidiaries that hold the 34 MW Mito and Shizukuishi projects entered into a senior secured financing agreement in Japanese yen to finance the construction costs of these projects. These Mito and Shizukuishi credit facilities mature in 2034 and bear TIBOR floating interest rates plus a margin of 1.3% and 1.4%, respectively, during the construction period of the solar plants.

The Mito and Shizukuishi non-recourse projects loans are 90% hedged during the operational period at an interest rate of 2.96% and 3.13% all-in, respectively, through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2015, and December 31, 2014.

At June 30, 2015, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

In addition, during 2014, the Group's Japanese subsidiaries entered into a VAT credit facility agreement in Japanese yen in order to finance the related VAT capital disbursements of the Shizukuishi and Mito projects. These VAT credit facilities have a term of three years and bear a variable interest rate plus a margin.

During the six months ended June 30, 2015, the Group's Japanese subsidiaries drew down under the senior financing agreement the amount of ¥3,920 million (\$32.1 million). As of June 30, 2015, the undrawn gross amount was ¥4,724 million (\$39.2 million). In addition, the Group's Japanese subsidiaries also drew down under the VAT credit facility the amount of ¥301 million (\$2.5 million). As of June 30, 2015, the undrawn gross amount was ¥547 million (\$4.5 million).

At June 30, 2015, and December 31, 2014, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

### Net debt reconciliation

The Group's adjusted net debt position, excluding non-cash items at June 30, 2015, and December 31, 2014, is as follows:

USD thousands	June 30 2015	December 31 2014
<b>Total borrowings as per IFRS</b>	<b>526,898</b>	<b>525,251</b>
Value added tax ("VAT") facility <sup>(1)</sup>	(28,170)	(26,895)
Accrued interest <sup>(2)</sup>	(3,233)	(3,507)
Transaction costs <sup>(2)</sup>	12,674	14,360
<b>Adjusted borrowings</b>	<b>508,169</b>	<b>509,209</b>
Cash and cash equivalents	(69,063)	(95,349)
<b>Adjusted net debt</b>	<b>439,106</b>	<b>413,860</b>

The Group's net debt increased during the first half of 2015 mainly due to foreign exchange differences (due to the weakening of the Euro exchange rate against the US dollar), partially offset by a decrease of \$26.3 million in the Group's cash and cash equivalents due to operational and investing activities and new debt acquired by the Japanese projects.

## Corporate borrowings

At June 30, 2015, the Group had €80 million of corporate bonds outstanding in the Norwegian bond market issued by the Company in April 2014 with an annual interest rate of 8.0% and a 5-year maturity. The carrying amount of the corporate bond as at June 30, 2015, including accrued interest net of transaction costs, was \$89.1 million (December 31, 2014: \$96.7 million). At June 30, 2015, and December 31, 2014, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

## OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (August 6, 2014: 334,022,657) and options to acquire 4,765,000 common shares of the Company (August 6, 2014: 6,020,000) issued and outstanding. The options expire at various dates between October 18, 2015, and April 28, 2018, with exercise prices in CAD\$ ranging between CAD\$0.66 and CAD\$1.59 per share.

In addition, the Company maintains the 2014 Restricted Share Unit Plan pursuant to which employees, consultants, directors and officers of the Group may be awarded restricted share units ("RSUs"). The RSUs have a contractual term of three years and are subject to certain time-based conditions and performance-based vesting conditions. In 2014, the Company granted 6,660,440 RSUs to certain employees of the Company under this long-term incentive plan, of which 6,622,116 RSUs were outstanding as of August 11, 2015.

## OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at June 30, 2015, and December 31, 2014.

## CAPITAL INVESTMENTS

The Group plans to allocate its unrestricted cash by prioritizing the Japanese market. Based on the current status of its advanced pipeline in Japan, the Company does not anticipate to begin construction until Q1-16. Equity required to build in Japan is on the order of \$0.6 million per MW, representing 20% of the total Capex per MW. The equity injection would be decreased by a development fee in the target amount of \$0.2 million per MW. Based on these metrics per MW in Japan and the existing unrestricted cash balance as of June 2015 of \$26.5 million, the Group should be in a position to build an additional 66 MW. Previously disclosed capital investments in 2015 for the construction of solar projects under development in Chile are not expected to be incurred in the current year due to Etrion's decision to postpone its plans to build the nearly 100 MW of projects that are shovel-ready. The Group will finance the development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

## Contractual commitments

The Group enters into EPC agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of June 30, 2015, the Group had contractual obligations over two years to acquire construction services in the amount of \$37.8 million related to the construction of the 34 MW Mito and Shizukuishi solar power projects in Japan. All of the contractual obligations will be funded from existing cash available or from future cash flows from operations with no additional capital investments to be made by the Group.

## Contingencies

On August 10, 2015, the Group received a litigation notice from an employee alleging unreconciled labor-related differences. Given the early stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported values of assets, liabilities, revenues, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believes to be relevant at the time the consolidated financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the consolidated financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results could differ from these assumptions and estimates, and such differences could be material.

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015, from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2014.

During the three and six months ended June 30, 2015, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2015.

## RELATED PARTIES

For the purposes of preparing the Company's condensed consolidated interim financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns through various investment companies approximately 24.3% of the Company's common shares. All related party transactions are made on terms equivalent to those made on an arm's length basis. The related party transactions disclosed in the notes to the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015, are summarized below.

## RELATED PARTY TRANSACTIONS

### Lundin Services BV

The Group receives professional services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. Both the Chairman and the Chief Executive Officer of Lundin Petroleum AB are directors of the Company. During the three and six months ended June 30, 2015, the Group incurred general and administrative expenses of \$42,000 and \$65,000 (2014: \$0.1 million and \$0.1 million), respectively from Lundin Services BV, and, at June 30, 2015, the Group had \$16,000 (December 31, 2014: \$7,000) outstanding in relation to these expenses.

### Lundin family

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue in April 2014. At June 30, 2015, total corporate bonds held by the Lundin family amounted to €9.9 million. During the three and six months ended June 30, 2015, the Group recognized \$0.2 million and \$0.4 million (2014: \$0.3 million and \$0.9 million), respectively, of interest expense and \$11,000 and \$21,000 (2014: \$14,000 and \$27,000), respectively, of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

## 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, the Chief Financial Officer, Cheryl Eversden, and the interim Chief Financial Officer, Garrett Soden, who is covering for Mrs. Eversden during her maternity/medical leave.

During the three and six months ended June 30, 2015, the Group recognized \$0.6 million and \$1.1 million (2014: \$0.5 million and \$1.0 million, respectively) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At June 30, 2015, the Group had \$nil outstanding to key management personnel for bonus compensation (2014: \$0.4 million).

## FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate risk exposures through interest rate swap contracts. However, the Group has not entered into any foreign exchange rate hedges as monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currencies.

The Company's management carries out risk management procedures with guidance from the Audit Committee and Board of Directors.

Refer to the Company's audited consolidated financial statements for the year ended December 31, 2014, for further details relating to the Group's financial risk management.

## DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments at June 30, 2015, and December 31, 2014, is as follows:

USD thousands	June 30 2015	December 31 2014
Interest rate swap contracts		
Current portion	7,969	8,203
Non-current portion	35,921	47,192
<b>Total derivative financial instruments</b>	<b>43,890</b>	<b>55,395</b>

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Italy and Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor and Tibor interest rate forward yield curve and an appropriate discount factor. At June 30, 2015, the Group had nine derivative financial instruments that qualified for hedge accounting (2014: seven).

During the six months ended June 30, 2015, the Group recognized a net fair value gain of \$6.2 million (2014: net fair value loss of \$4.3 million) net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

At June 30, 2015, and December 31, 2014, 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.

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

#### **CAPITAL REQUIREMENTS AND LIQUIDITY**

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

#### **MARKET RISKS**

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

#### **COST UNCERTAINTY**

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

### **NON-FINANCIAL RISKS**

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

#### **COMPETITION**

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

#### **PRICES AND MARKETS FOR ELECTRICITY**

Historically, the Group was not exposed to significant electricity market price risk as the majority of the revenues generated by its operating solar power projects in Italy are secured by long-term contracts based on a FiT. However, in Chile, the Company's subsidiary, Salvador, is exposed to market price risk associated with the electricity sold at the spot rate, which may fluctuate based on supply and demand 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 FiTs/PPAs, a change in renewable energy pricing policies and a change in taxation policies or the regulatory environment in the jurisdictions in which the Group operates. These uncertainties, all of which are beyond the Group's control, could have a material adverse effect on the Group's financial position and operating performance. In addition, if legal disputes arise relating to any of the Group's operations, the Group could be subject to legal claims and litigation within the jurisdiction in which it operates.

#### **RELIANCE ON CONTRACTORS AND KEY EMPLOYEES**

The ability of the Company to conduct its operations is highly dependent on the availability of skilled workers. The labor force in Europe and other parts of the world is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group.

The Group's business model relies on qualified and experienced contractors to design, construct and operate its renewable energy projects. There is a risk that such contractors are not available or that the price for their services impairs the economic viability of the Group's projects.

#### **DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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



## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan and Chile); 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 key drivers for growth; expectations with respect to future mining growth in Chile; and plans for 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; risks associated with the regulatory frameworks in the jurisdictions in which the Company operates, or expects to operate, including the possibility of changes thereto; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; the lack of confirmation or the reduction of the applicable FiT and the Market Price for electricity sales in Italy; uncertainties with respect to the impact of the new Italian FiT regime that came into effect in 2015; uncertainties with respect to the impact of the changes to the Japanese FiT regime that came into effect in 2015; the risk that the Company's solar projects may not produce electricity or generate revenues and earnings at the levels expected; the risk that the Company may not be able to renegotiate certain of its O&M contracts as anticipated; the risk that the construction or operating costs of the Company's projects may be higher than anticipated; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; 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 Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; and other factors, many of which are beyond the Group's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. In addition to the assumptions set out elsewhere in this MD&A, such assumptions include, but are not limited to: confirmation of the applicable FiT and spot market price for electricity sales in Italy; the ability of the Group to obtain the required permits in a timely fashion and project and debt financing on economic terms and/or in accordance with its expectations; the ability of the Group to identify and acquire additional solar power projects; expectations with respect to the declining impact of seasonality on the Group's business, assumptions with respect to the renegotiation of certain of the Company's O&M contracts and assumptions relating to management's assessment of the impact of the new Italian FiT regime. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at [www.sedar.com](http://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](http://www.sedar.com) or by visiting the Company's website at [www.etrion.com](http://www.etrion.com).



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# **ETRION CORPORATION**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

THREE AND SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED



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	Unaudited	

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED

Expressed in US\$'000

		Three months ended		Six months ended	
		Q2-15	Q2-14	Q2-15	Q2-14
	<b>Note</b>				
Revenue	<b>5</b>	17,060	17,764	27,447	26,131
Operating expenses	<b>6</b>	(8,585)	(7,123)	(16,593)	(14,622)
<b>Gross profit</b>		<b>8,475</b>	<b>10,641</b>	<b>10,854</b>	<b>11,509</b>
General and administrative expenses	<b>7</b>	(2,609)	(1,890)	(5,033)	(4,257)
Other income		39	187	16	187
Impairment	<b>8</b>	(2,468)	-	(2,468)	-
<b>Operating profit</b>		<b>3,437</b>	<b>8,938</b>	<b>3,369</b>	<b>7,439</b>
Finance income	<b>9</b>	15	22	3,667	170
Finance costs	<b>9</b>	(12,058)	(8,152)	(18,316)	(17,386)
<b>Net finance costs</b>		<b>(12,043)</b>	<b>(8,130)</b>	<b>(14,649)</b>	<b>(17,216)</b>
<b>(Loss) income before income tax</b>		<b>(8,606)</b>	<b>808</b>	<b>(11,280)</b>	<b>(9,777)</b>
Income tax (expense) recovery	<b>10</b>	(1,451)	(2,242)	(1,260)	135
<b>Loss for the period</b>		<b>(10,057)</b>	<b>(1,434)</b>	<b>(12,540)</b>	<b>(9,642)</b>
<b>Other comprehensive income (loss):</b>					
<b>Items that may be subsequently reclassified to profit and loss</b>					
Gain (loss) on currency translation		277	(497)	98	434
Gain (loss) on cash flow hedges (net of tax)		6,211	(4,277)	5,308	(7,953)
<b>Total other comprehensive income (loss)</b>		<b>6,488</b>	<b>(4,774)</b>	<b>5,406</b>	<b>(7,519)</b>
<b>Total comprehensive loss for the period</b>		<b>(3,569)</b>	<b>(6,208)</b>	<b>(7,134)</b>	<b>(17,161)</b>
<b>Loss attributable to:</b>					
Owners of the Company		(9,227)	(1,423)	(10,841)	(9,627)
Non-controlling interest	<b>12</b>	(830)	(11)	(1,699)	(15)
<b>Total comprehensive loss attributable to:</b>					
Owners of the Company		(2,751)	(6,197)	(5,486)	(17,146)
Non-controlling interest	<b>12</b>	(818)	(11)	(1,648)	(15)
<b>Basic and diluted loss per share</b>	<b>11</b>	<b>\$(0.028)</b>	<b>\$(0.005)</b>	<b>\$(0.032)</b>	<b>\$(0.031)</b>

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

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT JUNE 30, 2015

UNAUDITED

Expressed in US\$'000

		June 30 2015	December 31 2014
	<b>Note</b>		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	473,598	477,655
Intangible assets	14	27,352	30,942
Deferred income tax assets		11,982	14,426
Trade and other receivables		2,513	2,822
<b>Total non-current assets</b>		<b>515,445</b>	<b>525,845</b>
<b>Current assets</b>			
Trade and other receivables		57,322	46,918
Cash and cash equivalents (including restricted cash)	15	69,063	95,349
<b>Total current assets</b>		<b>126,385</b>	<b>142,267</b>
<b>Total assets</b>		<b>641,830</b>	<b>668,112</b>
<b>Equity</b>			
<b>Attributable to owners of the Company</b>			
Share capital	16	111,304	111,300
Contributed surplus		11,493	11,048
Other reserves		(24,179)	(29,837)
Accumulated deficit		(73,309)	(62,468)
<b>Total attributable to owners of the Company</b>		<b>25,309</b>	<b>30,043</b>
<b>Non-controlling interest</b>	12	<b>1,236</b>	<b>2,887</b>
<b>Total equity</b>		<b>26,545</b>	<b>32,930</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	18	484,249	454,969
Derivative financial instruments	19	35,921	47,192
Deferred income tax liabilities		427	480
Provisions		5,988	5,221
Other liabilities		21,995	21,503
<b>Total non-current liabilities</b>		<b>548,580</b>	<b>529,365</b>
<b>Current liabilities</b>			
Trade and other payables		12,562	24,110
Current tax liabilities	10	1,902	458
Borrowings	18	42,649	70,282
Derivative financial instruments	19	7,969	8,203
Provisions		-	784
Other liabilities		1,623	1,980
<b>Total current liabilities</b>		<b>66,705</b>	<b>105,817</b>
<b>Total liabilities</b>		<b>615,285</b>	<b>635,182</b>
<b>Total equity and liabilities</b>		<b>641,830</b>	<b>668,112</b>

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

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED

Expressed in US\$'000

	Attributable to owners of the Company					Total	Non-controlling interest	Total Equity
	Share capital	Contributed surplus	Other reserves	Accumulated deficit				
	<b>Note</b>							
<b>Balance at January 1, 2014</b>	<b>34,879</b>	<b>10,573</b>	<b>(11,981)</b>	<b>(45,765)</b>	<b>(12,294)</b>	<b>956</b>	<b>(11,338)</b>	
Comprehensive loss:								
- Loss for the period	-	-	-	(9,627)	(9,627)	(15)	(9,642)	
- Other comprehensive loss:								
Cash flow hedges (net of tax)	<b>9</b>	-	(7,835)	-	(7,835)	-	(7,835)	
Currency translation	-	-	434	-	434	-	434	
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(7,401)</b>	<b>(9,627)</b>	<b>(17,028)</b>	<b>(15)</b>	<b>(17,043)</b>	
Transactions with owners in their capacity as owners:								
- Share issuance	76,280	-	-	-	76,280	-	76,280	
- Stock options exercised	88	(34)	-	-	54	-	54	
- Share-based payments	-	129	-	-	129	-	129	
- Written call option	-	-	347	-	347	-	347	
- Non-controlling interest	-	-	-	-	-	1,234	1,234	
<b>Balance at June 30, 2014</b>	<b>111,247</b>	<b>10,668</b>	<b>(19,035)</b>	<b>(55,392)</b>	<b>47,488</b>	<b>2,175</b>	<b>49,663</b>	
<b>Balance at January 1, 2015</b>	<b>111,300</b>	<b>11,048</b>	<b>(29,837)</b>	<b>(62,468)</b>	<b>30,043</b>	<b>2,887</b>	<b>32,930</b>	
Comprehensive loss:								
- Loss for the period	-	-	-	(10,841)	(10,841)	(1,699)	(12,540)	
- Other comprehensive gain/(loss):								
Cash flow hedges (net of tax)	<b>9</b>	-	5,362	-	5,362	52	5,414	
Currency translation	-	-	88	-	88	(4)	84	
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>5,450</b>	<b>(10,841)</b>	<b>(5,391)</b>	<b>(1,651)</b>	<b>(7,042)</b>	
Transactions with owners in their capacity as owners:								
- Stock options exercised	4	(2)	-	-	2	-	2	
- Share-based payments	-	447	-	-	447	-	447	
- Written call option	-	-	208	-	208	-	208	
<b>Balance at June 30, 2015</b>	<b>111,304</b>	<b>11,493</b>	<b>(24,179)</b>	<b>(73,309)</b>	<b>25,309</b>	<b>1,236</b>	<b>26,545</b>	

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

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED

Expressed in US\$'000

		Three months ended		Six months ended	
		Q2-15	Q2-14	Q2-15	Q2-14
	<b>Note</b>				
<b>Cash flow (used in) from operating activities:</b>					
<b>Loss for the period</b>		<b>(10,057)</b>	<b>(1,434)</b>	<b>(12,540)</b>	<b>(9,642)</b>
Adjustments for:					
Depreciation and amortization expense (D&A)	<b>6/7</b>	5,800	5,279	11,372	10,551
Impairment	<b>8</b>	2,468	-	2,468	-
Current income tax expense	<b>10</b>	3,126	3,804	1,936	729
Deferred income tax recovery	<b>10</b>	(1,675)	(1,562)	(676)	(864)
Share-based payment expense	<b>7/17</b>	223	62	447	129
Interest expense	<b>9</b>	6,642	4,736	12,970	8,831
Interest expense relating to interest rate swap contracts	<b>9</b>	1,988	2,360	4,004	4,800
Amortization of transaction costs	<b>9</b>	332	280	663	510
Foreign exchange loss (gain)	<b>9</b>	2,759	(790)	(3,543)	180
Loss on derecognition of liability		-	1,033	-	1,033
Fair value changes associated with derivative financial instruments	<b>9</b>	180	266	257	1,450
Other (income) expenses		(1)	(187)	22	(187)
Interest income		(23)	(57)	(23)	(57)
<b>Sub-total</b>		<b>11,762</b>	<b>13,790</b>	<b>17,357</b>	<b>17,463</b>
Changes in working capital:					
(Increase) decrease in trade and other receivables		(5,153)	4,942	(10,095)	(12,035)
Decrease in trade and other payables		(8,804)	(1,109)	(17,198)	(2,213)
Income tax paid		(339)	(2,463)	(673)	(2,463)
<b>Total cash flow (used in) from operating activities</b>		<b>(2,534)</b>	<b>15,160</b>	<b>(10,609)</b>	<b>752</b>
<b>Cash flow used in investing activities:</b>					
Purchases of property, plant and equipment		(14,221)	(21,792)	(24,103)	(23,990)
Purchases of intangible assets		(363)	(1,780)	(698)	(3,348)
<b>Total cash flow used in investing activities</b>		<b>(14,584)</b>	<b>(23,572)</b>	<b>(24,801)</b>	<b>(27,338)</b>
<b>Cash flow from financing activities:</b>					
Interest paid	<b>18</b>	(7,882)	(7,694)	(12,789)	(10,413)
Interest paid relating to interest rate swap contracts		(1,541)	(1,834)	(3,908)	(4,873)
Interest income		23	57	23	57
Repayment of borrowings	<b>18</b>	(4,381)	(2,640)	(7,303)	(9,980)
Proceeds from borrowings	<b>18</b>	28,145	89,524	37,474	91,868
Repayment of Lundin loan facility	<b>20</b>	-	-	-	(18,394)
Proceeds from stock-options exercised	<b>17</b>	2	16	2	54
Contributions from non-controlling interest		-	5,486	-	5,486
Proceeds from the issuance of shares		-	-	-	76,280
<b>Total cash flow from financing activities</b>		<b>14,366</b>	<b>82,915</b>	<b>13,499</b>	<b>130,085</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(2,752)</b>	<b>74,503</b>	<b>(21,911)</b>	<b>103,499</b>
Effect of foreign exchange rate differences		1,211	(673)	(4,375)	(523)
Cash and cash equivalents at the beginning of the year		70,604	124,060	95,349	94,914
<b>Cash and cash equivalents at the end of the year</b>		<b>69,063</b>	<b>197,890</b>	<b>69,063</b>	<b>197,890</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED

Expressed in US\$'000 unless otherwise stated

### 1. GENERAL INFORMATION

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

Etrion is an independent power producer that develops, builds, owns and operates solar power generation plants. As of June 30, 2015, the Company owns 136.7 megawatt ("MW") of gross installed solar capacity in Italy, Chile and Japan, and has 27.3 MW of gross solar projects under construction in Japan. The Company is also actively developing greenfield solar power projects in Japan and Chile.

These condensed consolidated interim financial statements are presented in United States of America dollars ("\$" or "USD"), which is the Group's presentation currency. The Company's functional currency is the Euro. However, since the Group operates in Europe, the Americas and Asia and is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these consolidated financial statements has been presented in Euros ("€"), Canadian dollars ("CAD\$"), and Japanese yen ("¥").

The Company's Board of Directors approved these consolidated interim financial statements on August 11, 2015.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014. Certain reclassifications have been made to information from the prior year in order to conform to the current presentation. These condensed consolidated interim financial statements have been drawn up on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2014.

#### (b) GOING CONCERN

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015, 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 June 30, 2015, the Group had cash and cash equivalents of \$69.1 million, \$26.5 million of which was unrestricted and held at the parent level (December 31, 2014: \$95.3 million and \$33.9 million), and working capital of \$59.7 million (December 31, 2014: \$36.5 million). During the three and six months ended June 30, 2015, the Group incurred a net loss of \$10.1 million and \$12.5 million (2014: \$1.4 million and \$9.6 million), respectively. However, the Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these consolidated financial statements.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2015, do not include the adjustments that would result if the Group were unable to continue as a going concern.

#### (c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the three and six months ended June 30, 2015, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2015.

### 3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believes to be relevant at the time the condensed consolidated interim financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results may differ from the assumptions and estimates, and such differences could be material. There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2014.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 4. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors and used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("EBITDA"). The Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. While the Company's management has determined that the Company has only one reportable segment, the Company has decided to disclose additional information below as it believes that this information is useful for readers of the consolidated financial statements. The Group's electricity production in Italy is sold to the Italian state-owned company, Gestore Servizi Energetici ("GSE"), in Chile to the spot electricity market and in Japan to the Japanese public utility, Tokyo Electric Power Company ("TEPCO").

The Group's revenues, EBITDA and results can be presented as follows:

Three months ended	Q2-15			Q2-14		
	Renewable	Corporate	Total	Renewable	Corporate	Total
<b>Revenue</b>	<b>17,060</b>	-	<b>17,060</b>	<b>17,764</b>	-	<b>17,764</b>
Operating expenses (Opex)	(2,872)	-	(2,872)	(1,934)	-	(1,934)
General and administrative expenses (G&A)	(336)	(2,186)	(2,522)	(336)	(1,464)	(1,800)
Other income (expenses)	62	(23)	39	180	7	187
Impairment	-	(2,468)	(2,468)	-	-	-
<b>EBITDA</b>	<b>13,914</b>	<b>(4,677)</b>	<b>9,237</b>	<b>15,674</b>	<b>(1,457)</b>	<b>14,217</b>
Depreciation and amortization	(5,713)	(87)	(5,800)	(5,189)	(90)	(5,279)
Finance income	(34)	49	15	11	11	22
Finance costs	(7,332)	(4,726)	(12,058)	(5,120)	(3,032)	(8,152)
<b>Gain (loss) before income tax</b>	<b>835</b>	<b>(9,441)</b>	<b>(8,606)</b>	<b>5,376</b>	<b>(4,568)</b>	<b>808</b>
Income tax expense	(1,394)	(57)	(1,451)	(2,227)	(15)	(2,242)
<b>Net (loss) income for the period</b>	<b>(559)</b>	<b>(9,498)</b>	<b>(10,057)</b>	<b>3,149</b>	<b>(4,583)</b>	<b>(1,434)</b>

Six months ended	Q2-15			Q2-14		
	Renewable	Corporate	Total	Renewable	Corporate	Total
<b>Revenue</b>	<b>27,447</b>	-	<b>27,447</b>	<b>26,131</b>	-	<b>26,131</b>
Operating expenses	(5,390)	-	(5,390)	(4,250)	-	(4,250)
General and administrative expenses	(640)	(4,224)	(4,864)	(647)	(3,431)	(4,078)
Other income	3	13	16	180	7	187
Impairment	-	(2,468)	(2,468)	-	-	-
<b>EBITDA</b>	<b>21,420</b>	<b>(6,679)</b>	<b>14,741</b>	<b>21,414</b>	<b>(3,424)</b>	<b>17,990</b>
Depreciation and amortization	(11,203)	(169)	(11,372)	(10,372)	(179)	(10,551)
Finance income	(73)	3,740	3,667	154	16	170
Finance costs	(14,368)	(3,948)	(18,316)	(11,300)	(6,086)	(17,386)
<b>Loss before income tax</b>	<b>(4,224)</b>	<b>(7,056)</b>	<b>(11,280)</b>	<b>(104)</b>	<b>(9,673)</b>	<b>(9,777)</b>
Income tax (expense) recovery	(1,138)	(122)	(1,260)	213	(78)	135
<b>Net (loss) gain for the period</b>	<b>(5,362)</b>	<b>(7,178)</b>	<b>(12,540)</b>	<b>109</b>	<b>(9,751)</b>	<b>(9,642)</b>

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

	June 30, 2015			December 31, 2014		
	Renewable	Corporate	Total	Renewable	Corporate	Total
Property, plant and equipment	473,389	209	473,598	477,414	241	477,655
Intangible assets	25,879	1,473	27,352	25,168	5,774	30,942
Cash and cash equivalents	42,509	26,554	69,063	61,463	33,886	95,349
Other assets	68,616	3,201	71,817	61,771	2,395	64,166
<b>Total assets</b>	<b>610,393</b>	<b>31,437</b>	<b>641,830</b>	<b>625,816</b>	<b>42,296</b>	<b>668,112</b>
Borrowings	437,755	89,143	526,898	428,542	96,709	525,251
Trade and other payables	11,033	1,529	12,562	19,885	4,225	24,110
Other liabilities	74,112	1,713	75,825	83,836	1,985	85,821
<b>Total liabilities</b>	<b>522,900</b>	<b>92,385</b>	<b>615,285</b>	<b>532,263</b>	<b>102,919</b>	<b>635,182</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

UNAUDITED

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### 5. REVENUE

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Feed-in Tariff ("FiT")	12,675	16,061	18,479	23,470
Spot market price	4,385	1,703	8,968	2,661
<b>Total revenue</b>	<b>17,060</b>	<b>17,764</b>	<b>27,447</b>	<b>26,131</b>

The Group's operating revenues arise from the sale of electricity in Italy, Chile and Japan.

The Group receives revenues denominated in Euros, US dollars and Japanese yen from its operating solar projects. Revenues come from two components: (1) the FiT system, whereby a premium constant price is received for each kWh of electricity produced through a 20-year contract with the Italian or TEPCO, as applicable, and (2) the spot market price ("Market Price") received for each kWh of electricity generated in Chile and Italy.

### 6. OPERATING EXPENSES

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
O&M costs	1,328	995	2,390	1,914
Personnel costs	314	301	555	539
D&A	5,713	5,189	11,203	10,372
Property tax	411	578	824	1,063
Insurance	239	97	373	194
Land lease	59	54	110	109
Transmission costs	185	-	503	-
Other expense (income)	336	(91)	635	431
<b>Total Opex</b>	<b>8,585</b>	<b>7,123</b>	<b>16,593</b>	<b>14,622</b>

O&M costs of \$1.3 million (2014: \$1.0 million) and \$2.4 million (2014: \$1.9 million) for the three and six months ended June 30, 2014, respectively, relate to fees paid in connection with the operation and maintenance activities of the Group's operating solar power projects in Italy, Chile and Japan. The Group outsources these O&M services to third parties.

Transmission costs incurred during the three and six months ended June 30, 2015, relate to fees paid by electricity producers for the utilization of the private electricity grid in the Sistema Interconectado Central ("SIC") electricity network area in Chile to deliver electricity to final consumers.

### 7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Salaries and benefits	789	424	1,673	1,474
Board of directors fees	85	126	175	156
Share-based payments	223	62	447	129
Professional fees	904	833	1,538	1,429
Listing and marketing	161	131	289	252
D&A	87	90	169	179
Office lease	82	96	165	219
Office, travel and other	278	128	577	419
<b>Total G&amp;A</b>	<b>2,609</b>	<b>1,890</b>	<b>5,033</b>	<b>4,257</b>

During the three months ended June 30, 2015, general and administrative expenses of \$0.5 million (2014: \$1.8 million) representing internally-generated costs (\$0.4 million) and third-party costs (\$0.1 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Chile and Japan. **Note 14**

During the six months ended June 30, 2015, general and administrative expenses of \$0.7 million (2014: \$3.4 million) representing internally-generated costs (\$0.5 million) and third-party costs (\$0.2 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Chile and Japan. **Note 14**

### 8. IMPAIRMENT

During the three months ended June 30, 2015, and as a result of the challenging market environment to secure long-term power purchase agreements in Chile, the Company decided to impair the total costs of \$2.5 million capitalized as internally generated intangible assets associated with the development pipeline in Chile.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 9. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Finance income:</b>				
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	-	-	101	113
Foreign exchange gain	-	-	3,543	-
Other finance income	15	22	23	57
<b>Total finance income</b>	<b>15</b>	<b>22</b>	<b>3,667</b>	<b>170</b>
<b>Finance costs:</b>				
Interest expense:				
- Credit facilities and non-recourse loans <a href="#">Note 18</a>	4,616	3,673	9,190	6,904
- Interest rate swap contracts associated with non-recourse loans	1,988	2,360	4,004	4,800
- Corporate bond <a href="#">Note 18/20</a>	1,768	2,436	3,551	4,264
- Credit facility with related party <a href="#">Note 20</a>	-	-	-	181
- Credit facilities with non-controlling interests	481	214	905	351
- Amortization of transaction costs	414	335	774	597
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	4	3	4	1,037
- De-designated portion reclassified from other comprehensive income	72	89	146	179
Written call option over shares in subsidiary	104	174	208	347
Loss on derecognition of liability	-	1,033	-	1,033
Foreign exchange loss (gain)	2,759	(790)	-	180
Other finance costs	157	268	321	469
<b>Total finance costs before deducting amounts capitalized</b>	<b>12,363</b>	<b>9,795</b>	<b>19,103</b>	<b>20,342</b>
Amounts capitalized on qualifying assets	(305)	(1,643)	(787)	(2,956)
<b>Total finance costs</b>	<b>12,058</b>	<b>8,152</b>	<b>18,316</b>	<b>17,386</b>
<b>Net finance costs</b>	<b>12,043</b>	<b>8,130</b>	<b>14,649</b>	<b>17,216</b>

The Group has seven credit facilities outstanding obtained to finance the construction of its operating solar power projects in Italy and Japan. These credit facilities are hedged using interest rate swap contracts. In addition, the Group also has a fixed-rate credit facility that financed the construction of its solar power plant in Chile. Refer to [Note 18](#) and [Note 19](#) for further details on the Group's credit facilities and derivative financial instruments.

Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment. [Note 13](#)

During the three months ended June 30, 2015, the Group recognized a net fair value gain of \$6.2 million (2014: net fair value loss of \$4.3 million) net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

During the six months ended June 30, 2015, the Group recognized a net fair value gain of \$5.3 million (2014: net fair value loss of \$8.0 million) net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 10. INCOME TAXES

#### (a) INCOME TAX EXPENSE

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>Current income tax</b>				
Corporate income tax	(2,346)	(2,986)	(1,394)	(571)
Provincial income tax	(780)	(818)	(542)	(158)
<b>Total tax expense</b>	<b>(3,126)</b>	<b>(3,804)</b>	<b>(1,936)</b>	<b>(729)</b>
<b>Deferred income tax :</b>				
Current period	822	389	130	738
Tax benefits	853	1,173	546	126
<b>Total deferred recovery</b>	<b>1,675</b>	<b>1,562</b>	<b>676</b>	<b>864</b>
<b>Total income tax expense (recovery)</b>	<b>(1,451)</b>	<b>(2,242)</b>	<b>(1,260)</b>	<b>135</b>

During the three and six months ended June 30, 2015, the Group recognized current income tax expense of \$3.1 million and \$1.9 million (2014: \$3.8 million and \$0.7 million), respectively, associated with its operating solar power projects based on the forecasted effective tax rate expected during the year. Due to the seasonality of revenues generated from solar electricity in Italy, the Company recognized taxable gains during the three and six months ended June 30, 2015. The increase in the average useful life of solar assets in Italy generated higher taxable income, which was partially offset by the reduction of the tax rate in Italy from 34% to 27.5%.

During the three and six months ended June 30, 2015, the Group recognized a deferred income tax recovery of \$1.7 million and \$0.7 million (2014: \$1.5 million and \$0.8 million), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. In addition, due to spot price volatility in Chile, the Group recognized a tax benefit associated with tax losses accumulated during the period.

#### (b) CURRENT INCOME TAX LIABILITIES

	June 30 2015	December 30 2014
Corporate income tax	1,400	251
Provincial income tax	502	207
<b>Total current income tax liabilities</b>	<b>1,902</b>	<b>458</b>

### 11. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding during the period as follows:

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Loss attributable to owners of the Company	(9,227)	(1,423)	(10,841)	(9,627)
Weighted average number of thousand shares outstanding	334,092	313,958	334,087	313,957
<b>Basic and diluted loss per share</b>	<b>\$(0.028)</b>	<b>\$(0.005)</b>	<b>\$(0.032)</b>	<b>\$(0.031)</b>

Diluted loss per share is equal to basic loss per share, as, due to the losses recognized during the periods, the stock options outstanding have an anti-dilutive effect.

### 12. NON-CONTROLLING INTEREST

The Group's subsidiaries in which there is a non-controlling interest ("NCI") are PV Salvador SpA ("Salvador"), Shizukuishi Solar GK ("Shizukuishi") and Etrion Energy 1 GK ("Mito").

Salvador is a Chilean entity that owns the licenses, permits, and facilities to operate the 70 MW solar power plant in northern Chile ("Project Salvador"). Salvador is initially owned 70% by Etrion, 20% by Total Energie Developpement ("Total") and 10% by Solventus Chile SpA ("Solventus").

Mito and Shizukuishi are Japanese entities that own the licenses and permits to build and facilities to operate solar parks in Japan totaling 34 MW ("the Mito and Shizukuishi Projects"). Mito and Shizukuishi are owned approximately 87% by Etrion and 13% by Hitachi High-Tech ("HHT"). The Mito and Shizukuishi Projects are under construction and are expected to be fully operational by the end of 2015 and 2016, respectively. During the second quarter of 2015, three out of five solar park sites of the Mito project were completed and started producing electricity and revenue.

The non-controlling interest at June 30, 2015, of \$1.2 million (December 31, 2014: \$2.9 million) represents the 30% minority interest in Salvador held by Total and Solventus and the 13% minority interest of Mito and Shizukuishi held by HHT. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of Salvador, Mito and Shizukuishi, other than those imposed by the lending bank related to cash distributions.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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The summarized current and non-current net assets (liabilities) of the entities in which there is a non-controlling interest are as follows:

	June 30, 2015			December 31, 2014		
	Current	Non-current	Net	Current	Non-current	Net
Salvador	10,038	(6,925)	3,113	13,087	(4,286)	8,801
Mito	13,495	(11,901)	1,594	6,820	(6,270)	550
Shizukuishi	4,589	(3,879)	710	6,845	(5,502)	1,343
<b>Total net assets (liabilities)</b>	<b>28,122</b>	<b>(22,705)</b>	<b>5,417</b>	<b>26,752</b>	<b>(16,058)</b>	<b>10,694</b>

The summarized income statement for Salvador, Mito and Shizukuishi, including the portion allocated to NCI during the three months ended June 30, is as follows:

	Q2-15			Q2-14		
	(Loss) gain for the period	Comprehensive (loss) gain for the period	Comprehensive (loss) gain allocated to NCI	Loss for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI
Salvador	(2,795)	(2,795)	(838)	(39)	(39)	(11)
Mito	71	(43)	(6)	-	-	-
Shizukuishi	(8)	196	26	-	-	-
<b>Total</b>	<b>(2,732)</b>	<b>(2,642)</b>	<b>(818)</b>	<b>(39)</b>	<b>(39)</b>	<b>(11)</b>

The summarized income statement for Salvador, Mito and Shizukuishi, including the portion allocated to NCI during the six months ended June 30, is as follows:

	Q2-15			Q2-14		
	(Loss) gain for the period	Comprehensive (loss) gain for the period	Comprehensive (loss) gain allocated to NCI	Loss for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI
Salvador	(5,689)	(5,689)	(1,707)	(51)	(51)	(15)
Mito	70	278	37	-	-	-
Shizukuishi	(11)	172	22	-	-	-
<b>Total</b>	<b>(5,630)</b>	<b>(5,239)</b>	<b>(1,648)</b>	<b>(51)</b>	<b>(51)</b>	<b>(15)</b>

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### 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Solar power projects	Assets under construction	Equipment and furniture	Total
<b>Cost:</b>					
<b>At December 31, 2014</b>	<b>11,886</b>	<b>350,665</b>	<b>185,698</b>	<b>1,437</b>	<b>549,686</b>
Additions	-	-	30,124	984	31,108
Reclassification to solar power plants	-	192,938	(192,938)	-	-
Exchange differences	(1,012)	(13,111)	(15,802)	(125)	(30,050)
<b>At June 30, 2015</b>	<b>10,874</b>	<b>530,492</b>	<b>7,082</b>	<b>2,296</b>	<b>550,744</b>
<b>Accumulated depreciation:</b>					
<b>At December 31, 2014</b>	-	<b>70,722</b>	-	<b>1,309</b>	<b>72,031</b>
Charge for the period	-	10,476	-	235	10,711
Exchange differences	-	(5,484)	-	(112)	(5,596)
<b>At June 30, 2015</b>	-	<b>75,714</b>	-	<b>1,432</b>	<b>77,146</b>
<b>Net book value:</b>					
At December 31, 2014	11,886	279,943	185,698	128	477,655
<b>At June 30, 2015</b>	<b>10,874</b>	<b>454,778</b>	<b>7,082</b>	<b>864</b>	<b>473,598</b>

During the six months ended June 30, 2015, the Group capitalized as assets under construction \$29.2 million of incurred capital expenditures associated with the 34 MW solar power projects in Japan.

On January 10, 2015, and during the second quarter of 2015, Project Salvador in Chile and three solar park sites of the Mito project in Japan, respectively, achieved 100% production capacity, and the Company reclassified total construction costs to solar power project in accordance with the Group's accounting policies.

In addition, during the six months ended June 30, 2015, the Group capitalized \$0.8 million (2014: \$2.9 million) of borrowing costs associated with credit facilities obtained to finance the construction of Mito and Shizukuishi.

During the six months ended June 30, 2015, the Group recognized an increase in the dismantling costs associated with Project Salvador, resulting in an increase in the asset value of \$0.9 million and a corresponding increase in the dismantling provision.

### 14. INTANGIBLE ASSETS

	Goodwill	Licenses and permits	Internally generated intangibles and other	Total
<b>Cost:</b>				
<b>At December 31, 2014</b>	<b>1,595</b>	<b>30,393</b>	<b>2,540</b>	<b>34,528</b>
Additions	-	-	698	698
Impairment <a href="#">Note 8</a>	-	-	(2,468)	(2,468)
Exchange differences	(136)	(698)	(261)	(1,095)
<b>At June 30, 2015</b>	<b>1,459</b>	<b>29,695</b>	<b>509</b>	<b>31,663</b>
<b>Accumulated amortization:</b>				
<b>At December 31, 2014</b>	-	<b>3,213</b>	<b>373</b>	<b>3,586</b>
Charge of the period	-	713	154	867
Exchange differences	-	(110)	(32)	(142)
<b>At June 30, 2015</b>	-	<b>3,816</b>	<b>495</b>	<b>4,311</b>
<b>Net book value:</b>				
At December 31, 2014	1,595	27,180	2,167	30,942
<b>At June 30, 2015</b>	<b>1,459</b>	<b>25,879</b>	<b>14</b>	<b>27,352</b>

General and administrative expenses of \$0.7 million (2014: \$1.8 million), representing internally-generated costs (\$0.5 million) and third-party costs (\$0.2 million),

were capitalized during the period within intangible asset, as they directly related to the Group's business development activities. [Note 7](#)

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### 15. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents (including restricted cash) are held in banks in Canada, Luxembourg, Switzerland, Italy, United States of America, Japan and Chile with high and medium credit ratings assigned by international credit agencies. The fair value of cash and cash equivalents approximates their carrying value due to short maturities.

	June 30 2015	December 31 2014
Cash at banks	69,063	95,349
<b>Total</b>	<b>69,063</b>	<b>95,349</b>

Included within cash and cash equivalents is restricted cash related to the Group's solar power projects as follows:

	June 30 2015	December 31 2014
Unrestricted cash at parent level	26,554	33,886
Restricted cash at project level	42,509	61,463
<b>Total</b>	<b>69,063</b>	<b>95,349</b>

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

### 16. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,094,324 are issued and outstanding at June 30, 2015 (December 31, 2014: 334,082,657). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as and when declared by the Board of Directors. No dividends were declared during the three and six months ended June 30, 2015 and 2014.

### 17. SHARE-BASED PAYMENTS

The Company maintains an equity-settled stock option awards scheme for employees, consultants, directors and officers. All outstanding stock options have a contractual term ranging from five to ten years and generally vest over a period of three years with the exercise price set equal to the market price at the date of grant.

In addition, the Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, directors and officers. RSUs have a contractual term of approximately four years and have time-based and performance-based vesting conditions that are market and non-market based.

During the three and six months ended June 30, 2015, the Group recognized share-based payment expenses of \$0.2 million and \$0.4 million (2014: \$0.1 million and \$0.1 million), respectively, related to its stock option and RSU award schemes. **Note 7.** Changes in the Company's outstanding stock options and RSUs are as follows:

	Number of share options	Weighted average exercise price CAD\$
<b>At December 31, 2014</b>	<b>5,380,000</b>	<b>0.48</b>
Expired	(603,333)	0.60
Exercised	(11,667)	0.24
<b>At June 30, 2015</b>	<b>4,765,000</b>	<b>0.47</b>
<b>Stock options exercisable:</b>		
At December 31, 2014	4,081,333	0.52
<b>At June 30, 2015</b>	<b>3,719,333</b>	<b>0.51</b>

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

	Number of RSUs
<b>At December 31, 2014</b>	<b>6,660,440</b>
Cancelled	(38,324)
<b>At June 30, 2015</b>	<b>6,622,116</b>

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### 18. BORROWINGS

	Corporate bond	Project loans	Total
<b>At January 1, 2015</b>	<b>96,709</b>	<b>428,542</b>	<b>525,251</b>
Proceeds from loans	-	37,474	37,474
Repayment of loans and interest	(3,571)	(16,521)	(20,092)
Accrued interest	3,551	9,163	12,714
Amortization of transaction costs	169	607	776
Exchange difference	(7,715)	(21,510)	(29,225)
<b>At June 30, 2015</b>	<b>89,143</b>	<b>437,755</b>	<b>526,898</b>
- Current portion	1,200	41,449	42,649
- Non-current portion	87,943	396,306	484,249

At June 30, 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings and non-recourse project loans.

#### (a) CORPORATE BOND

At June 30, 2015, the Group had €80 million of corporate bonds outstanding in the Norwegian bond market issued by the Company in April 2014 at 8.0% annual interest with a 5-year maturity. The carrying amount of the corporate bond as at June 30, 2015, including accrued interest net of transaction costs, was \$89.1 million (December 31, 2014: \$96.7 million).

#### (b) NON-RECOURSE PROJECT LOANS

##### *Italian subsidiaries*

The non-recourse project loans obtained by the Group's Italian subsidiaries to finance the construction of the Group's Italian solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At June 30, 2015, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At June 30, 2015, the Group had no undrawn amounts associated with these facilities.

All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2015, and December 31, 2014.

##### *Chilean subsidiaries*

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador, to finance the construction of Project Salvador matures in 2033. The loan was drawn in three tranches and bears an average fixed interest rate of 7.1%. At June 30, 2015, there were no undrawn amounts under this credit facility. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market. The loan is accounted for using the amortized costs method based on

the effective interest rate. The fair value of this credit facility equals its carrying amount, as the impact of discounting is not significant given the fixed-rate terms of the loan.

In addition, Salvador has a local currency VAT credit facility with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial services company, to finance the VAT associated with the construction costs of Project Salvador. The VAT credit facility bears variable interest rates set every quarter plus a margin. The average applicable interest rate during the three months ended June 30, 2015, was approximately 6.0%. At June 30, 2015, there were no undrawn amounts under this credit facility.

##### *Japanese subsidiaries*

The Group's Japanese subsidiaries that hold the 34 MW Mito and Shizukuishi projects entered into a senior secured financing agreement in Japanese yen to finance the construction costs of these projects. These Mito and Shizukuishi credit facilities mature in 2034 and bear TIBOR floating interest rates plus a margin of 1.3% and 1.4%, respectively, during the construction period of the solar plants.

The Mito and Shizukuishi non-recourse projects loans are 90% hedged during the operational period at an interest rate of 2.96% and 3.13% all-in, respectively, through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2015, and December 31, 2014.

At June 30, 2015, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

In addition, during 2014, the Group's Japanese subsidiaries entered into a VAT credit facility agreement in Japanese yen in order to finance the related VAT capital disbursements of the Shizukuishi and Mito projects. These VAT credit facilities have a term of three years and bear a variable interest rate plus a margin.

During the six months ended June 30, 2015, the Group's Japanese subsidiaries drew down under the senior financing agreement the amount of ¥3,920 million (\$32.1 million). As of June 30, 2015, the undrawn gross amount was ¥4,724 million (\$39.2 million).

In addition, the Group's Japanese subsidiaries also drew down under the VAT credit facility the amount of ¥301 million (\$2.5 million). As of June 30, 2015, the undrawn gross amount was ¥547 million (\$4.5 million). During the three months ended June 30, 2015, the Japanese subsidiaries repaid ¥243 million (\$2.0 million) of the total outstanding amount of the VAT facility due to the collection of VAT receivables from the Japanese tax authorities.

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### 19. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2015	December 31 2014
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts		
- Current portion	7,969	8,203
- Non-current portion	35,921	47,192
<b>Total derivative financial liabilities</b>	<b>43,890</b>	<b>55,395</b>

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Italy and Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor and Tibor interest rate forward yield curve and an appropriate discount factor. At June 30, 2015, the Group had nine derivative financial instruments that qualified for hedge accounting (2014: seven).

At June 30, 2015, and December 31, 2014, 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.

### 20. RELATED PARTIES

For the purposes of preparing the Company's consolidated interim financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns directly and through various trusts approximately 24.3% of the Company's common shares (2014: 24.3%).

### (a) RELATED PARTY TRANSACTIONS

During the three and six months ended June 30, 2015, and 2014, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
<b>General and administrative expenses:</b>				
Lundin Services BV	42	110	65	112
<b>Finance costs:</b>				
Lundin Services BV:				
- Interest expense	-	-	-	232
- Transaction costs	-	-	-	7
Lundin family:				
- Interest expense	218	307	439	896
- Transaction costs	11	14	21	27
<b>Total transactions with related parties</b>	<b>271</b>	<b>431</b>	<b>525</b>	<b>1,274</b>

At June 30, 2015, and December 31, 2014, the amounts outstanding to related parties were as follows:

	June 30 2015	December 31 2014
<b>Current liabilities:</b>		
Lundin Services BV:		
- General and administrative expenses	16	7
Lundin family share in corporate bond	-	182
<b>Total current liabilities</b>	<b>16</b>	<b>189</b>
<b>Non-current liabilities:</b>		
Lundin family share in corporate bond	10,883	11,786
<b>Total non-current liabilities</b>	<b>10,883</b>	<b>11,786</b>
<b>Total amounts outstanding to related parties</b>	<b>10,899</b>	<b>11,975</b>

There were no amounts outstanding from related parties at June 30, 2015, or December 31, 2014.

#### *Lundin Services BV*

The Group receives professional services from Lundin Services BV ("Lundin Services"), a wholly-owned subsidiary of Lundin Petroleum AB. Both the Chairman and Chief Executive Officer of Lundin Petroleum AB are Directors of the Company.

#### *Lundin family*

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue completed in April 2014. As at June 30, 2015, the total corporate bonds held by the Lundin family amounted to €9.9 million.



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### (b) 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 and the Chief Financial Officer. Remuneration of key management personnel is as follows:

	Three months ended		Six months ended	
	Q2-15	Q2-14	Q2-15	Q2-14
Salaries and benefits	297	270	588	719
Pension costs	45	38	104	156
Board of Directors	75	125	150	63
Share-based payment	149	28	305	135
<b>Total remuneration</b>	<b>566</b>	<b>461</b>	<b>1,147</b>	<b>1,073</b>

The amounts outstanding to key management personnel were as follows:

	June 30	December 31
	2015	2014
Board of Directors	75	-
Other (bonus and pension costs payable)	-	389
<b>Total outstanding</b>	<b>75</b>	<b>389</b>

There were no amounts outstanding from key management personnel at June 30, 2015, or December 31, 2014.

## 21. COMMITMENTS

### *Contractual commitments*

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of June 30, 2015, the Group had contractual obligations over two years to acquire construction services in the amount of \$37.8 million related to the construction of the 34 MW Mito and Shizukuishi solar power projects in Japan. All of the contractual obligations will be funded from existing cash available or future cash flows from operations with no additional capital investments to be made by the Group.

## 22. SUBSEQUENT EVENT

On August 10, 2015, the Group received a litigation notice from an employee alleging unreconciled labor-related differences. Given the early stage of the legal process, the information typically required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets, has not been disclosed because the Company is unable to make a reliable estimate of the financial effects of the litigation. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself.