



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

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## INTRODUCTION

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business environments. This MD&A, prepared as of November 5, 2014, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2014. Financial information is reported in United States ("US") dollars ("\$"). However, as the Group operates in Europe, the Americas and Asia, certain financial information has also been reported in Euros ("€"), Swedish krona ("SEK"), Canadian dollars ("CAD\$") and Japanese yen ("¥"). At September 30, 2014, the €/\$ exchange rate was 1.26 (2013: 1.35 / December 31: 1.38) and the average €/\$ exchange rate for the nine months ended September 30, 2014, was 1.36 (2013: 1.32). The capacity of power plants in this document is described in approximate megawatts ("MW") on a direct current basis, also referred to as megawatt-peak.

This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 24.

## THIRD QUARTER 2014 HIGHLIGHTS

	Three months ended		Nine months ended	
	September 30 2014 \$'000	September 30 2013 \$'000	September 30 2014 \$'000	September 30 2013 \$'000
Revenue <sup>(1)</sup>	17,129	19,414	43,260	46,150
Gross profit	10,035	12,355	21,544	25,112
EBITDA <sup>(2)</sup>	13,231	15,881	31,221	34,934
EBITDA margin (%)	77%	82%	72%	76%
Net income/(loss)	1,193	1,056	(8,449)	(4,638)
Adjusted net income before non-recurring and non-cash items <sup>(2)</sup>	6,605	6,375	10,930	11,433
Operating cash flow <sup>(3)</sup>	522	23,318	1,274	30,430
Working capital <sup>(4)</sup>	66,436	13,568	66,436	13,568

### Notes:

- (1) Revenues are received in Euros and have been translated at the average €/\$ exchange rate of 1.33 and 1.36 for the three and nine months ended September 30, 2014, respectively (2013: 1.32). The average price per kilowatt-hour ("kWh") received during the three months ended September 30, 2014 decreased to \$0.50 from \$0.51 in the comparable period of 2013, primarily due to a reduction in the spot market price ("Market Price") in Italy to €0.04 per kWh from €0.06 per kWh, offset by foreign exchange rate variations.
- (2) Refer to "Financial Review – Financial Results" on pages 11 and 12 for an overview of the Group's adjusted net income before non-recurring and non-cash items and earnings before interest, tax, depreciation and amortization ("EBITDA"), both of which are non-International Financial Reporting Standard ("IFRS") measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. Adjusted net income/loss before non-recurring and non-cash items is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income/loss as reconciled on page 11). In addition, EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measure is net income/loss as reconciled on page 12).
- (3) Operating cash flow refers to cash flows before investing and financing activities and the effects of foreign exchange rate differences (refer to "Financial Review – Financial Results" on page 11).
- (4) Working capital refers to current assets less current liabilities (refer to "Financial Review – Financial Results" on page 11).

## OPERATIONAL HIGHLIGHTS

- **Production:** Produced 34.6 million (2013: 37.7 million) and 86.5 million (2013: 90.7 million) kWh of solar electricity from 17 solar power plants in Italy during the three and nine months ended September 30, 2014, respectively.
- **Chile Construction:** Completed construction of the 70 MW Salvador solar park in northern Chile ("Project Salvador") five months ahead of schedule and under budget. The solar park was built by SunPower Corp. ("SunPower") and was connected to the electricity grid on November 3, 2014.
- **Japan Construction:** Started construction on the first 34 MW in Japan owned 87% by Etrion and 13% by Hitachi High-Technologies Corporation ("HHT"), a subsidiary of Hitachi, Ltd. ("Hitachi"). The 24.7 MW Shizukuishi and the 9.3 MW Mito power plants are being built by HHT and are expected to be operational by the end of 2016 and 2015, respectively.

## THIRD QUARTER 2014 HIGHLIGHTS (CONTINUED)

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### FINANCIAL HIGHLIGHTS

- **Revenue:** Generated revenues of \$17.1 million (2013: \$19.4 million) and \$43.2 million (2013: \$46.2 million) during the three and nine months ended September 30, 2014, respectively.
- **EBITDA:** Recognized EBITDA of \$13.2 million (2013: \$15.9 million) and \$31.2 million (\$34.9 million) during the three and nine months ended September 30, 2014, respectively.
- **Project Financing:** Secured long-term, non-recourse project financing for 80% of the construction costs of the 24.7 MW Shizukuishi and the 9.3 MW Mito power plants with Sumitomo Mitsui Trust Bank, Limited (“SMTB”), a Japanese financial institution, for a total amount of ¥9,852 million (\$90.1 million).
- **Cash and Working Capital:** Closed the third quarter of 2014 with a cash balance of \$147.2 million (December 2013: \$94.9 million) and positive working capital of \$66.4 million (December 2013: \$47.5 million).

### BUSINESS REVIEW

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#### BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns 130 MW of installed solar capacity in Italy and Chile. Etrion has 34 MW of solar projects under construction in Japan and is also actively developing greenfield solar power projects in Japan and Chile.

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

Etrion’s strategy is focused on:

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

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

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

#### OPERATIONS REVIEW

##### OPERATING PERFORMANCE

During the three and nine months ended September 30, 2014, the Group recognized revenues from seven solar power projects in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising 17 solar power plants. Solar-related revenues are subject to seasonality over the year due to the variability of daily sun hours in the summer versus winter months. However, on an annual basis, expected solar irradiation in Italy varies less than 10% year-over-year. The impact of seasonality on the Group’s business should decrease over time as the Group secures additional projects in Chile, given the northern and southern hemisphere profile.

## BUSINESS REVIEW (CONTINUED)

### OPERATIONS REVIEW (CONTINUED)

#### OPERATING PERFORMANCE (CONTINUED)

##### Performance against prior year

Actual production and revenue for the three and nine months ended September 30, 2014, compared to the same period of 2013 are as follows:

	Three months ended September 30				Nine months ended September 30			
	2014	2013	Variance	%	2014	2013	Variance	%
Production <sup>(1)</sup> (MWh)	34,645	37,680	(3,035)	(8.1%)	86,510	90,777	(4,267)	(4.7%)
Revenue (\$'000)	17,129	19,414	(2,285)	(11.8%)	43,260	46,150	(2,890)	(6.3%)

Note:

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

During the three and nine months ended September 30, 2014, the Group produced 8.1% and 4.7% less electricity, respectively, compared to the same periods of 2013, due primarily to lower solar irradiation in 2014. The Group's revenues were impacted also by a reduction in the Market Price in Italy and foreign exchange rate variations as outlined below.

Pricing information for the three and nine months ended September 30, 2014, compared to the same period of 2013 is as follows:

Three months ended September 30:	2014			2013		
	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000
FiT revenues (based on actual production) <sup>(2)</sup>	34,645	0.44	15,247	37,680	0.42	16,453
Market Price revenues (based on evacuated production) <sup>(3)</sup>	33,963	0.06	1,882	36,972	0.09	2,961
<b>Total</b>		<b>0.50</b>	<b>17,129</b>		<b>0.51</b>	<b>19,414</b>

Nine months ended September 30:	2014			2013		
	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000
FiT revenues (based on actual production) <sup>(2)</sup>	86,510	0.45	38,717	90,777	0.43	39,419
Market Price revenues (based on evacuated production) <sup>(3)</sup>	84,844	0.05	4,543	89,128	0.08	6,731
<b>Total</b>		<b>0.50</b>	<b>43,260</b>		<b>0.51</b>	<b>46,150</b>

Notes:

- (1) Revenues are received in Euros and have been translated at the average €/€ exchange rate of 1.33 and 1.36 for the three and nine months ended September 30, 2014, respectively (2013: 1.32).
- (2) The FiT is received for each kWh of electricity produced and is based on a fixed price over a 20-year period. The FiT revenues during the three and nine months ended September 30, 2014, were positively impacted by a strengthening of the Euro against the US dollar.
- (3) The Market Price is received in addition to the FiT and is based on evacuated production (i.e., electricity produced less transmission losses). The Market Price revenues during the three and nine months ended September 30, 2014, were adversely impacted by a reduction to the Market Price in Italy (€0.04 per kWh in 2014 compared to €0.06 per kWh in 2013), partially offset by a strengthening of the Euro against the US dollar.

In Italy, the Group receives revenues from two sources (both received in Euros): (1) the FiT system, which is secured by 20-year contracts with the Italian government, as outlined on pages 8 and 9 within "Business Review – Solar Market Overview"; and (2) the Market Price, which is subject to spot price fluctuations in Italy.

## BUSINESS REVIEW (CONTINUED)

### OPERATIONS REVIEW (CONTINUED)

#### OPERATING PROJECTS ITALY

A summary of the Group's operating solar power projects in Italy, at September 30, 2014, is as follows:

Project	Region	Sites	Capacity (MW)	Technology	Contractor <sup>(3)</sup>	Panels	Inverters	Connection date	FiT <sup>(1)</sup>
Cassiopea (Montalto)	Lazio	1	24.0	Single axis	SunPower	SunPower	SMA	Nov-09	€0.353
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Aug-11	€0.250
Centauro (Montalto)	Lazio	1	8.8	Single axis	SunPower	SunPower	SMA	Jul-10	€0.346
Helios ITA (Brindisi, Mesagne) <sup>(2)</sup>	Puglia	7	6.4	Single axis	Solon/ABB	Solon	Santerno	Dec-09	€0.353
Etrion Lazio (Borgo Piave, Rio Martino)	Lazio	2	5.3	Fixed-tilt	Phoenix	Trina	SMA	Apr-11	€0.346
SVE (Oria, Martino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Dec-10	€0.346
Sagittario (Nettuno)	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Aug-11	€0.250
<b>Total</b>		<b>17</b>	<b>60.1</b>						

Notes:

- (1) FIT per kWh based on connection date. In Italy, revenues are derived from the FIT system and Market Price, both received for each kWh of electricity produced. The weighted average remaining contract life is approximately 16 years. Refer to "Business Review" – Solar Market Overview" on pages 8 and 9 for a discussion on the changes to the FIT in Italy introduced by the Italian government in 2014 and effective from January 1, 2015.
- (2) Six of the Helios ITA solar parks benefit from the 2009 FIT of €0.353 per kWh, and the seventh park built benefits from the 2010 FIT of €0.346 per kWh.
- (3) All projects used the same contractor for both the construction and O&M except Helios ITA, which used Solon for EPC and ABB for O&M.

Refer also to "Business Review – Solar Market Overview" on pages 8 and 9 for an overview of the renewable energy market in Italy. The FiT applicable to each of the Group's Italian projects will be affected by the changes to the FIT regime introduced in 2014 and effective from January 1, 2015 as discussed below under "Business Review-Solar Market Overview".

#### *Cassiopea*

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 24 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower, a US-based solar panel manufacturer and installer, using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Cassiopea has an operations and maintenance ("O&M") contract with SunPower, including preventive and corrective maintenance. During the third quarter of 2014, the solar park benefited from the 2009 FIT of €0.353 per kWh plus the Market Price for the quarter of approximately €0.04 per kWh.

#### *Helios ITA-3*

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5 MW) and Mesagne (5 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB S.p.A. ("ABB"), the Swiss power and automation technology group, using Yingli polycrystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance. During the third quarter of 2014, both solar parks benefited from the August 2011 FIT of €0.25 per kWh plus the Market Price for the quarter of approximately €0.04 per kWh.

#### *Centauro*

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.8 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance. During the third quarter of 2014, the solar park benefited from the 2010 FIT of €0.346 per kWh plus the Market Price for the quarter of approximately €0.04 per kWh.

#### *Helios ITA*

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009, and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon polycrystalline modules and Santerno inverters. The original O&M contractor was Solon. In July 2012, the Group entered into a new O&M contract, including preventive and corrective maintenance, with ABB.

## BUSINESS REVIEW (CONTINUED)

### OPERATIONS REVIEW (CONTINUED)

#### OPERATING PROJECTS ITALY (CONTINUED)

##### Helios ITA (continued)

During the third quarter of 2014, six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefited from the 2009 FiT of €0.353 per kWh plus the Market Price for the quarter of approximately €0.04 per kWh. The last park built (0.6 MW) benefited from the 2010 FiT of €0.346 per kWh plus the Market Price for the quarter of approximately €0.04 per kWh.

##### Etrion Lazio

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.8 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar ("Phoenix"), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance. During the third quarter of 2014, both solar parks benefited from the 2010 FiT of €0.346 per kWh plus the Market Price for the third quarter of 2014 of approximately €0.04 per kWh.

##### SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Martino (1 MW) and Ruffano (1 MW). All three solar parks were connected to the electricity grid in December 2010. The SVE solar parks were built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance. During the third quarter of 2014, all three solar parks benefited from the 2010 FiT of €0.346 per kWh plus the Market Price for the third quarter of 2014 of approximately €0.04 per kWh.

##### Sagittario

The Sagittario project in Lazio, Italy, consists of one ground-mounted solar PV park with a total capacity of 2.6 MW. The solar park was completed and connected to the electricity grid in August 2011. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Sagittario has an O&M contract with Phoenix, including preventive and corrective maintenance. During the third quarter of 2014, the solar park benefited from the August 2011 FiT of €0.25 per kWh plus the Market Price for the third quarter of 2014 of approximately €0.04 per kWh.

#### OPERATING PROJECTS CHILE

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

Project	Region	Sites	Gross	Net	Technology	Contractor	Panels	Inverters	Connection date	Contract regime
			Capacity (MW)	Capacity (MW)						
Salvador <sup>(1)</sup>	Atacama	1	70	49	Single axis	SunPower	SunPower	ABB	Nov-14 <sup>(2)</sup>	Merchant <sup>(3)</sup>
<b>Total</b>		<b>1</b>	<b>70</b>	<b>49</b>						

Notes:

- (1) Etrion will initially own 70% of Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion's ownership will decrease to 50.01%. After 20 years of operation, Etrion's ownership will decrease to 0%.
- (2) Project Salvador was connected to the electricity grid on November 3, 2014.
- (3) Project Salvador will initially operate on a merchant basis, but Etrion is exploring future PPAs for this project.

##### Salvador

Project Salvador is located in the Atacama region of northern Chile and consists of one ground-mounted solar PV park with a total capacity of 70 MW. Project Salvador was built by SunPower using SunPower high-efficiency, single-axis tracker technology and ABB inverters. Construction-related activities began in December 2013, and the park was connected to the grid on November 3, 2014. Project Salvador has an O&M contract with SunPower, including preventive and corrective maintenance. Project Salvador will initially operate on a merchant basis where the electricity produced will be sold on the spot market and delivered to the SIC electricity network, with the ability to secure future PPAs. The solar power plant was built on 133 hectares leased from the Chilean government through a long-term concession. Project Salvador is expected to produce approximately 200 gigawatt-hours ("GWh") of electricity per year.

## BUSINESS REVIEW (CONTINUED)

### DEVELOPMENT ACTIVITIES

#### CHILE

Etrion is pursuing additional renewable energy projects in Latin America, with an initial focus on Chile, where solar power generation is competitive with traditional sources of energy. Chile has an investment grade AA- rating (per Standard & Poor's), an abundance of renewable resources (i.e., strong solar irradiation), high wholesale electricity prices and a large energy demand, making it an ideal country in which Etrion can grow and diversify through new opportunities without the need for subsidies. Etrion's business development activities in Chile are focused on solar power generation that is carried along two of the existing electricity networks, Sistema Interconectado del Norte Grande ("SING") and Sistema Interconectado Central ("SIC"), which provide service to industrial users who are particularly concerned with electricity shortages as a result of the high growth in energy demand. Together the SING and SIC account for approximately 99% of Chile's total electricity production. Northern Chile has among the highest solar irradiation in the world. Refer to "Business Review – Solar Market Overview" on page 9 for an overview of the renewable energy market in Chile.

A summary of the Group's projects under development in Chile is below:

Project	Region	Sites	Gross	Net	Technology	Contractor	Status	Expected start of construction <sup>(1)</sup>	Expected start of operations	Contract regime
			Capacity (MW)	Capacity (MW)						
Aguas Blancas	Antofagasta	3	72	72	Single axis	TBD	Development	Q2-2015	Q2-2016	PPA/merchant
Las Luces	Atacama	1	27	27	Single axis	TBD	Development	Q2-2015	Q2-2016	PPA/merchant
<b>Total</b>		<b>4</b>	<b>99</b>	<b>99</b>						

Notes:

- (1) Expected timing assuming Etrion is able to secure a PPA and long-term, non-recourse project financing.

In addition to the projects above, Etrion is also pursuing other opportunities in Chile to develop and/or acquire additional renewable energy projects.

#### *Aguas Blancas*

The Aguas Blancas solar project was originally an 8.8 MW solar PV park under development in the Antofagasta region of Chile to sell part of its electricity to the Aguas Blancas iodine mine in northern Chile through a 15-year take-or-pay, US dollar-denominated PPA with Atacama Minerals Chile S.C.M ("Atacama Minerals"). This project is currently on hold after the mine postponed its production expansion plans due to the collapse of iodine prices. The Company decided to incorporate this project into a larger 72 MW development project within five miles of the mine to serve this and other future opportunities while obtaining better economies of scale. Aguas Blancas is owned 100% by the Group.

Aguas Blancas is expected to have all licenses and permits obtained by the first quarter of 2015, at which point the Group would be in a position to commence construction provided it secures PPAs with industrial clients for most of its capacity and secures the necessary debt financing. This project is expected to be operational within 12 months from the date construction commences.

The total estimated project cost for the 72 MW project, including costs related to the licenses, permits, development and construction, is \$155 million, which is expected to be financed by up to 80% non-recourse project debt with the remaining equity portion to be funded by the Group.

#### *Las Luces*

Etrion plans to build, own and operate a 27 MW solar project in the Atacama region in northern Chile ("Las Luces"). Las Luces was originally expected to be 22 MW, but the permits have recently been expanded to 27 MW. Las Luces is owned 100% by the Group.

Las Luces is expected to have all licenses and permits obtained by the first quarter of 2015, at which point the Group would be in a position to commence construction provided it secures PPAs with industrial clients for most of its capacity and secures the necessary debt financing. This project is expected to be operational within 12 months from the date construction commences.

The total estimated project cost, for the 27 MW project, including costs related to the licenses, permits, development and construction, is \$58 million, which is expected to be financed by up to 80% non-recourse project debt with the remaining equity portion to be funded by the Group.

## BUSINESS REVIEW (CONTINUED)

### DEVELOPMENT ACTIVITIES (CONTINUED)

#### JAPAN

Etrion is pursuing renewable energy projects in Asia, with an initial focus on Japan, due to the attractive solar FIT program and low financing costs. Japan is one of the largest solar PV markets in the world with over 14 gigawatts ("GW") of installed capacity with a national solar power target of 28 GW by 2020. The Japanese government has instituted a strong mandate to increase the use of renewable energy in Japan's energy mix in order to reduce the country's reliance on nuclear power.

In 2012, the Group and HHT signed a development agreement to develop a pipeline of solar assets in Japan. The companies are targeting to reach at least 100 MW of utility-scale solar projects under construction or shovel-ready by 2015 and 300 MW by 2017. Under this agreement, both parties provide the key functions necessary to successfully develop, build and operate solar projects in Japan (including, but not limited to, obtaining the relevant permits and authorizations to build and operate the solar power facilities, developing relationships with local utilities and land owners, engineering, procurement and construction ("EPC"), securing non-recourse project finance, as well as operations, maintenance and asset management services). Shizukuishi and Mito will be the first solar projects built under this agreement.

Refer to 'Business Review – Solar Market Overview' on page 10 for an overview of the renewable energy market in Japan.

A summary of the Group's projects under construction in Japan is below:

Project	Region	Sites	Gross	Net	Technology	Contractor	Status	Start of construction	Expected start of operations	Contract regime
			Capacity (MW)	Capacity (MW)						
Shizukuishi <sup>(1)</sup>	Iwate	1	24.7	21.5	Fixed-tilt	HHT <sup>(2)</sup>	Construction	Q4-2014 <sup>(4)</sup>	Q4-2016 <sup>(3)</sup>	20-year FiT
Mito <sup>(1)</sup>	Ibaraki	5	9.3	8.1	Fixed-tilt	HHT <sup>(2)</sup>	Construction	Q4-2014 <sup>(4)</sup>	Q4-2015	20-year FiT
<b>Total</b>		<b>6</b>	<b>34.0</b>	<b>29.6</b>						

Notes:

- (1) Etrion's ownership is approximately 87% in Shizukuishi and Mito, with the balance owned by HHT.
- (2) Shizukuishi and Mito will be built by HHT using Hitachi Power Systems as EPC.
- (3) Shizukuishi will connect through a utility that requires up to 29 months for grid connection. Assuming this process is accelerated, the solar project could be operational by the end of 2015.
- (4) Construction-related activities began in October 2014.

In addition to the projects above, Etrion is also pursuing other opportunities in Japan to develop and/or acquire additional renewable energy projects.

#### Shizukuishi

Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant under construction on one site in the Iwate Prefecture of Japan. Construction-related works began in October 2014, and the solar project is expected to be operational by the end of 2016. The solar power plant is being built on 51 hectares of leased land, and the facility will connect through Tohoku Electric Power Co., Inc. ("Tohoku Electric Power utility"). The project has entered into a 20-year power purchase agreement ("PPA") with the Tohoku Electric Power utility to receive ¥40 per kilowatt-hour ("kWh") produced (approximately \$0.35 per kWh) which is being paid by the Ministry of Economy, Trade and Industry ("METI") in Japan. The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is being financed 80% through non-recourse project debt from SMTB with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. Once operational, Shizukuishi is expected to produce approximately 25.6 GWh of solar electricity per year.

#### Mito

Mito is a 9.3 MW utility-scale solar photovoltaic power project including five sites under construction in the Ibaraki Prefecture of Japan. Construction began in October 2014, and the solar project is expected to be operational by the end of 2015. The solar power plant is being built on 27 hectares of leased land, and the facility will connect through the Tokyo Electric Power Company ("TEPCO"). The project is expected to enter into a 20-year PPA by the end of 2014 with TEPCO to receive ¥40 per kWh produced (approximately \$0.35 per kWh) which will be paid by the Japanese government. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) is being financed 80% through non-recourse project debt from SMTB with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Mito has also entered into a long-term fixed price O&M agreement with HHT. Once operational, Mito is expected to produce approximately 10.3 GWh of solar electricity per year.

## BUSINESS REVIEW (CONTINUED)

### SOLAR MARKET OVERVIEW

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

Solar power plants are an important source of renewable energy. They have very low operating and maintenance costs with minimal moving parts. The technology is essentially silent, emission-free and scalable to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from PV cells (i.e., PV energy) and energy generated from solar collectors (i.e., thermal energy or heat).

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

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

### ITALIAN MARKET

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

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

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

In addition to the FiT, solar power generators in Italy receive the spot market rate on a per kWh basis. The Market Price during the third quarter of 2014 was approximately €0.04 (\$0.05) per kWh of electricity produced.

On June 24, 2014, the Italian government published a new decree outlining, among other things, certain proposed changes to the current Italian FiT regime and on August 7, 2014, the decree was approved by the Italian Parliament. The approved changes will impact the revenues received by solar power producers by reducing the annual FiT incentive to be paid by the GSE.

Specifically, the approved decree outlines three options for solar power producers to reduce the original FiT effective January 2015. Producers can choose a reduction of between 17% and 25%, depending on the remaining incentive period, offset by an extension of the incentive period from 20 to 24 years. Alternatively, solar power producers can elect for a flat 6%-8% reduction, depending on the capacity of the plant, for the remaining incentive period without an extension. Lastly, producers can choose to have the FiT reduced in the near-term and increased in the long-term using a re-modulation ratio established by the Italian Ministry for Economic Development that has been estimated by Etrion as an initial reduction and subsequent increase of 14-17%.

## BUSINESS REVIEW (CONTINUED)

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### SOLAR MARKET OVERVIEW (CONTINUED)

#### ITALIAN MARKET (CONTINUED)

In addition, the approved decree introduces certain changes to the payment of the FiT, whereby, effective July 1, 2014, 10% of the FiT payment by GSE would be delayed until June of the following year.

Although the proposed changes will impact the revenues, EBITDA and cash flows of the Group going forward, they do not impact the carrying value of its assets and liabilities as reported at September 30, 2014. Etrion's management made a preliminary economic assessment of the alternatives available to power producers and will likely choose the flat 6%-8% reduction of the FiT, depending on the capacity of the plant, for the remaining incentive period without an extension, effective January 1, 2015. Subject to new information, Management plans to communicate this election to the Italian government by November 30, 2014, as required.

#### CHILEAN MARKET

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

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

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

- **Through PPAs** – solar power producers can sell the electricity produced through a long-term fixed price take-or-pay US dollar-denominated contract with industrial users (such as mining companies).
- **Through spot market/merchant basis** – solar power producers can sell the electricity produced on the spot market, delivered to the relevant electricity network. Project Salvador will initially operate on a merchant basis with the ability to secure future PPAs.

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

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

Etrion's business development activities are focused on solar power generation that is carried along the SING and SIC, which provide service to industrial users who are particularly concerned with electricity shortages as a result of strong growth in energy demand. Together, the SING and SIC account for more than 99% of Chile's total electricity production. The Chilean government has announced plans to connect the SING and SIC networks, which is expected to result in a more stable long-term spot market price for the combined networks.

## **BUSINESS REVIEW (CONTINUED)**

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### **SOLAR MARKET OVERVIEW (CONTINUED)**

#### ***JAPANESE MARKET***

Japan is the world's third largest energy consumer and today is the third largest solar market, based on the expected installed capacity in 2014 of 24.7 GW. The use of solar power in Japan has accelerated since the Japanese FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster, which has led to most of the nation's 48 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 7.2% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2013, Japan had installed more than 14 GW of solar capacity with a national solar power target of 28 GW by 2020.

Japan is a relatively low-risk jurisdiction with an attractive solar FiT program and low financing costs. In order to encourage solar power generation, Japan has implemented an attractive 20-year FiT program of ¥40 per kWh (\$0.35 per kWh) for projects secured by March 31, 2013, and ¥36 per kWh (\$0.31 per kWh) for projects secured by March 31, 2014. The government has also announced various other policy actions including regulatory easing, tax incentives and energy sector reforms.

On October 16, 2014, METI set-up a working group to address the concerns issued by certain utilities regarding grid congestion as a result of the large number of applications submitted from solar developers. Currently, five of the ten largest utilities have suspended processing grid connection applications. This subcommittee has been tasked to review the current METI approval process, provide recommendations for the FiT scheme for future projects, evaluate measures to deal with grid capacity issues and evaluate current levels of curtailment and the possibility of cross-regional transmission to better handle total capacity increase. According to METI, the subcommittee should reach a recommendation by the end of 2014. Management believes Etrion's previously communicated development target of 100 MW shovel-ready in Japan by 2015 should not be affected by this review.

#### ***OTHER MARKETS***

Etrion has effectively established presence in three key regional markets (Asia, Europe and the Americas). Solar growth is expected to continue given the compelling long-term cost reduction curve resulting in a continued reduction of the levelized cost of energy.

In Asia, Etrion will continue to focus in Japan in the short-term. However, the Company is exploring new markets in partnership with HHT. The parties plan to jointly target a new market in Asia in 2015.

Etrion established offices in Miami, USA, in September of this year to more effectively address the solar market in the Americas. The Company is exploring investment opportunities in Mexico, Peru, Panama and Brazil and believes it should be in a good position to expand into a new market in the Americas in 2015.

In Europe, the Company is monitoring new opportunities in select markets, including the United Kingdom and France. Etrion believes there will continue to be greenfield and brownfield opportunities in these markets.

## FINANCIAL REVIEW

### FINANCIAL RESULTS

#### THIRD QUARTER SELECTED FINANCIAL INFORMATION

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

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>	<b>17,129</b>	<b>19,414</b>	<b>43,260</b>	<b>46,150</b>
<b>Gross profit</b>	<b>10,035</b>	<b>12,355</b>	<b>21,544</b>	<b>25,112</b>
<b>Net income/(loss)<sup>(1)</sup></b>	<b>1,193</b>	<b>1,056</b>	<b>(8,449)</b>	<b>(4,638)</b>
Adjustments for non-recurring items <sup>(2)</sup> :				
- Operating expenses	-	-	343	-
- General and administrative expenses	-	-	461	-
- Loss on derecognition of liability	-	-	1,033	-
- Other expenses	-	(7)	-	620
<b>Adjusted net income/(loss) before non-recurring items<sup>(3)</sup></b>	<b>1,193</b>	<b>1,049</b>	<b>(6,612)</b>	<b>(4,018)</b>
Adjustments for non-cash items:				
- Depreciation and amortization	5,113	5,022	15,664	15,117
- Fair value movements (derivative financial instruments)	251	179	1,701	(111)
- Share-based payment expense	48	125	177	445
<b>Adjusted net income before non-recurring and non-cash items<sup>(3)</sup></b>	<b>6,605</b>	<b>6,375</b>	<b>10,930</b>	<b>11,433</b>
<b>Net income/(loss)</b>	<b>1,193</b>	<b>1,056</b>	<b>(8,449)</b>	<b>(4,638)</b>
Adjustments for:				
- Net income tax expense	2,172	3,261	2,037	4,401
- Depreciation and amortization	5,113	5,022	15,664	15,117
- Loss/(gain) on asset disposal	-	-	-	(1)
- Share-based payment expense	48	125	177	445
- Net finance costs	9,314	6,394	26,061	19,677
- Other (income)/expenses	(85)	(7)	(272)	620
- Income tax paid	(722)	(820)	(3,185)	(1,849)
- Changes in working capital	(16,511)	8,287	(30,759)	(3,342)
<b>Operating cash flow</b>	<b>522</b>	<b>23,318</b>	<b>1,274</b>	<b>30,430</b>

Notes:

- (1) Net income/(loss) for the period includes both the net income/(loss) from continuing operations and the net income/(loss) attributable to owners of the Company and non-controlling interests. Basic and diluted loss per share for the three and nine months ended September 30, 2014 was \$0.004 (\$0.006) and \$0.026 (\$0.023), respectively.
- (2) Non-recurring items incurred during the nine months ended September 30, 2014, related to non-recurring maintenance activities included within operating expenses, compensation-related expenses associated with the bond refinancing, recruitment-related activities and development costs not eligible for capitalization included within general administrative expenses. During the nine months ended September 30, 2014, the Group recognized a loss of \$1 million associated with the early redemption of the previous €60 million corporate bonds.
- (3) Adjusted net income/(loss) before non-recurring items and adjusted net income before non-recurring and non-cash items are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. Adjusted net income/loss before non-recurring and non-cash items is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements. The most comparable IFRS measure is net income/loss (as reconciled in the table above).

	September 30	December 31
	2014	2013
	\$'000	\$'000
Non-current assets	527,773	401,410
Current assets	168,189	116,841
<b>Total assets</b>	<b>695,962</b>	<b>518,251</b>
Non-current liabilities	546,240	460,209
Current liabilities	101,754	69,380
<b>Total liabilities</b>	<b>647,994</b>	<b>529,589</b>
Working capital (current assets less current liabilities)	66,435	47,461
Dividends declared	-	-

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### QUARTERLY SELECTED FINANCIAL INFORMATION

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

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	17,129	17,764	8,367	7,761	19,414	18,414	8,322	7,385
Net income/(loss) <sup>(1)</sup>	1,193	(1,434)	(8,208)	(5,667)	1,056	(238)	(5,456)	(7,292)
Basic and diluted earnings/(loss) per share in \$	0.004	(0.005)	(0.025)	(0.027)	0.005	(0.001)	(0.027)	(0.036)

Notes:

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

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months, resulting in lower revenues in the first and fourth quarters each year. The impact of seasonality on the Group's business should decrease over time as the Group secures additional solar power projects in Chile. In Italy, revenues are received in Euros and have been translated at the average €//\$ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according to exchange rate variations.

#### THIRD QUARTER RESULTS

##### EBITDA

The following is a summary of the Group's EBITDA and adjusted EBITDA:

	2014			2013		
	Renewable energy <sup>(1)</sup>	Corporate <sup>(1)</sup>	Total	Renewable energy <sup>(1)</sup>	Corporate <sup>(1)</sup>	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Three months ended September 30:</b>						
Revenue	17,129	-	17,129	19,414	-	19,414
Operating expenses <sup>(2)</sup>	(2,067)	-	(2,067)	(2,128)	-	(2,128)
General and administrative expenses <sup>(2)</sup>	(190)	(1,726)	(1,916)	(466)	(946)	(1,412)
Other income/(expenses)	31	54	85	28	(21)	7
<b>EBITDA<sup>(3)</sup></b>	<b>14,903</b>	<b>(1,672)</b>	<b>13,231</b>	<b>16,848</b>	<b>(967)</b>	<b>15,881</b>
Non-recurring items <sup>(4)</sup> :						
- Operating expenses	-	-	-	-	-	-
- General and administrative expenses	-	-	-	-	-	-
- Other (income)/expenses	-	-	-	(28)	21	(7)
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>14,903</b>	<b>(1,672)</b>	<b>13,231</b>	<b>16,820</b>	<b>(946)</b>	<b>15,874</b>
<b>Nine months ended September 30:</b>						
Revenue	43,260	-	43,260	46,150	-	46,150
Operating expenses <sup>(2)</sup>	(6,317)	-	(6,317)	(6,194)	-	(6,194)
General and administrative expenses <sup>(2)</sup>	(837)	(5,157)	(5,994)	(1,183)	(3,219)	(4,402)
Other income/(expenses)	211	61	272	(290)	(330)	(620)
<b>EBITDA<sup>(3)</sup></b>	<b>36,317</b>	<b>(5,096)</b>	<b>31,221</b>	<b>38,483</b>	<b>(3,549)</b>	<b>34,934</b>
Non-recurring items <sup>(4)</sup> :						
- Operating expenses	343	-	343	-	-	-
- General and administrative expenses	-	461	461	-	-	-
- Other expenses	-	-	-	290	330	620
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>36,660</b>	<b>(4,635)</b>	<b>32,025</b>	<b>38,773</b>	<b>(3,219)</b>	<b>35,554</b>

Notes:

- (1) The renewable energy segment includes only the Group's operating solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes all corporate overhead.
- (2) Operating expenses and general and administrative expenses shown here, exclude depreciation and amortization for the purposes of calculating EBITDA.
- (3) EBITDA and adjusted EBITDA (which excludes non-recurring items recognized during the relevant periods) are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring. The most directly comparable IFRS measure is net income/loss (excluding depreciation, amortization, finance income/cost and income tax expense/recovery).
- (4) Refer to "Financial Review – Financial Results" on page 11 for an overview of the non-recurring items that occurred during the relevant periods.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### THIRD QUARTER RESULTS (CONTINUED)

##### Revenue

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
FiT revenue	15,247	16,453	38,717	39,419
Market Price revenue	1,882	2,961	4,543	6,731
<b>Total revenue</b>	<b>17,129</b>	<b>19,414</b>	<b>43,260</b>	<b>46,150</b>

Revenues decreased by \$2.3 million (11.8%) and \$2.9 million (6.3%) during the three and nine months ended September 30, 2014, respectively, compared to the same periods of 2013, due to lower solar irradiation and a reduction in the Market Price in Italy, offset by foreign exchange rate differences (due to a strengthening of the Euro against the US dollar that was sustained for the first two quarters of 2014).

##### Operating expenses

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
O&M costs	804	1,105	2,718	2,728
Operating personnel costs	261	260	800	777
Depreciation and amortization (operating solar power projects)	5,027	4,931	15,399	14,843
Taxes (other than income tax)	514	438	1,577	1,306
Insurance	94	107	288	328
Land lease	53	55	162	161
Other operating expenses	341	163	772	895
<b>Total operating expenses</b>	<b>7,094</b>	<b>7,059</b>	<b>21,716</b>	<b>21,038</b>

During the three months ended September 30, 2014, operating expenses remained relatively stable, with a 0.5% increase compared to the same period of 2013, due primarily to an increase in property taxes and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar that was sustained for the first two quarters of 2014), offset by a decrease in O&M costs.

During the nine months ended September 30, 2014, operating expenses increased by \$0.6 million (3.2%) compared to the same period of 2013, primarily due to non-recurring operations and maintenance-related expenses, an increase in property taxes and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar that was sustained for the first two quarters of 2014).

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

##### General and administrative expenses

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits	716	480	2,190	1,408
Board of Directors fees	103	25	259	71
Share-based payment expense	48	125	177	445
Corporate and professional fees	518	487	1,947	1,545
Listing, filing and marketing expenses	67	55	319	250
Depreciation and amortization (corporate assets)	112	112	331	351
Office lease expenses	86	91	265	274
Office, travel and other general and administrative expenses	352	128	771	331
<b>Total general and administrative expenses</b>	<b>2,002</b>	<b>1,503</b>	<b>6,259</b>	<b>4,675</b>

During the three months ended September 30, 2014, general and administrative expenses increased by \$0.5 million (33%) compared to the same period of 2013, primarily due to a change in the cash component of the Board of Director's compensation, additional professional fees, less costs being capitalized into development projects and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar in the first two quarters of 2014). During the period, \$0.4 million (2013: \$0.5 million) of internally-generated costs were capitalized within intangible assets directly attributable to the Group's business development activities in Chile and Japan.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### THIRD QUARTER RESULTS (CONTINUED)

##### General and administrative expenses (continued)

During the nine months ended September 30, 2014, general and administrative expenses increased by \$1.6 million (34%) compared to the same period of 2013, primarily due to travel-related expenses, a higher headcount during the period, compensation-related expense associated with the bond refinancing, a change in the cash component of the Board of Directors' compensation, recruitment-related activities, certain development costs not eligible for capitalization and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar that was sustained for the first two quarters of 2014). During the period, \$1.7 million (2013: \$1.4 million) of internally-generated costs were capitalized within intangible assets directly attributable to the Group's business development activities in Chile and Japan.

##### Net finance costs

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Interest expense associated with non-recourse project loans <sup>(1)</sup>	4,393	4,992	13,795	14,827
Interest expense associated with corporate borrowings <sup>(1)</sup>	2,533	1,842	8,336	5,474
Net fair value movements on derivative financial instruments	251	179	1,701	(111)
Foreign exchange	(2,561)	(74)	(2,381)	134
Other net finance costs	136	(397)	547	(270)
<b>Net finance costs</b>	<b>4,753</b>	<b>6,542</b>	<b>21,968</b>	<b>20,054</b>

Note:

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

During the three months ended September 30, 2014, net finance costs decreased by \$1.8 million (27%) compared to the same period of 2013, primarily due to foreign exchange gains as a result of the approximately 8% devaluation of the Euro versus the US dollar in the third quarter of 2014. In addition during the three months ended September 30, 2014, the Group capitalized \$2.9 million of borrowing costs associated with credit facilities obtained to finance the construction of Project Salvador and Shizukuishi.

During the nine months ended September 30, 2014, net finance costs increased by \$1.9 million (10%) compared to the same period of 2013, primarily due to an increase in interest associated with corporate borrowings, specifically the loss associated with the early redemption of the Company's previously outstanding €60 million principal amount of corporate bonds and additional interest related to the new €80 million principal amount of corporate bonds, and an increase to the net fair value losses associated with the Group's interest rate swap contracts. The increase during the nine months ended September 30, 2014, was partially offset by foreign exchange gains as a result of the approximately 8% devaluation of the Euro versus the US dollar in the third quarter of 2014. During the nine months ended June 30, 2014, the Group capitalized \$5.6 million of borrowing costs associated with credit facilities obtained to finance the construction of Project Salvador and Shizukuishi.

All of the Group's non-recourse project loans in Italy are hedged through interest rate swap contracts, all of which qualified for hedge accounting during the periods.

##### Income tax expense

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current income tax expense	3,636	5,949	4,365	7,742
Deferred income tax recovery	(1,463)	(2,688)	(2,327)	(3,341)
<b>Total income tax expense/(recovery)</b>	<b>2,173</b>	<b>3,261</b>	<b>2,038</b>	<b>4,401</b>

During the three and nine months ended September 30, 2014, total income tax expense decreased by \$1.1 million (33%) and \$2.4 million (54%), respectively, compared to the same period of 2013. This was primarily due to lower taxable income generated by the Group's operating solar projects (due primarily to a reduction in revenues) and a reduction in the tax rate in Italy. Furthermore, in 2014 the incremental tax associated with the so-called "Robin Hood" tax legislation in Italy was reduced from 10.5% to 6.5%, reducing the corporate income tax rate from 38% to 34% for 2014 and beyond for the solar projects affected by this additional tax. This tax rate is applicable to five of the Group's seven operating solar projects in Italy.

## FINANCIAL REVIEW (CONTINUED)

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### FINANCIAL POSITION

#### LIQUIDITY AND FINANCING

During the nine months ended September 30, 2014, the Group's total equity increased by \$57.4 million from a net liability position of \$12.3 million at December 31, 2013, to a net asset position of \$45.1 million at September 30, 2014, primarily due to the private placement completed in January 2014, an increase to the written call option associated with Project Salvador, share-based payment expenses, stock options being exercised and foreign currency translation adjustments, offset by the net loss reported by the Group during the period and unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts).

The Group's total equity at September 30, 2014, was negatively impacted by fair value losses of \$22.0 million recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts) that are not expected to be realized. Excluding these fair value losses, the Group's total equity at September 30, 2014, would have been \$67.1 million.

At September 30, 2014, the Group had cash and cash equivalents of \$147.2 million (December 31, 2013: \$94.9 million) and positive working capital (i.e., current assets less current liabilities) of \$66.4 million (December 31, 2013: \$47.5 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but are not expected to be settled in cash in the next 12 months. Excluding these derivative financial liabilities that are not expected to be settled in the short-term, the Group's working capital would have been \$75.3 million.

The Group's cash and cash equivalents at September 30, 2014, included restricted cash of \$108.7 million (December 31, 2013: \$86.4 million) held at the project level, comprising the following:

- Restricted cash and cash equivalents of \$27.4 million (December 31, 2013: \$32.5 million) held at the project level that is restricted by the lending banks in Italy for future repayment of interest and principal and working capital requirements related to specific projects. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans, through payment of interest on shareholder loans or through dividend distributions.
- Restricted cash and cash equivalents of \$56.7 million (December 31, 2013: \$53.9 million) drawn under the loan facilities associated with the construction of Project Salvador that will be used to pay the related construction invoices.
- Restricted cash and cash equivalents of \$24.7 million (December 31, 2013: nil) drawn under the loan facilities associated with the construction of Shizukuishi and Mito projects that will be used to pay the related construction invoices.

The Group's cash and cash equivalents at September 30, 2014, included unrestricted cash of \$38.6 million (December 31, 2013: \$8.5 million) held at the corporate level. The unrestricted cash balance increased significantly during the nine months ended September 30, 2014, due primarily to the following:

- Private placement - In January 2014, Etrion completed a private placement for net proceeds of \$76.3 million, issuing approximately 124,633,571 common shares at a price of SEK 4.15 (approximately CAD\$0.70) per share. The net proceeds were/will be used: (i) to fund the equity contributions associated with the Group's first projects in Chile (Project Salvador) and Japan (Shizukuishi and Mito); (ii) to repay the \$18 million bridge loan obtained from investment companies associated with the Lundin family, the Company's major shareholder (fully repaid in January 2014); and (iii) for general corporate purposes.
- Bond Refinancing - In April 2014, Etrion issued €80 million in senior secured bonds in the Norwegian bond market at 8% annual interest with a 5-year maturity. The net proceeds were/will be used: (i) to redeem the previously outstanding €60 million of corporate bonds (completed in May 2014 at 101% of par value plus accrued interest in accordance with the related bond agreement); and (ii) for general corporate purposes.

As a result of these transactions, the Group has significantly increased its liquidity and has a fully-funded portfolio of operational and under construction projects (including Project Salvador in Chile and Shizukuishi and Mito in Japan). In addition, the Group expects to generate sufficient operating cash flows in 2014 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity or debt financing and non-recourse project loans, as required.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL POSITION (CONTINUED)

#### LIQUIDITY AND FINANCING (CONTINUED)

After completing the private placement and the bond refinancing, the Group secured additional funds and liquidity for its anticipated growth and development activities.

There have been no significant changes to the Group's contractual obligations as outlined in the Company's MD&A for the year ended December 31, 2013, except for the new EPC contracts signed with HHT for the construction of the Shizukuishi and Mito projects. Refer to "Financial Review - Capital Investments" on page 19 for a summary of the Group's contractual and capital commitments at September 30, 2014.

#### Borrowings

The Group's adjusted net debt position, excluding non-cash items at September 30, 2014, and December 31, 2013, is as follows:

	September 30 2014	December 31 2013
	\$'000	\$'000
<b>Total borrowings (per consolidated financial statements)</b>	<b>501,190</b>	<b>438,584</b>
Value added tax ("VAT") facility <sup>(1)</sup>	(14,801)	(4,448)
Accrued interest <sup>(2)</sup>	(5,048)	(2,968)
Transaction costs <sup>(2)</sup>	12,899	12,343
<b>Adjusted borrowings</b>	<b>494,240</b>	<b>443,511</b>
Cash and cash equivalents (including restricted cash)	(147,243)	(94,914)
<b>Adjusted net debt</b>	<b>346,997</b>	<b>348,597</b>

Notes:

- (1) The VAT facility outstanding at September 30, 2014, relates to the construction of Project Salvador and Shizukuishi. This amount has been excluded from total borrowings as this facility will be repaid using the proceeds from input VAT from the Chilean and Japanese tax authorities, respectively.
- (2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

The Group's net debt decreased during the nine months ended September 30, 2014, due to an increase of \$52.3 million in the Group's cash and cash equivalents, partially offset by an increase of \$50.3 million in the Group's total borrowings outstanding.

At each of September 30, 2014 and December 31, 2013, the Group was not in breach of any of the imposed operational and financial covenants associated with its non-recourse project loans and corporate borrowings.

#### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans at September 30, 2014, and December 31, 2013:

	Capacity (MW)	Financial institution	Maturity	Balance outstanding <sup>(1)</sup>	
				September 30 2014	December 31 2013
				\$'000	\$'000
Cassiopea	24.0	BIS <sup>(2)</sup> , Societe Generale and Portigon	March 31, 2024	111,524	129,198
Helios ITA-3	10.0	Natixis, Portigon and Mediocreval	September 30, 2027	39,151	43,946
Centauro	8.8	Barclays	September 30, 2028	40,618	50,162
Helios ITA	6.4	Societe Generale and Dexia	September 30, 2024	34,087	37,171
Etrion Lazio	5.3	Natixis, Portigon and Mediocreval	September 30, 2027	18,965	21,110
SVE	3.0	UBI Banca	September 30, 2028	13,690	15,863
Sagittario	2.6	Natixis, Portigon and Mediocreval	September 30, 2027	8,058	8,979
Salvador <sup>(3)</sup>	70.0	OPIC, Rabobank <sup>(3)</sup>	June 1, 2033	126,129	48,205
Shizukuishi	24.7	SMTB <sup>(4)</sup>	September 30, 2032	6,817	-
<b>Total</b>	<b>154.8</b>			<b>399,039</b>	<b>354,634</b>

Notes:

- (1) The Group's non-recourse project loans used to finance its Italian projects are expressed in Euros, translated at the closing €/€ exchange rate of 1.36 at September 30, 2014, and 1.38 at December 31, 2013. The balances outstanding include accrued interest and are net of transaction costs (in accordance with IFRS).
- (2) Banca Intesa Sanpaolo Spa.
- (3) The balance outstanding for Project Salvador includes the VAT facility from Rabobank (to be repaid using the proceeds from input VAT from the Chilean tax authorities) that matures on February 28, 2016.
- (4) The balance outstanding for Shizukuishi includes the VAT facility from SMTB (to be repaid using the proceeds from input VAT from the Japanese tax authorities) that matures on June 2017.

## FINANCIAL REVIEW (CONTINUED)

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### FINANCIAL POSITION (CONTINUED)

#### LIQUIDITY AND FINANCING (CONTINUED)

##### *Borrowings*

##### Non-recourse project loans (continued)

##### ***Italian projects***

The non-recourse project loans (i.e., where the lending bank has security only over the assets of the associated project) obtained by the Group's Italian subsidiaries to finance the construction of the Group's solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At September 30, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At September 30, 2014, the Group had no undrawn amounts associated with these facilities.

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

All the Italian non-recourse projects loans interest rates are hedged through interest rate swap contracts all of which qualified for hedge accounting at September 30, 2014 and December 31, 2013.

##### ***Chilean projects***

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador SpA, to finance the construction of Project Salvador matures in 2033. The loan is drawn in tranches each of which is subject to a different fixed interest rate. The first tranche of \$50 million that was drawn in December 2013 bears a fixed annual rate of 7.51%. The second tranche of \$64 million drawn in May 2014 bears a fixed annual interest rate of 6.83%. At September 30, 2014, \$41 million was undrawn under this credit facility and is expected to be fully-drawn early in 2015. Total transaction costs related to the drawdowns completed during the nine months ended September 30, 2014 amounted to \$0.3 million. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market once the solar project is operational. The loan is accounted for using the amortized costs method based on the effective interest rate.

In addition, the Group obtained a \$35 million VAT credit facility with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial service company ("Rabobank"), to finance the VAT associated with the construction costs of Project Salvador. The VAT credit facility bears variable interest rates which are set every quarter plus a margin. The average applicable interest rate during the nine months ended September 30, 2014 was approximately 6%. During the three months ended September 30, 2014, the Group completed the second and third drawdown for a total amount of \$2.1 million under this VAT credit facility, increasing the total amount drawn to \$4.4 million (net of accrued interest and transaction costs). At September 30, 2014, the total undrawn amount under this VAT credit facility was \$30.6 million, which is expected to be fully utilized by the end of 2014.

##### ***Japanese projects***

During the three months ended September 30, 2014, the Group's Japanese subsidiaries that hold the 34 MW Shizukuishi and Mito projects entered into a senior secured financing agreement in Japanese yen with SMTB for a total amount of ¥9,852 million (\$90.1 million) in order to finance 80% of the construction costs of the projects. These credit facilities have an 18-year tenor, bear floating interest rates during the construction period of the solar plants and a 90% hedged interest rate plus a margin during operation. The repayment of this facility is secured principally by the proceeds from the sale of electricity under a PPA with the respective utility, once the solar plants are completed and operational. The loan is accounted for using the amortized costs method based on the effective interest rate.

On September 30, 2014, the first drawdown under the Shizukuishi credit facility in the amount of ¥600 million (\$5.5 million) was made. As of September 30, 2014, the undrawn amount was ¥6,524 million (\$57.2 million).

## FINANCIAL REVIEW (CONTINUED)

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### FINANCIAL POSITION (CONTINUED)

#### LIQUIDITY AND FINANCING (CONTINUED)

##### *Borrowings*

##### Non-recourse project loans (continued)

##### *Japanese projects (continued)*

The SMTB financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's Japanese subsidiaries have provided certain of their assets as collateral to secure their obligations under the financing agreement.

In addition, during the three months ended September 30, 2014, the Group's Japanese subsidiaries entered into a VAT credit facility agreement in Japanese yen with SMTB for a total amount of ¥840 million (\$7.7 million) in order to finance the related VAT capital disbursements of the Shizukuishi and Mito projects. These VAT credit facilities have a term of 3 years and a variable interest rate plus a margin.

On September 30, 2014, the first drawdown under the Shizukuishi VAT credit facility in the amount of ¥150 million (\$1.4 million) million was made. As of September 30, 2014, the undrawn amount was ¥449 million (\$4.1 million).

##### Corporate borrowings

On April 23, 2014, Etrion issued €80 million principal amount of new secured bonds in the Norwegian bond market. The new bonds have an annual interest rate of 8% and mature in April 2019. A portion of the net proceeds from this transaction was used to refinance the Company's previous €60 million of corporate bonds that bore annual interest of 9% and were due to mature in April 2015. The carrying value of the new corporate bonds at September 30, 2014, including accrued interest and net of transaction costs, was \$102.2 million.

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value (i.e., a fixed premium). Specifically, the Company can redeem the bond: within the first two years at 4% above par value plus the net present value of the interest that would have accrued up to April 22, 2016 (using a discount rate of 50 basis points over the German government bond rate comparable to the remaining duration of the bonds until April 22, 2016); after the second year at 4% above par value; after the third year at 2.5% above par value; and after the fourth year at 1% above par value.

Using the proceeds from the new bonds, the Company redeemed the previously issued €60 million of corporate bonds in May 2014 at a redemption price equal to 101% of par value plus accrued interest in accordance with the associated bond agreement. As a result, the Group recognized a \$1 million loss associated with the settlement of these bonds, representing the fair value of the call option and the balance of unamortized transaction costs.

#### **OUTSTANDING SHARE DATA**

At the date of this MD&A, the Company had 334,082,657 common shares (December 31, 2013: 205,746,419) and 6,020,000 options to acquire common shares of the Company (December 31, 2013: 7,450,000) issued and outstanding. The options expire at various dates between September 10, 2014, and April 28, 2018, with exercise prices in CAD\$ ranging between CAD\$0.24 and CAD\$1.59 per share.

In addition, at the Company's Annual and Special General Meeting held on June 12, 2014, the shareholders approved the adoption of a Restricted Share Unit Plan (RSU) awards scheme for employees, consultants, directors and officers of the Group. The RSUs have a contractual term of three years and are subject to certain time-based conditions and performance-based vesting conditions. On July 3, 2014, the Company granted 3,220,212 RSUs to certain employees of the Company under this long-term incentive plan.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Group had no off-balance sheet arrangements at September 30, 2014, and December 31, 2013.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL POSITION (CONTINUED)

#### CAPITAL INVESTMENTS

The Group plans to make significant capital investments in 2014 and 2015 in order to develop and build its solar projects under development in Chile and Japan. The following table summarizes the Group's expected capital expenditures in 2014 and 2015 for projects currently operational, under construction or expected to begin construction in 2014 or 2015:

	Status	Gross capacity (MW)	Ownership (%)	Total project cost <sup>(1)</sup> \$'million	Total equity contribution <sup>(2)</sup> \$'million	Remaining equity contribution <sup>(3)</sup> \$'million
<b>Projects in Chile</b>						
Salvador <sup>(4)</sup>	Operational	70.0	70.0	201.0	42.2	8.0
Aguas Blancas <sup>(5)</sup>	Development	72.0	100.0	155.0	31.0	31.0
Las Luces	Development	27.0	100.0	58.0	11.6	11.6
<b>Projects in Japan</b>						
Mito	Construction	9.3	87.0	33.5	5.8	-
Shizukuishi	Construction	24.7	86.9	87.8	15.3	-
<b>Total 2014-2015 planned capital expenditure</b>		<b>203.0</b>		<b>535.3</b>	<b>105.9</b>	<b>50.6</b>

Notes:

- (1) Total project cost represents the total estimated capital expenditure to develop and build the solar project. It is expected that the total project cost for projects under development in Chile will be financed 80% through non-recourse project debt with international financial institutions.
- (2) Total equity contribution represents Etrion's portion of the total project cost based on its actual/expected ownership interest.
- (3) Remaining equity contribution represents the portion of Etrion's total equity contribution unpaid at September 30, 2014. Any development costs, including both third party and internally-generated costs charged to the projects, may be deducted from this amount, reducing Etrion's total cash outlay for the projects.
- (4) Etrion will initially own a 70% interest in Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion's ownership will decrease to 50.01%. After 20 years of operation, Etrion's ownership will decrease to 0%.
- (5) Aguas Blancas includes three locations that may be financed and built at different times.

During the nine months ended September 30, 2014, Etrion successfully completed the private placement and bond refinancing (as outlined on page 15), partially funding its anticipated growth and development activities in Chile and Japan. The Group will finance the remaining development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

#### CONTRACTUAL AND CAPITAL COMMITMENTS

The Group enters into contracts with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants.

##### Chile

In September 2013, the Group entered into a shareholders agreement with Total and Solventus to build, own and operate Project Salvador. The total project cost of approximately \$201 million is being financed 70% through non-recourse project debt, with the remaining equity being funded by Etrion, Total and Solventus, based on their respective ownership interests of 70%, 20% and 10%, resulting in a total capital commitment for the Group of approximately \$42.2 million. At September 30, 2014, the Group has \$8 million outstanding under this commitment.

At the date of this MD&A, the Group had no other significant capital commitments in Chile.

##### Japan

The total project cost for the two Japanese projects (Shizukuishi and Mito) is approximately \$121.3 million, including costs related to the licenses, permits, development and construction. Approximately 80% of the cost is being financed through non-recourse debt from SMTB, with the remaining equity portion to be funded by Etrion and HHT based on their respective ownership interests (as outlined in the table above), resulting in total capital commitment for the Group of approximately \$21.1 million. As of September 30, 2014, the Group has contributed 100% of its equity portion and has no outstanding commitments.

At the date of this MD&A, the Group had no other significant capital commitments in Japan.

## FINANCIAL REVIEW (CONTINUED)

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2013.

During the nine months ended September 30, 2014, the Group did not adopt any new standards and interpretations or amendments thereto, applicable for financial periods beginning on or after January 1, 2014, that would have a significant impact on the Company's consolidated financial information.

### RELATED PARTIES

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

The related party transactions disclosed in the notes to the Company's consolidated financial statements for the three and nine months ended September 30, 2014 are summarized below and on page 21.

#### RELATED PARTY TRANSACTIONS

##### *Lundin Services BV*

The Group receives technical and legal services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a director of the Company. During the three and nine months ended September 30, 2014, the Group incurred general and administrative expenses of \$30,000 (2013: \$6,000) and \$0.1 million (2013: \$23,000), respectively, from Lundin Services BV and at September 30, 2014 the Group had \$4,000 (December 31 2013: \$5,000) outstanding in relation to these expenses.

During the first quarter of 2014, Lundin Services BV sold its remaining €7.6 million principal amount of corporate bonds issued by the Company in April 2011. Lundin Services BV did not participate in or subscribe for the new bond financing which closed in April 2014.

During the three and nine months ended September 30, 2014, the Group recognized \$nil (2013: \$0.2 million) and \$0.2 million (2013: \$0.6 million), respectively, of interest expense and \$nil (2013: \$6,000) and \$10,000 (2013: \$18,000), respectively, of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV during these periods.

##### *Lundin family*

##### Corporate bond

During the first quarter of 2014, investment companies associated the Lundin family sold their €15 million principal amount of corporate bonds issued by the Company in April 2011. These investment companies associated with the Lundin family subscribed for €15 million of the new bonds issued in April 2014. During the three and nine months ended September 30, 2014, the Group recognized \$0.5 million (2013: \$0.5 million) and \$1.3 million (2013: \$1.3 million), respectively, of interest expense and \$24,000 (2013: \$13,000) and \$51,000 (2013: \$35,000), respectively, of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family during these periods.

## FINANCIAL REVIEW (CONTINUED)

### RELATED PARTIES (CONTINUED)

#### RELATED PARTY TRANSACTIONS (CONTINUED)

##### *Lundin family (continued)*

##### Lundin family bridge Loan

In September 2013, the Group obtained a \$42 million unsecured loan facility from a company affiliated with the Lundin family at an annual interest rate of 12% with a 12-month maturity in order to fund its business development activities in Chile. During 2013, \$18 million was drawn under the loan facility and in January 2014 the total amount outstanding of \$18.4 million, including interest, was repaid.

#### KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer, Mr. Northland, the Chief Financial Officer, Cheryl Eversden and the interim Chief Financial Officer, Garrett Soden, who stood in for Mrs. Eversden's during her maternity leave.

During the three and nine months ended September 30, 2014, the Group recognized \$0.4 million (2013: \$0.3 million) and \$1.5 million (2013: \$1.0 million), respectively, within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At September 30, 2014, the Group owed \$0.1 million in fees payable to the Board of Directors. At December 31, 2013, the Group had \$0.8 million outstanding to key management personnel for 2013 bonus compensation.

### FINANCIAL RISK MANAGEMENT

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

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

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

### DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments at September 30, 2014 and December 31, 2013 is as follows:

	September 30 2014 \$'000	December 31 2013 \$'000
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts (cash flow hedges) <sup>(1)</sup>		
- Current portion	8,882	9,110
- Non-current portion	39,561	27,019
<b>Total derivative financial liabilities</b>	<b>48,443</b>	<b>36,129</b>

Note:

- (1) All of the Group's Italian non-recourse project loans are hedged through interest rate swap contracts. At September 30, 2014, and December 31, 2014, all of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting.

The Group has entered into five credit facilities, associated with its Italian operations, that are hedged using 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 these non-recourse project loans. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor interest rate forward yield curve and an appropriate discount factor.

## **FINANCIAL REVIEW (CONTINUED)**

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

During the three and nine months ended September 30, 2014, the Group recognized a net fair value loss of \$2.9 million (2013: net fair value gain of \$1.1 million) and of \$10.9 million (2013: net fair value gain of \$10.1 million), respectively, net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

In addition, at March 31 2014, the Group recognized a derivative financial asset associated with the call option relating to the previous €60 million corporate bonds. During the nine months ended September 30, 2014, the Group recognized a loss of \$1 million associated with the early redemption of these corporate bonds.

## **RISKS AND UNCERTAINTIES**

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The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

### **FINANCIAL RISKS**

#### ***DEBT AND EQUITY FINANCING***

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

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

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

#### ***MARKET RISKS***

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

#### ***COST UNCERTAINTY***

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

### **NON-FINANCIAL RISKS**

#### ***LICENSES AND PERMITS***

The Group's operations require licenses and permits from various governmental authorities that are subject to changes in regulation and operating circumstances. There is no assurance that the Group will be able to obtain all the necessary licenses and permits required to develop future renewable energy projects. At the date of this MD&A, to the best of the Company's knowledge, all necessary licenses and permits have been obtained for projects already built and under construction, and the Group is complying in all material respects with the terms of such licenses and permits.

## **RISKS AND UNCERTAINTIES (CONTINUED)**

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### **NON-FINANCIAL RISKS (CONTINUED)**

#### **GOVERNMENTAL REGULATION**

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

#### **COMPETITION**

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

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

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

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

#### **INTERNATIONAL OPERATIONS**

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

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

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

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

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

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

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

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

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

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Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing and operation of the its projects in Japan and Chile, including Project Salvador, Shizukuishi and Mito and the anticipated projected electricity production from such projects); future expansion efforts in Chile and Japan; expectations relating to cash flow in 2014 and 2015 and the expected sufficiency and uses thereof; expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; the uses of proceeds from the new bond financing; expectations relating to grid parity; the expected key drivers for growth; expectations with respect to future mining growth in Chile; the anticipated use of certain of the proceeds from the private placement of common shares that was completed in January 2014 and the issuance of corporate bonds that was completed in April 2014; and plans for future dividend distributions. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; the lack of confirmation or reduction of the applicable FIT and the Market Price for electricity sales in Italy; uncertainties with respect to the impact of the new Italian FIT regime to come into effect in 2015; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FIT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Group; and other factors, many of which are beyond the Group's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. Such assumptions include, but are not limited to: confirmation of the applicable FIT and spot market price for electricity sales in Italy; the ability of the Group to obtain the required permits in a timely fashion and project and debt financing on economic terms and/or in accordance with its expectations; the ability of the Group to identify and acquire additional solar power projects; expectations with respect to the declining impact of seasonality on the Group's business and assumptions relating to management's assessment of the impact of the new Italian FIT regime. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at [www.sedar.com](http://www.sedar.com). Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

## **ADDITIONAL INFORMATION**

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Additional information regarding the Company, including its Annual Information Form, may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) or by visiting the Company's website at [www.etrion.com](http://www.etrion.com).