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MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2009

The following management discussion and analysis ("MD&A") is prepared as of March 15, 2010. This MD&A, as provided by the management of Etrion Corporation, formerly PetroFalcon Corporation, ("Etrion", the "Company" or "we"), should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Estimates and forward-looking information are based on assumptions of future events and actual results may vary from these estimates; see "Cautionary Statement Regarding Forward-Looking Information". Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("USD").

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of Solar Resources Holding, Sarl ("SRH"), a private company developing a pipeline of renewable energy projects. On October 20, 2009, the Company's subsidiary, SRH, purchased the outstanding shares of SVE, Srl ("SVE"), an Italian entity that owns the required permits for the construction of four solar power plants in southern Italy with a total generating capacity of four megawatts ("MW"). The Company's audited consolidated financial statements for the year ended December 31, 2009, reflect the acquisition of such interests in SRH and SVE.

In 2007, as a result of significant volatility in the spread between the official rate and the implied market rate in Venezuela for Bolivars ("Bs"), management concluded that the method of translation from Bs to USD using the official rate was no longer appropriate. In addition, effective January 1, 2008, the currency unit of the monetary system of Venezuela dropped three zeros, and all amounts are now denominated in a new smaller scale of Bs. Accordingly, for the years ended December 31, 2009 and 2008, the Bolivar balances were translated at implied market rates of 5.97 Bs/USD and 5.70 Bs/USD, respectively.

For the purposes of calculating the production from the Venezuelan mixed companies in which the Company has interests (the "Mixed Companies"), natural gas has been converted to a barrel of oil equivalent ("boe") using a conversion rate of six thousand cubic feet ("mcf") equal to one barrel (6:1) based on an energy equivalency conversion method primarily applicable at the burner tip and which does not represent a value equivalency at the wellhead. This conversion to boe may be misleading, particularly if used in isolation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the financing and development of Etrion's initial solar projects in Italy; the timing of the expected sales of electricity therefrom; the Mixed Companies' oil and natural gas production; general and administrative expenses; planned growth and development; contractual obligations; future plans, objectives and results. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and assumptions, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the receipt or timing of required permits to obtain and construct renewable energy projects and to begin selling electricity therefrom; uncertainties with respect to the availability of suitable additional renewable energy projects; the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future; possible changes in the regulatory regimes in the jurisdictions where the Company proposes to develop renewable energy projects; being a minority partner in the Mixed Companies; the uncertainty of timing and amount of dividends from the Mixed Companies; the possible imposition of higher royalties and income taxes; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; volatility in electricity and oil and gas prices; interest rates; opportunities available to or pursued by the Company; and other factors, many of which are beyond our control.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent annual information form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived from them. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

ETRION'S BUSINESS ENVIRONMENT

Description of Business

Etrion is focused on building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic, solar thermal and wind.

Pursuant to approvals given by the shareholders of the Company at its annual and special meeting of shareholders held on September 10, 2009, the Company has continued its incorporation from Alberta to British Columbia and changed its name from "PetroFalcon Corporation" to "Etrion Corporation". The Company has moved its operational base to Europe to seek additional opportunities in the renewable energy sector, while maintaining its existing oil and gas assets in Venezuela.

Acquisition of Solar Resources Holding, Sarl ("SRH")

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy projects, from Lorito Holdings Srl ("Lorito") and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum AB ("Lundin Petroleum"), which indirectly owned 45% of Etrion at the date of acquisition.

Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million ($3.26 million) in cash. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million) in order to repay an equivalent amount advanced to SRH by Lorito. The remaining 10% of SRH continues to be held by Marco Northland ("Northland"), who was appointed as Chief Executive Officer of Etrion at closing.

SRH will initially focus on solar energy projects in Europe utilizing government guaranteed premium electricity rates and non-recourse bank financing.

Shareholders Agreement

At closing of the SRH acquisition, Etrion and Northland entered into a shareholders' agreement (the "Shareholders Agreement") to govern their rights and obligations as the shareholders of SRH. Under the Shareholders Agreement, Northland will maintain his 10% equity ownership of SRH without putting up additional capital until such time as Etrion has advanced an aggregate of €17,690,310 to SRH. Northland also has the right to maintain his 10% equity ownership through purchases of SRH shares financed by loans from Etrion ("Loan Shares") or by way of "phantom shares" that do not require Northland to invest additional capital but are offset by notional loans from Etrion ("Carry Shares") until such time as Etrion has invested an additional €80,000,000 in SRH.

Northland also has the right under the Shareholders Agreement, for a period of five years, to exchange some or all of his shares of SRH, including Loan Shares and Carry Shares, for Etrion shares with a value based on the increase in value of SRH from the date of the Shareholders Agreement to the date of exchange and net of amounts owed by Northland in respect of the Loan Shares and Carry Shares. The value of SRH for this purpose will be based on the market capitalization of the Company less the value of its oil and gas investments and subject to certain other adjustments related to the Company's non-SRH debt and cash on hand. Any SRH shares held by Northland that have not been exchanged for Etrion shares at the end of the five-year period will automatically be exchanged on the same basis. See "Related Party Transactions".

Acquisition of SVE, Srl ("SVE")

On October 20, 2009, the Company's subsidiary, SRH, purchased 100% of the outstanding shares of an Italian entity, SVE, for an aggregate purchase price of €1.3 million (equivalent to $1.9 million at the date of acquisition). SVE owns the required permits for the construction of four solar power plants in the Puglia region of southern Italy with a total generating capacity of four MW. A contingent consideration was recognized at the time of the acquisition for €180,000 ($266,400) related to additional payments due upon connection of the plants to the Italian electricity grid.

On November 4, 2009, SVE signed a credit facility agreement with an Italian bank, Centrobanca, to fund the construction of the four solar power plants. The non-recourse loan provided is for €17.2 million or 83% of the anticipated cost of the project.

A turnkey engineering, procurement and construction ("EPC") contract was signed with SunPower Corp. following the acquisition. The construction of the solar power plants is scheduled to be completed in the third quarter of 2010.

On March 5, 2010, following the "Visco Sud" tax credit approval by the Italian tax authorities, SRH paid an additional €240,000 according to the SVE share purchase agreement. SVE's Visco Sud tax credit is €4.1 million and does not expire.

Oil and Gas Investments

Etrion continues to own oil and gas investments in Venezuela through its wholly-owned Venezuelan subsidiary, PFC Oil and Gas, C.A., formerly Vinccler Oil and Gas, C.A. ("PFC Venezuela"), which owns 40% of PetroCumarebo, S.A. ("PetroCumarebo") and 5% of Baripetrol, S.A. ("Baripetrol").

PetroCumarebo holds all of the operating rights to the East and West Falcon blocks, an area of approximately 838,000 acres in north-western Venezuela. The oil and gas produced from the East and West Falcon blocks is sold to the state-owned oil and gas company, Petróleos de Venezuela, S.A. ("PDVSA"), and is either trucked or shipped by pipelines to the Paraguana Refinery Complex.

Baripetrol holds all of the operating rights to the Colon Block, an area of approximately 297,000 acres in western Venezuela. The oil and gas produced from the Colon Block is sold to PDVSA and shipped by pipelines to PDVSA's distribution network.

PDVSA has announced its intention to decrease the number of mixed companies by merging individual mixed companies that have common characteristics, such as location and the types of crude oil produced, into new, larger mixed companies. PDVSA will maintain a 60% participation in these new mixed companies, and the private parties will negotiate their pro forma interest based on each private party's estimated fair value derived from the potential future dividends from the mixed companies. It is not yet known whether this consolidation process will impact PetroCumarebo or Baripetrol.

There was a severe decline in global crude oil prices during the second half of 2008, and oil prices remained at lower levels in the first and second quarters of 2009, decreasing the oil prices received by the Mixed Companies. During the third and fourth quarters of 2009, oil prices made a significant recovery, but the stability of future oil markets is subject to a variety of factors including political considerations, worldwide economic conditions and actions of the Organization of Petroleum Exporting Countries and other major oil producing countries. It is very difficult to correctly project future prices in the current economic environment, and the Company anticipates a significant level of volatility over the next 12 to 24 months.

The Company's management performed impairment tests for its investments in oil and gas companies as at September 30, 2009, and identified an impairment loss of $44.0 million from the investments in PetroCumarebo and Baripetrol when comparing carrying value to the fair value. See "Critical Accounting Policies and Estimates".

TSX Listing Category

On February 23, 2010, the Toronto Stock Exchange ("TSX") announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas activities to renewable energy. The TSX review arose in connection with the Company's proposed application for a second listing on the NASDAQ OMX exchange in Sweden.

As a result of the acquisition of its solar power generation business in Europe, the Company is no longer considered by the TSX to be an oil and gas company and will have 90 days to demonstrate compliance with the TSX original listing requirements for an industrial issuer.

FINANCIAL AND OPERATIONAL REVIEW

The following table contains selected consolidated financial information for Etrion over the last three years:

	2009 $	2008 $	2007 $
Revenue	Nil	Nil	Nil
Net loss	(59,057,078)	(23,190,057)	(3,587,296)
Basic and diluted loss per share	(0.37)	(0.15)	(0.04)
Net loss	(59,057,078)	(23,190,057)	(3,587,296)
Items not affecting cash			
Depreciation and amortization	220,021	112,964	123,938
Guarantee fee	-	7,878,842	-
Impairment loss from investments in oil and gas companies	44,046,991	6,824,974	-
Loss on derivative financial instruments	467,093	-	-
Bad debt expense	-	349,664	-
Write-off of other investments	-	350,000	-
Non-cash compensation expense	5,449,920	-	-
Stock-based compensation	1,423,007	797,365	2,046,665
Changes in working capital	7,115,031	(1,368,973)	4,370,163
Operating cash flow	(335,015)	(8,245,221)	2,953,470
Total assets	43,379,475	88,898,638	58,347,486
Total long-term liabilities	3,676,812	494,564	-
Dividends declared	-	-	-

Etrion's financial results

For the year ended December 31, 2009, the Company reported a net loss of $59.1 million (loss per share of $0.37) compared to a net loss of $23.2 million (loss per share of $0.15) for the year ended December 31, 2008.

The net results for the year ended December 31, 2009, were adversely affected by the following non-cash items that had no impact on cash flow: (a) the recognition of a $44.0 million impairment loss in the carrying value of the oil and gas investments in Venezuela; (b) the recognition of $5.5 million in compensation expense related to Northland's right to exchange his equity interest in SRH for an equivalent fair value of shares in Etrion; and (c) the recognition of $0.9 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH. See "Related Party Transactions".

Under the cost method of accounting, Etrion does not recognize its share of revenues, expenses, assets or liabilities from PetroCumarebo or Baripetrol and instead only recognizes income from these investments to the extent that dividends are received from PetroCumarebo or Baripetrol. As a result, Etrion had no revenues for the years ended December 31, 2009 and 2008. See "Critical Accounting Policies and Estimates".

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008. This amount has been reflected as a liability until such time as the dividends are declared and paid. Based on information provided by PDVSA, the Company believes that it is entitled to receive an additional $2.1 million in dividends from Baripetrol in respect of 2008 operations, although the timing of such payments is uncertain.

During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. The $2.9 million in dividends was credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to pre-acquisition earnings.

Etrion's financial position

As at December 31, 2009, Etrion had $23.4 million in cash and short-term deposits and working capital of $15.0 million. The non-recourse loan obtained by the Italian subsidiary, SVE, matures at various dates beyond 2011, with approximately €1.7 million repayable in the period 2011 to 2013. The Company does not expect cash calls from its oil and gas investments in Venezuela for 2010 capital expenditures. However, the Company anticipates that it will make capital investments related to renewable energy projects in 2010. See "2010 Capital Investments Related to Renewable Energy Projects".

SUMMARY OF QUARTERLY RESULTS

The following table contains selected consolidated financial information for Etrion over the last eight quarters:

	2009					**2008**				
($000s, except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Total**	**Q4**	**Q3**	**Q2**	**Q1**	**Total**
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	(5,084)	(50,944)	(1,477)	(1,552)	(59,057)	(9,982)	(7,121)	(4,412)	(1,675)	(23,190)
Loss per share basic and diluted	(0.03)	(0.32)	(0.01)	(0.01)	(0.37)	(0.07)	(0.04)	(0.03)	(0.01)	(0.15)

CAPITAL INVESTMENTS RELATED TO RENEWABLE ENERGY PROJECTS

The Company plans to make capital investments in 2010 to build ground-based solar photovoltaic power plants. Project financing for the four MW currently under construction in Italy was secured through a non-recourse loan, and no additional capital contributions are expected.

The following table summarizes the total capital expenditures required for the current development pipeline:

(€ million)	Status	Total Project Cost	Equity	Non-Recourse Bank Financing	% Financing
Already financed:					
4.0 MW	Construction	20.7	3.5	17.2	83%
Sub-total		**20.7**	**3.5**	**17.2**	
To be financed:					
1.6 MW	SPA signed	6.2	1.2	5.0	80%
3.7 MW	SPA signed	13.9	2.8	11.1	80%
Sub-total		**20.1**	**4.0**	**16.1**	
Total		**€40.8**	**€7.5**	**€33.3**	

Note: Etrion plans to finance the construction of its projects with a combination of cash on hand and non-recourse loans. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Company. SPA means share purchase agreement.

Four Megawatt Puglia Project

On October 20, 2009, Etrion purchased the outstanding shares of an Italian company, SVE, which owns the required permits for the construction of four solar power plants in southern Italy with a total generating capacity of four MW. During the fourth quarter of 2009, the Company secured the project finance debt required to begin construction.

The estimated total project cost is €20.7 million ($30.3 million), including financing cost. Of this amount, Etrion's total equity contribution to the project was €3.5 million ($5.1 million), which accounts for approximately 17% of the total cost.

According to the EPC contract signed between SVE and SunPower, SVE is to pay €4.2 million per MW for full turn-key construction of the four plants in Puglia. The first payment of 15% of the cost to build three out of the four plants was made in February 2010. Additional payments are due upon reaching specified milestones in the construction program. The project is scheduled to be finished by July 2010 and grid connected by September 2010.

On February 15, 2010, SVE obtained approval for the "Visco Sud" tax credit from the Italian tax authorities. According to local Italian income tax law, companies that own solar energy projects with installed capacity of up to 1 MW may apply for a tax credit equal to 20% of the project cost. SVE's Visco Sud tax credit is €4.1 million and may be credited against income taxes arising from future taxable income following connection of the solar power plants to the Italian electricity grid. The tax credit does not expire.

Development Pipeline and Fees

The Company enters into share purchase agreements with local developers of renewable energy projects in Europe pursuant to which, subject to certain conditions, a developer agrees to sell Etrion one or more project companies following the contribution in kind of permitted projects.

As at December 31, 2009, the Company had entered into two agreements with Italian developers for the acquisition of 100% of the outstanding shares of one or more project companies for a total purchase price of €1.3 million ($1.9 million), and the Company had advanced to the potential sellers a total of €40,000 ($58,000). According to the terms and conditions of the share purchase agreements, the advance payments will be deducted from the total purchase price at closing.

The two agreements signed relate to project companies with 5.3 MW of permitted projects for the construction of solar power plants in the region of Lazio, Italy. If Etrion successfully completes the due diligence and the seller meets the condition precedents for the share purchase agreements, the total project cost, including the purchase price and EPC contract cost for the 5.3 MW, is expected to be €20.1 million, for an average cost of €3.8 million per MW. Upon closing of the acquisition, the Company intends to finance an average of 80% of the total project cost with non-recourse project loans.

MIXED COMPANY 2009 PRODUCTION

The following tables outline the gross production for each of PetroCumarebo and Baripetrol in which Etrion holds a 40% and 5% interest, respectively.

***PetroCumarebo Production Summary*:**

	Year ended Dec 31, 2009	**Year ended Dec 31, 2008**
Average daily production		
Oil - bbls/d	634	896
Natural gas - mcf/d	10,152	14,030
Total – boe/d	**2,326**	**3,234**

Note: Production is shown before royalties of 33.33%. Etrion owns 40% of PetroCumarebo.

As detailed in the table above, PetroCumarebo's average gross production from both the East and West Falcon blocks for the year ended December 31, 2009, was 2,326 boe/d. For the comparable period ended December 31, 2008, PetroCumarebo's average gross production was 3,234 boe/d. The production decrease is due to natural decline, increased water production, paraffin, compressor mechanical problems and lack of well maintenance.

PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela. PetroCumarebo's oil production from the East and West Falcon blocks is delivered to PDVSA at a weighted average price of approximately 100% of the price of West Texas Intermediate ("WTI") crude oil.

Payment from PDVSA to PetroCumarebo is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Potential dividends from PetroCumarebo to Etrion will be in US dollars and are at the discretion of the shareholders of PetroCumarebo, depending on net and available profits. Since inception of PetroCumarebo on April 1, 2006, Etrion has not received any dividends for the Company's 40% interest.

Baripetrol Production Summary:

	Year ended Dec 31, 2009	**Year ended Dec 31, 2008**
Average daily production		
Oil - bbls/d	6,740	9,121
Natural gas - mcf/d	6,736	5,908
Total – boe/d	**7,863**	**10,106**

Note: Production is shown before royalties of 33.33%. Etrion owns 5% of Baripetrol.

As detailed in the table above, Baripetrol's average gross production from the Colon Block for the year ended December 31, 2009, was 7,863 boe/d. For the comparable period ended December 31, 2008, Baripetrol's average gross production was 10,106 boe/d. Production has declined due to mechanical problems, increased water production and lack of well maintenance.

Baripetrol's oil production is delivered to PDVSA at an average price that is approximately 92% of WTI.

Payment from PDVSA to Baripetrol is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Dividends from Baripetrol to Etrion are paid in US dollars and are at the discretion of the shareholders of Baripetrol, depending on net and available profits. During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. During the year ended December 31, 2009, Etrion received $1.1 million from Baripetrol as an advance dividend for operations during 2008.

MIXED COMPANY 2009 CAPITAL EXPENDITURES

During 2009, the following capital expenditures for PetroCumarebo and Baripetrol were met by the Mixed Companies' respective cash flow or other sources of financing, without cash calls to Etrion.

PetroCumarebo 2009 Capital Expenditures:

($000s)	**Gross Initial Budget 2009**	**Gross Revised Budget 2009**	**Gross Actual Incurred Dec 31, 2009**
Drilling and Work-overs			
- La Vela	18,110	12,312	16,430
- Cumarebo	6,610	5,262	2,370
- Total Drilling and Work-overs	24,720	17,574	18,800
Processing Facilities and Infrastructure			
- La Vela	2,233	2,233	-
- Cumarebo	1,600	1,600	-
- West Falcon	537	537	-
Total Processing Facilities and Infrastructure	4,370	4,370	-
Total Capital Budget	**29,090**	**21,944**	**18,800**

Note: Etrion owns 40% of PetroCumarebo. Budgeted capital expenditures are shown on a gross basis for PetroCumarebo. Etrion does not expect cash calls from PetroCumarebo for any portion of the 2009 capital expenditures.

Baripetrol 2009 Capital Expenditures:

($000s)	**Gross Initial Budget 2009**	**Gross Actual Incurred Dec 31, 2009**
Seismic, Drilling and Work-overs		
- La Palma	30,351	35,232
- Socuavo	-	770
- Las Cruces	-	840
- Total Drilling and Work-overs	30,351	36,842
Processing Facilities and Infrastructure		
- Socuavo/ Las Cruces	3,200	858
- Colina Station	800	-
- Total Processing Facilities and Infrastructure	4,000	858
Total Capital Budget	**34,351**	**37,700**

Note: Etrion owns 5% of Baripetrol. Budgeted capital expenditures are shown on a gross basis for Baripetrol. Etrion does not expect cash calls from Baripetrol for any portion of the 2009 capital expenditures.

MIXED COMPANY 2010 CAPITAL EXPENDITURES

The Mixed Companies operate as independent entities with seconded technical staff from shareholders. The Mixed Companies fund their capital expenditures through their own cash flow, to the extent available, or through cash calls to shareholders, including Etrion, if no other sources of financing are available. The Mixed Company shareholders intend PetroCumarebo and Baripetrol to be self-funding and rely on internally-generated cash flow to fund operations. To date, the Mixed Companies have not made a cash call to Etrion for capital expenditures. This could change if oil and gas price realizations decrease and will be further addressed in future filings if necessary.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSE

($000s)	**Three months ended December 31,**		**Year ended December 31,**	
	2009	**2008**	**2009**	**2008**
Salary and compensation benefits	1,576	743	3,175	2,913
Corporate and professional fees	808	478	2,177	1,705
Technical service agreement	53	140	350	497
Insurance	30	278	310	577
Travel expenses	218	162	486	571
Write-offs of receivables and other assets	-	883	30	1,306
Office, listing and filing expenses	601	169	867	649
Total G&A Expenses	3,286	2,853	7,395	8,218

Etrion's G&A expenses were $3.3 million during the three month period ended December 31, 2009, compared to $2.9 million during the three month period ended December 31, 2008. The net increase is primarily due to the acquisition of the European subsidiaries effective September 30, 2009.

Etrion's G&A expenses were $7.4 million during the year ended December 31, 2009, compared to $8.2 million during the year ended December 31, 2008. The net decrease was mainly due to a general lower level of activity and continued focus on cost reductions in the operations in Venezuela. The net decrease was partially off-set with the G&A expenses from the European subsidiaries consolidated from September 30, 2009.

Etrion does not capitalize general and administrative expenses.

DEPRECIATION AND AMORTIZATION ("D&A") EXPENSE

($000s)	Three months ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Depreciation and amortization	53	26	220	113

For the three month period ended December 31, 2009, Etrion's D&A expense was $52,667 compared to $25,537 for the three month period ended December 31, 2008. For the year ended December 31, 2009, Etrion's D&A expense was $220,021 compared to $112,964 for the year ended December 31, 2008. The increase was due to the relocation and refurbishment of the Company's Venezuelan office, a commitment entered into in June 2008 when the Company expected to grow substantially in Venezuela. Additionally, Etrion's D&A expense for the three month period ended December 31, 2009, includes the D&A expense from the fixed assets of the European subsidiaries consolidated as of September 30, 2009.

COMPENSATION EXPENSE

($000s)	Three months ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Stock-based comp from options plan	141	14	531	797
Stock-based comp for Northland's interest	892	-	892	-
One off non-cash compensation expense	-	-	5,449	-
Total compensation expense	1,033	14	6,872	797

During the three month period and the year ended December 31, 2009, the Company recorded $140,869 and $530,983, respectively, in stock-based compensation expense compared to $13,819 and $797,365, respectively, during the three month period and the year ended December 31, 2008.

As at December 31, 2009, the number of outstanding stock options was 11,383,640, compared to 9,333,660 outstanding stock options as of December 31, 2008. The net increase in stock options outstanding was due mainly to options granted to employees and directors in May 2009 and options granted to new directors of the Company and to employees of a subsidiary of SRH in September 2009, partially off-set with forfeited options held by departed employees and former directors during 2009.

The stock-based compensation also includes the recognition during the three month period ended December 31, 2009, of $0.9 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH.

The one-time non-cash compensation expense relates to Northland's additional right to exchange his 10% equity interest in the Company's European subsidiary, SRH, for an equivalent fair value of shares in Etrion. See "Related Party Transactions".

INTEREST INCOME

($000s)	Three months ended December 31, 2009	2008	Year ended December 31, 2009	2008
Interest income	40	438	304	890

At December 31, 2009, Etrion had $23.4 million in cash and short-term deposits compared to $26.7 million at December 31, 2008. During the three month period ended December 31, 2009, the Company recorded interest income in the amount of $39,338, compared to $437,753 during the three month period ended December 31, 2008.

During the year ended December 31, 2009, the Company recorded interest income in the amount of $304,107, compared to $890,377 during the year ended December 31, 2008.

There was a significant decrease in interest rates during 2008 and 2009 that reduced the interest income received from the Company's short-term investments. In addition, following the acquisition of SRH, the Company made investments in the renewable energy sector that reduced the average monthly short-term deposits bearing interest.

INCOME TAXES

($000s)	Three months ended December 31, 2009	2008	Year ended December 31, 2009	2008
Consolidated income tax expense	93	-	93	-
Future income tax	-	-	-	-
Total income tax expense	93	-	93	-

During the year ended December 31, 2009, Etrion recorded a current income tax expense of $92,698 related to taxable income in the Swiss subsidiary. During the year ended December 31, 2008, Etrion recorded no income tax expense as the Company had no taxable income for the period.

The reconciliation of income taxes computed at Canadian statutory tax rates to the Company's income tax expense for the years ended December 31, 2009 and 2008, is as follows:

	2009 $	2008 $
Net loss before taxes	(58,964,450)	(23,190,057)
Combined statutory income tax	29.0%	29.5%
	(17,099,691)	(6,841,067)
Increase (decrease) resulting from:		
Difference in foreign tax rates	(2,327,051)	(151,976)
Expiry of prior years tax losses	2,842,951	-
Non taxable transactions	(628,205)	1,343,732
Non deductible expenses	14,290,887	5,818,122
Other	233,642	(772,892)
Change in valuation allowance	2,920,393	604,081
Income tax expense	$92,698	-

PFC Venezuela files its Venezuelan income tax return using the Venezuelan Bolivar as the reporting currency in accordance with the Venezuelan income tax law that also provides regular adjustments for inflation until December 31, 2009. PFC Venezuela recognized the effects of inflation in non-monetary assets and liabilities through the application of the General Consumer Price Index, based on procedures established in Venezuelan tax legislation. This adjustment for inflation is considered to be a taxable gain or, in the case of deflation, a deductible loss in determining the taxable income. Since the majority of PFC Venezuela's net monetary assets are held in US dollars, and the tax return is filed in Venezuelan Bolivars, foreign currency exchange adjustments will produce either a taxable gain or a deductible loss. The variation between the Venezuelan statutory tax rate of 34% and the income tax rate presented in these financial statements is due to the adjustments required for inflation and foreign currency translation.

At December 31, 2009, the Company had consolidated carry-forward losses of $11,616,329. The Company did not recognize any future income tax asset related to these carry-forward losses since it is not likely that the Company will be able to utilize these losses.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009, Etrion had $23.4 million in cash and short-term deposits and $15.0 million of working capital. At December 31, 2008, Etrion had $26.7 million in cash, $32.9 million of working capital and no debt.

The non-recourse loan obtained by the Italian subsidiary, SVE, matures at various dates beyond 2011, with approximately €1.7 million repayable in the period 2011 to 2013. Counterparties to the non-recourse debt do not have unconditional or unilateral discretionary rights to accelerate repayment at earlier dates. Therefore, the Company is protected from short-term liquidity fluctuations.

Etrion has substantial cash on hand and expects to generate operating cash flow in 2010 through its renewable energy operations and by receiving dividends from its oil and gas investments. The Company estimates that it is entitled to receive a total of approximately $7.3 million in dividends (including an advance already received of $1.1 million) from Baripetrol and PetroCumarebo for 2007, 2008 and 2009 operations, but the payment of these dividends is uncertain. Based on prior experience and current oil prices, Etrion does not expect cash calls from PetroCumarebo or Baripetrol for 2010 capital expenditures.

The planned growth and development activities for the next twelve months may require additional funds. Management anticipates that these funds will be obtained from potential dividends from PetroCumarebo and Baripetrol and debt or equity securities financing. The Company cannot be certain that capital will be available when needed.

SHARE DATA

As at March 15, 2010, the Company has 158,501,120 common shares issued and outstanding and 11,763,640 stock options outstanding. The stock options expire at various dates between June 12, 2013, and April 28, 2018, and are exercisable at various prices between CAD$0.25 and CAD$3.28 per share. In addition, Northland has the right until September 11, 2014, to exchange his equity interest in SRH for the equivalent fair value of shares of the Company. See “Related Party Transactions -- Marco Northland’s exchange right and the Shareholders Agreement.”

RISK FACTORS

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign currency and commodity price risk) and other risks. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivables from PetroCumarebo, value-added tax receivable and other tax credits of the wholly-owned Venezuelan subsidiary with the Venezuelan tax authorities and third party credits. The Company has no concentration of credit risk. Value added tax receivables are collectable from the Venezuelan government as of December 31, 2009, excluding amounts already provided for. Management considers that the credit risk with respect to financial instruments attributable to value added tax receivables is moderate.

In addition, the majority of the Company's cash and cash equivalents are on deposit with highly-rated banks in Canada and Europe. A lesser amount is held in banks in Curacao and Venezuela.

Liquidity risk

At December 31, 2009, the Company had sufficient funds to settle current liabilities. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days, except for severance employee benefits, an advance from Baripetrol and an exchange obligation, and are subject to normal trade terms. The Italian subsidiary, SVE, has a non-recourse credit facility that relates to a solar power project in southern Italy.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and oil prices.

(i) Interest rate risk

The Company's exposure to interest rate risk arises both from the interest rate impact on its cash and cash equivalents as well as on its debt facilities. Etrion has significant cash balances and short-term investments, with the latter having a variable annual interest rate from 0.80% to 3.08% in 2009. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company has floating rate debt instruments but the exposure to interest risk has been mitigated by an interest hedge pursuant to the Centrobanca loan agreement.

(ii) Foreign currency risk

Etrion's functional currency is the US dollar. Any annual dividends from its oil and gas investments are in US dollars, and major purchases are transacted in US dollars. The Company maintains US dollar bank accounts in Canada and Curacao. The Company funds some of its subsidiary's operating and administrative expenses in Venezuelan Bolivars from its US dollar bank accounts.

During 2007, the Company's management determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bs to USD using the official rate was no longer appropriate. The Company recognizes the foreign currency transactions of its Venezuelan subsidiary at the implied market rate in Venezuela, which had a spread of 178% over the official rate as of December 31, 2009. The Company has exposure to the volatility of the implied market rate in Venezuela that may result in significant foreign exchange gains or losses from its Venezuelan subsidiary.

The Company also funds its European subsidiaries' capital, operating and administrative expenses in Euros and Swiss Francs from its USD accounts. The Company has exposure to the volatility of the exchange rates of the Euro and Swiss Franc that may result in significant foreign exchange gains or losses from its European subsidiaries.

(iii) Commodity price risk

Oil price risk is the potential adverse impact on the Company's dividends from its oil and gas investments due to oil price volatility. The Company closely monitors oil prices to determine the appropriate course of action to be taken by the Company, to the extent possible, through its participation on the board of directors of PetroCumarebo and the private party consortium for Baripetrol.

Other risks

International operations

Etrion participates in oil and gas projects located in Venezuela and in renewable energy projects located in Europe. Energy exploration, development and production activities, including joint ventures in emerging markets, are subject to significant political and economic uncertainties that may adversely affect the Company's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future power purchase agreements or oil and gas concessions and contracts, a change in crude oil, natural gas or renewable energy pricing policies, changes in taxation policies and/or the regulatory environment in the jurisdictions and industries in which the Company operates and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Etrion's business prospects and results of operations. In addition, if legal disputes arise related to any of the Company's operations, Etrion could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing an energy project in which Etrion has or acquires an interest.

Licenses and Permits

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities that it is currently conducting under applicable laws and regulations, and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various operating circumstances. There is no assurance that the Company will be able to obtain all necessary licenses and permits required to develop future renewable energy projects and to begin selling electricity.

Competition

The renewable energy and oil and gas industries are intensely competitive, and the Company will compete with a substantial number of other companies, many of which have greater financial and operational resources. There is no assurance that the Company will be able to acquire any energy projects on economic terms or at all. Etrion and the Mixed Companies also compete with other companies in attempting to secure equipment necessary for construction of solar energy projects and drilling and completion of oil and gas wells. Such equipment may be in short supply from time to time. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. There is no assurance that the Company or the Mixed Companies will be able to successfully compete against their competitors.

Cost Uncertainty

The renewable energy and oil and gas projects in which the Company is currently involved or in which it may be involved in the future are subject to the risk of cost overruns or other unanticipated costs and expenses that could have a material adverse impact on the Company's financial performance.

Prices and Markets for Electricity, Oil and Natural Gas

Although the Company will focus on developing renewable energy projects in jurisdictions that provide long-term feed-in-tariffs to provide pricing certainty, pricing for the sale of electricity may be subject to change based on economic, political and other conditions. Oil and natural gas are also commodities whose prices are determined based on global demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices will have a significant impact upon the revenue of the Mixed Companies and the potential dividends to the Company.

Substantial Capital Requirements, Liquidity

Until such time, if any, as the Company is able to generate profits from its renewable energy projects, dividends received by the Company from the Mixed Companies may not be sufficient to fund its ongoing activities. From time to time, the Company may require additional financing in order to carry out its investment, acquisition and development activities. The Company anticipates that it will make substantial capital expenditures related to renewable energy projects in the future. If the Mixed Companies' earnings or reserves decline or the Company cannot receive funds from PetroCumarebo and/or Baripetrol, the Company may have limited ability to expend the capital necessary to undertake or complete future projects. Failure to obtain such financing on a timely basis could cause the Company to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be available on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition and results of operations.

Issuance of Debt

The Company anticipates financing a significant portion of the capital costs associated with the construction and development of its renewable energy projects by way of debt. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Breaches of debt obligations by the Company or any of its subsidiaries could also subject the Company or its subsidiaries to the risk of seizure or forced sale of some or all of their assets.

Governmental Regulation

The renewable energy and oil and gas industries are subject to extensive government regulation. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Company operates could impair the ability of the Company to acquire and develop economic projects, increase the Company's costs and have a material adverse effect on the Company.

Reliance on Contractors and Key Employees

The ability of the Company and the Mixed Companies to conduct their operations is highly dependent on the availability of skilled workers. The labour force in Europe and Venezuela is unionized and politicized, and the Company's and the Mixed Companies' 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. The Company does not have any key man insurance policies, and there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Dividends from the Mixed Companies

Etrion's only current source of revenue is potential dividends from its 40% interest in PetroCumarebo and its 5% interest in Baripetrol. Under Venezuelan law, dividends can only be declared to the extent a company has net and available profits as stated in its approved financial statements. Therefore, if there are sufficient net and available profits, subject to prior approval of shareholders, Etrion, through PFC Venezuela, may receive annual dividends in US dollars, or quarterly loans against those projected dividends. If the Mixed Companies' boards of directors do not propose dividends, the Mixed Companies' shareholders do not approve dividends or the Mixed Companies do not have net and available profits to declare dividends, Etrion cannot expect to receive payment from the Mixed Companies. Dividends from the Mixed Companies must be proposed by four out of the five board members (80%), and each of PFC Venezuela and Baripetrol's private party consortium (which includes Tecpetrol, Perenco and PFC Venezuela) have two out of five board seats (40%) in the respective Mixed Companies. Dividends proposed by the board of the Mixed Companies must be approved by a qualified majority (75%) of its respective shareholders, and PFC Venezuela and Baripetrol's private party consortium each only account for 40% of the respective shareholders. Furthermore, given the current economic environment and its potential impact on the oil and gas business, PDVSA and the Venezuelan government, the timing and amount of dividends from the Mixed Companies is uncertain.

RELATED PARTY TRANSACTIONS

Pacific Oil and Gas

Pacific Oil and Gas, LLC ("Pacific Oil and Gas") is controlled by Etrion's former Vice Chairman and current board member, Clarence Cottman, and Etrion's former President and Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the years ended December 31, 2009 and 2008, $562,500 and $613,000, respectively.

Lundin Services BV

Etrion receives technical services from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum's President and CEO, Ashley Heppenstall, is a member of the Board of Directors of Etrion. For the years ended December 31, 2009 and 2008, the Company paid Lundin Services BV for professional services $114,770 and $80,170, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for Etrion's business development activities in the oil and gas segment.

Lundin Petroleum SA

Etrion also receives technical services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. For the years ended December 31, 2009 and 2008, the Company paid Lundin Petroleum SA for professional services $19,191 and nil, respectively. These payments for professional services include management and legal advice for Etrion's renewable energy business.

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Lundin Petroleum AB

On April 7, 2008, the Company announced the signing of a binding sale and purchase agreement for the acquisition of 100% of the issued and outstanding shares of Anadarko Venezuela Company ("Anadarko Venezuela") from an affiliate of Anadarko Petroleum Corporation

(“Anadarko Petroleum”) for $200 million in cash. The agreement was subject to the approval of the Venezuelan Ministry of Energy and Petroleum (“MEP”), which was subsequently denied.

Lundin Petroleum AB (“Lundin Petroleum”) provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, the Company agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, the Company issued 7.1 million of these shares to Lundin Petroleum, which, as of December 31, 2009, indirectly owned 45% of the issued and outstanding shares of the Company. The initial shares were expensed by the Company as stock-based financing fees over the effective period of the sale and purchase agreement. The remaining 10 million shares that would have been due at closing were not issued, in accordance with the agreement with Lundin Petroleum.

SRH Transaction

On August 11, 2009, the Company announced the signing of a share purchase agreement for the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy power projects, from Lorito and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum.

On September 11, 2009, Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million ($3.26 million) in cash. Included in this amount, Etrion purchased 4.425% of SRH at cost for €115,434 ($163,524) from Ashley Heppenstall, a Director of Etrion and the President and CEO of Lundin Petroleum. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million) in order to repay an equivalent amount advanced to SRH by Lorito.

Marco Northland’s exchange right and the Shareholders Agreement

Guaranteed floor

The SRH Shareholders Agreement provides Northland with a right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in Etrion with a guaranteed floor on the exchange value of his interest of €4.0 million. Any portion of Northland’s equity interest in SRH that has not been exchanged for shares of the Company at the end of the five-year period will be automatically exchanged. The Company has recognized a liability related to this exchange right of €4.0 million ($5.8 million) as at the balance sheet date and a related non-cash compensation expense of $5.5 million for the excess of this amount over the fair value of his 10% equity interest in SRH at the date of the acquisition. The Company will continue to recognize the fair value of the exchange right as a liability until such time as it is exercised or deemed to be exercised.

Carried interest on the initial investments

The Shareholders Agreement also provides that any additional funds required by SRH up to €17.7 million will be loaned by Etrion without a fixed term of repayment. The funds advanced to date by Etrion bear interest at 3.75% per annum. At the date of SRH’s acquisition, the Company advanced €1.35 million ($1.91 million) to SRH as a loan. Under the agreement, Northland is entitled to 10% of any interest or principal repayments on such loan. At this time, the Company does not expect to make any repayments of principal or payment of interest on such loan in the foreseeable future. Should principal repayments be expected, Northland's entitlement would be expensed over the expected period to repayment.

Carried interest on the additional investments

In addition, the Shareholders Agreement also provides for the additional issuance of the equivalent of "at the money" stock options on the date of future equity investments by Etrion in SRH above the initial €17.7 million. Northland will receive the equivalent of at the money stock options to purchase shares of SRH with a value of 10% of future equity investments by Etrion to a maximum value of €8.0 million. That is, if the parent company invests €80.0 million in additional equity of SRH, Northland will receive the equivalent of at the money stock options to purchase shares of SRH with a value of €8.0 million at the date of the advance.

The Company views these options as being granted, subject to a performance condition relating to future investments that it may make in its subsidiary, SRH. The grant date fair value of these options has been calculated as $6.6 million using a Black-Scholes model based on the following assumptions:

Risk-free interest rate	2.56%
Expected volatility	101.71%
Dividend yield rate	0.00%
Weighted average expected life of stock options	5 years
Weighted average grant date fair value	€0.08

The Company reassessed the performance condition as at December 31, 2009, and considered that it is likely that Etrion will invest €80.0 million in additional equity into the subsidiary over a period of 3.5 years from the balance sheet date. Therefore, the Company has recorded a non-cash compensation expense of $0.9 million related to these in substance, at the money options. The total fair value of the stock options will be vested in accordance with the performance conditions schedule over 3.5 years from the balance sheet date based on its probability of occurrence using the graded vesting attributed method. Under the graded method, each instalment of the graded-vesting feature is treated as a separate option, and the fair value for each instalment differs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company made assumptions in applying the following critical accounting estimates that were uncertain at the time the accounting estimate was made and may have a significant effect on the financial statements of the Company.

Investments in Oil and Gas Companies

Investments in oil and gas companies are recognized in the financial statements using the equity method or the cost method of accounting. If the Company holds less than 20% of the voting interest in the investee, it is presumed that the Company does not have the ability to exercise significant influence and the cost method is used, unless such influence is clearly demonstrated. If the Company holds 20% or more of the voting interest in the investee, the equity method would normally be used although it does not in itself confirm the ability to exercise significant influence. Investments where the Company does not have significant influence are classified as financial assets and, in the absence of a quoted price in an active market, carried at cost. Under the cost method, Etrion does not recognize its share of revenues, expenses, assets or liabilities from investees. Interests in jointly controlled entities are recognized in the Company's financial statements using the proportionate consolidation method.

PetroCumarebo Accounting

In 2007, Etrion re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, Etrion's investment in PetroCumarebo does not meet the criteria for proportionate consolidation or equity method accounting. Accordingly, Etrion has accounted for PetroCumarebo using the cost method of accounting for the years ended December 31, 2009, and 2008. Under the cost method, Etrion does not recognize its 40% share of revenues, expenses, assets or liabilities from PetroCumarebo and instead only recognizes income from the investment to the extent that dividends are received from PetroCumarebo. As a result, Etrion had no revenues for the years ended December 31, 2009 and 2008.

Baripetrol Accounting

Etrion's investment in Baripetrol is recognized under the cost method of accounting. During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. The dividends have been credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to earnings before the closing of the transaction.

Financial Assets Carried at Cost – Impairment Test

The Company evaluates the carrying amount of its investment when there is objective evidence that a financial asset might be impaired. In measuring and recognizing impairment losses, the Company compares the investment carrying amount against its share participation in the sum of the undiscounted cash flows expected to result from the production of proved reserves associated with its oil and gas interests. If the carrying amount exceeds the undiscounted cash flows, then the Company compares the carrying amount against its share participation in the discounted cash flows of proved and probable reserves (the fair value) associated with its oil and gas interests. Impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value. Estimated undiscounted future cash flows after taxes and contributions used to measure the recoverability of Etrion's investments were prepared based on current and future assumptions about the use of oil and gas assets by PetroCumarebo and Baripetrol considering all available evidence, such as current and expected oil and gas production according to the business plans and independent reserves certification, current and expected oil and gas prices as indicated by the Company's petroleum advisors and projected capital expenditures and operating expenses to maintain and produce proved reserves.

Under certain circumstances, management uses the "expected cash flows approach" to calculate the fair value. Under the expected cash flows approach, management compares the investment's carrying amount against its share participation in the sum of future cash flows resulting from the production of proved and probable reserves associated with its oil and gas interests. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability), considering the payment experience from PetroCumarebo and Baripetrol and information from the latest meetings of their boards of directors. Accordingly, impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value.

Management conducted an impairment test of its oil and gas investments for the year ended December 31, 2009 and 2008, and concluded that the carrying amount of the investments exceeded its fair value.

PetroCumarebo

Given the fact that no dividends have been received since the effective date of PetroCumarebo (April 1, 2006), and the only dividends that are expected to be received in the future correspond to the operations of 2007 and 2008 in the amount of $1.9 million, management has concluded, based on a risk-adjusted probability approach, that this is the fair value of the PetroCumarebo investment. Therefore, a write-down of $38.7 million was recorded in the quarter ended September 30, 2009.

Baripetrol

Management considered the history of dividends paid by Baripetrol, the advances on dividends received in the third quarter of 2009, as well as the dividends that are expected to be received in the future. Based on the current reserves and expected future oil and gas prices and the weighted probabilities of potential future cash flow scenarios, management concluded that the fair value of this investment is approximately $8.1 million. Therefore, a write-down of $5.3 million was recorded in the quarter ended September 30, 2009. Additionally, management recorded an impairment loss of $6.8 million against the carrying value of the investment, included in the statement of operations for the year ended December 31, 2008.

Stock-Based Compensation

The Company uses the fair value method of accounting for its stock-based compensation expense associated with its stock option plan. Compensation expense is based on the fair value of stock options at the grant date using the Black-Scholes option pricing model. The Black-Scholes model requires estimates for the expected volatility of the Company’s stock, a risk-free interest rate, expected dividends on the stock and the expected life of the option. Changes in these estimates may result in the actual compensation expense being materially different than the compensation expense recognized. However, this expense is not subsequently adjusted for changes in these factors. Options granted that are subject to performance conditions are vested from the balance sheet date based on probability of occurrence using the graded-vesting attributed method. See “Related Party Transactions”.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of Etrion have carried out an evaluation of the effectiveness of Etrion’s disclosure controls and procedures (“DC&P”) and assessed the design of its internal control over financial reporting (“ICFR”) as at December 31, 2009, pursuant to the requirements of National Instrument 52-109. Based on the evaluation conducted, the Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of Etrion’s disclosure controls and procedures and internal control over financial reporting were effective as at December 31, 2009.

National Instrument 52-109 allows for a limitation on scope when the issuer acquired a business not more than 365 days before the end of the financial period. Consequently, SRH and its subsidiaries were excluded from the assessment of internal controls since it was acquired by Etrion during the year ended December 31, 2009, and its operations have not yet been integrated into the Etrion group’s controls, policies and procedures. Management is currently revising the group’s internal control structure to incorporate the new subsidiaries.

The following table contains summarized financial information for SRH that has been consolidated in Etrion's financial statement:

	2009 $
BALANCE SHEET	
Cash	8,841,853
Restricted cash	18,070
Accounts receivable and deposits	374,821
Prepaid expenses and other current assets	164,969
Derivative instruments	231,429
Property, plant and equipment	744,145
Intangible	3,000,813
Total assets	**13,376,100**
Derivate instrument	707,074
Accounts payable and accrued liabilities	1,180,367
Income tax payable	91,706
Long-term debt	1,279,197
Amounts owed to related parties	10,699,522
Future income tax liability	819,614
Total liabilities	**14,777,480**
Net equity	**(1,041,380)**
STATEMENT OF OPERATIONS	**Year ended Dec 31, 2009**
Revenue	-
General and administrative	4,706,187
Depreciation	14,342
Interest expense	147,460
Foreign exchange gain	(202,447)
Other income	(118,146)
Loss on derivative instruments	467,093
Net loss	**5,014,489**

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In January 2006, The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will be required for Etrion's interim and annual financial statements for the fiscal year beginning January 1, 2011.

IFRS Conversion Plan

The Company's IFRS conversion plan addresses all the relevant matters required by Staff Notice 52-718 such as milestones and deadlines, roles and responsibilities, key differences in accounting policies, impact on internal control over financial reporting, and the impact on business activities and IT systems. The Company has completed the diagnostic and measurement phase and has identified the key differences between IFRS and Canadian GAAP financial statements at December 31, 2009. The Company has also assessed the impact of the mandatory and optional exemptions for retrospective application of IFRS as required by IFRS 1, assessed the impact of IFRS on its business activities and identified training needs for its key employees involved in the preparation and review of financial information. The Company is still assessing the changes that may need to be made to its internal control structure, accounting policies and procedures and IT systems as a result of the conversion. The following table summarizes the key activities addressed by our conversion plan, the estimated completion date for each of these activities as well as a current status update:

Key Activities	Timing	Current Status
Financial Statement Preparation:		
Analyze and select ongoing policies where alternatives are permitted including IFRS 1 exemptions	Q1 2010	Completed in March 2010
Quantify key differences between IFRS and Canadian GAAP	Q1 2010	In progress
Revise accounting policies and procedures	June 2010	In progress
Prepare IFRS consolidated financial statements including first time adoption reconciliations	June 2010	In progress
Training:		
Provide technical training to key finance and accounting personnel, as well as selected employees involved with the IFRS conversion process	Ongoing training as required	External training completed by key finance staff Training sessions scheduled for Q2 2010
Business activities:		
Identify conversion impacts on the project finance phase, project implementation and asset management phase	June 2010	In progress
Financial Information Systems:		
Identify changes required to financial information systems and implement solutions	June 2010	In progress
Control environment:		
Maintain effective DC&P and ICFR through the transition project	June 2010	In progress
Specific controls over the quantification of IFRS adjustments and financial statements reconciliations	June 2010	In progress

Impact on IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. In order to allow the users of the financial statements to better understand these changes, we have provided the following conceptual differences between Canadian GAAP and IFRS for the total current assets, total assets, total current liabilities, total liabilities, shareholders equity and net loss.

Foreign currency -- Difference relating to the accounting treatment of foreign currency transactions.

For Canadian GAAP purposes, Etrion's foreign subsidiaries are considered to be an extension of the Company's operations (i.e., no self-sustained operations), hence, their functional currency is deemed to be the US dollar and the transactions and balances denominated in a different currency are translated using current rates, historic rates and average rates depending on the nature of the transactions (monetary items, non-monetary items and profit and loss balances). Under IFRS, the functional currencies of the foreign operations are the local currencies where each company conducts its business (the country where the Company is located), and the financial statements are translated to US dollars (the presentation currency) using current exchange rates. This particular difference originates because property, plant and equipment, goodwill and other fixed assets are translated using historic exchange rates for Canadian GAAP and current rates for IFRS. In addition, the cumulative translation adjustment is recognized in equity under IFRS when translating the financial statements of the foreign subsidiaries for consolidation purposes. Under Canadian GAAP, the exchange differences are recorded in the statement of financial position as a foreign exchange gain or loss.

Stock-based compensation -- Differences relating to the accounting treatment of stock options granted by Etrion pursuant to the current stock options plans.

Under Canadian GAAP, a company has the choice to measure forfeitures based on actual experience or based on the estimated number of forfeitures expected to be incurred. However, IFRS requires an initial estimate of the number of expected forfeitures, and subsequent adjustments are made to the estimate to reflect the actual number of awards that vest, unless forfeitures are due to market-based vesting conditions. Also, in Canadian GAAP, the straight-line method is used to account for graded-vesting features, whereas in IFRS, each instalment of the graded-vesting features is treated as a separate share option plan (because each instalment has a different vesting period), and the fair value for each instalment differs.

Deferred taxes -- Difference relating to the deferred tax liability from the purchase of SVE, which was allocated to intangible assets for Canadian GAAP purposes.

IAS 12 prohibits recognition of a deferred tax liability if it arises from the initial recognition of specified assets in a transaction that is not a business combination and did not affect accounting or taxable income at the time of the transaction.

Initial Adoption of International Accounting Standards

IFRS 1, "First Time Adoption of International Accounting Standards," sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. The Company has chosen to apply only the business combination optional exemption, which allows the Company to avoid restating its business combinations to comply with IFRS 3R. The Company does not expect the other exemptions (optional or mandatory) to have a significant impact on its financial statements as part of the conversion process.

IFRS early adoption

In Staff Notice 52-321 – Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS - IASB, the Canadian Securities Administrators ("CSA") has indicated that it would be prepared to provide exemptive relief to permit a Canadian reporting issuer to prepare its financial statements in accordance with IFRS for financial periods beginning before January 1, 2011.

In December 2009, the Company submitted an IFRS early adoption application to the British Columbia Securities Commission ("BCSC") pursuant to CSA Staff Notice 52-321 and is currently in discussions with the BCSC, acting as representative of the CSA, about the possibility of early adoption under the exemptive relief in CSA Staff Notice 52-321. If permitted by the regulatory authorities, the Company intends to adopt IFRS for Canadian reporting purposes for interim and annual financial statements for the fiscal year beginning January 1, 2010, with the first reporting period under IFRS being the six month period ending June 30, 2010.

Based on the current status of the conversion plan, the relative early stage of Etrion's renewable business segment and the relative low complexity of the Company's operations from an accounting perspective, management has concluded that, if the early adoption is approved by the CSA, Etrion will be prepared to file its interim and annual financial statements for financial periods beginning on or after January 1, 2010, in accordance with IFRS.

ADDITIONAL INFORMATION

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