



Q2

ETRION CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

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	Unaudited	

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

Expressed in US\$'000

		Three months ended		Six months ended	
		Q2-16	Q2-15	Q2-16	Q2-15
	Note				
Revenue	5	16,605	17,060	26,508	27,447
Operating expenses	6	(8,271)	(8,585)	(17,945)	(16,593)
Gross profit		8,334	8,475	8,563	10,854
General and administrative expenses	7	(1,708)	(2,609)	(3,585)	(5,033)
Other income		323	39	351	16
Impairment	8	(278)	(2,468)	(278)	(2,468)
Operating profit		6,671	3,437	5,051	3,369
Finance income	9	5,595	15	5,977	3,667
Finance costs	9	(8,558)	(12,058)	(17,094)	(18,316)
Net finance costs		(2,963)	(12,043)	(11,117)	(14,649)
Income (loss) before income tax		3,708	(8,606)	(6,066)	(11,280)
Income tax expense	10	(2,265)	(1,451)	(1,038)	(1,260)
Income (loss) for the period		1,443	(10,057)	(7,104)	(12,540)
Other comprehensive (loss) income:					
Items that may be subsequently reclassified to profit and loss					
(Loss) income on currency translation		(1,890)	277	(3,526)	98
(Loss) income on cash flow hedges (net of tax)	19	(2,872)	6,211	(10,277)	5,308
Total other comprehensive (loss) income		(4,762)	6,488	(13,803)	5,406
Total comprehensive loss for the period		(3,319)	(3,569)	(20,907)	(7,134)
Income (loss) attributable to:					
Owners of the Company		2,438	(9,227)	(5,150)	(10,841)
Non-controlling interest	12	(995)	(830)	(1,954)	(1,699)
Total comprehensive loss attributable to:					
Owners of the Company		(2,147)	(2,751)	(18,500)	(5,486)
Non-controlling interest	12	(1,172)	(818)	(2,407)	(1,648)
Basic earnings (loss) per share	11	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)
Diluted earnings (loss) per share	11	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT JUNE 30, 2016

UNAUDITED

Expressed in US\$'000

	Note	June 30 2016	December 31 2015
Assets			
Non-current assets			
Property, plant and equipment	13	503,598	480,973
Intangible assets	14	28,909	27,637
Deferred income tax assets		26,703	19,809
Derivative financial instruments	19	-	702
Trade and other receivables		8,163	2,256
Total non-current assets		567,373	531,377
Current assets			
Trade and other receivables		25,470	29,444
Cash and cash equivalents (including restricted cash)	15	66,566	52,499
Total current assets		92,036	81,943
Total assets		659,409	613,320
Equity			
Attributable to owners of the Company			
Share capital	16	111,304	111,304
Contributed surplus		11,623	11,547
Other reserves		(50,998)	(37,782)
Accumulated deficit		(83,189)	(78,039)
Total attributable to owners of the Company		(11,260)	7,030
Non-controlling interest	12	(2,354)	(626)
Total equity		(13,614)	6,404
Liabilities			
Non-current liabilities			
Borrowings	18	559,260	485,372
Derivative financial instruments	19	25,897	10,639
Deferred income tax liabilities		393	400
Provisions		7,530	7,226
Other liabilities		25,449	22,795
Total non-current liabilities		618,529	526,432
Current liabilities			
Trade and other payables		19,314	27,379
Current tax liabilities	10	3,584	672
Borrowings	18	25,843	47,688
Derivative financial instruments	19	4,031	3,230
Other liabilities		1,722	1,515
Total current liabilities		54,494	80,484
Total liabilities		673,023	606,916
Total equity and liabilities		659,409	613,320

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, 2016

UNAUDITED

Expressed in US\$'000

	Attributable to owners of the Company				Total	Non-controlling interest	Total equity
	Share capital	Contributed surplus	Other reserves	Accumulated deficit			
Balance at January 1, 2015	111,300	11,048	(29,837)	(62,468)	30,043	2,887	32,930
Comprehensive loss:							
- Loss for the period	-	-	-	(10,841)	(10,841)	(1,699)	(12,540)
- Other comprehensive loss:							
Cash flow hedges (net of tax)	-	-	5,362	-	5,362	52	5,414
Currency translation	-	-	88	-	88	(4)	84
Total comprehensive loss	-	-	5,450	(10,841)	(5,391)	(1,651)	(7,042)
Transactions with owners in their capacity as owners:							
- Share-based payments	-	447	-	-	447	-	447
- Stock options exercised	4	(2)	-	-	2	-	2
- Written call option	-	-	208	-	208	-	208
Balance at June 30, 2015	111,304	11,493	(24,179)	(73,309)	25,309	1,236	26,545
Balance at January 1, 2016	111,304	11,547	(37,782)	(78,039)	7,030	(626)	6,404
Comprehensive loss:							
- Loss for the period	-	-	-	(5,150)	(5,150)	(1,954)	(7,104)
- Other comprehensive loss:							
Cash flow hedges (net of tax)	-	-	(9,933)	-	(9,933)	(453)	(10,386)
Currency translation	-	-	(3,417)	-	(3,417)	-	(3,417)
Total comprehensive loss	-	-	(13,350)	(5,150)	(18,500)	(2,407)	(20,907)
Transactions with owners in their capacity as owners:							
- Share-based payments	-	76	-	-	76	-	76
- Written call option	-	-	134	-	134	-	134
- Non-controlling interest	-	-	-	-	-	679	679
Balance at June 30, 2016	111,304	11,623	(50,998)	(83,189)	(11,260)	(2,354)	(13,614)

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

Expressed in US\$'000

		Three months ended		Six months ended	
		Q2-16	Q2-15	Q2-16	Q2-15
Cash flow from (used in) operating activities:	Note				
Loss for the period		1,443	(10,057)	(7,104)	(12,540)
Adjustments for:					
Depreciation and amortization expense (D&A)	6/7	6,168	5,800	12,233	11,372
Impairment	8	278	2,468	278	2,468
Current income tax expense	10	3,407	3,126	3,353	1,936
Deferred income tax recovery	10	(1,142)	(1,675)	(2,315)	(676)
Share-based payment expense	7/17	(167)	223	76	447
Interest expense	9	6,502	6,642	12,872	12,970
Interest expense relating to interest rate swap contracts	9	791	1,988	1,686	4,004
Amortization of transaction costs	9	332	332	655	663
Foreign exchange (gain) loss	9	(5,197)	2,759	(5,575)	(3,543)
Fair value changes associated with derivative financial instruments	9	379	180	1,209	257
Other (income) expenses		(323)	(1)	(351)	22
Interest income		(34)	(23)	(34)	(23)
Sub-total		12,437	11,762	16,983	17,357
Changes in working capital:					
Increase in trade and other receivables		(1,843)	(5,153)	(20)	(10,095)
Decrease in trade and other payables		(4,694)	(8,804)	(6,765)	(17,198)
Income tax paid		(880)	(339)	(880)	(673)
Total cash flow from (used in) operating activities		5,020	(2,534)	9,318	(10,609)
Cash flow used in investing activities:					
Purchases of property, plant and equipment	13	(19,491)	(14,221)	(20,203)	(24,103)
Purchases of intangible assets	14	(731)	(363)	(1,518)	(698)
Total cash flow used in investing activities		(20,222)	(14,584)	(21,721)	(24,801)
Cash flow from financing activities:					
Interest paid	18	(9,496)	(7,882)	(12,148)	(12,789)
Interest paid relating to interest rate swap contracts		(1,691)	(1,541)	(1,691)	(3,908)
Interest income		34	23	34	23
Proceeds from stock-options exercised		-	2	-	2
Contributions from non-controlling interest		2,054	-	2,054	-
Repayment of borrowings	18	(11,458)	(4,381)	(11,458)	(7,303)
Proceeds from borrowings	18	45,084	28,145	45,084	37,474
Total cash flow from financing activities		24,527	14,366	21,875	13,499
Net increase in cash and cash equivalents		9,325	(2,752)	9,472	(21,911)
Effect of exchange rate changes on cash and cash equivalents		2,789	1,211	4,595	(4,375)
Cash and cash equivalents at the beginning of the period		54,452	70,604	52,499	95,349
Cash and cash equivalents at the end of the period		66,566	69,063	66,566	69,063

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

Expressed in US\$'000 unless otherwise stated

1. GENERAL INFORMATION

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

Etrion is an independent power producer that develops, builds, owns and operates solar power generation plants. The Company owns 139 megawatt ("MW") of installed solar capacity in Italy, Chile and Japan. The Company has 34 MW of solar projects under construction in Japan and is also actively developing greenfield solar power projects primarily in this country.

These condensed consolidated interim financial statements are presented in United States ("US") Dollars ("\$"), which is the Group's presentation currency. The Company's functional currency is the Euro ("€"). However, since the Group operates in Europe, the Americas and Asia and is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these condensed consolidated interim financial statements has been presented in Euros, Canadian dollars ("CAD\$"), and Japanese yen ("¥"). The Company's Board of Directors approved these consolidated interim financial statements on August 9, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015. These condensed consolidated interim financial statements have been prepared 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, 2015.

(b) GOING CONCERN

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2016, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future. At June 30, 2016, the Group had cash and cash equivalents of \$66.6 million, \$9.6 million of which was unrestricted and held at the parent level (December 31, 2015: \$52.5 million and \$17.6 million), and working capital of \$37.5 million (December 31, 2015: \$1.5 million). During the three and six months ended June 30, 2016, the Group generated a net income of \$1.4 million and a net loss of \$7.1 million, respectively (2015 net loss: \$10.1 million and \$12.5 million). However, the Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these consolidated financial statements. These condensed consolidated interim financial statements for the three and six months ended June 30, 2016, do not include the adjustments that would result if the Group were unable to continue as a going concern.

(c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the three and six months ended June 30, 2016, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2016.

3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believes to be relevant at the time the condensed consolidated interim financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results may differ from the assumptions and estimates, and such differences could be material. There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2016, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

Expressed in US\$'000 unless otherwise stated

4. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors and used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("EBITDA"). The Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. While the Company's management has determined that the Company has only one reportable segment, the Company has decided to disclose additional information below as it believes that this information is useful for readers of the interim consolidated financial statements.

The Group's electricity production in Italy is sold to the Italian state-owned company, Gestore Servizi Energetici ("GSE"), in Japan to the Japanese public utility, Tokyo Electric Power Company ("TEPCO"), and in Chile to the spot electricity market and to a private client under a long-term power purchase agreement ("PPA"). Refer to Note 5. The Group's revenues, EBITDA and results are presented as follows:

Three months ended	Q2-16			Q2-15		
	Renewable	Corporate	Total	Renewable	Corporate	Total
Revenue	16,605	-	16,605	17,060	-	17,060
Operating expenses (Opex)	(2,157)	-	(2,157)	(2,872)	-	(2,872)
General and administrative expenses (G&A)	(550)	(1,104)	(1,654)	(336)	(2,186)	(2,522)
Other income (expenses)	319	4	323	62	(23)	39
Impairment	-	(278)	(278)	-	(2,468)	(2,468)
EBITDA	14,217	(1,378)	12,839	13,914	(4,677)	9,237
Depreciation and amortization	(6,114)	(54)	(6,168)	(5,713)	(87)	(5,800)
Finance income	443	5,152	5,595	(34)	49	15
Finance costs	(6,575)	(1,983)	(8,558)	(7,332)	(4,726)	(12,058)
Income (loss) before income tax	1,971	1,737	3,708	835	(9,441)	(8,606)
Income tax recovery (expense)	(820)	(1,445)	(2,265)	(1,394)	(57)	(1,451)
Net (loss) income for the period	1,151	292	1,443	(559)	(9,498)	(10,057)

Six months ended	Q2-16			Q2-15		
	Renewable	Corporate	Total	Renewable	Corporate	Total
Revenue	26,508	-	26,508	27,447	-	27,447
Operating expenses	(5,820)	-	(5,820)	(5,390)	-	(5,390)
General and administrative expenses	(902)	(2,575)	(3,477)	(640)	(4,224)	(4,864)
Other income	329	22	351	3	13	16
Impairment	-	(278)	(278)	-	(2,468)	(2,468)
EBITDA	20,115	(2,831)	17,284	21,420	(6,679)	14,741
Depreciation and amortization	(12,125)	(108)	(12,233)	(11,203)	(169)	(11,372)
Finance income	639	5,338	5,977	(73)	3,740	3,667
Finance costs	(13,173)	(3,921)	(17,094)	(14,368)	(3,948)	(18,316)
Loss before income tax	(4,544)	(1,522)	(6,066)	(4,224)	(7,056)	(11,280)
Income tax (expense) recovery	848	(1,886)	(1,038)	(1,138)	(122)	(1,260)
Net (loss) gain for the period	(3,696)	(3,408)	(7,104)	(5,362)	(7,178)	(12,540)

The Group's assets and liabilities are presented as follows:

	June 30, 2016			December 31, 2015		
	Renewable	Corporate	Total	Renewable	Corporate	Total
Property, plant and equipment	503,441	157	503,598	480,808	165	480,973
Intangible assets	24,149	4,760	28,909	24,276	3,361	27,637
Cash and cash equivalents	56,993	9,573	66,566	34,917	17,582	52,499
Other assets	46,495	13,841	60,336	43,585	8,626	52,211
Total assets	631,078	28,331	659,409	583,586	29,734	613,320
Borrowings	496,140	88,963	585,103	446,001	87,059	533,060
Trade and other payables	16,849	2,465	19,314	23,196	4,183	27,379
Other liabilities	64,273	4,333	68,606	42,059	4,418	46,477
Total liabilities	577,262	95,761	673,023	511,256	95,660	606,916

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

Expressed in US\$'000 unless otherwise stated

5. REVENUE

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Feed-in Tariff	13,353	12,675	19,805	18,479
Market Price	1,702	4,385	3,041	8,968
PPA agreement	1,298	-	3,267	-
Other utility income	252	-	395	-
Total revenue	16,605	17,060	26,508	27,447

PPA revenues

Starting January 1, 2016, the Group recognizes PPA revenues associated with its operations in Chile through its 70%-owned subsidiary, PV Salvador SpA ("Salvador"). Salvador executed in May 2015 a long-term PPA with EE-ERNC-1, an investment grade off-taker. The PPA is for the first 70 gigawatt-hours of Salvador's production for 15 years with the electricity price denominated in US (approximately \$0.10/KWh CPI-adjusted).

Other utility income

Starting from July 2015, Salvador receives a capacity payment associated with its operations in Chile. The capacity payment is a monthly fixed amount received by Salvador from other energy producers in the spot market and is calculated based on Salvador's production capacity, the maximum system demand in the peak period and a fixed tariff calculated by the Chilean authorities.

Solar-related production and revenue is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months.

6. OPERATING EXPENSES

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
O&M costs	957	1,328	1,961	2,390
Purchased power	707	-	1,848	-
Personnel costs	382	314	758	555
D&A	6,114	5,713	12,125	11,203
Property tax	(303)	411	100	824
Insurance	149	239	316	373
Land lease	93	59	183	110
Transmission costs	(256)	185	(82)	503
Other expenses	428	336	736	635
Total Opex	8,271	8,585	17,945	16,593

O&M costs of \$1.0 million (2015: \$1.3 million) and \$2.0 million (2015: \$2.4 million) for the three and six months ended June 30, 2016, respectively, relate to fees paid in connection with the operation and maintenance activities of the Group's operating solar power projects in Italy,

Chile and Japan. The Group outsources these O&M services to third parties.

In addition, in order to satisfy the obligations under the terms of the PPA agreement, Salvador purchases and pays the cost of electricity in the withdrawal node at the off-taker ("Nodal Costs"). During the three and six months ended June 30, 2016, the average Nodal Costs were approximately \$0.055/KWh and \$0.056/KWh, respectively.

Transmission recovery and cost during the three and six months ended June 30, 2016, relate to reimbursements (2015: fees) received/paid by electricity producers, including Salvador, for the utilization of the private electricity grid in the Sistema Interconectado Central ("SIC") electricity network area in Chile to deliver electricity to final consumers.

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Salaries and benefits	448	789	1,104	1,673
Board of directors fees	49	85	86	175
Share-based payments	(167)	223	76	447
Professional fees	898	904	1,427	1,538
Listing and marketing	103	161	177	289
D&A	54	87	108	169
Office lease	105	82	219	165
Office, travel and other	218	278	388	577
Total G&A	1,708	2,609	3,585	5,033

During the three and six months ended June 30, 2016, general and administrative expenses of \$0.7 million (2015: \$0.4 million) and \$1.5 million (2015: \$0.7 million) were capitalized within intangible assets, as they directly related to the Group's business development activities in Chile and Japan [Note 14](#). During the three and six months ended June 30, 2016, these capitalized expenses represented internally-generated costs of \$0.5 million and \$1.0 million, respectively, and third-party costs of \$0.2 million and \$0.5 million, respectively.

8. IMPAIRMENT

During the three months ended June 30, 2016, the Company decided to impair capitalized development costs of \$0.3 million (2015: \$2.5 million) associated with development activities for Chilean projects it is no longer pursuing.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

UNAUDITED

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9. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Finance income:				
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	368	-	368	101
Foreign exchange gain	5,197	-	5,575	3,543
Other finance income	30	15	34	23
Total finance income	5,595	15	5,977	3,667
Finance costs:				
Interest expense:				
- Credit facilities and non-recourse loans Note 18	4,469	4,616	8,768	9,190
- Interest rate swap contracts associated with non-recourse loans	791	1,988	1,686	4,004
- Corporate bond Note 18/19	1,807	1,768	3,570	3,551
- Credit facilities with non-controlling interests	440	481	871	905
- Amortization of transaction costs	351	414	690	774
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	13	4	217	4
- De-designated portion reclassified from other comprehensive income	586	72	1,145	146
Written call option over shares in subsidiary	148	104	215	208
Foreign exchange loss	-	2,759	-	-
Other finance costs	186	157	304	321
Total finance costs before deducting amounts capitalized	8,791	12,363	17,466	19,103
Amounts capitalized on qualifying assets	(233)	(305)	(372)	(787)
Total finance costs	8,558	12,058	17,094	18,316
Net finance costs	2,963	12,043	11,117	14,649

On June 13, 2016, the Group completed a debt restructuring transaction ([Note 18](#)), discontinued hedge accounting for a previous hedging relationship and started amortizing the accumulated losses in the hedging reserve through the income statement reflecting the timing of the originally hedged exposures.

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

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

During the three and six months ended June 30, 2016, the Group recognized \$5.2 million (2015: nil) and \$5.6 million (2015: \$3.5 million), respectively, of foreign exchange gains mainly associated with the Euro denominated loan of a Japanese subsidiary whose functional currency is the Japanese yen.

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10. INCOME TAXES

(a) INCOME TAX EXPENSE

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Current income tax				
Corporate	(3,299)	(2,346)	(3,245)	(1,394)
Provincial	(108)	(780)	(108)	(542)
Total income tax expense	(3,407)	(3,126)	(3,353)	(1,936)
Deferred income tax				
Current period	1,115	822	2,486	130
Tax benefits	27	853	(171)	546
Total deferred recovery	1,142	1,675	2,315	676
Total income tax expense	(2,265)	(1,451)	(1,038)	(1,260)

During the three and six months ended June 30, 2016, the Group recognized current income tax expense of \$3.4 million and \$3.4 million (2015: \$3.1 million and \$1.9 million), respectively, associated with its operating solar power projects based on the forecasted effective tax rate expected during the year. Net income tax expense also includes \$1.9 million of corporate income tax expense associated with the management service entities of the Group.

During the three and six months ended June 30, 2016, the Group recognized a deferred income tax recovery of \$1.1 million and \$2.3 million (2015: \$1.7 million and \$0.7 million), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. In addition, due to spot price volatility in Chile, the Group recognized a tax benefit associated with operating tax losses accumulated during the period.

(b) CURRENT INCOME TAX LIABILITIES

	June 30 2016	December 31 2015
Corporate income tax	3,522	566
Provincial income tax	62	106
Total current income tax liabilities	3,584	672

11. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Earnings (loss) attributable to owners of the Company	2,438	(9,227)	(5,150)	(10,841)
Weighted average number of thousand shares outstanding	334,094	334,092	334,094	334,087
Basic earnings (loss) per share	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)
Diluted earnings (loss) per share	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)

12. NON-CONTROLLING INTEREST

The Group's subsidiaries in which there is a non-controlling interest ("NCI") are Salvador, Shizukuishi Solar GK ("Shizukuishi"), Etrion Energy 1 GK ("Mito") and Etrion Energy 5 GK ("Aomori").

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

Shizukuishi, Mito and Aomori are Japanese entities that own the licenses, permits and facilities to build and operate solar parks in Japan totaling 44 MW ("the Japanese project companies"). Mito and Shizukuishi are owned 87% by Etrion and 13% by Hitachi High-Tech ("HHT"). Aomori is owned 60% by Etrion, 10% by HHT and 30% by Tamagawa Holdings, a Japanese real state and solar power developer. The Shizukuishi and Aomori Projects are under construction and are expected to be fully operational by the third quarter of 2016 and 2017, respectively.

The non-controlling interest at June 30, 2016, of negative \$2.4 million (December 31, 2015: \$0.6 million), represents the value attributable to non-controlling interests in Salvador and the Japanese project companies. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of Salvador, and the Japanese project companies, other than those imposed by the lending banks related to cash distributions.

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

	June 30, 2016			December 31, 2015		
	Current	Non-current	Net	Current	Non-current	Net
Salvador	12,196	(21,463)	(9,267)	17,443	(20,022)	(2,579)
Shizukuishi	20,094	(22,465)	(2,371)	(9,632)	10,251	619
Mito	4,263	(3,830)	433	4,295	(3,786)	509
Aomori	3,194	(1,492)	1,702	-	-	-
Total net assets (liabilities)	39,747	(49,250)	(9,503)	12,106	(13,557)	(1,451)

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

	Q2-16			Q2-15		
	(Loss) income for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI	(Loss) income for the period	Comprehensive (loss) income for the period	Comprehensive (loss) income allocated to NCI
Salvador	(3,421)	(3,421)	(1,026)	(2,795)	(2,795)	(838)
Shizukuishi	(54)	(1,050)	(137)	71	(43)	(6)
Mito	328	(24)	(4)	(8)	196	26
Aomori	(13)	(13)	(5)	-	-	-
Total	(3,160)	(4,508)	(1,172)	(2,732)	(2,642)	(818)

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

	Q2-16			Q2-15		
	(Loss) income for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI	(Loss) income for the period	Comprehensive (loss) income for the period	Comprehensive (loss) income allocated to NCI
Salvador	(6,688)	(6,688)	(2,006)	(5,689)	(5,689)	(1,707)
Shizukuishi	(115)	(2,703)	(354)	70	278	37
Mito	551	(319)	(42)	(11)	172	22
Aomori	(13)	(13)	(5)	-	-	-
Total	(6,265)	(9,723)	(2,407)	(5,630)	(5,239)	(1,648)

The net change in participating non-controlling interests – in operating entities is as follows:

	Salvador	Shizukuishi	Mito	Aomori	Total
As at December 31, 2015	(774)	81	67	-	(626)
Net (loss) income attributable to non-controlling interest	(2,006)	(15)	72	(5)	(1,954)
Other comprehensive income attributable to non-controlling interest	-	(340)	(113)	-	(453)
Capital contributions	-	-	-	679	679
Other	-	(38)	31	7	-
As at June 30, 2016	(2,780)	(312)	57	681	(2,354)
Interest held by third parties	30%	13%	13%	40%	

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13. PROPERTY, PLANT AND EQUIPMENT

	Land	Solar power projects	Assets under construction	Equipment and furniture	Total
Cost:					
At December 31, 2015	10,891	521,354	33,371	3,148	568,764
Additions	-	99	17,530	11	17,640
Exchange differences	211	17,283	647	61	18,202
At June 30, 2016	11,102	538,735	51,549	3,220	604,606
Accumulated depreciation:					
At December 31, 2015	-	86,460	-	1,331	87,791
Charge for the period	-	11,348	-	165	11,513
Exchange differences	-	1,677	-	26	1,703
At June 30, 2016	-	99,486	-	1,522	101,008
Net book value:					
At December 31, 2015	10,891	434,894	33,371	1,817	480,973
At June 30, 2016	11,102	439,249	51,549	1,698	503,598

During the six months ended June 30, 2016, the Group capitalized as assets under construction \$17.1 million of incurred capital expenditures associated with the 24.7 MW Shizukuishi and 9.5 MW Aomori solar power projects in Japan. In addition, during the six months ended June 30, 2016, the Group capitalized \$0.4 million (2015: \$0.8 million) of borrowing costs associated with the credit facilities obtained to finance the construction of these solar power projects.

14. INTANGIBLE ASSETS

	Goodwill	Licenses and permits	Internally generated intangibles and other	Total
Cost:				
At December 31, 2015	1,428	26,578	3,963	31,969
Additions	-	-	1,518	1,518
Impairment Note 8	-	-	(278)	(278)
Exchange differences	32	677	255	964
At June 30, 2016	1,460	27,255	5,458	34,173
Accumulated amortization:				
At December 31, 2015	-	3,730	602	4,332
Charge of the period	-	764	84	848
Exchange differences	-	71	13	84
At June 30, 2016	-	4,565	699	5,264
Net book value:				
At December 31, 2015	1,428	22,848	3,361	27,637
At June 30, 2016	1,460	22,690	4,759	28,909

During the six months ended June 30, 2016, general and administrative expenses of \$1.5 million (2015: \$0.7 million) representing internally-generated costs (\$1.0 million) and third-party costs (\$0.5 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Japan. [Note 7](#)

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15. CASH AND CASH EQUIVALENTS

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

	June 30 2016	December 31 2015
Unrestricted cash at parent level	9,573	17,582
Restricted cash at project level	56,993	34,917
Total cash and cash equivalents	66,566	52,499

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

16. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,094,324 are issued and outstanding at June 30, 2016 (December 31, 2015: 334,094,324). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as and when declared by the Board of Directors. No dividends were declared during the three and six months ended June 30, 2016 and 2015.

17. SHARE-BASED PAYMENTS

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

In addition, the Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, directors and officers. RSUs have a contractual term of

approximately four years and have time-based and performance-based vesting conditions that are market and non-market based.

During the three and six months ended June 30, 2016, the Group recognized share-based payment expenses reversal of \$0.2 million (2015: expense \$0.2 million) and expense of \$0.1 million (2015: \$0.4 million) related to its stock option and RSU award schemes. **Note 7.** Changes in the Company's outstanding stock options and RSUs are as follows:

	Number of share options	Weighted average exercise price CAD\$
At December 31, 2015	3,751,000	0.42
Forfeited	(549,000)	0.34
At June 30, 2016	3,202,000	0.43
Stock options exercisable:		
At December 31, 2015	3,709,333	0.42
At June 30, 2016	3,202,000	0.43

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

	Number of RSUs
At December 31, 2015	16,892,793
Forfeited	(1,039,210)
At June 30, 2016	15,853,583

As of June 30, 2016, Etrion's management expects that none of the Company's RSUs granted in July 2014 will reach the performance condition targets and as a result the Group recognized a reduction in the stock based compensation expense of \$0.4 million during the second quarter of 2016.

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18. BORROWINGS

	Corporate bond	Project bond	Project loans	Total
At December 31, 2015	87,059	37,522	408,479	533,060
Proceeds from loans	-	-	45,084	45,084
Interest and principal repayments	(3,570)	(3,958)	(16,078)	(23,606)
Accrued interest	3,570	2,689	6,057	12,316
Amortization of transaction costs	185	335	167	687
Exchange difference	1,719	1,394	14,449	17,562
At June 30, 2016	88,963	37,982	458,158	585,103
- Current portion	1,342	-	24,501	25,843
- Non-current portion	87,621	37,982	433,657	559,260

At June 30, 2016, the Group was not in breach of any of the operational and financial covenants associated with its corporate borrowings and non-recourse project loans.

(a) CORPORATE BOND

At June 30, 2016, the Group had €80 million of corporate bonds outstanding issued by the Company in April 2014 at 8.0% annual interest with a 5-year maturity. The carrying amount of the corporate bond as at June 30, 2016, including accrued interest net of transaction costs, was \$89.0 million (December 31, 2015: \$87.1 million).

(b) NON-RECOURSE PROJECT LOANS

Italian subsidiaries

On June 13, 2016, the Group's Italian subsidiary, Helios ITA, SpA ("Helios ITA"), completed a debt restructuring transaction, modifying the terms of the original floating-rate credit facility outstanding obtained to finance the construction of this solar power project. The amended facility matures on December 2028 and bears annual interest rates of Euribor plus a margin range of 2.45%-3.75%. The Helios ITA restructuring included the extension of the final maturity, optimization of the debt repayment schedule and improvements to cash distributions going forward. The Helios ITA restructuring completes management's initiative to renegotiate the non-recourse project loans of its entire portfolio of solar assets in Italy of 17 solar plants for a total of 60 MW of installed capacity.

Upon completion of this restructuring transaction, the Group's Italian subsidiary unwound the previously existing interest rate swap contract and entered into a new one to hedge 90% of future interest payments under the terms of the new credit facility. No amounts were paid upon exchange of these derivatives because the fair market value of the previous and new interest rate swap contract was the same at the transaction date.

All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2016, and December 31, 2015.

Chilean subsidiaries

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador, to finance the construction of Project Salvador matures in 2033. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market. The loan is accounted for using the amortized cost method based on the effective interest rate. The fair value of this credit facility equals its carrying amount, as the impact of discounting is not significant given the fixed-rate terms of the loan.

Japanese subsidiaries

During the six months ended June 30, 2016, the Group's Japanese subsidiaries, Shizukuishi and Mito, drew additional ¥4,710 million from the senior financing agreement (2015: ¥3,920 million) and additional ¥299 million from the VAT credit facility (2015: ¥301 million). As of June 30, 2016, there were no undrawn amounts under the senior financing agreement or the VAT credit facility.

During the three months ended June 30, 2016, the Group's Japanese subsidiary that holds the 9.5 MW Aomori project entered into a senior secured financing agreement in Japanese yen (¥3,003 million) to finance the construction costs of this solar project. This Aomori credit facility matures in 2035 and bears TIBOR floating interest rates plus a margin of 1.1%. The Aomori non-recourse project loan will be 90% hedged through interest rate swap contracts during the operational period. In addition, the Group's Japanese subsidiary entered into a VAT credit facility agreement in Japanese yen (¥233 million) in order to finance the related VAT capital disbursements of the Aomori project. This VAT credit facility has a term of two years and bears a variable interest rate plus a margin. At June 30, 2016, there were no drawn amounts under these credit facilities.

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19. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2016	December 31 2015
Derivative financial assets:		
Interest rate swap contracts		
- Current portion	-	702
Total derivative financial assets	-	702
Derivative financial liabilities:		
Interest rate swap contracts		
- Current portion	4,031	3,230
- Non-current portion	25,897	10,639
Total derivative financial liabilities	29,928	13,869

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Italy and Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor and TIBOR interest rate forward yield curves and an appropriate discount factor. At June 30, 2016, the Group had four derivative financial instruments that qualified for hedge accounting (December 31, 2015: four). The Group's derivative financial instruments are classified within level 2 of the fair value hierarchy.

During the three and six months ended June 30, 2016, the Group recognized a net fair value loss of \$4.1 million (2015: net fair value gain of \$6.2 million) and \$11.5 million (2015: net fair value gain of \$5.3 million), respectively, net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts. During the six months ended June 30, 2016, the Group reclassified from other reserves to the income statement the re-designated portion of previous hedging relationships in the amount of \$1.2 million.

At June 30, 2016, and December 31, 2015, all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is recorded in finance income and costs.

20. RELATED PARTIES

For the purposes of preparing the Company's consolidated interim financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns directly and through various trusts approximately 24.3% of the Company's common shares (2015: 24.3%).

RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2016, and 2015, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
General and administrative expenses:				
Lundin Services BV	5	28	8	51
Lundin Petroleum AB	7	14	14	14
Lundin SA	29	-	29	-
Finance costs:				
Lundin family:				
- Interest expense	222	218	442	439
- Transaction costs	12	11	23	21
Total transactions with related parties	275	271	516	525

At June 30, 2016, and December 31, 2015, the amounts outstanding to related parties were as follows:

	June 30 2016	December 31 2015
Current liabilities:		
Lundin Services BV:		
General and administrative expenses	1	2
Lundin family share in corporate bond	166	387
Board of Directors	-	-
Key management personnel	-	107
Total current liabilities	167	496
Non-current liabilities:		
Lundin family share in corporate bond	10,843	10,908
Total non-current liabilities	10,843	10,908
Total amounts outstanding	11,010	11,404

There were no amounts outstanding from related parties at June 30, 2016, or December 31, 2015.

Lundin SA

On April 1, 2016, The Group entered into a new service agreement with Lundin SA, to make available fully staffed and equipped premises to serve members of its Board of Directors. The contract is renewed automatically, unless terminated by either party.

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21. COMMITMENTS

Contractual commitments

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of June 30, 2016, the Group had a contractual obligation to acquire construction services in the amount of \$36.9 million related to the construction of the 24.7 MW Shizukuishi and 9.5 MW Aomori solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level or future cash flows from operations with no additional capital investments to be made by the Group or additional funding from the Group's unrestricted cash balance.

22. CONTINGENT LIABILITIES

On August 10, 2015, the Group received a litigation notice from a former employee alleging unreconciled labor-related differences. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself. Given the early stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation and has not included a provision for liability under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, in these condensed consolidated interim financial statements.