etrion

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2010

The following management 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 operations, financial performance and the current and future business environment. This MD&A, prepared as of March 8, 2011, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2010. Financial information is reported in United States dollars ("$"). However, as the Group primarily operates in Italy, certain financial information associated with the renewable energy projects is reported in Euros ("€"). At December 31, 2010, the €/$ exchange rate was 1.34 and the average exchange rate for 2010 was 1.32.

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" below.

HIGHLIGHTS

Operational

- Completion of five solar parks in Italy (Borgo Piave, Matino, Oria, Rio Martino and Ruffano) with a total capacity of 8.2 megawatts ("MW")
- Acquisition of the 32.7 MW Montalto solar park (comprised of the Cassiopea 23.9 MW and Centauro 8.8 MW solar power plants), the largest in Italy at the time of acquisition, from SunPower Corp. ("SunPower"), a US-based solar panel manufacturer and installer
- Acquisition of a portfolio of solar assets in Italy from Deutsche Bank, including 6.4 MW operational (Helios ITA), 10 MW permitted for construction (Helios ITA 3) and a development pipeline of more than 150 MW

Financial

- Closed non-recourse bank financing of $76.5 million (€57.1 million) from Natixis, WestLB and Mediocreval for the Borgo Piave, Helios ITA 3 (Brindisi and Mesagne) and Rio Martino solar power plants with a total capacity of 15.2 MW
- Generated the Group's first solar electricity revenue of $11.6 million (€8.7 million) during the year
- Raised $15.1 million (€11.8 million) through a private placement of 21 million common shares in order to satisfy Toronto Stock Exchange ("TSX") listing requirements as an industrial issuer
- Obtained a secondary listing on the NASDAQ OMX Stockholm exchange in Sweden on November 12, 2010
- Received shareholder approval for the reduction of the Company's accumulated deficit at December 31, 2010
- Completed the early adoption of International Financial Reporting Standards ("IFRS")
- Closed the legacy oil and gas office, reducing related general and administrative expenses
- Closed a $80.4 million (€60 million) credit facility with a subsidiary of Lundin Petroleum, the Company's former major shareholder

BUSINESS REVIEW

Etrion is a solar power producer focused on developing, building, owning and operating solar power plants. The Group currently owns 47 MW of operational, ground-based solar photovoltaic ("PV") power plants, has 10 MW of solar parks under construction and has approximately 200 MW of solar development pipeline in Italy.

Etrion focuses on countries with government incentives for solar power production, specifically Feed-in-Tariff ("FiT") environments like Italy. The Italian FiT is a 20-year commitment from the government to purchase 100% of a solar park's electricity production at a constant premium rate. As solar costs drop and the market evolves past FiT regimes, the Group's long-term focus will be on power purchase agreements ("PPAs") with industrial clients. Future growth will be driven by the development and acquisition of additional renewable power facilities under long-term contract in markets with high electricity prices and attractive solar irradiation.

2010 RESULTS AT A GLANCE

In 2010, the Group grew significantly through a combination of acquisitions and internal development of solar power projects in Italy and generated its first revenues from the sale of electricity. Revenues from the Company's solar parks were recognized at the dates of acquisition beginning on June 24, 2010 for Helios ITA, August 5, 2010 for Cassiopea and October 1, 2010 for Centauro. Financial highlights for the year ended December 31, 2010, for the Group's renewable energy segment are shown in the table below.

Renewable energy segment	**2010**
Revenue	$11,564,512
Renewable segment EBITDA(1)	8,436,354

Note:

(1) EBITDA represents earnings before interest, taxation, depreciation and amortization.

Production and pricing information for 2010 is as follows:

	kWh(1)	**Price(2) ($/kWh)**	**Revenue**
FiT revenues (based on actual production)(3)	20,939,315	0.46	9,632,085
Market Price revenues (based on evacuated production)(4)	19,324,270	0.10	1,932,427
			$11,564,512

Notes:

(1) Electricity produced is measured in kilowatt-hours ("kWh").

(2) Prices are received in Euros and have been translated at the average €/$ exchange rate for 2010 (1.32).

(3) The FiT is applied on kWh of electricity produced.

(4) The Market Price is the spot market price received in addition to the FiT on electricity produced ("Market Price"). The Market Price is based on evacuated production (electricity produced less transmission losses).

Financial results

- First solar power revenues in 2010 from the Cassiopea, Centauro and Helios ITA solar parks
- Positive EBITDA for the renewable energy segment of $8.4 million (€6.4 million)

Business developments

The Group has grown its renewable energy segment significantly through the acquisition and internal development of several solar power projects in Italy as follows:

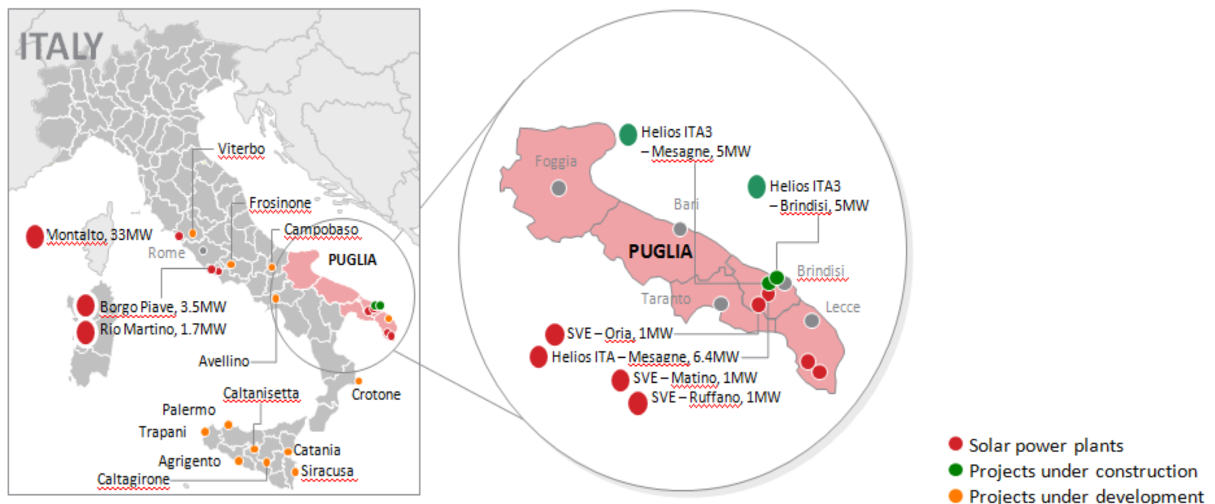
- Acquisition of Solar Resources Holding, Sarl ("SRH"), the Company's European subsidiary focusing on solar energy projects, in September 2009;
- Acquisition of the 3.0 MW SVE solar power project in October 2009;
- Acquisition of the Deutsche Bank solar assets (Helios ITA and Helios ITA 3) in April and June of 2010, which included 6.4 MW of operating solar parks, 10 MW of permitted projects ready for construction and a development pipeline of more than 150 MW in various stages of permitting;

- Development of the Borgo Piave solar power plant of 3.5 MW in July of 2010;
- Development of the Rio Martino solar power plant of 1.7 MW in August 2010; and
- Acquisition of the Montalto 32.7 MW project (Cassiopea and Centauro) in August and October 2010, respectively.

SOLAR ENERGY PROJECTS

The Group's business process can be described as going through four key phases: (1) site development; (2) project financing; (3) construction; and (4) operations. Phase 1 generally requires 12 to 24 months, during which time site surveys are carried out in order to identify the most favorable locations for planned solar power plants (considering solar irradiation levels and the FiT for the sale of electricity to the grid) and the necessary permits and grid connection authorizations are obtained. Phase 2 generally takes four to six months, during which the Group assesses and selects financing partners. Phase 3 takes approximately three to six months, during which the Group closes the financial aspects of the project, engages a turn-key engineering, procurement and construction ("EPC") contractor to build the solar power plant and ensures compliance with local regulations and FiT requirements. During an expected minimum period of 20 years, constituting phase 4, the Group operates the solar power plant by engaging an operations and maintenance ("O&M") contractor, and the project company generates cash flow and repays the non-recourse debt facilities incurred in connection with the project.

The following is an overview of the Group's solar power plant projects in Italy:



A summary of the Group's current projects is below:

Projects	Region	Number of sites	Capacity (MW)	Contractor	Status
Cassiopea	Lazio	1	23.9	SunPower	Operational
Centauro	Lazio	1	8.8	SunPower	Operational
Helios ITA	Puglia	7	6.4	Solon	Operational
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	SunPower	Operational
Etrion Lazio (Borgo Piave, Rio Martino)	Lazio	2	5.2	Phoenix	Operational
Helios ITA 3 (Brindisi and Mesagne)	Puglia	2	10.0	SunPower	Under construction
Total		**16**	**57.3**		
Operational		**12**	**47.3**		

Operating projects

Cassiopea and Centauro

The Cassiopea and Centauro solar projects are located on contiguous sites in Montalto di Castro in the Lazio region of Italy. At the time of acquisition, they were together the largest operating solar park in the country. Cassiopea, a 23.9 MW project, was connected to the grid in November 2009. Centauro, a 8.8 MW project, was connected to the grid in July 2010. Both projects are ground-mounted solar PV power plants that use SunPower's high efficiency modules with single axis tracker technology and SMA inverters.

Both projects have an O&M contract with SunPower, including preventive and corrective maintenance.

The Cassiopea project benefits from the 2009 FiT of $0.466 (€0.353) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh. The Centauro project benefits from the 2010 FiT of $0.457 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven different ground-mounted solar PV sites with a total capacity of 6.4 MW. The Helios ITA solar parks were built by Solon, a German solar panel manufacturer and installer. The plants use single axis trackers with polycrystalline modules and Santerno inverters.

Helios ITA has an O&M contract with Solon, including preventive and corrective maintenance.

Six of the Helios ITA solar parks (5.9 MW) benefit from the 2009 FiT of $0.466 (€0.353) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh, and the last park built (0.5 MW) benefits from the 2010 FiT of $0.457 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

SVE

The SVE project in Puglia, Italy consists of three ground-mounted solar PV parks: Oria (1.0 MW), Matino (1.0 MW) and Ruffano (1.0 MW). The SVE solar parks have SunPower high efficiency modules mounted on single axis trackers with Siemens inverters.

SVE has an O&M contract with SunPower, including preventive and corrective maintenance.

All three solar parks were completed by SunPower in December 2010 and benefit from the 2010 FiT of $0.457 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Originally, the SVE project included an additional 1 MW site in Spinazzola. This park encountered certain delays related to the original authorization for construction granted in 2009, and the Company's management is currently assessing whether to proceed with construction on this site in 2011.

Borgo Piave

The Borgo Piave solar park is located on one site in Lazio, Italy, with a total capacity of 3.5 MW. The Borgo Piave park is a ground-mounted solar PV power plant built by Phoenix Solar, a German PV system integrator, ("Phoenix") using Trina poly-crystalline modules installed on fixed-tilt structures with power conversion completed through SMA inverters. The Borgo Piave park was completed in December 2010 and is expected to be connected in March 2011.

Borgo Piave has an O&M contract with Phoenix, including preventive and corrective maintenance.

The project benefits from the 2010 FiT of $0.457 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Rio Martino

The Rio Martino solar park is located on one site in Lazio, Italy, with a total capacity of 1.7 MW. Rio Martino is a ground-based solar PV power plant using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. The Rio Martino park was completed in December 2010 and is expected to be connected in March 2011.

Rio Martino has an O&M contract with Phoenix, including preventive and corrective maintenance.

The project benefits from the 2010 FiT of $0.457 (€0.346) per kWh plus the Market Price of approximately $0.11 (€0.08) per kWh.

Projects under construction

Helios ITA 3

The Helios ITA 3 project includes two 5.0 MW ground-mounted solar PV parks under construction, Brindisi and Mesagne. Construction is expected to be completed by the end of July 2011 although this may be affected by a recent decree of the Italian government proposing amendments to the Italian FiT regime. Refer to "Market Overview" and "Risks and Uncertainties" below.

The Group has engaged SunPower to design, construct and provide O&M services for these plants using SunPower high efficiency modules mounted on single axis trackers with Siemens inverters.

Once connected, the Helios ITA 3 projects are expected to receive the applicable FiT available at that date plus the Market Price of approximately $0.11 (€0.08) per kWh.

MARKET OVERVIEW

The market for renewable energy sources, such as solar, biomass, wind, hydro and bio fuels, is driven by a number of different forces, such as legislative and policy support, cost of subsidies, technology, macroeconomic conditions and environmental concerns. The primary goal for solar energy producers is to obtain on-grid connection, resulting in solar energy complementing coal, natural gas and nuclear energy. The overall driver of the solar energy market is to realize grid parity, whereby the price of solar energy is competitive with the price of traditional sources of electricity. In order to achieve this, the conversion efficiency of solar modules needs to be increased, and the cost of constructing and operating PV systems needs to be reduced. The Company expects that some countries will reach grid parity within the next five years and expects Italy to be one of the first countries to achieve this due to its high solar irradiation and high electricity prices.

The Company believes that rising oil and gas prices, as well as global concerns over disruptions to supply and the environmental impacts of fossil fuels, improve the prospects for renewable sources of energy worldwide. The Company believes that sole dependency on fossil fuels is not sustainable in the long-term and, as a result, the use of alternative energy solutions provides an attractive complement long-term and is a policy priority for many countries like Italy.

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

- attractive government incentives, such as FiTs, capital subsidies and tax incentives;
- political commitment at global, national and regional levels to support the development and use of renewable sources of energy;
- increased concern about long-term climate change and focus on reducing carbon emissions from energy generation using fossil fuels;
- increasing global demand for energy due to population and economic growth combined with finite oil and gas reserves; and
- improving technologies and accelerated cost decreases for renewable energy, making renewable energy a competitive alternative.

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, has no harmful emissions and can be scaled to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from PV cells (PV energy) and energy generated from solar collectors (thermal energy or heat).

ITALIAN MARKET

Italy is Europe's second-largest producer of solar electricity after Germany. In 2005, the Italian government introduced a FiT system in order to encourage expansion of solar energy. The strong growth of solar energy since 2005 is largely attributable to the attractive FiT program, high irradiation rates and high electricity prices. The Italian state-owned company, Gestore Servizi Energetici ("GSE"), is responsible for managing the subsidy program, but the actual cost of the subsidy is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT program pays a premium constant purchase price for renewable electricity that is guaranteed by the Italian government for a period of 20 years. Since 2005, the Italian FiTs have been revised for new projects to account for the decreasing cost to build solar power generation. Although the FiTs continue to be reduced for new projects depending on the installation date, the development and operation of solar parks in Italy remains attractive as costs decrease.

In addition to FiTs, a spot market rate is applied to the electricity on a per kWh basis. The spot market rate in 2009 and 2010 averaged from $0.11 to $0.16 (€0.08 to €0.12) per kWh of energy produced.

A summary of actual FiTs received by the Group for its ground mounted solar power projects connected in 2009 and 2010 is as follows:

	Duration		FiT (per kWh)[1]	
Capacity of solar park	**2010**	**2009**	**2010**	**2009**
Greater than 0.02 MW	20 years	20 years	$0.457 (€0.346)	$0.466 (€0.353)

Note:

(1) Prices are quoted in Euros and have been translated at the closing €/$ exchange rate on December 31, 2010.

The Italian government recently issued a decree proposing revisions to the current FiT regime for new projects effective June 1, 2011. Pursuant to the decree, a new FiT regime is expected to be approved by April 30, 2011 and may include an annual cap on the overall capacity of solar PV plants eligible for the FiT, as well as a 1 MW cap for ground-mounted plants on agricultural land, among other restrictions. It is not yet known what the specific changes to the FiT regime would be or what effect, if any, these changes would have on the Company's projects under construction (Helios ITA 3) or development, but the Company's operational projects would not be affected.

MARKET OVERVIEW (CONTINUED)

COMPETITION

The solar energy industry is intensely competitive and the Group competes with a substantial number of developers, power producers and financial investors, many of which have greater financial and operational resources. Due to the oversupply and declining prices in the upstream solar market value chain (i.e., companies producing raw materials, manufacturing parts and modules), the current trend is that companies are moving downstream for better margins, creating more competition for Etrion. Depending on the financial climate, the Group may also face competition when seeking to raise equity or external debt for its planned projects. Once the Group has acquired the necessary land for a solar power plant, secured financing and fulfilled the requirements for the FiT, the Group is able to sell 100% of electricity produced to the grid at the FiT and spot market rates, similar to its competitors.

OTHER MARKETS

Incentive structures currently existing in many countries today (e.g., Germany, Spain, Greece and Canada) are a key driver for market growth. The aim of the incentives is to raise production of PV power in order to deliver greater efficiency and cost reductions within the PV energy industry.

The Group is actively working in the Italian market and is also exploring investment opportunities in other markets within Southern Europe and North America that offer generous government incentives, such as FiTs, capital subsidies and tax incentives.

PERFORMANCE DRIVERS

Etrion has identified the following key drivers of success for its solar energy operations:

- *Stable revenue:*
    - Premium price for solar electricity generation under long-term contract (FiT)
    - Annual solar irradiation varies less than 10%
    - Higher economic activity increases power demand and wholesale electricity prices
- *Minimal variable operating costs:*
    - Cost reduction through increased supply, competition and technological improvements in the upstream solar sector
    - Fixed price O&M contracts, including preventive and corrective maintenance
- *Financing and gearing of projects:*
    - Project financing of 80% to 85% using non-recourse loans
    - Vendor financing from some solar park contractors of up to 70% of construction costs
    - Long-term hedging arrangements to minimize interest rate risk

FINANCIAL REVIEW

Selected consolidated financial information for the Group for the years ended December 31, 2010, 2009 and 2008 is set out below. The figures for 2010 and 2009 are derived from the Company's audited consolidated annual financial statements prepared in accordance with IFRS, and the figures for 2008 are derived from the Company's audited consolidated annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Refer to "International Financial Reporting Standards Transition" below for changes made to previously reported financial information prepared in accordance with Canadian GAAP:

	2010	2009	2008
Revenue	**11,564,512**	**-**	**-**
Gross profit	**5,063,043**	**-**	**-**
Net loss	**(18,121,212)**	**(58,980,022)**	**(23,190,057)**
Adjustments for non-recurring items:			
- Impairment loss for oil and gas investments	-	44,046,990	6,824,974
- Impairment of other investments	-	-	350,000
- Exchange right non-cash compensation expense	4,778,437	892,024	-
- Guaranteed floor non-cash compensation	-	5,463,863	7,878,842
- Termination and severance payments	729,782	150,000	-
- Non-recurring professional service fees	1,816,513	-	-
Adjusted net loss	**(10,796,480)**	**(8,427,145)**	**(8,136,241)**
Basic and diluted loss per share (net loss)	(0.11)	(0.37)	(0.15)
Basic and diluted loss per share (adjusted net loss)	(0.06)	(0.05)	(0.05)
Net loss	**(18,121,212)**	**(58,980,022)**	**(23,190,057)**
Items not affecting cash:			
- Income tax (recovery)/expense	(587,451)	91,656	-
- Disposal of fixed assets	34,628	-	-
- Depreciation and amortization	5,990,181	233,784	112,964
- Impairment loss for oil and gas investments	-	44,046,990	6,824,974
- Impairment of other investments	-	-	350,000
- Guarantee fee	-	-	7,878,842
- (Gain)/loss on derivative financial instruments	(4,695,509)	415,625	-
- Share-based compensation (including exchange right)	5,644,097	1,566,597	797,365
- Provision for doubtful accounts	-	-	349,664
- Interest income	(52,987)	-	-
- Finance cost (net)	8,793,647	10,838	-
- Foreign exchange	297,843	-	-
- Changes in working capital	3,549,421	12,394,729	(1,368,973)
Operating cash flow	**852,658**	**(219,803)**	**(8,245,221)**
Total assets	**446,216,268**	**42,249,762**	**88,898,638**
Total non-current liabilities	**279,745,148**	**2,752,821**	**494,564**
Dividends declared	**-**	**-**	**-**

FINANCIAL RESULTS

For the year ended December 31, 2010, the Group reported a net loss of $18.1 million (2009: $59.0 million). Revenue of $11.6 million (2009: $nil) was generated from electricity sales from three of the Group's solar power projects (Cassiopea, Centauro and Helios ITA). This resulted in a positive gross profit for 2010 of $5.1 million. The net results for the year ended December 31, 2010, were adversely affected by non-recurring items of $7.3 million primarily related to non-cash compensation and acquisition-related expenses.

The results for 2010 are not comparable to the prior year due to the addition of the renewable energy segment in September 2009 and the Company's subsequent change of business focus.

Revenue

The Group reported its first revenues from the renewable energy segment in 2010. Revenues earned during the year were only recognized for part of the year according to the dates of acquisition - June 24, 2010 for Helios ITA (6.4 MW), August 5, 2010 for Cassiopea (23.9 MW) and October 1, 2010 for Centauro (8.8 MW) and were generated from the FiT and Market Price, both paid by an Italian state-owned company (as discussed in the "Market Overview" above), are as follows:

	kWh	Price[1] ($/kWh)	Revenue
Feed-in-Tariff revenues (based on actual production)[2]	20,939,315	0.46	9,632,085
Market Price revenues (based on evacuated production)[3]	19,324,270	0.10	1,932,427
			11,564,512

Notes:

(1) Prices received in Euros, translated at the average €/$ exchange rate for 2010 (1.32). Prices represent the average rounded price received for the applicable type of revenue during 2010.

(2) The FiT is applied on kWh of electricity produced.

(3) The Market Price is based on evacuated production (electricity produced less transmission losses).

The Group recognized no revenue from its renewable energy segment in 2009.

Operating costs

	2010
O&M costs	111,341
Depreciation and amortization	5,749,185
Insurance	305,117
Other operating expenses	335,826
Total operating expenses	**6,501,469**

O&M costs of $0.1 million (2009: $nil) relate to fees paid in connection with the operation and maintenance of the Group's solar power plants in Italy. The Group outsources the operation and maintenance of the plants to external third parties. The Group incurred no operating costs in 2009 as no solar power plants were operating during the period.

Depreciation and amortization of $5.7 million (2009: $nil) was recognized during the year in relation to solar power plants producing electricity in 2010.

General and administrative expenses

	2010	2009
Salary and compensation expense	4,717,905	2,313,671
Corporate and professional fees	4,023,738	2,749,224
Share-based compensation expense	5,644,097	1,566,598
Guaranteed floor non-cash compensation	-	5,463,863
Office expenses, including travel	2,390,554	2,372,264
Depreciation and amortization	240,996	233,784
Property cost	633,302	-
Listing and marketing fees	372,993	-
Taxes other than income tax	225,962	-
Other general administrative expenses	863,274	-
Total general and administrative expenses	**19,112,821**	**14,699,404**

The increase in general and administrative expenses to $19.1 million compared to 2009 of $14.7 million is primarily due to the acquisition of European subsidiaries in 2009 and 2010, the change of focus from being an oil and gas company to a solar power producer in 2009 and the subsequent increased level of activity in the renewable energy sector.

During the year ended December 31, 2010, the Group recognized $0.9 million (2009: $0.7 million) in expenses for the Company's equity-settled, share-based compensation plan. At December 31, 2010, the number of stock options outstanding was 8,052,200 (2009: 11,383,640). The share-based payment expense also includes $4.8 million (2009: $0.9 million) relating to the CEO's 10% interest in SRH. At December 31, 2009, $5.5 million was recognized in relation to the guaranteed floor on the exchange of €4.0 million; no amount was recognized for this in 2010. Refer to "Related Party Transactions" below.

Included within professional fees are non-recurring expenses of $1.3 million (2009: $nil), relating to the secondary listing on the NASDAQ OMX exchange in Sweden, the change in the Company's listing category on the TSX and acquisition-related expenses in 2010.

Depreciation of $0.2 million was recognized for the year ended December 31, 2010 (2009: $0.2 million) relating to depreciation of the Group's equipment and furniture. Depreciation and amortization associated with the Group's operating solar power plants is included within operating costs above.

Etrion does not capitalize general and administrative expenses.

Impairment

During 2009, an impairment loss of $44.0 million was recognized in relation to the Group's oil and gas investments. No impairment was recognized in 2010 as the carrying value of the available-for-sale investments was supported by the expected future dividends from these investments. The Group recognizes its oil and gas investments at cost less impairment as the fair values cannot be measured reliably.

Net finance costs

	2010	**2009**
Finance income	5,461,602	347,180
Finance costs	(10,120,487)	(489,152)
Total net finance costs	**(4,658,885)**	**(141,972)**

Finance income for the year ended December 31, 2010, relates primarily to fair value movements associated with the Group's interest rate swaps of $5.4 million and interest income earned on cash and cash equivalents of $0.1 million. In the comparable period of 2009, finance income related to interest income earned on cash and cash equivalents of $0.3 million and $0.1 million for fair value movements on the Company's outstanding warrants.

Finance costs for the year ended December 31, 2010, included interest expense of $9.2 million and fair value movements on derivative financial instruments of $0.7 million. In the comparable period of 2009, finance costs related to fair value movements on derivative financial instruments only. In 2010, the Group accrued and paid interest on five non-recourse loans associated with its solar power projects in Italy. The loan agreements bear interest at 6-month Euribor plus a variable margin, payable semi-annually until maturity. Transaction costs relating to these non-recourse loans are amortized using the straight-line method over the period of the associated loans. The interest expense for the year ended December 31, 2010, also included $1.6 million (2009: $nil) associated with the bridge loan provided by a subsidiary of Lundin Petroleum (the "bridge loan"), at an average interest rate of 3.9%. Refer to "Financial Position" and "Related Party Transactions" below.

Income tax

	2010	**2009**
Current income tax	685,194	91,656
Tax recovery	(256,363)	-
Deferred tax	(1,016,282)	-
Total income tax (recovery)/expense	**(587,451)**	**91,656**

During the year ended December 31, 2010, Etrion recognized a current income tax expense relating to taxable income generated in the Company's Swiss and Italian subsidiaries. During the comparable period of 2009, the Group recognized a current income tax expense relating to its Swiss subsidiary.

In February 2010, 5,000,000 warrants expired unexercised. In accordance with the Canadian Income Tax Act, the Company recognized a capital gain equal to the proceeds received for issuing the warrants, subject to tax at 50% of the Canadian corporate income tax rate. The tax cost of the expiry was recorded within equity, following the original treatment of this equity transaction. The Company applied unrecognized capital losses to reduce the current tax liability in 2010, resulting in a tax recovery of $0.3 million.

In addition, the Group recognized deferred tax of $1.1 million (2009: $nil) in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and the recognition of unrealized tax losses.

FINANCIAL POSITION

During 2010, the Group's net assets increased by $5.2 million from $29.6 million in 2009 to $34.8 million in 2010. The increase in net assets is primarily attributable to the private placement that took place during the year, raising $15.1 million. The acquisition of solar power projects in Italy was financed by the loan provided by Lundin Services as well as non-recourse financing provided at the project level. Refer to "Liquidity and capital resources" below.

Assets relating to the Group's solar energy segment, included within property, plant and equipment and intangible assets at December 31, 2010 amounted to $340.9 million (2009: $0.7 million) and $11.6 million (2009: $5.6 million), respectively, as outlined in Note 12 and 13 to the consolidated annual financial statements. The balances at December 31, 2010, related to the Group's solar power projects are as follows:

	2010	**2009**
Property, plant and equipment	340,883,025	715,774
Intangible assets	11,629,887	5,630,895
Total	**352,512,912**	**6,346,669**

Liquidity and capital resources

At December 31, 2010, the Group had cash and cash equivalents of $45.0 million (2009: $23.4 million), of which $40.3 million was restricted to solar power projects in Italy. In addition, the Group had a negative working capital of $73.3 million (2009: positive of $14.9 million) due to $75.2 million owed in relation to the bridge loan, including accrued interest and transaction costs, included within current borrowings.

The Group is well positioned to generate significant operating cash flows in 2011 from its solar power plants and expects to finance the construction of existing projects and the acquisition of new projects with a combination of cash and cash equivalents, additional equity or debt financing, vendor financing and non-recourse loans as required. Refer to "Going Concern" below.

Lundin Services BV bridge loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV ("Lundin Services"), a subsidiary of Lundin Petroleum, for up to $80.4 million (€60.0 million) in order to finance capital and operating expenditures of the Group. The bridge loan matures on November 15, 2011, and bears an interest rate of Euribor plus a margin of 3% until March 31, 2011, and plus a margin of 5% thereafter. Total transaction costs incurred to arrange the facility amounted to $0.4 million (€0.3 million).

During 2010, the Group borrowed $88.2 million (€67.0 million) from the bridge loan and repaid $15.1 million (€11.6 million), resulting in a balance outstanding at December 31, 2010 of $75.2 million (€56.1 million), including accrued interest and the amortization of transactions costs. At December 31, 2010, the undrawn facility amount was $6.2 million (€4.6 million), which expires at the maturity of the loan.

Non-recourse project loans

The non-recourse loans held by the Italian subsidiaries mature at various dates beyond 2011. Counterparties to the non-recourse loans do not have unconditional or unilateral discretionary rights to accelerate repayment at earlier dates. Therefore, the Group is somewhat protected from short-term liquidity fluctuations.

Below is a summary of the Group's non-recourse loans denominated in Euros, translated at the closing €/$ exchange rate at December 31, 2010:

	Size capacity (MW)	Financial institution	Maturity	Balance outstanding[1]
Cassiopea	23.9	BIIS [2], Societe Generale and WestLB	March 31, 2024	152,029,500
Centauro	8.8	Barclays	September 30, 2028	55,226,343
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2029	46,728,391
SVE[3]	3.0	Centrobanca	June 30, 2028	13,428,769
Etrion Lazio/Helios ITA 3[3]	15.2	Natixis, WestLB and Mediocreval	December 12, 2027	6,319,998
Total	**57.3**			**273,733,001**

Notes:

(1) Balances outstanding include the value added tax ("VAT") facilities associated with the loans.

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

(3) SVE, Etrion Lazio and Helios ITA 3 have not reached final drawdown and therefore the outstanding balances are likely to increase.

At December 31, 2010, the minimum principal repayment obligations are as follows:

	Repayment obligations
Less than 1 year	12,865,470
1 to 5 years	39,757,611
More than 5 years	221,109,920
Total	**273,733,001**

Outstanding share data

At March 8, 2011, the Company had 180,706,120 common shares and 7,497,200 options to purchase common shares issued and outstanding. During the year ended December 31, 2010, the Company issued 21.0 million common shares raising gross proceeds of $15.1 million through a private placement and issued 265,000 common shares as a result of stock options being exercised.

The stock options outstanding expire at various dates between June 12, 2013 and April 28, 2018, with exercise prices in Canadian dollars ("CAD$") ranging between CAD$0.25 and CAD$1.59 per share.

In addition, the Company's CEO has the right until September 11, 2014, to exchange his 10% equity interest in SRH for an equivalent value of shares in Etrion. Refer to "Related Party Transactions" below.

Reduction of accumulated deficit

As a result of various factors, including the Company's partial write-down of its oil and gas investments in the third quarter of 2009, losses associated with certain share-based compensation transactions and previous losses from operations, the Company incurred a substantial accumulated deficit not accurately represented by the realizable assets of the Company. In order to better reflect the Company's actual and expected capitalization and equity position, shareholders approved a resolution at an extraordinary general meeting in October 2010 to reduce the stated capital of the Company's common shares by an amount equal to the accumulated deficit of the Group at December 31, 2010.

After giving effect to the capital reduction, the Company's share capital was reduced by $106.0 million (2009: $nil) resulting in no accumulated deficit at December 31, 2010.

FOURTH QUARTER RESULTS

The following table contains selected consolidated financial information for the Group over the last eight quarters (presented in $'000, excluding per share data):

	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	4,605	6,833	127	-	-	-	-	-
Net loss	(4,019)	(6,376)	(4,190)	(3,536)	(4,897)	(50,926)	(1,579)	(1,578)
Basis and diluted loss per share	(0.02)	(0.04)	(0.02)	(0.02)	(0.03)	(0.32)	(0.01)	(0.01)

The Group reported a net loss of $4.0 million in the fourth quarter of 2010 compared to a net loss of $4.9 million in the comparable period of 2009.

The results for 2010 are not comparable to 2009 due to the addition of the renewable energy segment in September 2009. In addition, revenues from the Group's solar parks commenced in 2010 with no revenue for the comparative period of 2009.

Solar related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months. The revenue drop experienced in the fourth quarter of 2010 compared to the third quarter of 2010 is a result of this seasonality.

GOING CONCERN

The Company's consolidated financial statements for the year ended December 31, 2010, 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 come due into the foreseeable future.

During the year ended December 31, 2010, the Group incurred a net loss of $18.1 million (2009: $58.9 million) and entered into significant commitments related to the development of its solar parks in Italy. At December 31, 2010, the Group had unrestricted cash and cash equivalents of $4.7 million. The Group is confident that it will be able to fund its committed capital investment program and working capital requirements throughout 2011. However, internally generated cash flows will not be sufficient to repay the bridge loan of $75.2 million due in November 2011 or to develop the Group's renewable energy segment through further acquisition and development. Accordingly, the Group will need to refinance the bridge loan or raise additional funds through equity or debt financing.

Although the Company is confident that it will be able to refinance the bridge loan or complete the contemplated equity or debt financing by November 2011, there can be no assurance that these initiatives will be successful.

The Group's anticipated growth and development will also require the Group to seek additional funds. The Company's management anticipate that these funds will be obtained from a combination of cash on hand, additional debt or equity financing, vendor financing and non-recourse loans. Again, the Company cannot be certain that capital will be available when needed and as a result, the Group may need to pursue other credit facilities and/or delay discretionary expenditures.

As the Group does not have a secure source of funding to repay the bridge loan, the resulting shortfall in cash flows indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Company's consolidated annual financial statements do not include the adjustments that would result if the Group is unable to continue as a going concern.

PRIMARY AND SECONDARY LISTING

Etrion's shares trade on the TSX in Canada and the NASDAQ OMX Stockholm exchange in Sweden ("NASDAQ OMX") under the same ticker symbol, "ETX". The Company's shares trade on the TSX in CAD$ and on the NASDAQ OMX in Swedish krona ("SEK").

FINANCIAL REVIEW (CONTINUED)

Primary listing - TSX

The Company's primary listing is on the TSX. During February 2010, the TSX announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas to renewable energy. The TSX no longer considered the Company to be an oil and gas company and required it to demonstrate compliance with the TSX original listing requirements for an industrial issuer. The TSX review arose in connection with the Company's proposed application for a secondary listing on NASDAQ OMX.

In May 2010, the TSX conditionally approved the listing of the Company's common shares in the industrial category subject to certain conditions, including the completion of an equity financing resulting in net proceeds to the Company of at least $15 million. The Company completed the required financing on August 23, 2010, and satisfied the remaining continued listing conditions.

Secondary listing - NASDAQ OMX

In November 2010, the Company obtained a secondary listing on the NASDAQ OMX. At the same time, Lundin Petroleum, Etrion's former major shareholder, distributed its 40% ownership in Etrion to Lundin Petroleum shareholders. As a result of the distribution, the Group's most significant shareholder is the Lundin family, held through various trusts, which collectively own approximately 25% of the Company's share capital.

The secondary listing in Stockholm and the distribution of Lundin Petroleum's ownership in Etrion significantly expanded the Company's shareholder base and has increased its visibility among European investors. The Company's management believe that the NASDAQ OMX listing has enhanced the trading liquidity of the Company's shares and improved the Company's access to the European capital markets. Stock market liquidity on a major European exchange may also improve the attractiveness of the Company to potential European merger candidates.

Off-balance sheet arrangements

The Group has no off-balance sheet arrangements.

CAPITAL INVESTMENTS

RENEWABLE ENERGY SEGMENT

The Group plans to make capital investments in 2011 in order to acquire and build ground-mounted solar PV power plants in Italy. The following table summarizes the Group's committed 2011 capital expenditures for the projects under construction.

	Size capacity (MW)	Budgeted capital expenditures
Projects under construction		
Helios ITA 3 (Brindisi and Mesagne)[(1)]	10.0	6.8
Total 2011 committed capital expenditure	**10.0**	**6.8**

Note:

(1) Helios ITA 3 is 85% financed through a non-recourse loan. The budgeted 2011 expenditure represents the remaining equity contribution to be paid in 2011. The total committed expenditure is $44.9 million (€34.0 million), excluding VAT on the cost of construction.

Etrion plans to finance the acquisition and construction of its projects under development with a combination of cash and cash equivalents, additional equity or debt financing, vendor financing and non-recourse loans as required. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. For those projects with financing already secured through non-recourse loans, no additional capital contributions are expected, except for the amount shown in the table above.

CAPITAL INVESTMENTS (CONTINUED)

Projects under construction

The Group enters into EPC agreements with large international contractors in Europe that supply, design and build solar power plants. The Group entered into an EPC contract for each of the projects built during 2010 (SVE, Borgo Piave and Rio Martino). At December 31, 2010, the only EPC contract outstanding relates to the construction of Helios ITA 3.

Under the Helios ITA 3 EPC contract, SunPower will design and construct the two 5.0 MW solar parks in the Puglia region of Italy and will also provide O&M services. The total cost for constructing these power plants has been financed 85% through a long-term non-recourse loan.

OIL AND GAS INVESTMENTS

The Group does not expect cash calls from its oil and gas investments to fund 2011 capital expenditures.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In connection with the preparation of the Company's consolidated annual financial statements, the Company's management have made assumptions and estimates about future events and applied judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. The assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believe to be relevant at the time the consolidated annual financial statements are prepared. On a regular basis, the Company's management review 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 our assumptions and estimates, and such differences could be material. The Company's management believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated annual financial statements:

ACQUISITIONS

The Group accounts for business combinations in accordance with *IFRS 3(R), Business Combinations*, which requires measuring the acquired assets and liabilities assumed at fair value at the date of acquisition. The Company's management estimate the fair value of the acquired assets and liabilities using valuation techniques based on the forecasted EBITDA over the expected life (the term of the electricity sale agreements) of the business acquired. The calculations of the forecasted EBITDA are based on the financial models developed by the Company to value the projects, and these models include assumptions made by the Company's management that have been confirmed by external advisors, such as a fixed inflation growth rate to estimate future operating costs and future market prices for solar energy, a fixed interest rate to calculate future payments (i.e., not forecasted) based on the interest rate at the date of the valuation and operating variables such as plane of array irradiation, irradiation yield, degradation factor and transfer losses that are estimated by the Company's engineers based on historical atmospheric conditions in the area where the projects are located. The rate used to discount the EBITDA for the purposes of calculating the fair value of the acquired assets and liabilities is based on the current market assessment of risk. The models used to value the solar projects are complex and include a wide number of operating and financial variables and assumptions that are subject to changes as economic and market conditions vary. These changes affect the fair value of the acquired assets and liabilities and the amount of goodwill or negative goodwill recognized in the consolidated financial statements.

OIL AND GAS INVESTMENTS

The Company recognizes its investments in oil and gas companies at cost less impairment. The recoverable amount of the investments is calculated using the "expected cash flows approach". Under this approach, the Company's management estimate the future cash flows based on future production of proved and probable reserves from the business plan, the current and future prices of oil and gas and the budgeted capital and operating expenditures to maintain production. These undiscounted cash flows are then risk adjusted to reflect the probability that the Group will receive the future cash flows in the form of dividends. The reserve estimates are obtained from independent reserve studies and business plans, the future prices for oil and gas are based on current prices increased 2% per year, the capital and operating costs are based on the business plans and the risk adjusted probability to receive dividends is based on the history of dividend payments and information from the latest meetings with the board of directors of the investees. Any change in the economic circumstances may have a significant impact on the estimates and can result in impairment to the carrying value of the investments.

NON-CONTROLLING INTEREST

The Group's solar power investments are held through its 90% owned subsidiary, SRH. The remaining 10% interest is held by Marco Northland, the Chief Executive Officer and Director of the Company ("Mr. Northland"). The non-controlling interest is recognized as a liability which is measured as the higher of Mr. Northland's participation in SRH's net assets and the Company's minimum commitment of €4.0 million (guaranteed floor). When Mr. Northland's 10% participation in the net equity of SRH surpasses the €4.0 million guaranteed floor then the excess is recognized and disclosed as a non-controlling interest. Refer to "Related Party Transactions" below.

FAIR VALUE OF FINANCIAL AND DERIVATIVE INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management use judgment to select a variety of methods and verify assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtain fair value measurements from other third parties.

DEFERRED TAX ASSETS

There are differences between the tax base and the carrying amount of assets and liabilities that arise during the normal course of the business. The Group accounts for these differences in accordance with *IAS 12, Income Taxes*, which requires that deferred tax assets be recognized only to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimate future taxable profit based on the business models used to value the solar projects. Any changes in the estimates and assumptions for key operational and financial variables may affect the amount of deferred tax assets that the Group recognizes in the consolidated financial statements.

SHARE-BASED COMPENSATION

The Company maintains an equity-settled, share-based compensation plan, under which the entity receives services from employees and non-employees as consideration for equity instruments of the Company. In accordance with *IFRS 2, Share-based Payments*, the fair value of the share-based compensation is calculated using the Black-Scholes option-pricing model which requires the Company's management to estimate the expected volatility of the grant, the risk-free interest rate and the dividend yield. These variables are subject to change together with market and economic conditions, which may have a significant impact on the fair value of the stock options to which the share-based payment expense, amortized over the vesting period, is based.

INTERNATIONAL FINANCIAL REPORTING STANDARDS TRANSITION

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with the option to early adopt IFRS for periods beginning on or after January 1, 2009, upon receipt of approval from the Canadian securities and regulatory authorities.

On June 22, 2010, the British Columbia Securities Commission authorized the Company to file its consolidated annual financial statements in accordance with IFRS for the financial periods beginning on or after January 1, 2010.

The consolidated financial statements for the year ended December 31, 2010, have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee that are effective or available for early adoption for accounting periods beginning on January 1, 2010. The preparation of the consolidated financial statements resulted in changes to the accounting policies as compared with the most recent published audited consolidated financial statements for the year ended December 31, 2009 prepared under Canadian GAAP.

FIRST TIME ADOPTION

IFRS 1, First Time Adoption of International Accounting Standards ("IFRS 1"), sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. The Company has chosen to apply only the exemption relating to business combinations, which allows the Company to avoid restating its business combinations in order to comply with *IFRS 3 (revised), Business Combinations.*

As stated in Note 2 of the consolidated financial statements for the year ended December 31, 2010, these are the Company's first consolidated annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 of the consolidated financial statements for the year ended December 31, 2010, have been applied in preparing the consolidated annual financial statements, the comparative financial information for the year ended December 31, 2009, and the preparation of an opening IFRS balance sheet on the transition date, January 1, 2009. In preparing the Company's opening IFRS balance sheet at January 1, 2009, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

IMPACT OF TRANSITION

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not change the actual cash flows of the Company, the adoption resulted in changes to the reported financial position and results of operations of the Company for the year ending December 31, 2009, and the opening balance at January 1, 2009.

The conversion to IFRS impacts the way the Company presents its financial results and financial position. The Company's management and directors have extensive experience preparing and reviewing IFRS statements and key personnel have been trained to ensure a smooth transition to IFRS. Given the relatively early stage of the Group's renewable business segment and the relatively low complexity of the operations, the impact of the conversion to IFRS on the Group's accounting systems has been moderate. In the near future, the Company's management plan to integrate a consolidation and IFRS reconciliation software to improve the current reporting process. The Group's internal and disclosure control processes, as currently designed, have not required significant modifications as a result of its conversion to IFRS. The Group has assessed the impacts of adopting IFRS on its significant contractual agreements, including long-term agreements to build and operate solar energy plants, debt and hedging agreements and compensation agreements and have not identified significant compliance issues.

A qualitative and quantitative analysis has been performed in order to illustrate the differences between Canadian GAAP and IFRS for total current assets, total assets, total current liabilities, total liabilities, shareholders equity and net loss. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is disclosed in Note 4 of the consolidated financial statements for year ended December 31, 2010, and is summarized below.

The Group's financial position and performance as of and for the year ended December 31, 2009, was impacted by the transition to IFRS as follows:

	Reference	Canadian GAAP	Conversion adjustments	IFRS
Total current assets		24,778,734	-	24,778,734
Total assets	3,4	43,379,475	(1,129,713)	42,249,762
Total current liabilities	1,4	9,852,076	11,385	9,863,461
Total liabilities	1,	13,528,888	(912,606)	12,616,282
Total equity	1,2,3	29,850,587	(217,107)	29,633,480
Net loss	1,2,3,4,5,6	(59,057,078)	77,056	(58,980,022)

A summary of the adjustments made in order to present the Company's financial information in accordance with IFRS is as follows:

(1) ***Treatment of warrants:*** This IFRS adjustment relates to the treatment of warrants previously granted, which entitle the holder to acquire a fixed number of common shares for a fixed Canadian dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of comprehensive income as they arise within finance costs. Under Canadian GAAP, the warrants were classified as equity and changes in fair value were not recognized.

(2) ***Share-based payment expense:***This IFRS conversion adjustment relates to the accounting treatment for stock options granted by the Company. Under Canadian GAAP, the Company measured forfeitures based on an estimated number of forfeitures expected to be incurred. In addition, the Company used the straight-line method to recognize the graded-vesting features of the stock options. Under IFRS 2, Share-based Payments, the Company made an initial estimation of the expected number of forfeitures and subsequently adjusted this estimate to reflect the actual number of awards vested. In addition, each installment of the graded-vesting feature is treated as a separate award as each installment has a different vesting period.

(3) ***Foreign currency translation:*** This IFRS conversion adjustment relates to the difference associated with the translation of foreign currency transactions. Under Canadian GAAP, foreign subsidiaries were considered to be an extension of the Company's operations (i.e., not self-sustaining) and as a result, their functional currency was deemed to be the United States dollar with transactions and balances denominated in a different currency translated using current rates, historic rates and average rates depending on the nature of the transactions (i.e., monetary items, non-monetary items and profit and loss items). In accordance with *IFRS 21, The Effects of Changes in Foreign Exchange Rates*, an entity's functional currency is the currency of the primary economic environment in which the subsidiary operates.

(4) ***Deferred tax liability:*** This IFRS conversion adjustment relates to the reversal of a deferred tax liability recognized on an acquisition that did not meet the definition of a business combination under IFRS, which was allocated to intangible assets under Canadian GAAP. IFRS, *IAS 12 Income taxes*, prohibits the recognition of a deferred tax liability if it arises from the initial recognition of a specified asset or liability in a transaction that is not a business combination and did not affect accounting or taxable income at the time of the transaction and adjusted goodwill and deferred tax liabilities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS TRANSITION (CONTINUED)

(5) ***Acquisition costs relating to business combinations:*** *IFRS 1, First-time Adoption of International Financial Reporting Standards,* requires that consistent policies be applied from the date of transition to IFRS onwards. This means that *IFRS 3, Business Combinations (revised)* is applicable for the year ending December 31, 2009, and for the opening balance sheet as at January 1, 2009. The acquisition of the Company's European subsidiary, which took place in September 2009, applied the original IFRS 3 guidance which allowed acquisition costs to be capitalized. As a result, the Group reversed the acquisition costs previously capitalized.

(6) ***Foreign exchange gains or losses:*** This IFRS conversion adjustment relates to the reversal of foreign exchange gains and losses resulting from the translation of financial statements of a foreign subsidiary. Under Canadian GAAP, these exchange differences were recorded in the consolidated statement of comprehensive income within finance income/costs. In accordance with *IAS 21, The Effects of Changes in Foreign Exchange Rates*, these foreign exchange gains or losses are to be included within other comprehensive income and accumulated in the consolidated statement of changes in equity as a cumulative translation adjustment reserve.

RELATED PARTY TRANSACTIONS

For the purposes of preparing the consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under ordinary control, or can exercise significant influence over the other party in making financial and operational decisions as defined by *IAS 24, Related Party Disclosures*. The Group's major shareholder is the Lundin family, held through various trusts, which collectively own approximately 25% of the Company's share capital. Prior to November 2010, when the Company obtained a secondary listing on the NASDAQ OMX Stockholm exchange in Sweden, the largest shareholder of the Company was Lundin Petroleum BV, which held approximately 40% of the outstanding shares of the Company. The related party transactions disclosed in Note 25 of the consolidated financial statements for year ended December 31, 2010 are summarized below.

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.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives professional services (i.e., technical and legal) from Lundin Services, a wholly-owned subsidiary of Lundin Petroleum. The Chief Executive Officer of Lundin Petroleum is a Director of the Company. Services provided by Lundin Services are based on terms similar to non-arm's length transactions. In addition, the Company entered into a loan agreement with Lundin Services to draw up to $80.4 million (€60 million). At December 31, 2010, the Group had drawn $73.1 million (€55.4 million). Refer to "Financial Review" above.

Lundin Petroleum SA

The Group also receives professional services from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum.

Pacific Oil and Gas LLC

Pacific Oil and Gas, LLC is controlled by the former Vice Chairman of the Board, Clarence Cottman, and the Company's former President and Chief Executive Officer, William Gumma.

RELATED PARTY TRANSACTIONS (CONTINUED)

Marco Northland's exchange right and the Shareholders Agreement

Guaranteed floor

Upon the acquisition of SRH in 2009, the Company entered into a Shareholders Agreement (the "Agreement") with Mr. Northland, the Chief Executive Officer and Director of the Company, who holds the remaining 10% of SRH. The Agreement provides Mr. Northland with a right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in the Company with a guaranteed floor on the exchange of €4.0 million. Any portion of Mr. Northland's equity interest in SRH that has not been exchanged for shares of the Company at the end of the five-year period will be automatically exchanged. At December 31, 2010, the Group recognized a liability relating to this exchange right of $5.3 million (2009: $5.7 million) and in 2009 a non-cash compensation expense of $5.5 million for the excess of this liability over the fair value of Mr. Northland's 10% equity interest in SRH at the date of the acquisition. The Company will continue to recognize the fair value of the exchange right as a liability until such time as it is exercised or deemed to be exercised.

Carried interest on the initial investments

The Agreement also provides for any additional funds required by SRH in order to fund its operations up to €17.7 million to be paid by the Company on behalf of Mr. Northland without any fixed term of repayment. Upon the acquisition of SRH, the Group advanced $1.9 million (€1.4 million) to SRH as an intercompany loan which, under the Agreement, Mr. Northland is entitled to receive 10% of any payments of interest or principal there under. At December 31, 2010, the Group had not repaid any of the principal and the Company's management do not expect any payments to be made in the foreseeable future. As a result, no expense has been recognized in relation to Mr. Northland's right to receive 10% of any repayment of principal. If principal repayments or interest payments are subsequently expected to be made, Mr. Northland's entitlement would be expensed over the expected period of repayment.

Carried interest on the additional investments

The Agreement also requires the Company to issue loans to Mr. Northland for an amount up to €8.0 million to maintain Mr. Northland's 10% interest in any future equity investments made by the Company into SRH. The Company has accounted for the carried interest in accordance with *IFRS 2, Share-based Payments*. During 2010, $4.8 million ($0.9 million) was recognized in relation to this arrangement.

RISKS AND UNCERTAINTIES

The Company's activities expose it to a variety of financial and non-financial risks and uncertainties, which 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 team 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.

Financial risks

Financial risks such as interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk, as well as the derivative instruments used by the Company to mitigate against these risks, is disclosed in Note 24 to the consolidated financial statements for the year ended December 31, 2010.

Licenses and permits

The operations of the Company require licenses and permits from various governmental authorities that are subject to changes in regulation and operating circumstances. There is no assurance that the Company will be able to obtain all necessary licenses and permits required to develop future renewable energy projects and to begin selling electricity. At the date of this report, all necessary licenses and permits have been obtained, and the Company is complying in all material respects with the terms of such licenses and permits.

Competition

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

Cost uncertainty

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

Prices and markets for electricity

Although the Group focuses on developing renewable energy projects in jurisdictions that provide long-term FiTs, a portion of the Company's revenues is derived from the spot market, and pricing for the sale of electricity may be subject to change based on economic, political and other conditions.

Capital requirements and liquidity

Until the Group is able to generate profits internally from its renewable energy projects, it will require significant external funding for its ongoing activities and to pursue additional business opportunities. From time to time, the Group may require additional financing in order to carry out its investment, acquisition and development activities. The Group anticipates that it will make substantial capital expenditures related to renewable energy projects in the future. Failure to obtain such financing on a timely basis could cause the Group to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material impact on the Group's business model, financial position and performance.

Debt financing

The Group anticipates financing a significant portion of the capital costs associated with the construction and development of its renewable energy projects through project or vendor financing. 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 that may arise. Failure to comply with facility covenants and obligations could also subject the Group to the risk of seizure or forced sale of some or all of its assets.

Governmental regulation

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on the current and future economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar projects and adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and to continue operating in current markets. Specifically, further reductions to FiTs could impact the profitability of the Group's solar park projects. Without limiting the generality of the foregoing, the Italian government recently issued a decree proposing revisions to the current FiT regime, to take effect June 1, 2011. Pursuant to the decree, a new FiT regime is expected to be approved by April 30, 2011 and may include an annual cap on the overall capacity of solar PV plants eligible for the FiT, as well as a 1 MW cap for ground-mounted plants on agricultural land, among other restrictions. It is not yet known what the specific changes to the FiT regime would be or what effect, if any, these changes would have on the Company's projects under construction or development, but the Company's current operational projects would not be affected.

RISKS AND UNCERTAINTIES (CONTINUED)

International operations

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

Reliance on contractors and key employees

The ability of the Group to conduct its operations is highly dependent on the availability of skilled workers. The labor force in Europe is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Group 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 requires Etrion to rely 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 the price for their services impairs the economic viability of the Group's projects.

DISCLOSURE CONTROLS & INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109, the Chief Executive Officer and Chief Financial Officer are required to carry out an evaluation of the following:

- the design and effectiveness of the Group's disclosure controls and procedures ("DC&P"); and
- the design and 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. National Instrument 52-109 allows for a scope limitation on the scope of design of DC&P and ICFR to exclude controls, policies and procedures in respect of any business acquired not more than 365 days before the end of the relevant financial period.

Accordingly, the acquisitions by the Group that took place during 2010 have been excluded from the Company's management assessment of the Group's DC&P and ICFR, as the operations of these newly acquired entities were not yet integrated into the Group's internal controls, policies and procedures. The Company's management is currently in the process of revising the Group's internal control structure to incorporate the newly acquired subsidiaries. The following table shows the summarized financial information for the excluded subsidiaries within the Group's consolidated financial statements for the year ended December 31, 2010:

	Excluded subsidiaries	Group total
Selected financial data		
Total assets	409,871,776	446,216,268
Total liabilities	372,007,170	411,439,170
Equity	37,864,606	34,777,098
Net gain/(loss) for the year then ended	83,679	(18,121,212)

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 financing and development of Etrion's solar projects in Italy; the anticipated construction and development costs of such projects; the potential production capacity of such projects; the timing of the expected sales of electricity from such projects; expected EBITDA from certain solar projects; various potential acquisitions currently being negotiated by Etrion; prospects for development of early stage projects that require additional permitting; the oil and natural gas production of the Mixed Companies; general and administrative expenses; planned growth and development; contractual obligations; future plans, objectives and results; expected trading liquidity of the Company's shares; and expected access to capital markets. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and assumptions, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the receipt or timing of required permits to obtain and construct renewable energy projects and to begin selling electricity there from; uncertainties with respect to the availability of suitable additional renewable energy projects; the possibility of project cost overruns or unanticipated costs and expenses or delays in construction, uncertainties relating to the availability and costs of financing needed in the future; the possibility that some or all of the acquisitions being negotiated by Etrion will not be completed; the possibility that certain early stage projects that Etrion currently expects to develop may prove to be uneconomic or otherwise unsuitable for development; possible changes in the regulatory regimes in the jurisdictions where the Company proposes to develop renewable energy projects; assumptions as to the prices at which the Group will be able to sell electricity from its projects and an assumption that the Group will be able to realize EBITDA margins for its projects that are equivalent to the average margins for similar projects; being a minority partner in the Mixed Companies; the uncertainty of timing and amount of dividends from the Mixed Companies; the possibility that Etrion may be subject to cash calls from the Mixed Companies to fund their operations; the possible imposition of higher royalties and income taxes; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; volatility in electricity and oil and gas prices; interest rates; opportunities available to or pursued by the Company; and other factors, many of which are beyond our 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. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent annual information form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived from them. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

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