

The logo for etrion, featuring the word "etrion" in a white, lowercase, sans-serif font centered within a solid red rectangular background with rounded corners.

etrion

Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011
(Unaudited)

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Condensed Consolidated Statement of Comprehensive Income

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$

	Note	Three months ended June 30		Six months ended June 30	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue	6	17,829	127	25,106	127
Operating costs	7	(4,896)	(38)	(9,729)	(38)
Gross profit		12,933	89	15,377	89
General and administrative expenses	8	(4,039)	(3,169)	(7,673)	(6,185)
Other (expenses)/income	9	(539)	-	1,386	-
Operating income/(loss)		8,355	(3,080)	9,090	(6,096)
Finance income	10	320	100	2,125	278
Finance costs	10	(8,493)	(1,166)	(12,833)	(2,105)
Net finance costs		(8,173)	(1,066)	(10,708)	(1,827)
Gain/(loss) before income tax		182	(4,146)	(1,618)	(7,923)
Income tax (expense)/recovery	11	(2,306)	(45)	(2,027)	197
Loss for the period		(2,124)	(4,191)	(3,645)	(7,726)
Other comprehensive (loss)/income net of tax:					
Gain/(loss) on foreign currency translation adjustment		262	(1,110)	1,664	(1,726)
Changes in fair values of cash flow hedges (net of tax)		(2,414)	-	2,110	-
Total other comprehensive (loss)/income		(2,152)	(1,110)	3,774	(1,726)
Total comprehensive (loss)/income for the period		(4,276)	(5,301)	129	(9,452)
Loss attributable to:					
Owners of the parent company		(2,124)	(4,191)	(3,645)	(7,726)
Total comprehensive (loss)/income attributable to:					
Owners of the parent company		(4,276)	(5,301)	129	(9,452)
		\$	\$	\$	\$
Basic and diluted loss per share	12	(0.01)	(0.03)	(0.02)	(0.05)

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

Condensed Consolidated Interim Balance Sheet

As at June 30, 2011

Unaudited

Expressed in US\$

	Note	June 30, 2011 \$'000	December 31, 2010 \$'000
Assets			
Non-current assets			
Property, plant and equipment	13	392,593	341,225
Intangible assets	14	16,586	14,785
Available for sale investments		10,434	10,401
Derivative financial instruments	19	1,903	1,247
Trade and other receivables		27,085	20,175
Total non-current assets		448,601	387,833
Current assets			
Trade and other receivables		34,714	13,359
Cash and cash equivalents and restricted cash	15	45,224	45,024
Total current assets		79,938	58,383
Total assets		528,539	446,216
Equity and liabilities			
Attributable to owners of the Company			
Share capital	16	23,293	16,741
Contributed surplus		15,549	15,295
Other reserves		6,515	2,741
Accumulated deficit		(3,645)	-
Total equity		41,712	34,777
Liabilities			
Non-current liabilities			
Borrowings	18	379,537	260,868
Derivative financial instruments	19	4,814	8,830
Deferred tax liabilities		8,914	8,762
Provisions and other liabilities		4,704	1,285
Total non-current liabilities		397,969	279,745
Current liabilities			
Trade and other payables		22,656	35,931
Current tax liabilities	11	3,940	1,997
Borrowings	18	55,160	88,089
Derivative financial instruments	19	6,232	4,807
Provisions and other liabilities		870	870
Total current liabilities		88,858	131,694
Total liabilities		486,827	411,439
Total equity and liabilities		528,539	446,216

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, 2011

Unaudited

Expressed in US\$

	Attributable to owners of the Company					Total	Non-controlling interests	Total
	Note	Share capital \$'000	Contributed surplus \$'000	Other reserves \$'000	Accumulated deficit \$'000			
Balance at January 1, 2010		107,557	10,341	(375)	(87,889)	29,634	-	29,634
Comprehensive loss:								
- Loss for the period		-	-	-	(7,726)	(7,726)	-	(7,726)
- Other comprehensive loss:								
Currency translation adjustment		-	-	(1,726)	-	(1,726)	-	(1,726)
Total comprehensive loss		-	-	(1,726)	(7,726)	(9,452)	-	(9,452)
Transactions with owners in their capacity as owners:								
- Non-controlling interests on acquisition of subsidiary		-	-	-	-	-	237	237
- Stock options exercised		150	(58)	-	-	92	-	92
- Share-based payments		-	1,799	-	-	1,799	-	1,799
- Tax effect of expiration of warrants		-	(238)	-	-	(238)	-	(238)
Balance at June 30, 2010		107,707	11,844	(2,101)	(95,615)	21,835	237	22,072
Balance at January 1, 2011		16,741	15,295	2,741	-	34,777	-	34,777
Comprehensive income:								
- Loss for the period		-	-	-	(3,645)	(3,645)	-	(3,645)
- Other comprehensive gain:								
Cash flow hedges (net of tax)	10	-	-	2,110	-	2,110	-	2,110
Currency translation adjustment		-	-	1,664	-	1,664	-	1,664
Total comprehensive income		-	-	3,774	(3,645)	129	-	129
Transactions with owners in their capacity as owners:								
- Equity-based financing fee	16	5,596	-	-	-	5,596	-	5,596
- Stock options exercised	17	956	(396)	-	-	560	-	560
- Share-based payments	17	-	650	-	-	650	-	650
Balance at June 30, 2011		23,293	15,549	6,515	(3,645)	41,712	-	41,712

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

Condensed Consolidated Interim Statement of Cash Flows

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$

	Note	Three months ended June 30		Six months ended June 30	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash flow from operating activities					
Loss for the period		(2,124)	(4,191)	(3,645)	(7,726)
Adjustments for:					
Depreciation and amortization	7, 8	4,564	71	8,851	112
Net loss on the sale of assets		-	17	-	27
Current income tax expense	11	4,899	22	3,235	41
Deferred tax expense/(recovery)	11	(2,593)	23	(1,208)	(238)
Share-based payment expense	8, 17	311	807	643	1,799
Interest expense	10	5,023	635	8,435	781
Interest expense relating to interest rate swap contracts	10	2,075	-	3,094	-
Amortization of transaction costs	10	274	-	441	-
Foreign exchange gain	10	(129)	-	(558)	-
Changes in fair values of derivative instruments	10	507	509	(1,448)	1,278
(Increase)/decrease in trade and other receivables		(17,368)	779	(28,258)	(1,900)
(Decrease)/increase in trade and other payables		(2,650)	143	(5,096)	(1,131)
Income tax paid		(576)	-	(1,519)	-
Total cash flow used in operating activities		(7,787)	(1,185)	(17,033)	(6,957)
Cash flow from investing activities					
Purchases of property, plant and equipment	13	(30,865)	(7,284)	(31,796)	(7,569)
Purchases of intangible assets	14	(906)	(6,479)	(906)	(6,817)
Purchases of investments		-	(369)	-	(369)
Acquisition of subsidiaries (net of cash acquired)		-	(1,492)	-	(1,492)
Total cash flow used in investing activities		(31,771)	(15,624)	(32,702)	(16,247)
Cash flow from financing activities					
Interest paid		(2,739)	(351)	(7,230)	(466)
Interest paid relating to interest rate swap arrangements		(1,033)	-	(3,069)	-
Repayment of shareholder loan at acquisition date		-	(2,786)	-	(2,786)
Repayment of borrowings	18	(83,146)	(1,038)	(85,579)	(1,038)
Proceeds from borrowings	18	139,280	37,672	141,721	37,672
Proceeds from stock options exercised	17	191	92	560	92
Total cash flow from financing activities		52,553	33,589	46,403	33,474
Net increase/(decrease) in cash and cash equivalents and restricted cash					
		12,995	16,780	(3,332)	10,270
Effect of exchange rate differences		624	(2,957)	3,532	(3,131)
Cash and cash equivalents and restricted cash at the beginning of the period		31,605	16,763	45,024	23,447
Cash and cash equivalents and restricted cash at the end of the period		45,224	30,586	45,224	30,586

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

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

1. General information

Etrion Corporation (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”.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on August 9, 2011. These condensed consolidated interim financial statements have been reviewed, in accordance with the Canadian Auditing Standards, but have not been audited.

The Group is primarily focused on acquiring, developing, building, owning and operating solar power plants in Italy.

These condensed consolidated interim financial statements are presented in US dollars (“\$”). However, since the functional currency of the Company (i.e., the primary economic environment in which the Company operates) is Euros and the Company’s primary listing is in Canada, certain financial information within the notes to the condensed consolidated interim financial statements has been presented in Euros (“€”) and Canadian dollars (“CAD\$”).

2. Summary of significant accounting policies

(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, 2010.

Except as described below, 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, 2010.

(b) Going Concern

These condensed consolidated interim financial statements for the three and six months ended June 30, 2011, 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.

At June 30, 2011, the Group had unrestricted cash and cash equivalents of \$17.1 million (December 31, 2010: \$4.7 million) and negative working capital of \$8.9 million (December 31, 2010: \$73.3 million), primarily attributable to the \$40.5 million owed under the bridge loan from the Company’s major shareholder, the Lundin family, due in June 2012. The Company’s management expects to repay the bridge loan during the second half of 2011 using financing secured at the project level from the existing non-recourse loan facility with Natixis, WestLB and Mediocreval after the Helios ITA-3 and Nettuno solar power projects are connected to the electricity grid. [Note 18 and 22](#)

During the six months ended June 30, 2011, the Group incurred a net loss of \$3.6 million (2010: \$7.7 million). However, the Company’s management is confident that the Group will be able to fund its committed capital investment program and working capital requirements for the next 12 months from the date of these financial statements. Nevertheless, the Group’s anticipated growth and development activities will require the Group to seek additional funds. The Group anticipates that these funds will be obtained from a combination of cash on hand, additional debt or equity financing, vendor financing and non-recourse loans. The Company’s management 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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

2. Summary of significant accounting policies (continued)

(b) Going Concern (continued)

These condensed consolidated interim financial statements do not include the adjustments that would result if the Group is unable to continue as a going concern.

(c) Changes in accounting policies and disclosures

The Group has adopted the following amendments to standards and interpretations applicable for financial periods beginning on or after January 1, 2011:

- *IAS 24 (revised), Related Party Disclosures*: The revised standard clarifies and simplifies the definition of a related party. The adoption of this revised standard has not had a significant impact on the disclosures of transactions with related parties.
- *Annual improvements 2010*: The annual improvements made in 2010 have not had a significant impact on the Company's condensed consolidated interim financial statements.

3. Critical accounting estimates and assumptions

In connection with the preparation of these 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, 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 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 could differ from the assumptions and estimates, and such differences could be material.

There has been no change to the Group's critical accounting estimates and assumptions used in the preparation of the condensed consolidated interim financial statements from those disclosed in the Company's consolidated financial statements for the year ended December 31, 2010.

4. Business combinations

The provisional values of assets and liabilities recognised on acquisition are their estimated fair values at the date of acquisition. *IFRS 3 (revised), Business Combinations*, permits retrospective adjustments to the items recognized in the original accounting for business combinations up to a maximum of one year after the acquisition date, if new information about facts and circumstances existing at the acquisition date becomes available. As a result, the fair values assigned to the assets and liabilities acquired may change in future reporting periods in light of new facts and circumstances that may become available.

(a) Cassiopea

In August 2010, the Company's 90% owned subsidiary, Solar Resources Holding, Sarl ("SRH"), acquired from SunRay Renewable Energy Ltd ("SunRay") 100% of the outstanding shares of an Italian company that owns 100% of the Cassiopea solar power project. In June 2011, a settlement agreement was entered into by the Company and SunPower Corporation ("SunPower", the parent company of SunRay), retrospectively reducing the purchase price by \$0.3 million from \$15.7 million to \$15.4 million. The adjustment to the purchase price impacted the provisional values of the assets and liabilities on acquisition, resulting in a reduction of \$0.3 million to property, plant and equipment, \$0.1 million to deferred tax liabilities and \$0.1 million to goodwill. [Note 13 and 14](#)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

4. Business combinations (continued)

(b) Centauro

In October 2010, SRH acquired from SunRay 100% of the outstanding shares of an Italian company that owns 100% of the Centauro solar power project. In June 2011, a settlement agreement was entered into by the Company and SunPower, retrospectively reducing the purchase price by \$0.1 million from \$9.3 million to \$9.2 million. The adjustment to the purchase price impacted the provisional values of the assets and liabilities on acquisition, resulting in a reduction of \$0.1 million to property, plant and equipment, \$31,500 to deferred tax liabilities and \$31,500 to goodwill. [Note 13 and 14](#)

5. Segment reporting

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors that are 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 two reportable segments; the renewable energy segment that includes the Group's solar power projects, and the oil and gas segment that includes oil and gas investments.

The following is an analysis of the Group's segment revenues, EBITDA and results for the three months ended June 30, 2011 and 2010:

	Renewable energy \$'000	Oil and gas \$'000	Corporate and unallocated \$'000	Total \$'000
Three months ended June 30, 2011				
Segment revenue	17,829	-	-	17,829
Operating costs (excluding depreciation and amortization)	(419)	-	-	(419)
General and administrative expenses (excluding depreciation and amortization)	(611)	-	(3,341)	(3,952)
Other income	(568)	-	29	(539)
Segment EBITDA	16,231	-	(3,312)	12,919
Depreciation and amortization	(4,454)	-	(110)	(4,564)
Finance income	141	-	179	320
Finance costs	(6,184)	-	(2,309)	(8,493)
Gain/(loss) before income tax	5,734	-	(5,552)	182
Income tax expense	(2,173)	-	(133)	(2,306)
Gain/(loss) for the period	3,561	-	(5,685)	(2,124)
Three months ended June 30, 2010				
Segment revenue	127	-	-	127
Operating costs	(38)	-	-	(38)
General and administrative expenses	-	-	(3,098)	(3,098)
Segment EBITDA	89	-	(3,098)	(3,009)
Depreciation and amortization	(28)	-	(43)	(71)
Finance income	(67)	-	167	100
Finance costs	(973)	-	(193)	(1,166)
Loss before income tax	(979)	-	(3,167)	(4,146)
Income tax expense	-	-	(45)	(45)
Loss for the period	(979)	-	(3,212)	(4,191)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

5. Segment reporting (continued)

The following is an analysis of the Group's segment revenues, EBITDA and results for the six months ended June 30, 2011 and 2010:

	Renewable energy \$'000	Oil and gas \$'000	Corporate and unallocated \$'000	Total \$'000
Six months ended June 30, 2011				
Segment revenue	25,106	-	-	25,106
Operating costs (excluding depreciation and amortization)	(1,029)	-	-	(1,029)
General and administrative expenses (excluding depreciation and amortization)	(1,303)	-	(6,219)	(7,522)
Other income	1,350	-	36	1,386
Segment EBITDA	24,124	-	(6,183)	17,941
Depreciation and amortization	(8,677)	-	(174)	(8,851)
Finance income	1,517	-	608	2,125
Finance costs	(9,565)	-	(3,268)	(12,833)
Gain/(loss) before income tax	7,399	-	(9,017)	(1,618)
Income tax expense	(1,924)	-	(103)	(2,027)
Gain/(loss) for the period	5,475	-	(9,120)	(3,645)
Six months ended June 30, 2010				
Segment revenue	127	-	-	127
Operating costs	(38)	-	-	(38)
General and administrative expenses	-	-	(6,073)	(6,073)
Segment EBITDA	89	-	(6,073)	(5,984)
Depreciation and amortization	(46)	-	(66)	(112)
Finance income	(163)	-	441	278
Finance costs	(1,922)	-	(183)	(2,105)
Loss before income tax	(2,042)	-	(5,881)	(7,923)
Income tax recovery	-	-	197	197
Loss for the period	(2,042)	-	(5,684)	(7,726)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

5. Segment reporting (continued)

The following is an analysis of the Group's assets and liabilities at June 30, 2011, and December 31, 2010:

	Renewable energy \$'000	Oil and gas \$'000	Corporate and unallocated \$'000	Total \$'000
As at June 30, 2011				
Property, plant and equipment	392,181	-	412	392,593
Intangible assets	13,243	-	3,343	16,586
Available for sale investments	-	10,000	434	10,434
Cash and cash equivalents and restricted cash	29,547	-	15,677	45,224
Other assets	57,112	-	6,590	63,702
Total assets	492,083	10,000	26,456	528,539
Borrowings	306,753	-	127,944	434,697
Trade and other payables	13,422	-	9,234	22,656
Other liabilities	20,407	-	9,067	29,474
Total liabilities	340,582	-	146,245	486,827
As at December 31, 2010				
Property, plant and equipment	340,883	-	342	341,225
Intangible assets	11,630	-	3,155	14,785
Available for sale investments	-	10,000	401	10,401
Cash and cash equivalents and restricted cash	41,643	-	3,381	45,024
Other assets	32,808	-	1,973	34,781
Total assets	426,964	10,000	9,252	446,216
Borrowings	273,733	-	75,224	348,957
Trade and other payables	24,527	1,125	10,279	35,931
Other liabilities	24,671	-	1,880	26,551
Total liabilities	322,931	1,125	87,383	411,439

6. Revenue

	Three months ended June 30		Six months ended June 30	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Feed-in-Tariff ("FiT") revenue	14,641	127	20,611	127
Market price revenue	3,188	-	4,495	-
Total	17,829	127	25,106	127

The Group's operating revenues arise from the sale of electricity to an Italian state-owned company and the operators of the electricity grid. 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. This amount is received directly from the Italian government through the state-owned company Gestore Servizi Energetici. The market price is the spot market price received in addition to the FiT on electricity produced and is paid by the local utilities, Enel S.p.A. and Terna S.p.A.

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months. As a result, the Group experienced an increase in revenue in the second quarter of 2011 compared to the first quarter of 2011.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

7. Operating costs

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Operating and maintenance ("O&M") costs	69	38	214	38
Land lease	19	-	37	-
Insurance	103	-	302	-
Depreciation and amortization	4,477	-	8,700	-
Other operating costs	228	-	476	-
Total	4,896	38	9,729	38

O&M costs of \$0.1 million (2010: \$38,000) and \$0.2 million (2010: \$38,000) for the three and six months ended June 30, 2011, respectively, relate to fees paid in connection with O&M activities of the Group's solar power projects in Italy. The Group outsources O&M services for the projects to external third parties.

Depreciation and amortization of \$4.5 million (2010: \$nil) and \$8.7 million (2010: \$nil) was recognized during the three and six months ended June 30, 2011, respectively, in relation to operating solar power projects producing electricity during the periods.

8. General and administrative expenses

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits	1,673	1,404	3,117	2,329
Board fees	60	60	120	120
Professional services	667	522	1,326	1,105
Share-based compensation (non-cash item)	311	807	643	1,799
Depreciation and amortization	87	71	151	112
Office, listing and filing expenses and other	1,241	305	2,316	720
Total	4,039	3,169	7,673	6,185

Depreciation of \$0.1 million (2010: \$0.1 million) and \$0.2 million (2010: \$0.1 million) was recognized during the three and six months ended June 30, 2011, respectively, related to depreciation of the Group's corporate assets. Depreciation and amortization associated with the Group's operating solar power projects is included within operating costs.

9. Other (expenses)/income

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Liquidation damages	247	-	2,189	-
EPC contract cancellation fee	(580)	-	(580)	-
Other	(206)	-	(223)	-
Total	(539)	-	1,386	-

During the three and six months ended June 30, 2011, the Group recognized a gain of \$0.2 million and \$2.2 million, respectively, from liquidation damages related to delays encountered by the engineering, procurement and construction ("EPC") contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio).

During the three months ended June 30, 2011, the Group recognized an expense of \$0.6 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

Expressed in US\$ unless otherwise stated

10. Finance income and costs

	Three months ended June 30		Six months ended June 30	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Finance income:				
Changes in fair values of derivative instruments:				
- Interest rate swap contracts	-	-	804	-
- Ineffective portion reclassified from other comprehensive income	88	-	644	-
Foreign exchange gain	129	59	558	237
Other finance income	103	41	119	41
Total finance income	320	100	2,125	278
Finance costs:				
Interest rate expense:				
- Credit facilities and non-recourse loans	(2,928)	(236)	(5,524)	(268)
- Credit facility with related party (Lundin Services BV) Note 20	(616)	(183)	(1,505)	(183)
- Credit facility with related party (Lundin family) Note 20	(342)	-	(342)	-
- Corporate bond Note 20	(1,515)	-	(1,515)	-
- Interest rate swap contracts	(2,075)	-	(3,094)	-
- Amortization of transaction costs	(285)	-	(487)	-
Changes in fair values of derivative instruments:				
- Interest rate swap contracts	(508)	(737)	-	(1,654)
- Ineffective portion reclassified from other comprehensive income	(87)	-	-	-
- Warrants	-	(10)	-	-
Other finance costs	(524)	-	(864)	-
Total	(8,880)	(1,166)	(13,331)	(2,105)
Amounts capitalized on qualifying assets	387	-	498	-
Total finance costs	(8,493)	(1,166)	(12,833)	(2,105)
Net finance costs	(8,173)	(1,066)	(10,708)	(1,827)

The Group has entered into five credit facilities and interest rate swap contracts in order to finance the construction of its operating solar power projects in Italy. Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment. Refer to [Note 18](#) and [Note 19](#) for further details on the Group's credit facilities and derivative financial instruments.

During the three months ended June 30, 2011, the Group recognized a fair value loss of \$0.1 million (2010: \$nil) related to the ineffective portion of a cash flow hedge reclassified from other comprehensive income (Cassiopea) and a fair value gain of \$0.1 million related to the ineffective portion of a cash flow hedge reclassified from other comprehensive income (Etrion Lazio). In addition, a fair value loss of \$2.4 million, net of tax, was recognized in other comprehensive income, related to the effective portion of the Group's interest rate swap contracts (Cassiopea, Centauro and Etrion Lazio). During the comparable period of 2010, the Group had no interest rate swap contracts classified as cash flow hedges.

During the six months ended June 30, 2011, the Group recognized a gain of \$0.6 million (2010: \$nil) related to the ineffective portion of the cash flow hedges reclassified from other comprehensive income (Cassiopea and Etrion Lazio). In addition, a fair value gain of \$2.1 million, net of tax, was recognized in other comprehensive income, related to the effective portion of the Group's interest rate swap contracts (Cassiopea, Centauro and Etrion Lazio). During the comparable period of 2010, the Group had no interest rate swap contracts classified as cash flow hedges.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

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11. Income taxes

(a) Income tax expense

	Three months ended June 30		Six months ended June 30	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current income tax expense/(recovery):				
- Corporate income tax expense	3,599	22	2,361	41
- Municipal income tax expense	1,300	-	874	-
- Warrants	-	23	-	(238)
	4,899	45	3,235	(197)
Deferred tax recovery:				
- Current period	(658)	-	(18)	-
- Tax losses utilized	(1,935)	-	(1,190)	-
	(2,593)	-	(1,208)	-
Total	2,306	45	2,027	(197)

During the three and six months ended June 30, 2011, the Group recognized an income tax expense of \$4.9 million (2010: \$nil) and \$3.2 million (2010: \$nil), respectively, associated with its Italian solar plant operations, based on the forecasted effective tax rate expected during 2011. In the comparable periods of 2010, the Group recognized an income tax expense associated with its Swiss subsidiary and a tax recovery on warrants that expired during the period.

During the three and six months ended June 30, 2011, the Group recognized a deferred tax benefit of \$2.6 million (2010: \$nil) and \$1.2 million (2010: \$nil), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and utilized tax losses.

(b) Current income tax liabilities

	June 30, December 31,	
	2011 \$'000	2010 \$'000
Corporate income tax	2,262	1,297
Municipal income tax	1,678	700
Total	3,940	1,997

12. Loss per share

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding during the period. The calculation of the basic and diluted loss per share for the three and six months ended June 30, 2011 and 2010, is based on the following data:

	Three months ended June 30		Six months ended June 30	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Loss attributable to owners of the Company	(2,124)	(4,191)	(3,645)	(7,726)
	Number of shares		Number of shares	
Weighted average number of outstanding shares	182,606,450	158,766,120	181,437,667	158,766,120
	\$	\$	\$	\$
Basic and diluted loss per share	(0.01)	(0.03)	(0.02)	(0.05)

Diluted loss per share equals basic loss per share as, due to losses incurred in 2011 and 2010, there is no dilutive effect from the existing share options, warrants and exchange rights.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

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13. Property, plant and equipment

	Land \$'000	Solar power plants \$'000	Assets under construction \$'000	Equipment and furniture \$'000	Total \$'000
Cost:					
At December 31, 2010	13,530	311,298	21,843	937	347,608
Additions	-	51	31,730	123	31,904
Transfer from assets under construction to solar power plants	-	22,545	(22,545)	-	-
Adjustment for business combinations Note 4	-	(421)	-	-	(421)
Exchange differences	1,104	26,084	2,060	67	29,315
At June 30, 2011	14,634	359,557	33,088	1,127	408,406
Accumulated depreciation:					
At December 31, 2010	-	5,792	-	591	6,383
Charge for the period	-	8,580	-	92	8,672
Exchange differences	-	731	-	27	758
At June 30, 2011	-	15,103	-	710	15,813
Net book value:					
At December 31, 2010	13,530	305,506	21,843	346	341,225
At June 30, 2011	14,634	344,454	33,088	417	392,593

The two Etrion Lazio solar parks (Borgo Piave and Rio Martino) were completed in December 2010. However, they were not connected to the electricity grid until April 2011. Upon connection to the electricity grid, the costs associated with these parks were transferred from assets under construction to solar power plants.

Assets under construction relate to the 10 MW Helios ITA-3 solar power project that is currently being constructed.

[Note 21](#)

14. Intangible assets

	Goodwill \$'000	Licenses and permits \$'000	Other \$'000	Total \$'000
Cost:				
At December 31, 2010	1,866	12,847	355	15,068
Additions	-	750	156	906
Adjustment for business combinations Note 4	(119)	-	-	(119)
Exchange differences	152	1,049	29	1,230
At June 30, 2011	1,899	14,646	540	17,085
Accumulated amortization:				
At December 31, 2010	-	283	-	283
Charge for the period	-	187	-	187
Exchange differences	-	29	-	29
At June 30, 2011	-	499	-	499
Net book value:				
At December 31, 2010	1,866	12,564	355	14,785
At June 30, 2011	1,899	14,147	540	16,586

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

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15. Cash and cash equivalents and restricted cash

The Group's cash and cash equivalents are held in bank accounts at highly rated banks in Canada, Luxembourg, Switzerland and Italy. The fair value of cash and cash equivalents approximates its carrying value due to short maturities.

	June 30, 2011 \$'000	December 31, 2010 \$'000
Cash at banks	45,224	45,024
Total	45,224	45,024

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

	June 30, 2011 \$'000	December 31, 2010 \$'000
Unrestricted cash and cash equivalents	17,146	4,748
Cash and cash equivalents restricted to solar power projects	28,078	40,276
Total	45,224	45,024

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

16. Share capital

	Number of shares outstanding	\$'000
At December 31, 2010	179,766,120	16,741
Stock options exercised:		
- Three months ended March 31, 2011	940,000	620
- Three months ended June 30, 2011	330,000	336
Bridge loan fee Note 20	6,500,000	5,596
At June 30, 2011	187,536,120	23,293

17. Share-based payments

The Company maintains an equity-settled stock option awards scheme. All outstanding stock options have a contractual term between five and ten years and generally vest over a period of three years. The exercise price is set equal to the market price at the date of grant. In certain circumstances, the Board of Directors may authorize different vesting periods for particular stock options granted. Options are conditional on the employee being employed during the vesting period.

During the three and six months ended June 30, 2011, the Group recognized an expense of \$0.3 million (2010: \$0.8 million) and \$0.6 million (2010: \$1.8 million), respectively, related to share-based payments. Included within these amounts are \$0.1 million (2010: \$0.6 million) and \$0.2 million (2010: \$1.4 million) for the three and six months ended June 30, 2011, respectively, related to the carried interest on the exchange right held by Marco A. Northland, the Chief Executive Officer of the Company ("Mr. Northland"). [Note 20](#)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the three and six months ended June 30, 2011

Unaudited

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17. Share-based payments (continued)

A summary of the Company's outstanding stock options at June 30, 2011, is as follows:

	Number of share options	Weighted average exercise price CAD\$
At December 31, 2010	8,052,200	0.73
Granted	485,000	0.66
Forfeited	(1,190,000)	0.97
Exercised		
- Three months ended March 31, 2011	(940,000)	0.39
- Three months ended June 30, 2011	(330,000)	0.55
At June 30, 2011	6,077,200	0.75
Share options exercisable:		
At December 31, 2010	4,671,668	0.81
At March 31, 2011	2,735,002	0.87
At June 30, 2011	2,643,334	0.91

18. Borrowings

(a) Non-recourse project loans

The non-recourse loans held by the Italian subsidiaries mature at various dates between 2024 and 2028. Counterparties to the non-recourse loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates. Therefore, the Group is somewhat protected from short-term liquidity fluctuations.

	Societe Generale and Dexia \$'000	BIIS ⁽¹⁾ , Societe Generale and WestLB \$'000	Barclays \$'000	Centrobanca \$'000	Natixis, WestLB and Mediocredito \$'000	Total \$'000
Carrying value at January 1, 2010	-	-	-	1,279	-	1,279
Proceeds from loans	5,290	-	-	11,454	6,320	23,064
Borrowings assumed on acquisition	40,000	153,552	56,253	-	-	249,805
Repayment of loans and interest	(3,041)	(6,239)	(61)	(42)	-	(9,383)
Accrued interest	593	2,373	501	255	-	3,722
Amortization of transaction costs	46	111	19	66	-	242
Exchange difference	3,840	2,233	(1,485)	416	-	5,004
Carrying value at December 31, 2010	46,728	152,030	55,227	13,428	6,320	273,733
- Current portion	5,039	5,637	1,648	541	-	12,865
- Non-current portion	41,689	146,393	53,579	12,887	6,320	260,868
Carrying value at January 1, 2011	46,728	152,030	55,227	13,428	6,320	273,733
Proceeds from loans	-	-	-	5,393	8,822	14,215
Repayment of loans and interest	(1,804)	(5,482)	(1,179)	(816)	(222)	(9,503)
Accrued interest	646	3,236	1,104	316	222	5,524
Amortization of transaction costs	49	146	39	35	70	339
Exchange difference	3,837	12,420	4,523	1,227	438	22,445
Carrying value at June 30, 2011	49,456	162,350	59,714	19,583	15,650	306,753
- Current portion	2,739	7,001	2,349	691	363	13,143
- Non-current portion	46,717	155,349	57,365	18,892	15,287	293,610

Note:

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

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18. Borrowings (continued)

(b) Corporate borrowings

	Lundin Services \$'000	Corporate bond \$'000	Lundin family ⁽¹⁾ \$'000	Total \$'000
Carrying value at January 1, 2010	-	-	-	-
Proceeds from loans	88,155	-	-	88,155
Repayment of loans and interest	(15,128)	-	-	(15,128)
Accrued interest	1,569	-	-	1,569
Amortization of transaction costs	289	-	-	289
Exchange difference	339	-	-	339
Carrying value at December 31, 2010	75,224	-	-	75,224
- Current portion	75,224	-	-	75,224
- Non-current portion	-	-	-	-
Carrying value at January 1, 2011	75,224	-	-	75,224
Proceeds from loans	-	86,671	40,835	127,506
Repayment of loans and interest	(83,306)	-	-	(83,306)
Accrued interest	1,505	1,515	-	3,020
Amortization of transaction costs	114	33	-	147
Exchange difference	6,463	(731)	(379)	5,353
Carrying value at June 30, 2011	-	87,488	40,456	127,944
- Current portion	-	1,561	40,456	42,017
- Non-current portion	-	85,927	-	85,927

Note:

- (1) The bridge loan was obtained from Zebra Holdings and Investments Sarl and Lorito Holdings Sarl, investment companies wholly-owned by the Lundin family trusts ("Lundin family").

Lundin Services BV loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB, for up to \$87 million (€60 million) in order to finance capital and operating expenditures of the Group. The loan carried an annual interest rate of Euribor plus a margin of 3% until March 31, 2011, with a margin of 5% thereafter. In May 2011, the net proceeds from the Company's bond issue were used to repay the loan facility in full. **Note 20**

Corporate bond issue

In April 2011, the Company issued \$87 million (€60 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At June 30, 2011, the amount outstanding, including accrued interest and net of transaction costs, was \$87.5 million (December 31, 2010: \$nil). **Note 20**

Lundin family bridge loan

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a \$40.5 million (€28 million) bridge loan from the Company's major shareholder, the Lundin family. The bridge loan bears no interest and matures in June 2012. The bridge loan is expected to be repaid during the second half of 2011 using financing secured at the project level from the existing non-recourse loan facility with Natixis, WestLB and Mediocreval after the Helios ITA-3 and Nettuno solar power projects are connected to the electricity grid. **Note 20 and 22**

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19. Derivative financial instruments

	June 30, 2011	December 31, 2010
	\$'000	\$'000
Derivative financial assets:		
Interest rate swap contracts (cash flow hedge)		
- Non-current portion	1,903	1,247
Total derivative financial assets	1,903	1,247
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedge)		
- Current portion	4,637	3,217
- Non-current portion	3,053	6,764
Interest rate swap contracts (at fair value through profit and loss)		
- Current portion	1,595	1,590
- Non-current portion	1,761	2,066
Total derivative financial liabilities	11,046	13,637

At June 30, 2011, the Group had two derivative financial instruments classified at fair value through profit and loss (Helios ITA and SVE) and three derivative financial instruments that qualified for hedge accounting (Cassiopea, Centauro and Etrion Lazio). Refer to [Note 10](#) for further details related to fair value gains or losses recognized during the period.

Refer to [Note 21](#) of the Company's audited consolidated financial statements for the year ended December 31, 2010, for further details pertaining to the Group's derivative financial instruments.

20. Related party disclosure

(a) Related party transactions

During the three and six months ended June 30, 2011 and 2010, the Group entered into the following transactions with related parties:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
General and administrative expenses				
Lundin Services BV	11	-	16	30
Lundin Petroleum SA	5	59	36	71
Finance costs				
Lundin Services BV:				
- Interest expense	616	224	1,505	224
- Loan transaction costs	81	-	114	-
- Interest expense associated with corporate bond	228	-	228	-
Lundin family:				
- Amortization of prepaid interest associated with bridge loan (capitalized)	342	-	342	-
- Interest expense associated with corporate bond	385	-	385	-
Total	1,668	283	2,626	325

Notes to the Condensed Consolidated Interim Financial Statements (continued)

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20. Related party disclosure (continued)

(a) Related party transactions (continued)

At June 30, 2011, and December 31, 2010, the amounts outstanding to related parties were as follows:

	June 30, 2011 \$'000	December 31, 2010 \$'000
Current liabilities:		
Lundin family bridge loan	40,468	-
Lundin Services BV:		
- Loan facility	-	75,224
- General and administrative expenses	6	32
Lundin Petroleum SA	-	6
Total current liabilities	40,474	75,262
Non-current liabilities:		
Lundin family (participation in corporate bond)	21,875	-
Lundin Services BV (participation in corporate bond)	12,979	-
Total non-current liabilities	34,854	-
Total	75,328	75,262

There were no amounts outstanding from related parties at June 30, 2011, and December 31, 2010.

Lundin Services BV

The Group receives professional services (i.e., technical and legal) from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a Director of the Company.

In addition, in April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to \$87 million (€60 million). This loan was fully repaid in May 2011. [Note 18](#)

In April 2011, Lundin Services BV subscribed for €8.9 million of the corporate bonds issued by the Company that bear an annual interest rate of 9%. [Note 18](#)

Lundin Petroleum SA

The Group receives professional services (i.e., administrative support) from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum AB.

Lundin family

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a \$40.5 million (€28 million) bridge loan from the Company's major shareholder, the Lundin family. The bridge loan bears no interest and matures in June 2012. In consideration for the bridge loan, the Company issued 6.5 million common shares to the Lundin family. The fair value of the shares issued of \$5.6 million has been accounted for as prepaid interest and will be amortized over the life of the bridge loan. At June 30, 2011, \$0.3 million had been recognized in relation to this amount and was capitalized within assets under construction. [Note 18 and 22](#)

In addition, in April 2011, the Lundin family subscribed for €15 million of the corporate bonds issued by the Company that bear an annual interest rate of 9%. [Note 18](#)

(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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

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20. Related party disclosure (continued)

(b) Key management personnel (continued)

The remuneration of key management personnel during the three and six months ended June 30, 2011 and 2010, was as follows:

	Three months ended June 30		Six months ended June 30	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Salaries and short-term benefits, including bonuses	230	312	438	506
Pension costs	41	29	73	59
Board fees (non-executive Directors)	60	60	120	120
Share-based payment	402	835	483	1,685
Total	733	1,236	1,114	2,370

At June 30, 2011, and December 31, 2010, the amounts outstanding to key management personnel were as follows:

	June 30, December 31,	
	2011 \$'000	2010 \$'000
Mr. Northland's guaranteed floor	5,781	5,345
Board of Directors (non-executive Directors)	60	60
Other (bonus payable and pension costs payable)	-	704
Total	5,841	6,109

There were no amounts outstanding from key management personnel at June 30, 2011, and December 31, 2010.

Mr. Northland's exchange right and the Shareholders Agreement

Guaranteed floor

Upon the acquisition of SRH in September 2009, the Company entered into a Shareholders Agreement (the "Agreement") with Mr. Northland, who holds the remaining 10% interest in SRH. The Agreement provides Mr. Northland with the 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. At June 30, 2011, the Company had recognized a liability related to this exchange right of \$5.8 million (December 31, 2010: \$5.3 million).

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. At June 30, 2011, the Group had not repaid any of the principal, and the Company's management does not expect any payments to be made in the foreseeable future. At June 30, 2011, no expense had been recognized in relation to this carried interest.

Carried interest on the additional investments

In addition, the Agreement requires the Company to issue loans or shares to Mr. Northland for an amount up to €8.0 million in order for Mr. Northland to maintain his 10% interest in any future equity investments made by the Company into SRH. During the three and six months ended June 30, 2011, a non-cash, share-based payment expense of \$0.1 million (2010: \$0.6 million) and \$0.2 million (2010: \$1.4 million), respectively, was recognized in relation to this arrangement. [Note 17](#)

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21. Commitments

Contractual commitments

The Group enters into EPC contracts with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. At June 30, 2011, the Group had EPC contracts outstanding related to the construction of the Helios ITA-3 and Nettuno solar power projects for services in the amount of \$48 million (December 31, 2010: \$45.4 million). The total cost for constructing these solar power projects has been financed at 84% through a long-term non-recourse loan. [Note 22](#)

22. Subsequent event

On August 5, 2011, the Group closed an additional tranche of project financing to include the 2.6 MW Nettuno solar power project within the facility from Natixis, WestLB and Mediocreval. The non-recourse senior loan facility is for a total of approximately €60 million and includes 5.2 MW in operation (Etrion Lazio) and 12.6 MW under construction (Helios ITA-3 and Nettuno). The loan will cover up to 84% of estimated project costs with a maturity of 18 years following construction. The proceeds from the loan facility are expected to be received by the fourth quarter of 2011 and may be used to pre-pay the Lundin family bridge loan. [Note 18 and 20](#)