CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED JUNE 30, 2014

UNAUDITED

CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

UNAUDITED

Expressed in US$'000

	Note	Three months ended June 30 2014 $'000	Three months ended June 30 2013 $'000	Six months ended June 30 2014 $'000	Six months ended June 30 2013 $'000
Revenue	5	17,764	18,414	26,131	26,736
Operating expenses	6	(7,123)	(7,168)	(14,622)	(13,979)
Gross profit		**10,641**	**11,246**	**11,509**	**12,757**
General and administrative expenses	7	(1,890)	(1,715)	(4,257)	(3,172)
Other income/(expenses)		187	(234)	187	(627)
Operating profit		**8,938**	**9,297**	**7,439**	**8,958**
Finance income	8	22	531	170	565
Finance costs	8	(8,152)	(6,893)	(17,386)	(14,077)
Net finance costs		**(8,130)**	**(6,362)**	**(17,216)**	**(13,512)**
Income/(loss) before income tax		**808**	**2,935**	**(9,777)**	**(4,554)**
Income tax (expense)/recovery	9	(2,242)	(3,173)	135	(1,140)
Loss for the period		**(1,434)**	**(238)**	**(9,642)**	**(5,694)**
Other comprehensive (loss)/income:					
(Loss)/gain on currency translation		(497)	(549)	434	175
(Loss)/gain on cash flow hedges (net of tax)		(4,277)	6,622	(7,953)	8,937
Total other comprehensive (loss)/income		**(4,774)**	**6,073**	**(7,519)**	**9,112**
Total comprehensive (loss)/income for the period		**(6,208)**	**5,835**	**(17,161)**	**3,418**
Loss attributable to:					
Owners of the Company		(1,423)	(238)	(9,627)	(5,694)
Non-controlling interest		(11)	-	(15)	-
Total comprehensive (loss)/income attributable to:					
Owners of the Company		(6,197)	5,835	(17,146)	3,418
Non-controlling interest		(11)	-	(15)	-
Basic and diluted loss per share	10	**$(0.005)**	**$(0.001)**	**$(0.031)**	**$(0.028)**

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT JUNE 30, 2014

UNAUDITED

Expressed in US$'000

	Note	June 30 2014 $'000	December 31 2013 $'000
Assets			
Non-current assets			
Property, plant and equipment	12	375,766	357,644
Intangible assets	13	34,111	31,446
Deferred income tax assets		12,810	8,856
Trade and other receivables		9,543	3,464
Total non-current assets		**432,230**	**401,410**
Current assets			
Trade and other receivables		26,324	21,927
Cash and cash equivalents (including restricted cash)	14	197,890	94,914
Total current assets		**224,214**	**116,841**
Total assets		**656,444**	**518,251**
Equity			
Attributable to owners of the Company			
Share capital	15	111,247	34,879
Contributed surplus		10,668	10,573
Other reserves		(19,035)	(11,981)
Accumulated deficit		(55,392)	(45,765)
Total attributable to owners of the Company		**47,488**	**(12,294)**
Non-controlling interest	11	**2,175**	**956**
Total equity		**49,663**	**(11,338)**
Liabilities			
Non-current liabilities			
Borrowings	17	501,310	417,432
Derivative financial instruments	18	39,100	27,019
Deferred income tax liabilities		1,419	2,316
Provisions		4,366	4,195
Other liabilities		16,311	9,247
Total non-current liabilities		**562,506**	**460,209**
Current liabilities			
Trade and other payables		12,583	35,360
Current tax liabilities		1,190	757
Borrowings	17	17,740	21,152
Derivative financial instruments	18	9,427	9,110
Provisions		1,519	1,166
Other liabilities		1,816	1,835
Total current liabilities		**44,275**	**69,380**
Total liabilities		**606,781**	**529,589**
Total equity and liabilities		**656,444**	**518,251**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014

UNAUDITED

Expressed in US$'000

		Attributable to owners of the Company						
	Note	Share capital $'000	Contributed surplus $'000	Other reserves $'000	Accumulated deficit $'000	Total $'000	Non-controlling interest $'000	Total Equity $'000
Balance at January 1, 2013		**33,270**	**10,430**	**(22,840)**	**(35,506)**	**(14,646)**	**-**	**(14,646)**
Comprehensive loss:								
- Loss for the period		-	-	-	(5,694)	(5,694)	-	(5,694)
- Other comprehensive income:								
Cash flow hedges (net of tax)	8	-	-	9,053	-	9,053	-	9,053
Currency translation		-	-	175	-	175	-	175
Total comprehensive income/(loss)		**-**	**-**	**9,228**	**(5,694)**	**3,534**	**-**	**3,534**
Transactions with owners in their capacity as owners:								
- Share-based payments		-	353	-	-	353	-	353
Balance at June 30, 2013		**33,270**	**10,783**	**(13,612)**	**(41,200)**	**(10,759)**	**-**	**(10,759)**
Balance at January 1, 2014		**34,879**	**10,573**	**(11,981)**	**(45,765)**	**(12,294)**	**956**	**(11,338)**
Comprehensive loss:								
- Loss for the period		-	-	-	(9,627)	(9,627)	(15)	(9,642)
- Other comprehensive income/(loss):								
Cash flow hedges (net of tax)	8	-	-	(7,835)	-	(7,835)	-	(7,835)
Currency translation		-	-	434	-	434	-	434
Total comprehensive loss		**-**	**-**	**(7,401)**	**(9,627)**	**(17,028)**	**(15)**	**(17,043)**
Transactions with owners in their capacity as owners:								
- Share issuance	15	76,280	-	-	-	76,280	-	76,280
- Stock options exercised	16	88	(34)	-	-	54	-	54
- Written call options		-	-	347	-	347	-	347
- Share-based payments		-	129	-	-	129	-	129
- Non-controlling interest		-	-	-	-	-	1,234	1,234
Balance at June 30, 2014		**111,247**	**10,668**	**(19,035)**	**(55,392)**	**47,488**	**2,175**	**49,663**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

UNAUDITED

Expressed in US$'000

		Three months ended		Six months ended	
		June 30 2014	June 30 2013	June 30 2014	June 30 2013
	Note	$'000	$'000	$'000	$'000
Cash flow from operating activities:					
Loss for the period		(1,434)	(238)	(9,642)	(5,694)
Adjustments for:					
Depreciation and amortization	6/7	5,279	5,015	10,551	10,095
Current income tax expense	9	3,804	4,806	729	1,793
Deferred income tax recovery	9	(1,562)	(1,633)	(864)	(653)
Share-based payment expense	7	62	152	129	320
Interest expense	8	4,736	4,077	8,831	8,224
Interest expense relating to interest rate swap contracts	8	2,360	2,398	4,800	4,808
Amortization of transaction costs	8	280	217	510	435
Foreign exchange (gain)/loss	8	(790)	(28)	180	208
Loss on derecognition of liability	8	1,033	-	1,033	-
Fair value changes of derivative financial instruments	8	266	(358)	1,450	(290)
Loss/(gain) on asset disposal		-	16	-	(1)
Other (income)/expenses		(187)	234	(187)	627
Interest income		(57)	(102)	(57)	(102)
Decrease/(increase) in trade and other receivables		4,942	(7,091)	(12,035)	(9,723)
Decrease in trade and other payables		(1,109)	(342)	(2,213)	(1,922)
Income tax paid		(2,463)	(986)	(2,463)	(1,029)
Total cash flow from operating activities		**15,160**	**6,137**	**752**	**7,096**
Cash flow from investing activities:					
Purchases of property, plant and equipment		(21,792)	(30)	(23,990)	(71)
Disposal of property, plant and equipment		-	20	-	60
Purchases of intangible assets		(1,780)	(728)	(3,348)	(1,340)
Total cash flow used in investing activities		**(23,572)**	**(738)**	**(27,338)**	**(1,351)**
Cash flow from financing activities:					
Interest paid	17	(7,694)	(2,205)	(10,413)	(8,278)
Interest paid relating to interest rate swap contracts	17	(1,834)	(1,847)	(4,873)	(4,668)
Interest income	17	57	102	57	102
Repayment of borrowings	17	(2,640)	(2,277)	(9,980)	(5,048)
Proceeds from borrowings	17	89,524	-	91,868	-
Repayment of Lundin loan facility		-	-	(18,394)	-
Proceeds from stock-options exercised		16	-	54	-
Contributions from non-controlling interest		5,486	-	5,486	-
Proceeds from the issuance of shares		-	-	76,280	-
Total cash flow from/(used in) financing activities		**82,915**	**(6,227)**	**130,085**	**(17,892)**
Net increase/(decrease) in cash and cash equivalents		**74,503**	**(828)**	**103,499**	**(12,147)**
Effect of exchange rate differences		(673)	427	(523)	(303)
Cash and cash equivalents (including restricted cash) at the beginning of the period		124,060	25,701	94,914	37,750
Cash and cash equivalents (including restricted cash) at the end of the period		**197,890**	**25,300**	**197,890**	**25,300**

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

1. GENERAL INFORMATION

Etrion Corporation ("Etrion" or the "Company" or, together with its subsidiaries, the "Group") is incorporated under the laws of the Province of British Columbia, Canada. The address of its registered office is 1600-925 West Georgia St, Vancouver, British Columbia V62 3L2, Canada. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden under the same ticker symbol, "ETX".

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

These condensed consolidated interim financial statements are presented in United States ("US") Dollars ("$"). However, since the functional currency of the Company (i.e., of the primary economic environment in which the Company operates) is the Euro and the Company is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these condensed consolidated interim financial statements has been presented in Euros ("€"), Canadian dollars ("CAD$"), and Swedish Krona ("SEK").

The Company's Board of Directors approved these condensed consolidated interim financial statements for issue on August 6, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013.

These condensed consolidated interim financial statements have been drawn up on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2013.

(b) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the three and six months ended June 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, except as described below:

- *IFRIC 21, "Levies" ("IFRIC 21"),* the Group has adopted IFRIC 21. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when such liability should be recognized. The adoption of the interpretation has not had a significant impact on the financial statements for earlier periods or in the consolidated interim financial statements for the three and six months ended June 30, 2014. The Group does not expect IFRIC 21 to have a significant effect on the results for the financial year ending December 31, 2014.

- Other amendments to IFRSs effective for the financial year ending December 31, 2014 are not expected to have a material impact on the group.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

4. SEGMENT REPORTING

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

At June 30, 2014 and 2013, all of the Group's operating solar power projects were located in Italy. The Group's electricity is sold to the Italian state-owned company Gestore Servizi Energetici ("GSE").

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

Three months ended June 30:	**2014**			**2013**		
	Renewable energy $'000	**Corporate and other $'000**	**Total $'000**	**Renewable energy $'000**	**Corporate and other $'000**	**Total $'000**
Revenue	**17,764**	**-**	**17,764**	**18,414**	**-**	**18,414**
Operating expenses(1)	(1,934)	-	(1,934)	(2,241)	-	(2,241)
General and administrative expenses(1)	(336)	(1,464)	(1,800)	(387)	(1,240)	(1,627)
Other income/(expenses)	180	7	187	(318)	84	(234)
EBITDA(1)	**15,674**	**(1,457)**	**14,217**	**15,468**	**(1,156)**	**14,312**
Depreciation and amortization	(5,189)	(90)	(5,279)	(4,925)	(90)	(5,015)
Finance income	11	11	22	501	30	531
Finance costs	(5,119)	(3,033)	(8,152)	(5,065)	(1,828)	(6,893)
Income/(loss) before income tax	**5,377**	**(4,569)**	**808**	**5,979**	**(3,044)**	**2,935**
Income tax expense	(2,228)	(14)	(2,242)	(3,018)	(155)	(3,173)
Net income/(loss) for the period	**3,149**	**(4,583)**	**(1,434)**	**2,961**	**(3,199)**	**(238)**

Notes:

(1) Operating expenses and general and administrative expenses shown in the table above exclude depreciation and amortization expenses. Note 6 and Note 7

(2) EBITDA is a non-IFRS measure and therefore does not have standardized meaning 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.

The EBITDA for the renewable energy segment for the three and six months ended June 30, 2014, represents only the operating solar projects in Italy.

4. SEGMENT REPORTING (CONTINUED)

Six months ended June 30:	2014			2013		
	Renewable energy $'000	Corporate and other $'000	Total $'000	Renewable energy $'000	Corporate and other $'000	Total $'000
Revenue	**26,131**	**-**	**26,131**	**26,736**	**-**	**26,736**
Operating expenses(1)	(4,250)	-	(4,250)	(4,066)	-	(4,066)
General and administrative expenses(1)	(647)	(3,431)	(4,078)	(717)	(2,273)	(2,990)
Other income/(expenses)	180	7	187	(318)	(309)	(627)
EBITDA	**21,414**	**(3,424)**	**17,990**	**21,635**	**(2,582)**	**19,053**
Depreciation and amortization	(10,372)	(179)	(10,551)	(9,912)	(183)	(10,095)
Finance income	154	16	170	563	2	565
Finance costs	(11,300)	(6,086)	(17,386)	(10,215)	(3,862)	(14,077)
(Loss)/income before income tax	**(104)**	**(9,673)**	**(9,777)**	**2,071**	**(6,625)**	**(4,554)**
Income tax (expense)/recovery	213	(78)	135	(963)	(177)	(1,140)
Net income/(loss) for the period	**109**	**(9,751)**	**(9,642)**	**1,108**	**(6,802)**	**(5,694)**

Note:

(1) Operating expenses and general and administrative expenses shown in the table above exclude depreciation and amortization expenses. Note 6 and Note 7

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

	June 30, 2014			December 31, 2013		
	Renewable energy $'000	Corporate and other $'000	Total $'000	Renewable energy $'000	Corporate and other $'000	Total $'000
Property, plant and equipment	375,521	245	375,766	357,413	231	357,644
Intangible assets	23,581	10,530	34,111	26,009	5,437	31,446
Cash and cash equivalents	133,755	64,135	197,890	86,403	8,511	94,914
Other assets	46,122	2,555	48,677	27,433	6,814	34,247
Total assets	**578,979**	**77,465**	**656,444**	**497,258**	**20,993**	**518,251**
Borrowings	410,481	108,569	519,050	354,634	83,950	438,584
Trade and other payables	9,662	2,921	12,583	10,712	24,648	35,360
Other liabilities	73,743	1,405	75,148	54,180	1,616	55,796
Total liabilities	**493,886**	**112,895**	**606,781**	**419,526**	**110,214**	**529,740**

The Group's assets and liabilities for the renewable segment at June 30, 2014 include the operating solar projects in Italy, the solar projects under construction in Chile and the solar projects under development in Chile and Japan.

5. REVENUE

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Feed-in tariff ("FiT") revenue	16,061	16,037	23,470	22,966
Market Price revenue	1,703	2,377	2,661	3,770
Total revenue	**17,764**	**18,414**	**26,131**	**26,736**

The Group's operating revenues arise from the sale of electricity to the electricity grid in Italy. The Italian FiT is a 20-year commitment from the government to purchase 100% of the solar production at a constant premium rate. This amount is received directly from the Italian government through the state-owned company GSE. The spot market price ("Market Price") is received in addition to the FiT based on evacuated production (i.e., electricity produced less transmission losses).

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus winter months.

6. OPERATING EXPENSES

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Operation and maintenance ("O&M") costs	995	868	1,914	1,623
Operating personnel costs	301	311	539	517
Depreciation and amortization (operating solar power projects)	5,189	4,925	10,372	9,912
Taxes (other than income)	578	438	1,063	868
Insurance	97	110	194	221
Land lease	54	53	109	106
Other operating expenses	(91)	463	431	732
Total operating expenses	**7,123**	**7,168**	**14,622**	**13,979**

O&M costs of $1.0 million (2013: $0.9 million) and $1.9 million (2013: $1.6 million) for the three and six months ended June 30, 2014, respectively, relate to fees paid in connection with the operation and maintenance activities of the Group's operating solar power projects in Italy. The Group outsources these O&M services to third parties.

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Salaries and benefits	424	523	1,474	928
Board of Directors fees	126	24	156	46
Share-based payment expenses	62	152	129	320
Corporate and professional fees	833	546	1,429	1,058
Listing, filing and marketing expenses	131	111	252	195
Office lease expenses	96	118	219	239
Depreciation and amortization (corporate assets)	90	90	179	183
Office, travel and other general and administrative expenses	128	151	419	203
Total general and administrative expenses	**1,890**	**1,715**	**4,257**	**3,172**

During the three months ended June 30, 2014, general and administrative expenses of $1.8 million (2013: $0.7 million) representing internally-generated costs ($0.7 million) and third-party costs ($1.1 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Chile and Japan. Note 13

During the six months ended June 30, 2014, general and administrative expenses of $3.4 million (2013: $1.4 million) representing internally-generated costs ($1.3 million) and third-party costs ($2.1 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Chile and Japan. Note 13

8. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Finance income:				
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	-	445	113	463
Foreign exchange gain	-	28	-	-
Other finance income	22	58	57	102
Total finance income	**22**	**531**	**170**	**565**
Finance costs:				
Interest expense:				
- Credit facilities and non-recourse loans Note 17	3,673	2,301	6,904	4,686
- Interest rate swap contracts associated with non-recourse loans	2,360	2,398	4,800	4,808
- Corporate bond Note 17/19	2,436	1,776	4,264	3,538
- Credit facility with related party (Lundin family) Note 19	-	-	181	-
- Credit facility with non-controlling interest	214	-	351	-
- Amortization of transaction costs	335	217	597	435
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	3	1	1,037	1
- De-designated portion reclassified from other comprehensive income	89	86	179	172
Written call option	174	-	347	-
Loss on derecognition of liability	1,033	-	1,033	-
Foreign exchange loss	(790)	-	180	208
Other finance costs	267	114	468	229
Total finance costs before deducting amounts capitalized	**9,794**	**6,893**	**20,341**	**14,077**
Amounts capitalized on qualifying assets	(1,643)	-	(2,956)	-
Total finance costs	**8,152**	**6,893**	**17,386**	**14,077**
Net finance costs	**8,130**	**6,362**	**17,216**	**13,512**

The Group has five credit facilities outstanding, that are hedged using interest rate swap contracts, which were used to finance the construction of its operating solar power projects in Italy. The Group has also entered into credit facilities in order to finance the construction of its solar power plant in Chile. Applicable borrowings costs have been capitalized as assets under construction within property, plant and equipment (Note 12). Refer to Note 17 and Note 18 for further details on the Group's credit facilities and derivative financial instruments.

During the three and six months ended June 30, 2014, the Group recognized a net fair value loss of $4.3 million (2013: net fair value gain of $6.6 million) and of $7.9 million (2013: net fair value gain of $8.9 million), respectively, net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

In addition, during the three months ended June 30, 2014, the Group recognized a $1.0 million loss associated with the early redemption of the previously existing €60 million corporate bonds. Note 17

9. INCOME TAXES

(a) INCOME TAX EXPENSE

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Current income tax expense:				
Corporate income tax	(2,986)	(3,662)	(571)	(1,303)
Provincial income tax	(818)	(1,144)	(158)	(490)
Total current income tax expense	**(3,804)**	**(4,806)**	**(729)**	**(1,793)**
Deferred income tax recovery:				
Current period	389	(861)	738	(703)
Tax benefits	1,173	2,494	126	1,356
Total deferred income tax recovery	**1,562**	**1,633**	**864**	**653**
Total income tax (expense)/recovery	**(2,242)**	**(3,173)**	**135**	**(1,140)**

During the three and six months ended June 30, 2014, the Group recognized an income tax expense of $3.8 million (2013: $4.8 million) and $0.7 million (2013: $1.8 million), respectively, associated with its Italian solar power projects, based on the forecasted effective tax rate expected during 2014.

9. INCOME TAXES

(a) INCOME TAX EXPENSE (CONTINUED)

During the first quarter of 2014, the incremental tax in Italy associated with the so-called "Robin Hood" tax legislation 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 operating solar projects in Italy.

During the three and six months ended June 30, 2014, the Group recognized a deferred income tax recovery of $1.6 million (2013: $1.6 million) and $0.9 million (2013: $0.7 million), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and utilized tax losses.

(b) CURRENT INCOME TAX LIABILITIES

	June 30 2014 $'000	December 31 2013 $'000
Corporate income tax	925	654
Provincial income tax	265	103
Total current income tax liabilities	**1,190**	**757**

10. LOSS PER SHARE

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

	Three months ended		Six months ended	
	June 30 2014 $'000	**June 30 2013 $'000**	**June 30 2014 $'000**	**June 30 2013 $'000**
Loss attributable to owners of the Company	**(1,423)**	**(238)**	**(9,627)**	**(5,694)**
	Number of shares		**Number of shares**	
Weighted average number of shares outstanding	313,957,610	205,746,419	313,957,610	205,746,419
Basic and diluted loss per share (1)	**$(0.005)**	**$(0.001)**	**$(0.031)**	**$(0.028)**

Note:

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

11. NON-CONTROLLING INTEREST

Below is a summary of the financial information relating to PV Salvador Spa ("Salvador"), the Group's only subsidiary that has a non-controlling interest. Salvador is a Chilean entity that owns the licenses and permits to build and operate a 70 megawatt solar power plant in northern Chile ("Project Salvador"). Salvador is initially 70% owned by Etrion, 20% by Total Energie developpement ("Total") and 10% by Solventus Chile Spa ("Solventus"). Project Salvador is currently under construction and is expected to be operational by the end of 2014.

Summarized balance sheet	June 30 2014 $'000	December 31 2013 $'000
Current		
Assets	113,211	55,138
Liabilities	7,333	8,292
Total current net assets	**105,878**	**46,846**
Non-current		
Assets	60,707	22,826
Liabilities	159,333	66,484
Total non-current net assets	**(98,626)**	**(43,658)**
Net assets	**7,252**	**3,188**

The Group's non-controlling interest at June 30, 2014 of $2.2 million represents the 30% minority interest of Salvador held by Total and Solventus. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of Salvador, other than those imposed by the lending bank related to cash distributions.

The summarized income statement for Salvador, including the portion allocated to non-controlling interest for the three and six months ended June 30, 2014, was as follows:

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Loss before income tax for the period	39	-	51	-
Loss for the period	39	-	51	-
Total comprehensive loss for the period	39	-	51	-
Total comprehensive loss allocated to non-controlling interest	**11**	**-**	**15**	**-**

12. PROPERTY, PLANT AND EQUIPMENT

	Land $'000	Solar power projects $'000	Assets under construction $'000	Equipment and furniture $'000	Total $'000
Cost:					
At December 31, 2013	**13,755**	**399,044**	**7,705**	**1,479**	**421,983**
Additions	-	143	32,090	101	32,334
Disposals	-	-	-	(25)	(25)
Exchange differences	(133)	(4,455)	-	(14)	(4,602)
At June 30, 2014	**13,622**	**394,732**	**39,795**	**1,541**	**449,690**
Accumulated depreciation:					
At December 31, 2013	**-**	**63,232**	**-**	**1,107**	**64,339**
Charge for the period	-	10,100	-	135	10,235
Disposals	-	-	-	(25)	(25)
Exchange differences	-	(613)	-	(12)	(625)
At June 30, 2014	**-**	**72,719**	**-**	**1,205**	**73,924**
Net book value:					
At December 31, 2013	13,755	335,812	7,705	372	357,644
At June 30, 2014	13,622	322,013	39,795	336	375,766

During the six months ended June 30, 2014, the Group's assets under construction increased by $32.1 million based on the percentage of work completed on Project Salvador in Chile, including $2.8 million of borrowing costs associated with credit facilities obtained to finance the construction of this solar project.

13. INTANGIBLE ASSETS

	Goodwill $'000	Licenses and permits $'000	Internally generated development costs and other $'000	Total $'000
Cost:				
At December 31, 2013	**1,809**	**28,370**	**3,613**	**33,792**
Additions	-	-	3,409	3,409
Exchange differences	(17)	(48)	(39)	(104)
At June 30, 2014	**1,792**	**28,322**	**6,983**	**37,097**
Accumulated amortization:				
At December 31, 2013	**-**	**2,150**	**196**	**2,346**
Charge of the period	-	531	148	679
Exchange differences	-	(37)	(2)	(39)
At June 30, 2014	**-**	**2,644**	**342**	**2,986**
Net book value:				
At December 31, 2013	1,809	26,220	3,417	31,446
At June 30, 2014	1,792	25,678	6,641	34,111

During the six months ended June 30, 2013, general and administrative expenses of $3.4 million (2013: $1.4 million) representing internally-generated costs ($1.3 million) and third-party costs ($2.1 million) were capitalized within intangible assets, as they directly related to the Group's business development activities in Chile and Japan (Note 7).

14. CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)

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

	June 30 2014 $'000	December 31 2013 $'000
Cash at banks	197,890	94,914
Total	**197,890**	**94,914**

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

	June 30 2014 $'000	December 31 2013 $'000
Unrestricted cash and cash equivalents	64,135	8,511
Cash and cash equivalents restricted to solar power projects	133,755	86,403
Total cash and cash equivalents	**197,890**	**94,914**

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

During the six months ended June 30, 2014, the cash and cash equivalents balance increased significantly, primarily due to the successful completion of the private placement (Note 15), corporate bond issuance (Note 17) and the drawdowns under the credit facilities associated with Project Salvador (Note 17).

15. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,022,657 were issued and outstanding at June 30, 2014 (2013: 205,746,419). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as, if and when declared by the Board of Directors.

	Number of shares outstanding	Share capital $'000
At December 31, 2013	**209,219,086**	**34,879**
Private placement	124,633,571	76,280
Stock options exercised Note 16	170,000	88
At June 30, 2014	**334,022,657**	**111,247**

No dividends were declared during the six months ended June 30, 2014 and 2013.

In January 2014, the Company completed a private placement issuing a total of 124,633,571 new common shares at a price of SEK 4.15 (approximately CAD$0.70) per share raising gross proceeds of SEK 517,229,320 (approximately $80 million). Entities associated with the Lundin family subscribed for 28,201,571 common shares or approximately 23% of the private placement. As a result, the Lundin family continues to be Etrion's largest shareholder owning approximately 24.3% of the Company.

During the three months ended June 30, 2014, the Company issued 50,000 new common shares with a fair value of CAD$0.57 as a result of stock options being exercised during the period. No stock options were exercised in 2013. Note 16

16. SHARE-BASED PAYMENTS

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

During the three and six months ended June 30, 2014, the Group recognized share-based payment expenses of $0.1 million (2013: $0.2 million) and $0.1 million (2013: $0.3 million), respectively, related to its stock option awards scheme. Note 7

Changes in the Company's outstanding stock options are as follows:

	Number of share options	Weighted average exercise price CAD$
At December 31, 2013	**6,190,000**	**0.49**
Exercised	(170,000)	0.35
At June 30, 2014	**6,020,000**	**0.49**
Stock options exercisable:		
At December 31, 2013	3,646,001	0.57
At June 30, 2014	3,717,333	0.57

The Company recognizes an expense within general and administrative expenses when stock options are granted to employees, consultants, directors and officers using the fair value method at the date of grant. Share-based compensation is calculated using the Black-Scholes option pricing model.

17. BORROWINGS

	Corporate borrowings $'000	Non-recourse project loans $'000	Total $'000
At January 1, 2014	**83,950**	**354,634**	**438,584**
Proceeds from loans	25,008	67,682	92,690
Repayment of loans and interest	(4,132)	(16,261)	(20,393)
Settlement of debt	211	-	211
Accrued interest	4,192	6,903	11,095
Amortization of transaction costs	154	442	596
Exchange differences	(814)	(2,919)	(3,735)
At June 30, 2014	**108,569**	**410,481**	**519,050**
- Current portion	1,627	16,113	17,740
- Non-current portion	106,942	394,368	501,310

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

(a) CORPORATE BORROWINGS

On April 23, 2014, Etrion completed a bond issue of €80 million in senior secured bonds in the Norwegian bond market at 8.0% annual interest with bullet maturity in April 2019. The net proceeds from the bond issue were used to redeem the previous existing €60 million corporate bonds on May 19, 2014 at 101% of par value plus accrued interest, and also are being used for general corporate purposes.

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.

The carrying value of the corporate bonds as at June 30, 2014, including accrued interest net of transaction costs, was $108.6 million. The €80 million corporate bonds have a minimum unrestricted cash balance covenant of €3 million.

(b) NON-RECOURSE PROJECT LOANS

Italian Projects

The non-recourse project loans (i.e., where the lending bank has security only over the assets of the associated project) held by the Group's Italian subsidiaries obtained 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 June 30, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At June 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. 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 are hedged through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2014 and December 31, 2013.

17. BORROWINGS (CONTINUED)

(b) NON-RECOURSE PROJECT LOANS (CONTINUED)

Chilean Projects

The non-recourse project loan held by the Group's Chilean subsidiary, Salvador, obtained 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% and the second tranche of $64 million drawn in May 2014, bears a fixed annual interest rate of 6.83%. At June 30, 2014, $41 million was undrawn under this credit facility which is expected to be fully-drawn early in 2015. Total transaction costs related to the drawdown completed during the six months ended June 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 value-added-tax ("VAT") credit facility with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial service company, to finance the VAT associated with the construction costs of Project Salvador. During the three months ended June 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 June 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.

The operations of the Group's solar power projects are restricted by operational and financial covenants. At June 30, 2014 and December 31, 2013, the Group was not in breach of any covenants.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2014 $'000	December 31 2013 $'000
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedges)		
- Current portion	9,427	9,110
- Non-current portion	39,100	27,019
Total derivative financial liabilities	**48,527**	**36,129**

The Group enters into interest rate swap contracts in order to hedge against the risk of variations on the Group's cash flows as a result of floating interest rates on its 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, 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. At June 30, 2014 and December 31, 2013, the Group had seven derivative financial instruments that qualified for hedge accounting. Note 8 and Note 17

On March 28, 2014, the Group recognized as derivative financial instruments classified at fair value through profit and loss the call option associated with the €60 million corporate bond and upon redemption at 101% of par value and on May 19, 2014 the fair value of the call option was released. Note 8 and Note 17

19. RELATED PARTIES

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

(a) RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2014 and 2013, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
General and administrative expenses				
Lundin Services BV	101	7	112	17
Finance costs				
Lundin Services BV:				
- Interest expense associated with corporate bond	-	221	232	444
- Transaction costs associated with corporate bond	-	6	7	12
Lundin family:				
- Interest expense associated with corporate bond	307	436	764	877
- Transaction costs associated with corporate bond	14	11	27	23
- Interest expense associated with Lundin bridge loan(1)	-	-	132	-
Total transactions with related parties	**422**	**681**	**1,274**	**1,373**

Note:
(1) Interest expense of $0.2 million associated with the Lundin bridge loan was capitalized within property, plant and equipment. Note 12

At June 30, 2014, and December 31, 2013, the amounts outstanding to related parties were as follows:

	June 30 2014 $'000	December 31 2013 $'000
Current liabilities:		
Lundin family bridge loan	-	18,215
Lundin Services BV:		
- General and administrative expenses	122	5
- Participation in corporate bond	-	191
Lundin family (participation in corporate bond)	830	378
Total current liabilities	**952**	**18,789**
Non-current liabilities:		
Lundin Services BV (participation in corporate bond)	-	10,444
Lundin family (participation in corporate bond)	20,052	20,613
Total non-current liabilities	**20,052**	**31,057**
Total amounts outstanding to related parties	**21,004**	**49,846**

There were no amounts outstanding from related parties at June 30, 2014 and December 31, 2013.

Lundin Services BV

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

During the six months ended June 30, 2014, Lundin Services sold their previously held €7.6 million principal amount of corporate bonds issued by the Company that were subsequently redeemed in April 2014. Lundin Services did not participate in the new corporate bonds issue completed in April 2014. Note 17

Lundin family

Corporate bond

During the first quarter of 2014, investment companies associated with the Lundin family sold their €15 million principal amount of corporate bonds issued by the Company that were subsequently redeemed in April 2014. Investment companies associated with the Lundin family subscribed for €15 million of the new corporate bonds issue completed in April 2014. Note 17

19. RELATED PARTIES (CONTINUED)

Lundin family bridge Loan

In September 2013, the Group obtained a $42 million unsecured loan facility from an investment company associated 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. In January 2014 the total outstanding amount under this facility of $18.4 million, including accrued interest, was repaid.

(b) KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer. The remuneration of key management personnel was as follows:

	Three months ended		Six months ended	
	June 30 2014 $'000	June 30 2013 $'000	June 30 2014 $'000	June 30 2013 $'000
Salaries and short-term benefits	270	253	719	448
Board of Directors (non-executive directors)	125	29	156	51
Share-based payment	28	65	63	151
Pension costs	38	38	135	70
Total	**461**	**385**	**1,073**	**720**

The amounts outstanding to key management personnel were as follows:

	June 30 2014 $'000	December 31 2013 $'000
Board of Directors (non-executive directors)	138	-
Other (bonus payable and pension costs payable)	-	825
Total amounts outstanding to key management personnel	**138**	**825**

There were no amounts outstanding from key management personnel at June 30, 2014 and December 31, 2013.

20. COMMITMENTS

Contractual commitments and capital investments

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

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 $200 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 million. At June 30, 2014, the Group has $8.2 million outstanding under this commitment.

At June 30, 2014, the Group had no other significant capital commitments.