

2017

# **ETRION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
YEAR ENDED DECEMBER 31, 2017

etrion

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



*Shizukuishi solar power project in northern Japan*

Etrion is a solar platform with a proven track record successfully operating assets in Japan. The Company has gross installed solar capacity in Japan of 44 MW plus 13 MW under construction, 190 MW of backlog projects and 200 MW of early stage pipeline.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of March 12, 2018, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2017. Financial information is reported in United States dollars ("\$" or "USD"). However, certain material financial information has also been reported in Japanese yen ("¥") because the Company has its main business activities in Japan. Exchange rates for the relevant currencies of the Group with respect to the \$ and the ¥ are as follows:

	€/¥	\$/¥
Closing rate at December 31, 2017	134.66	112.65
Closing rate at December 31, 2016	123.06	117.11
Twelve months average rate December 31, 2017	126.67	112.16
Twelve months average rate December 31, 2016	120.35	108.84

### NON-IFRS FINANCIAL MEASURES AND FORWARD-LOOKING STATEMENTS

The terms "adjusted net income (loss)", earnings before interest, tax, depreciation and amortization ("EBITDA"), "Adjusted EBITDA", "solar segments EBITDA" and "adjusted operating cash flow", used throughout this MD&A, are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently by the Company over all periods presented. Adjusted net income (loss) is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income (loss) as reconciled on page 14). EBITDA, including solar segments EBITDA, is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while Adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measure is net income (loss) as reconciled on page 15). In addition, adjusted operating cash flow is used by investors to compare cash flows from operating activities without the effects of certain volatile items that can positively or negatively affect changes in working capital and are viewed as not directly related to a company's operating performance. This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information contained herein. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 26.

## FOURTH QUARTER AND FULL YEAR 2017 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- Advanced on the construction of the 13.2 MW<sup>1</sup> Komatsu project in Ishikawa prefecture, Japan. The project is approximately 90% complete, on budget, on schedule and expected to be fully operational by the end of the second quarter of 2018.
- Connected the last two solar park sites of the Misawa (previously named Aomori) solar project in Japan in July 2017, representing 4.2 MW of the 9.5 MW total planned capacity. The first two solar park sites, representing 5.3 MW of the 9.5 MW total planned capacity were connected in February 2017.
- Advanced the development of four backlog solar power projects in Japan with aggregate capacity of 190 MW on a gross basis. As with any development, these projects remain at risk for delays or abandonment if the Company encounters issues that cannot be resolved. The Company is also evaluating several other early stage projects, defined as pipeline, with an aggregate capacity of 200 MW on a gross basis.
- Prices for engineering, procurement, and construction (“EPC”) contracts as well as operation and Maintenance services in Japan continue to drop reflecting global trends, resulting in improved economics for projects reaching financial close in the future.
- Produced 43.7 million kilowatt-hours (“kWh”) of electricity from the Company’s 44 MW portfolio comprising ten solar power plant sites in Japan.

### FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of \$21.8 million and \$12.5 million, respectively.
- Closed 2017 with a cash balance of \$43.2 million, \$30.4 million of which was unrestricted and held at corporate level, and, working capital of \$43.6 million. Etrion has sufficient liquidity to fund the backlog projects.
- On October 24, 2017, the Company purchased a nominal amount of approximately €6.3 million (\$7.4 million) of its outstanding corporate bonds at par value from certain existing bondholders. These bonds will be held by the Company and will not be cancelled but effectively reducing its annual net interest cost of this corporate bond by 16%.
- Etrion management concluded that it is no longer appropriate to consolidate the financial statements of PV Salvador SpA (“Salvador”), the 70%-owned subsidiary that owns the licenses and rights to operate Project Salvador, due to Etrion’s lack of control in accordance with IFRS 10, *Consolidated Financial Statements*. As a result, effective September 30, 2017, the Salvador investment is accounted for under the equity method and carried at zero value, resulting in a non-cash extraordinary gain of \$41.0 million. See Deconsolidation of Subsidiary disclosures on page 10.

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<sup>1</sup> The capacity of power plants in this document is described in approximate megawatts (“MW”) on a direct current basis, also referred to as megawatt-peak.

#### FOURTH QUARTER AND FULL YEAR 2017 HIGHLIGHTS

USD thousands (unless otherwise stated)	Three months ended		Twelve months ended	
	Q4-17	Q4-16 <sup>(*)</sup>	2017 <sup>(**)</sup>	2016 <sup>(*)</sup>
<b>Electricity production (MWh)<sup>2</sup></b>	<b>7,485</b>	<b>54,661</b>	<b>149,048</b>	<b>174,618</b>
<b>Financial results</b>				
Revenues	2,603	4,979	21,848	15,233
Gross profit (loss)	39	361	2,392	(3,566)
EBITDA	(628)	(713)	3,846	(415)
Adjusted EBITDA	(628)	(713)	4,723	(778)
Net (loss) income from continuing operations	(4,225)	(8,037)	16,507	(110,378)
Profit from discontinued operations	-	29,018	-	35,960
Net (loss) income	(4,225)	20,981	16,507	(74,418)
Adjusted net loss	(2,774)	(6,544)	(12,863)	(17,741)
<b>Cash flow</b>				
Project cash distributions	-	-	7,704	-
Cash flow (used in) from operations	1,700	(6,152)	(1,352)	(3,257)
Adjusted operating cash flow	(1,388)	(1,072)	3,655	(495)
			<b>December 31 2017</b>	<b>December 31 2016</b>
<b>Balance sheet</b>				
Total assets			212,135	288,641
Operational assets			110,622	187,644
Unrestricted cash at parent level			30,385	42,286
Restricted cash at project level			12,818	18,888
Working capital			43,611	45,257
Consolidated net debt on a cash basis			136,173	225,700
Corporate net debt (cash)			10,110	(98)
(*) 2016 comparative figures include the financial performance of the Chilean subsidiary, Salvador.				
(**) 2017 financial results include the financial performance of the Chilean subsidiary, Salvador, until September 30, 2017, when the Group lost control for IFRS purposes.				

## BUSINESS REVIEW

### BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants in Japan. The Company owns and operates 44 MW of installed solar capacity in Japan. Etrion has 13 MW of solar projects under construction and several projects at different stages of development in Japan. The Company has three operational projects (ten solar park sites) and one project under construction (one solar park site) in Japan. All operational projects in Japan benefit from revenues generated from 20 year feed-in-tariff ("FiT") power purchase agreements ("PPAs"), fixed price contracts with local utilities for all the electricity generated. As of September 30, 2017, the Group completed a control reassessment in accordance with IFRS 10 and derecognized the net carrying amount of the Chilean Salvador solar power project. See Deconsolidation of Subsidiary disclosures on page 10. The Company believes that, after the Salvador deconsolidation, the financial results to be disclosed going forward will provide better clarity to investors when evaluating the Etrion business.

Etrion's current strategy is to focus exclusively on continuing to develop and operate solar power projects in Japan.

The Company's business model focuses on seven key drivers for success: (1) long term contracts with stable revenues; (2) low risk jurisdictions; (3) strategic partnerships; (4) low equipment cost and operating expenses; (5) available long-term project financing; (6) low cost of debt, and (7) attractive liquid market for future divesture.

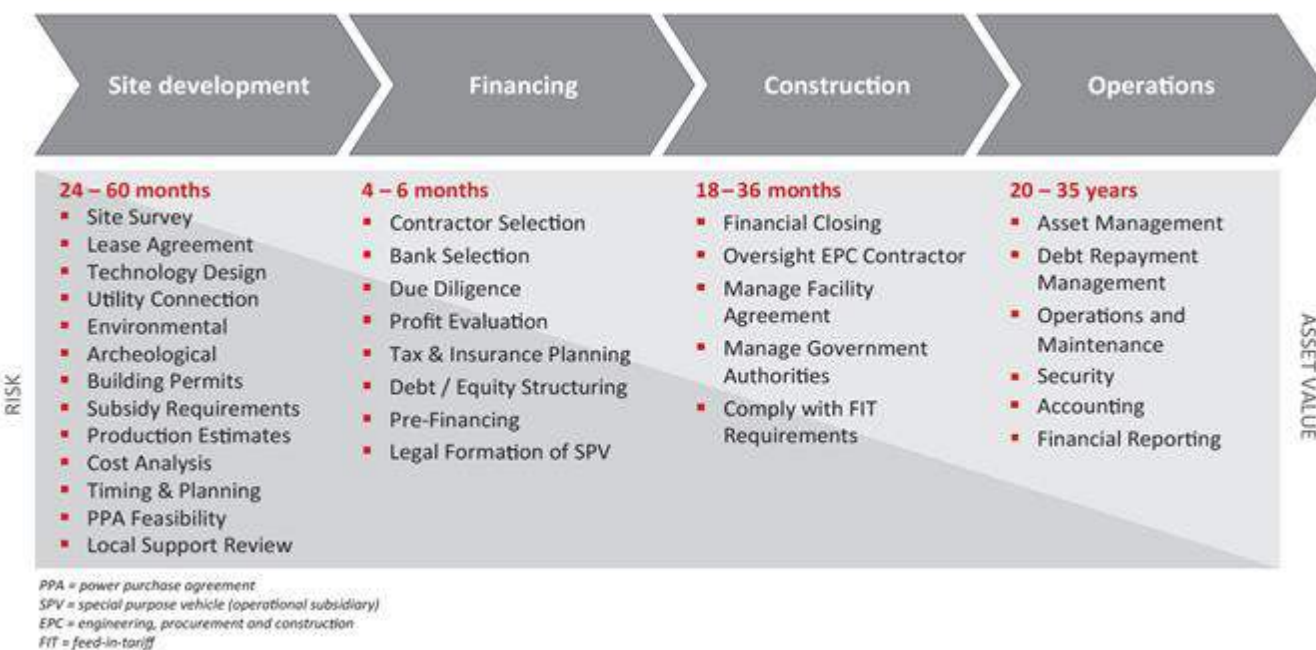
The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Oslo Stock Exchange in Norway. Etrion is based in Miami, Florida, United States with offices in Geneva, Switzerland and Tokyo, Japan. As of the date of this MD&A, the Company has a total of 23 employees.

<sup>2</sup> MWH=Megawatt-hour

The development of a solar power plant can be described as going through four phases: (1) site development, (2) project financing, (3) construction and (4) operations and asset management.

- Phase 1 represents the period in which a project secures all permitting risks, authorizations and utility interconnection agreements to build a solar power plant. Depending on the jurisdiction, this process may vary in length between 24 to 60 months. Where projects are developed from their infancy (“greenfield” projects), and no environmental impact assessment is required, the development time will generally be close to two years. However, Etrion often enters into co-development agreements with local development companies to reduce development time and risk. The Company may also acquire permits at advanced stages from local developers to further reduce the time to market. In all cases, whether the projects in the pipeline are greenfield, co-development or acquired, they go through a rigorous development process to de-risk the projects before any material investments are made. In addition to evaluating all development risks, Etrion works extensively with engineering, procurement and construction (“EPC”) contractors and civil works companies to optimize the design and reduce construction costs to further improve each project’s economics.
- Phase 2 generally takes 4 to 6 months, during which the Company assesses and selects various contractors and lenders, including EPC contractors responsible for the construction of the solar power plant. The Company analyzes the financial aspects of the project, assessing tenor, debt/equity structuring, cost and the selection of lenders. Furthermore, in phase 2, the Company evaluates potential legal structure of the special purpose vehicle that will function as the local operating subsidiary.
- Phase 3 generally requires 18 to 36 months of work. During this phase, the Company enters into an EPC contract, and the projects are built with a view to ensuring that the local operating subsidiary complies with the FIT or PPA requirements. Under an EPC contract, the contractor is generally hired on a turn-key fixed-price basis and is required to, at its own risk, design the installation for the project, procure the necessary materials and construct the project by a certain date. As a result, the contractor generally bears a portion of the risk for scheduling as well as budgeting in return for a guaranteed fixed price.
- Phase 4 solar projects are designed to operate with a minimum life time of 30 years. The Company has in-country resources engaged in the operation of the solar power plants. Activities include, managing day to day project level accounting, administration, tax reporting and overall administration of all project related compliance with regulations. In this phase, the Company usually retains the EPC contractor to also provide operations and maintenance services based on fixed price contracts.

**Business Process – Solar Energy**



**OPERATIONS REVIEW**  
**THREE MONTHS ENDED DECEMBER 31**

USD thousands (unless otherwise stated)	JAPAN <sup>(4)</sup>	
	Q4-17	Q4-16
<b>Operational data <sup>(1)</sup></b>		
Electricity production (MWh)	7,485	5,984
<b>Operational performance <sup>(1)</sup></b>		
<b>Electricity revenue</b>		
Feed-in-Tariff <sup>(2)</sup>	2,603	2,327
<b>Total revenues</b>	<b>2,603</b>	<b>2,327</b>
<b>EBITDA <sup>(3)</sup></b>	<b>1,987</b>	<b>1,944</b>
<b>EBITDA margin (%)</b>	<b>76%</b>	<b>84%</b>
<b>Net (loss) income</b>	<b>(114)</b>	<b>460</b>

(1) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.

(2) FIT scheme under PPA with utilities.

(3) Refers to segment EBITDA as reconciled in the segment information section on page 13.

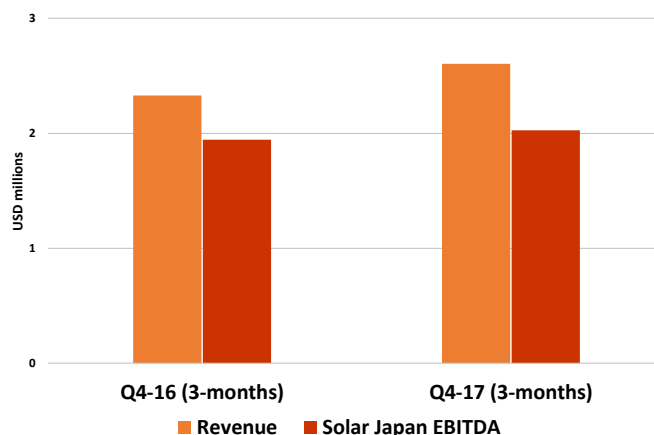
(4) As of September 30, 2017, the Group no longer consolidates the Chilean operating subsidiary, Salvador, because the Group lost control for IFRS purposes. See deconsolidation of subsidiary disclosures on page 10.

**OPERATING PERFORMANCE IN JAPAN**

During Q4-17, the Group produced 25% more electricity in Japan compared to the same period in 2016, due primarily to the incremental production from the Shizukuishi and Misawa solar power projects connected in October 2016 and in February/July 2017, respectively.

The Group receives revenues denominated in Japanese yen from its operating solar projects. Revenues come from the FIT system, whereby a premium fixed price is received for each kWh of electricity produced through a 20-year PPA contract with the Japanese public utility, Tokyo Electric Power Company (“TEPCO”) or Tohoku Electric Power Co., Inc. (“Tohoku Electric Power Utility”) or (“TOHOKU”), as applicable. During Q4-17, the Group received the FIT of ¥40 per kWh applicable to the Mito and Shizukuishi solar park sites and the FIT of ¥36 per kWh applicable to the solar park sites of the Misawa project.

During Q4-17, the Group’s revenue and project-level EBITDA in Japan increased by 12% and 2%, respectively, compared to the same period in 2016, primarily due to the strong performance and incremental production in Japan.

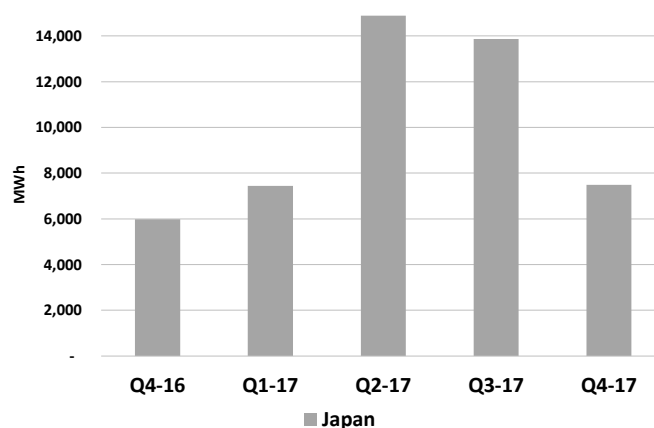


Revenues from Japan are received in Japanese yen and have been translated to the Group’s presentation currency (\$) using the corresponding Q4-17 average rates.

Accordingly, changes in the ¥/\$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group’s reported figures in USD.

**Historical production**

Solar-related production is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months. However, on an annual basis, solar irradiation is expected to vary less than 10% year-over-year. The historical quarterly electricity production in Japan is shown below, including the impact of seasonality.



**OPERATIONS REVIEW**  
**YEAR ENDED DECEMBER 31**

USD thousands (unless otherwise stated)	JAPAN	
	2017	2016
<b>Operational data <sup>(1)</sup></b>		
Electricity production (MWh)	43,686	15,221
<b>Operational performance <sup>(1)</sup></b>		
<b>Electricity revenue</b>		
Feed-in-Tariff <sup>(2)</sup>	15,323	5,723
<b>Total revenues</b>	<b>15,323</b>	<b>5,723</b>
<b>EBITDA <sup>(3)</sup></b>	<b>11,674</b>	<b>4,501</b>
<b>EBITDA margin (%)</b>	<b>76%</b>	<b>79%</b>
<b>Net income</b>	<b>2,127</b>	<b>981</b>

(1) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.

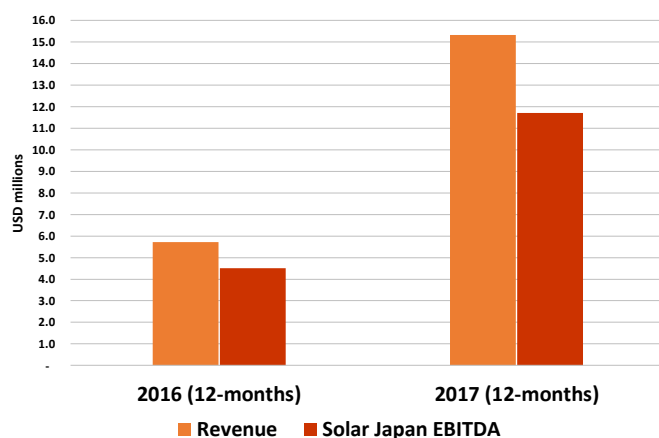
(2) FiT scheme under PPA with utilities.

(3) Refers to segment EBITDA as reconciled in the segment information section on page 14.

**OPERATING PERFORMANCE IN JAPAN**

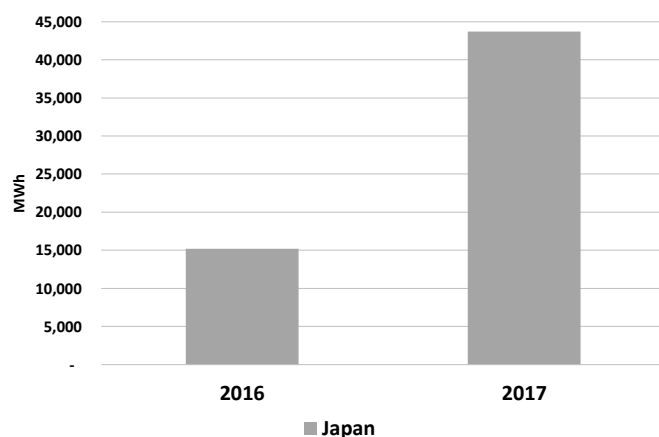
The Japanese projects produced a total of approximately 43.7 million kWh of electricity during 2017, more than two times the amount compared to the same period in 2016, due to the high irradiation, high performance ratio and the incremental production from the Shizukuishi and Misawa solar power projects connected in October 2016 and February/July 2017, respectively. In Japan, the Group received the FiT of ¥40 per kWh applicable to the Mito and Shizukuishi solar park sites and the FiT of ¥36 per kWh applicable to the solar park sites of the Misawa project.

During 2017, the Group's revenue and project-level EBITDA in Japan increased more than doubled compared to the same period in 2016, primarily due to the strong performance and incremental production from the Shizukuishi and Misawa solar power projects.



**Historical production**

The historical annual electricity production of the Group is shown below, including the impact of seasonality. Etrion's current solar power plants in operation in Japan are capable of producing more than 47 million kWh on an annual basis.





## OPERATING PROJECTS

The following map shows the locations of the Company's operating solar plants in Japan.



### Mito

As of the date of this MD&A, the remaining PPA contract life of Mito is approximately 18 years. The Group's 87%-owned operating solar power project in Japan is shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Mito-site 1	Ibaraki	1	1.3	Fixed-tilt	Jun-2015
Mito-site 2	Ibaraki	1	1.3	Fixed-tilt	Aug-2015
Mito-site 3	Ibaraki	1	1.3	Fixed-tilt	Jul-2015
Mito-site 4	Ibaraki	1	2.7	Fixed-tilt	May-2015
Mito-site 5	Ibaraki	1	2.7	Fixed-tilt	Jun-2015
<b>Total</b>		<b>5</b>	<b>9.3</b>		

Mito's solar power sites in Japan are capable of producing more than 10.3 million kWh of electricity on an annual basis. Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the last site connected in August 2015. The solar power plant was built on 28.3 hectares of leased land, and the facilities connect through TEPCO. In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company receives ¥40 per kWh produced (approximately \$0.34 per kWh). The remaining three PPAs were signed in March 2015. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) was financed 80% through non-recourse project debt from SuMi Trust with the remaining approximately 20% equity portion funded by the Group and Hitachi High-Tech ("HHT") based on their respective ownership interests of approximately 87% and 13%. Mito has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Mito project with a net development fee of approximately ¥162 million (\$1.6 million).

### Shizukuishi

As of the date of this MD&A, the remaining PPA contract life of Shizukuishi is approximately 19 years.

The Group's 87%-owned operating solar power project in Japan is shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Shizukuishi	Iwate	1	24.7	Fixed-tilt	Oct-2016
<b>Total</b>		<b>1</b>	<b>24.7</b>		

Shizukuishi's solar power plant in Japan is capable of producing approximately 26.1 million kWh of electricity per year. Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant on one site in the Iwate Prefecture of Japan. Construction-related work began in October 2014 and on October 20, 2016, Shizukuishi achieved its commercial operation date, became 100% operational and started collecting revenues from its electricity production. The solar power plant was built on 51 hectares of leased land, and the facility was connected to the Tohoku Electric Power utility. The project entered into a 20-year PPA with the TOHOKU to receive ¥40 per kWh produced (approximately \$0.34 per kWh). The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is financed 80% with non-recourse project debt from SuMi Trust, with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Shizukuishi project with a net development fee of approximately ¥677.4 million (\$6.7 million).

### Misawa (previously named Aomori)

As of the date of this MD&A, the remaining PPA contract life of Misawa is approximately 20 years. The Group's 60%-owned operating solar power project in Japan is shown below:

Project	Region	Sites	Gross MW	Technology	Connection date
Misawa	Tohoku	3-4	5.3	Fixed-tilt	Feb-2017
Misawa	Tohoku	1-2	4.2	Fixed-tilt	Jul-2017
<b>Total</b>		<b>4</b>	<b>9.5</b>		

Misawa is expected to produce approximately 10.7 million kWh of solar electricity per year. Misawa is a 9.5 MW utility-scale solar photovoltaic power plant, located in Misawa city in the Aomori prefecture of the Tohoku region in Japan. Construction-related works began in July 2016. The first two sites of the this solar project totaling 5.3 MW were connected to the grid and started recognizing revenues as of the end of February 2017. The last two solar park sites, representing 4.2 MW were connected in July 2017. The solar power plant was built on 16.3 hectares of owned land, and the facilities were connect to the Tohoku Electric Power utility. Each project site entered into a 20-year PPA with the Tohoku Electric Power utility to receive ¥36 per kWh produced (approximately \$0.31 per kWh). The total project cost of approximately ¥3,483 billion (approximately \$34 million) was financed 85% with non-recourse project debt from Sumitomo Mitsui Trust Bank ("SMTB") with the remaining approximately 15% equity portion funded by the Group, HHT and Tamagawa Holdings Co ("Tamagawa") based on their respective ownership interests of 60%, 10% and 30%, respectively. Misawa entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Misawa project with a net development fee of approximately ¥177 million (\$1.7 million).

## DEVELOPMENT ACTIVITIES

### PROJECTS UNDER CONSTRUCTION - JAPAN

#### Komatsu



Project	Region	Sites	Gross MW	Technology	Expected Connection date
Komatsu	Honsu	1	13.2	Fixed-tilt	Q2-2018
<b>Total</b>		<b>1</b>	<b>13.2</b>		

Komatsu is a 13.2 MW utility-scale solar photovoltaic power plant under construction, located in the Ishikawa prefecture of the Honsu region in Japan. Pre-construction-related works began in February 2017 and the project is approximately 90% complete, on budget and on schedule, expected to be fully operational by the end of the second quarter of 2018. The solar power plant is being built on 30.5 hectares of leased land and the facilities will connect through the Hokuriku Electric Power Co., Inc. ("Hokuriku Electric Power utility"). The project company entered into a 20-year PPA with the Hokuriku Electric Power utility to receive ¥32 per kWh produced (approximately \$0.27 per kWh). The total project cost of approximately ¥4,285 billion (approximately \$38 million) is being financed 83% with non-recourse project debt from SMTB with the remaining approximately 17% equity portion already funded by the Group and HHT based on their respective ownership interests of 85.1% and 14.9%, respectively. As of December 31, 2017, the Group has incurred capital expenditures of \$30.4 million associated with the construction of the Komatsu project, with remaining budgeted costs to be incurred in the first half of 2018. Komatsu has entered into a long-term fixed price O&M agreement with HHT. Once operational, Komatsu is expected to produce approximately 14.2 million kWh of solar electricity per year. Etrion has charged the Komatsu project with a net development fee of approximately ¥239 million (\$2.0 million).

The Japanese Ministry of Economy, Trade and Industry (METI) reported as of August 2017 total solar projects with valid FIT agreements but not yet under construction in the aggregate capacity of 26 GW. Many of these projects are still in different stages of development and seeking development partners and investors to carry these projects to completion. Etrion is

allocating all its resources to identify projects within this addressable market of 26 GW. In addition to the existing 190 MW (gross basis) backlog Etrion has already secured, it is working on an additional 200 MW in the pipeline to validate economics, development risks and pursuing agreement with the developers to secure exclusive rights. The Company will provide more visibility on the pipeline as projects are secured, economics validated and risks assessed.

### PROJECTS UNDER DEVELOPMENT - JAPAN

Etrion is advancing the development of several projects that are at different stages of development and /or negotiation with third parties. The company is providing below more detailed information on a portion of these projects. These "backlog" projects are those in which the Company has control over the development of the project through the existence of a binding development services agreement ("DSA") or other similar arrangement. In addition, Management believes they can reach Notice to Proceed ("NTP") status within the next 24 months. NTP is generally reached when all permits, authorizations and land have been secured and also the interconnection agreements have been signed. Also at NTP, financing is in place and the company can give the EPC contractor notice to begin building the project. As explained further below, any project under development remains with a high degree of risk which may result in (a) delays to commence construction, (b) changes in the economics, (c) changes in capacity or (d) abandonment of the project. Changes (if any) to previously disclosed project size and details are due to optimizations during the development process. Final size and economics are only confirmed when financial close is reached.

The Company classifies projects as Brownfield or Greenfield. Brownfield are projects originally developed by a third party which is later secured by the Company. Greenfield are projects originally developed by the Company. The projects identified below are defined by the Company as backlog. In addition, the projects have valid FIT agreements, secured land and are typically in different stages of permitting process.

Project	Prefecture	Sites	MW Gross	Target NTP
Brownfield Tk-1	Kumamoto	1	45	H1-19
Greenfield Tk-2	Niigata	1	45	Q1-19
Brownfield Tk-3	Mie	1	60	H1-19
Brownfield Tk-4	Saitama	1	40	TBD
<b>Total backlog</b>		<b>4</b>	<b>190</b>	
<b>Total early stage</b>			<b>200</b>	
<b>Total pipeline</b>			<b>390</b>	

#### Japanese backlog

**Brownfield Tk-1.** This project, located in the Kumamoto prefecture, is currently designed as a 45 MW solar park project. The project has secured the FIT of ¥36/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility before July 31, 2016. This means this project is not subject to any deadline for development in order to benefit from the full 20 year FIT contract.

The Company continues to advance discussions with land owners to resolve current project constraints. Management believes it will take additional 4-6 months to assess final land

feasibility for the project. Assuming land constraints are solved and final land configuration is completed the company will file for the forest development authorization, a process that typically takes additional four to six months. The project does not require an environmental impact assessment. The Company is targeting to complete all permits, secured all land and finalize the private line easement rights within the first half of 2019. The project remains with a high degree of execution risk due to unresolved matters with certain landowners critical to the project. Management remains cautiously optimistic such issues will be resolved so that the project can proceed. Management believes this project could reach financial close within the next 12-18 months.

**Greenfield Tk-2.** This project, located in the Niigata prefecture, currently configured as a 45 MW solar park project. The project has secured the FIT of ¥36/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility after July 31, 2016 but before March 2017. This means, this project is subject to a three year limit for development from March 31st 2017. In other words, if this project starts operation one year late (i.e. by March 31, 2021) it will have its FIT period shortened to 19 years. The project does not require an environmental impact assessment. The Company completed the purchase of all the land required for the project, except for certain public land parcels which are usually acquired at the later stage of development (after detailed layout design and forest development plans). The Company is currently proceeding with land measurement and soil survey activities. It is also advancing on civil works and EPC contract negotiations and expects to reach the shovel ready stage by the first quarter of 2019. The company is targeting to reach financial close within 12 to 18 months from now.

**Brownfield Tk-3.** This project, located in the Mie prefecture, was originally configured as 50 MW but is in advanced discussions with local authorities and other stakeholders to be expanded to a 60 MW solar park project. The project has secured the FIT of ¥36/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility before July 31, 2016. This means this project is not subject to any deadline for development to benefit from the full 20 year FIT contract. The project required an environmental impact assessment which was completed and published in January 2018. Etrion's development partner is completing a consultation process with local communities and other stakeholders to address all recommendations outlined in the Environmental Impact Assessment study so they can be properly reflected when filing for the forest development permit. Effective management of the consultation process has taken place, including public hearings and close interaction with the community. Target date for this project to be shovel ready is first half of 2019. The Company is likely to keep a 50% ownership stake.

**Brownfield Tk-4.** This project, located the Saitama prefecture, is currently configured as a 40 MW solar park project. The project has secured the FIT of ¥24/kWh. It entered into a grid connection agreement (i.e. construction cost allocation agreement) with the off-taker utility after July 31, 2016 but before March 2017. This means, this project is subject to a three year limit for development from March 31, 2017. In other

words, if this project starts operation two years late (i.e. by March 31, 2022) it will have its FIT period shortened to 18 years.

The largest uncertainty of this project are the environmental impact assessment requirements and the extensive civil work cost. While the Company believes there is an upside on this solar project and is working towards its development, as of December 31, 2017 and the Company recognized an impairment charge of US\$0.2 million associated with development costs incurred until the end of 2017, given the uncertainty regarding timing of the environmental assessment requirements and its final impact on the development of this project.

The Company is closely monitoring these developments to assess the impact on the schedule and feasibility. The Company expects to have further clarity by the summer of 2018.

As of December 31, 2017, the Company has incurred approximately \$10.8 million of project advances and development costs associated with the Japanese backlog as follows:

Project	Advance to third parties	Development costs	TOTAL
Brownfield Tk-1	1.0	1.7	2.7
Greenfield Tk-2	1.1	0.8	1.9
Brownfield Tk-3	5.6	0.6	6.2
<b>Total USD million</b>	<b>7.7</b>	<b>3.1</b>	<b>10.8</b>

Project advances and incurred development costs will be fully credited from the net to Etrion equity contribution shown in the last column of the table below, upon financial close.

Project	Project Costs	Gross Debt	Net Equity Contribution	Net to Etrion
Brownfield Tk-1	157	134	18	15
Greenfield Tk-2	148	120	17	17
Brownfield Tk-3	189	161	12	6
<b>Total USD million</b>	<b>608</b>	<b>495</b>	<b>70</b>	<b>61</b>

The equity needed to build most of these Japanese backlog projects is likely to be contributed throughout the construction period, typically expended over a two year construction period, rather than at the start of construction. The net to Etrion equity contribution shown on the table above is net of development fees the Company charges to the project companies for securing financing and developing the project at NTP.

### Early stage Japanese pipeline

Etrion is actively working on several opportunities in the market, leveraging its network of developers and partners. It is currently managing a pipeline of approximately 200 MW of projects in different stages. Some are at very early stages of due diligence while others are at advanced stages of negotiations. The Company will continue to provide visibility of individual projects once it enters into a binding agreement with developers and completes due diligences to validate the interconnection agreement with the utilities, evaluate the land rights acquisition, review status of permits and complete economic analysis. Given the early stage nature of these projects the Company will not provide timing status until the projects reach backlog stage. The estimated aggregate capacity

disclosed for the pipeline is management's best estimates, however, final capacity may be adjusted based on permit restrictions, land availability and economics.

## **SOLAR MARKET OVERVIEW**

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

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

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

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

## **JAPANESE MARKET**

Japan is the world's third largest energy consumer and today is among the top five largest solar markets in the world. The use of solar power in Japan has accelerated since the Japanese FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster. This in turn led to most of the nation's 52 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 15% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2019, Japan is projected to have more than 52 GW of solar capacity.

On January 22, 2015, the Japanese Ministry of Economy, Trade and Industry ("METI") officially announced new rules with respect to the FiT regime. The rules apply to new projects and were designed to streamline the process between developers, METI and utilities. Projects with accepted existing grid connection are not affected. METI's main objective in announcing new rules was to address the increasing speculation from developers that have been applying for the FiT but not realizing projects, and at the same time to unblock the grid assessment applications that were put on hold by some of the utilities facing overloaded capacity.

The Act to amend the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (the "FIT Amendment Act") was promulgated on June 3, 2016. The FIT Amendment Act makes various changes to the rules for the Japanese renewable energy feed in tariff program including:

- to require certain categories of projects to commence operations within three years from 1 April 2017 (i.e. by 31 March 2020); this will likely result in reduced FiT payment periods after such three years period,
- to allow such projects to change their modules without triggering changes in the FIT rate; and
- to allow such projects to also reduce their project size by more than 20% without triggering a FIT rate reduction.

In Japan, the new curtailment system has been changed from the "30 day rule per annum" to an hourly basis per annum. Uncompensated curtailment up to 30 days, annually based on one-day units, will be changed to up to 360 hours annually. The hourly basis for curtailment expands the amount available for interconnection. Furthermore, utilities may impose installation of remote curtailment systems on PV plants.

## FINANCIAL REVIEW

### DECONSOLIDATION OF SUBSIDIARY

#### Salvador

On September 30, 2017 the Group concluded that in accordance with IFRS it no longer has control of Salvador, the 70%-owned subsidiary that owns the licenses and rights to operate the 70 MW solar power project in Northern Chile ("Project Salvador"). As a result of the deemed loss of control the Group will no longer consolidate the financial position and performance starting from September 30, 2017. Financial and operating information of Salvador for the period to the date of deconsolidation is set out below.

USD thousands (unless otherwise stated)	CHILE <sup>(1)</sup>	
	2017	2016
<b>Operational data <sup>(2)</sup></b>		
Electricity production (MWh)	105,362	159,397
<b>Operational performance <sup>(2)</sup></b>		
<b>Electricity revenue</b>		
Market price	727	1,686
PPAs	4,838	6,904
Other utility income	960	920
<b>Total revenues</b>	<b>6,525</b>	<b>9,510</b>
<b>EBITDA <sup>(3)</sup></b>	<b>861</b>	<b>2,442</b>
<b>EBITDA margin (%)</b>	<b>13%</b>	<b>26%</b>
<b>Net loss</b>	<b>(10,967)</b>	<b>(100,756)</b>

- (1) Operational performance information is included only until September 30, 2017, when the Group lost control of PV Salvador for IFRS purposes.  
(2) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries  
(3) Refers to segment EBITDA as reconciled in the segment information section on page 14.

#### Salvador control reassessment

The current and expected Chilean market conditions are so adverse to Salvador's operations that according to management projections, based on third party market price studies, the only party that would be affected by the returns on the project is the project lender bank. Therefore it is no longer appropriate to consolidate Salvador.

After considering all current material facts and circumstances and the results of the control reassessment exercise, management concluded that the Group meets only one (power) of the three conditions that are necessary to demonstrate control in accordance with IFRS 10. The Group no longer meets the second and third condition (exposure to variable returns and link between power and variable returns) to continue to demonstrate control. Even though Etrion has all the contractual rights and instruments to lead the decision-making process of the Company, any of the actions it could take would have no impact or affect returns to Etrion.

#### Accounting upon Salvador deconsolidation

September 30, 2017, is regarded as the date when the Group "loses control" of Salvador as a result of the control reassessment. In accordance with IFRS 10, income and expenses from Salvador are being recognized in the Group's consolidated financial statements until September 30, 2017, when Etrion ceased to control Salvador. After deconsolidation, the retained investment in Salvador will be accounted for as an equity investment and recorded at a fair value of nil. The net present value of Etrion's share in the forecasted shortfall is negative and Etrion does not have any legal obligation to fund Salvador's deficit and has no current commitment or intentions to provide additional financial support to Salvador.

#### Gain on Salvador deconsolidation

On September 30, 2017, the Group derecognized its share in the net liabilities of Salvador, resulting in a non-cash extraordinary gain of \$41.0, and the derecognition of the equity value attributable to non-controlling interests in Salvador of \$17.6 million. The financial position below was used as the basis for calculating the net gain on deconsolidation:

PV Salvador SpA Financial Position \$ thousands	September 30 2017
<b>Assets</b>	
Property, plant and equipment	84,259
Intangibles	6,959
Trade receivables and other assets	3,577
Cash	2,584
<b>Total assets</b>	<b>97,379</b>
<b>Liabilities</b>	
Borrowings	154,015
Trade payables and other	1,957
<b>Total liabilities</b>	<b>155,972</b>
<b>Net liabilities</b>	<b>58,593</b>
<b>Non-Controlling Interest share in net liabilities</b>	<b>17,578</b>
<b>Etrion share in net liabilities</b>	<b>41,015</b>
<b>Etrion share in net liabilities</b>	<b>41,015</b>
<b>Fair value of retained investment in Salvador</b>	<b>-</b>
<b>Gain on deconsolidation of subsidiary</b>	<b>41,015</b>

The non-recourse project loan obtained by Salvador, to finance Project Salvador matures in 2033. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market. On March 9, 2017, Salvador signed an amendment to the existing senior finance agreement with OPIC ("Forbearance agreement"), whereby all scheduled interest and principal payments between May 31, 2017 and May 31, 2018 will be deferred and due end of the period, if the debt is not restructured or period extended. Given the terms of the Forbearance Agreement, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

## DISCONTINUED OPERATION

In December 2016, the Group completed the sale of its 60 MW Italian solar portfolio to EF Solare Italia. With the closing of this transaction, the Group has fully-exited from its business in Italy. The Italian subsidiaries are reported in the current period as a discontinued operation. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

USD thousands (unless otherwise stated)	2016
<b>Operational data</b>	
Electricity production (MWh)	98,765
<b>Operational performance</b>	
<b>Electricity revenue</b>	
Feed-in-Tariff	33,792
Market price	4,246
<b>Total revenues</b>	<b>38,038</b>
<b>EBITDA</b>	<b>32,435</b>
<b>EBITDA margin (%)</b>	<b>85%</b>
<b>Net income</b>	<b>7,622</b>

### Power Production

During 2016 and until the date of disposal, the Italian solar projects produced approximately 98.8 million kWh of electricity, less than in 2015 because the Group recognized revenue and production until December 12, 2016 for 53.4 MW and until December 23, 2016 for the remaining 6.7 MW of the solar assets portfolio.

### Details of the sale of the Italian subsidiaries

On November 14, 2016, The Group announced the signing of a definitive sale and purchase agreement with EF Solare Italia for the disposal of its 100% economic interest in Etrion Spa and Helios ITA, Srl, the Italian subsidiaries holding or owning the economic interest and rights over the 60 MW operational solar power plants in Italy, which comprise the Group's entire Solar Italy segment. Etrion SpA was sold on December 12, 2016 and Helios ITA was sold on December 23, 2016, after obtaining certain approvals, bank waivers and completing other regular closing procedures.

Sale proceeds consisted of €78.1 million in cash and €24 million of contingent consideration depending on the outcome of certain legal and regulatory proceedings.

	€	\$
Total cash consideration at closing	78,078	82,652
Less (-) proceeds from shareholder loans	(6,118)	(6,473)
<b>Cash received for the sale of shares</b>	<b>71,960</b>	<b>76,179</b>
Carrying amount of net assets sold	(15,232)	(16,105)
Goodwill at date of sale	(1,311)	(1,390)
Foreign exchange translation	-	2,640
<b>Gain on sale of subsidiaries</b>	<b>55,417</b>	<b>61,324</b>

Upon the execution of the sale and purchase agreement, the 100% participation in the shares of the Italian subsidiaries and the shareholder loans outstanding from these entities were both acquired by EF Solare Italia for €72.0 million (\$76.2 million) and €6.1 million (\$6.5 million), respectively.

Etrion's management has assessed the nature of the earn-out clauses and have concluded that they do not meet the recognition criteria to be considered as part of the proceeds at the closing date and therefore have not accounted for this in the Group's consolidated financial statements.

Transaction costs directly attributable to this sale transaction of approximately \$3.1 million have been recognized as part of the results from the discontinued operation.

### Performance and cash flow information

The financial performance presented is for the period ended the disposal dates in 2016 and the year ended December 31, 2015.

	2016
Revenue	38,038
Operating expenses	(4,145)
General and administrative expenses	(1,196)
Other (expense) income	(262)
<b>EBIDTA</b>	<b>32,435</b>
Depreciation and amortization	(11,551)
Finance income	739
Finance costs	(12,515)
<b>Income before tax expense</b>	<b>9,108</b>
Net income tax (expense) recovery	(1,486)
<b>Net income after tax</b>	<b>7,622</b>
Gain on sale of subsidiaries	61,324
Accumulated hedging losses	(29,884)
Transaction costs	(3,102)
<b>Profit from discontinued operation</b>	<b>35,960</b>
<b>Cash flow from discontinued operation</b>	
Net cash inflow from operating activities	27,485
Net cash inflow from investing activities	1,035
Net cash outflow from financing activities	(22,386)
<b>Net increase in cash</b>	<b>6,134</b>

## FINANCIAL RESULTS

### SELECTED FINANCIAL INFORMATION

During 2017, the Group's performance and results from continuing operations were positively impacted by the incremental production of electricity in Japan. Therefore revenue and project-level EBITDA increased in comparison with 2016. In addition, the recognition of the \$41.0 million non-cash gain upon deconsolidation of Salvador had a significant positive impact on the reported net results. During the three years ended December 31, 2017, the Group has reduced its presence and operations in Europe and South America, by disposing all of its Italian assets in December 2016 and by deconsolidating the Chilean subsidiary in September 2017. Therefore, the Group is now focused only in operating and developing its assets in Japan. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands (except per share data)	Three months ended		Twelve months ended		
	Q4-17	Q4-16	2017	2016	2015
<b>Revenue</b>	<b>2,603</b>	<b>4,979</b>	<b>21,848</b>	<b>15,233</b>	<b>10,416</b>
Gross profit (loss)	39	361	2,392	(3,566)	(4,473)
Net (loss) income from continuing operations attributable to owners of Etrion	(4,165)	(5,981)	19,551	(79,113)	(24,044)
Net (loss) income attributable to owners of Etrion	(4,165)	23,128	19,551	(43,153)	(15,317)
<b>Basic and diluted loss (gain) per share:</b>					
From continuing operations attributable to owners of Etrion	\$(0.01)	\$(0.02)	\$0.06	\$(0.24)	\$(0.07)
From total results attributable to owners of Etrion	\$(0.01)	\$0.07	\$0.06	\$(0.13)	\$(0.05)
<b>Net (loss) gain from continuing operations</b>	<b>(4,225)</b>	<b>(8,037)</b>	<b>16,507</b>	<b>(110,378)</b>	<b>(27,424)</b>
<b>Adjustments to net gain (loss) for:</b>					
Net income tax expense	12	(196)	1,125	7,450	(5,770)
Depreciation and amortization	1,551	2,519	10,277	10,957	10,269
Gain on deconsolidation of subsidiary	-	-	(41,015)	-	-
Impairment	225	-	225	75,953	2,881
Share-based payment expense	(96)	180	566	442	496
Net finance costs	1,744	4,779	16,504	15,381	15,588
Other income	(599)	(317)	(534)	(300)	(77)
Income tax paid	(2)	40	(1,036)	(1,172)	(289)
Changes in working capital	3,090	(5,120)	(3,971)	(1,590)	19,772
<b>Operating cash flow</b>	<b>1,700</b>	<b>(6,152)</b>	<b>(1,352)</b>	<b>(3,257)</b>	<b>15,407</b>

Summarized consolidated balance sheet information, prepared in accordance with IFRS, is as follows:

USD thousands	December 31 2017	December 31 2016	December 31 2015
Non-current assets	153,751	214,290	531,377
Current assets	58,384	74,351	81,943
<b>Total assets</b>	<b>212,135</b>	<b>288,641</b>	<b>613,320</b>
Non-current liabilities	187,515	305,836	526,432
Current liabilities	14,773	29,094	80,484
<b>Total liabilities</b>	<b>202,288</b>	<b>334,930</b>	<b>606,916</b>
<b>Net assets (liabilities)</b>	<b>9,847</b>	<b>(46,289)</b>	<b>6,404</b>
Working capital	43,611	45,257	1,459
Dividends declared	-	-	-

## SEGMENT INFORMATION

Management considers reportable segments from a geographical perspective and measures performance based on EBITDA and reviews and monitors performance of the Group on this basis. The Company has identified two reportable segments solar energy Chile and solar energy Japan, which include the Group's solar power projects that were previously aggregated under the renewable segment. While the Company has determined it has only two reportable segments, the Company has decided to disclose additional information about its Corporate activities as it believes that this information is useful for readers of the consolidated financial statements. Following the Salvador deconsolidation in September 30, 2017, the Group does no longer reports financial performance of the Solar Chile segment.

### SEGMENT INFORMATION THREE MONTHS ENDED DECEMBER 31

Segment consolidated financial information for the three months ended December 31, prepared in accordance with IFRS, is as follows:

USD thousands	2017			2016			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
<b>Revenue</b>	<b>2,603</b>	-	<b>2,603</b>	<b>2,652</b>	<b>2,327</b>	-	<b>4,979</b>
Operating expenses (Opex)	(1,055)	-	(1,055)	(1,708)	(444)	-	(2,151)
General and administrative (G&A)	(94)	(2,681)	(2,775)	(43)	(67)	(3,747)	(3,858)
Other income (expenses)	533	66	599	22	128	167	317
<b>EBITDA</b>	<b>1,987</b>	<b>(2,615)</b>	<b>(628)</b>	<b>923</b>	<b>1,944</b>	<b>(3,580)</b>	<b>(713)</b>
Impairment	(18)	(207)	(225)	-	-	-	-
Depreciation and amortization	(1,509)	(42)	(1,551)	(1,318)	(1,148)	(53)	(2,519)
Finance income	-	319	319	(53)	145	1,156	1,248
Finance costs	(810)	(1,318)	(2,128)	(3,134)	(478)	(2,637)	(6,249)
<b>(Loss) income before income tax</b>	<b>(350)</b>	<b>(3,863)</b>	<b>(4,213)</b>	<b>(3,582)</b>	<b>463</b>	<b>(5,114)</b>	<b>(8,233)</b>
Income tax (expense) recovery	236	(248)	(12)	-	(3)	198	195
<b>Net (loss) income for the period</b>	<b>(114)</b>	<b>(4,111)</b>	<b>(4,225)</b>	<b>(3,582)</b>	<b>460</b>	<b>(4,916)</b>	<b>(8,037)</b>

**Solar Japan:** During Q4-17, the Group's Japanese solar segment generated revenues of \$2.6 million and EBITDA of \$2.0 million, representing an increase of 12% and 2%, respectively, in comparison with the same period in 2016, driven by the additional production from the Shizukuishi and Misawa solar project and production. In addition, the Group's Japanese segment generated a net loss of \$0.1 million, in comparison with the net income results of \$0.5 million for the same period in 2016. The last quarter of the year is typically the one with lower irradiation due to the winter season in the northern hemisphere. In addition, the Company's new operating subsidiaries in Japan (Shizukuishi and Misawa) are recognizing O&M costs from the first day of operation while the first project (Mito) in 2016 had a flexible O&M calendar that started two year after COD.

**Corporate:** During Q4-17, the Group's corporate segment generated negative EBITDA of \$2.6 million and a net loss of \$4.1 million, respectively. In comparison with the same period in 2016, negative EBITDA decreased due to management efforts to streamline operations and also due to the reduction in finance costs associated with the Company's corporate bond.

**Solar Chile:** Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines. See Deconsolidation of Subsidiary disclosures on page 10.



**SEGMENT INFORMATION TWELVE MONTHS ENDED DECEMBER 31**

	2017				2016			
	Solar Chile	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
<b>Revenue</b>	<b>6,525</b>	<b>15,323</b>	-	<b>21,848</b>	<b>9,510</b>	<b>5,723</b>	-	<b>15,233</b>
Operating expenses (Opex)	(5,389)	(3,974)	-	(9,363)	(6,896)	(1,162)	-	(8,058)
General and administrative (G&A)	(269)	(251)	(8,653)	(9,173)	(149)	(194)	(7,547)	(7,890)
Other income (expenses)	(6)	576	(36)	534	(23)	134	189	300
<b>EBITDA</b>	<b>861</b>	<b>11,674</b>	<b>(8,689)</b>	<b>3,846</b>	<b>2,442</b>	<b>4,501</b>	<b>(7,358)</b>	<b>(415)</b>
Gain on deconsolidation of subsidiary	-	-	41,015	41,015	-	-	-	-
Impairment	-	(18)	(207)	(225)	(75,675)	-	(278)	(75,953)
Depreciation and amortization	(4,034)	(6,059)	(184)	(10,277)	(8,497)	(2,244)	(216)	(10,957)
Finance income	28	92	319	439	223	164	5,725	6,112
Finance costs	(7,822)	(3,159)	(6,185)	(17,166)	(12,395)	(1,181)	(8,139)	(21,715)
<b>(Loss) income before income tax</b>	<b>(10,967)</b>	<b>2,530</b>	<b>26,069</b>	<b>17,632</b>	<b>(93,902)</b>	<b>1,240</b>	<b>(10,266)</b>	<b>(102,928)</b>
Income tax (expense) recovery	-	(403)	(722)	(1,125)	(6,854)	(259)	(337)	(7,450)
<b>Net (loss) income for the year</b>	<b>(10,967)</b>	<b>2,127</b>	<b>23,347</b>	<b>16,507</b>	<b>(100,756)</b>	<b>981</b>	<b>(10,603)</b>	<b>(110,378)</b>

**Solar Japan:** During 2017, the Group's Japanese solar segment generated revenues of \$15.3 million and EBITDA of \$11.7 million, representing a significant increase in comparison with the same period in 2016, mainly driven by the increase in production following the connection of the Shizukuishi and Misawa solar projects. In addition, the Group's Japanese segment generated a net income of \$2.1 million, in comparison with the net income result of \$1.0 million for the same period in 2016.

**Corporate:** During 2017, the Group's corporate segment generated negative EBITDA of \$8.6 million and a net income of \$23.3 million, respectively. In comparison with the same period in 2016, negative EBITDA increased mainly due to extraordinary marketing, personnel and professional fees. Net income increased significantly mainly due to the recognition of the \$41.0 million non-cash extraordinary gain upon deconsolidation of Salvador, and also due to the reduction in finance costs associated with the Company's corporate bond.

**Solar Chile:** Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines. See Deconsolidation of Subsidiary disclosures on page 10.

**NON-GAAP PERFORMANCE MEASURES**
**Reconciliation of adjusted net loss to net loss**

USD thousands

 Three months ended  
 Q4-17    Q4-16    Twelve months ended  
 Q4-17    Q4-16

<b>Net (loss) income</b>	<b>(4,225)</b>	<b>(8,037)</b>	<b>16,507</b>	<b>(110,378)</b>
<b>Adjustments for non-recurring items:</b>				
General and administrative expenses <sup>1</sup>	-	-	488	(363)
Impairment	225	-	225	75,953
Net deferred tax write off	-	-	-	6,854
Write off guarantees	-	-	389	-
Gain on deconsolidation of subsidiary	-	-	(41,015)	-
<b>Adjustments for non-cash items:</b>				
Depreciation and amortization	1,551	2,519	10,277	10,957
Fair value movements (derivative financial instruments)	(229)	(1,206)	(300)	(1,206)
Share-based payment expense	(96)	180	566	442
<b>Adjusted net loss</b>	<b>(2,774)</b>	<b>(6,554)</b>	<b>(12,863)</b>	<b>(17,741)</b>

(1) Relates to extraordinary and non-recurring marketing and professional fees.

**Reconciliation of adjusted operating cash flows to operating cash flows**

USD thousands

 Three months ended  
 Q4-17    Q4-16    Twelve months ended  
 Q4-17    Q4-16

<b>Operating cash flow</b>	<b>1,700</b>	<b>(6,152)</b>	<b>(1,352)</b>	<b>(3,257)</b>
- Changes in working capital	(3,090)	5,120	3,971	1,590
- Income tax paid	2	(40)	1,036	1,172
<b>Adjusted operating cash flow</b>	<b>(1,388)</b>	<b>(1,072)</b>	<b>3,655</b>	<b>(495)</b>

## NON-GAAP PERFORMANCE MEASURES

Reconciliation of Solar segments Adjusted EBITDA to EBITDA USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
<b>Net (loss) income</b>	<b>(4,225)</b>	<b>(8,037)</b>	<b>16,507</b>	<b>(110,378)</b>
Adjustments for:				
Net income tax expense (recovery)	12	(196)	1,125	7,450
Net finance costs	1,809	5,001	16,727	15,603
Depreciation and amortization	1,551	2,519	10,277	10,957
Impairment	225	-	225	75,953
Gain on deconsolidation of subsidiary	-	-	(41,015)	-
<b>EBITDA</b>	<b>(628)</b>	<b>(713)</b>	<b>3,846</b>	<b>(415)</b>
<b>Adjustments for non-recurring items:</b>				
General and administrative expenses	-	-	488	(363)
Write off deposits in guarantee	-	-	389	-
<b>Adjusted EBITDA</b>	<b>(628)</b>	<b>(713)</b>	<b>4,723</b>	<b>(778)</b>
Plus: Corporate G&A expenses after non-recurring items	2,615	3,580	7,812	7,721
<b>Solar segments Adjusted EBITDA</b>	<b>1,987</b>	<b>2,867</b>	<b>12,535</b>	<b>6,943</b>
Less: Solar Chile adjusted EBITDA	-	923	861	2,442
<b>Solar Japan Adjusted EBITDA</b>	<b>1,987</b>	<b>2,867</b>	<b>11,674</b>	<b>6,943</b>

## QUARTERLY SELECTED FINANCIAL INFORMATION

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

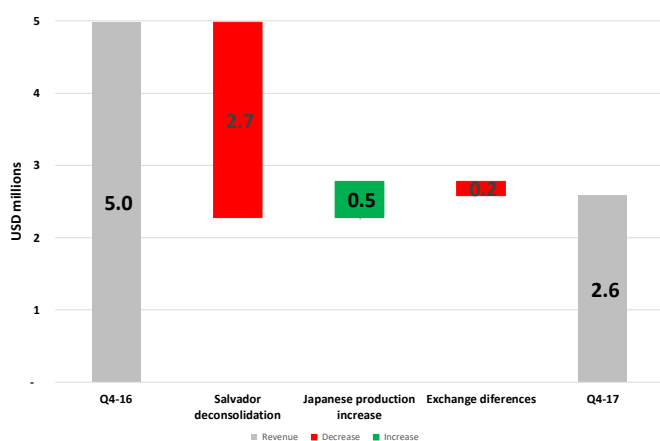
USD thousands (except per share data)	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
<b>Revenue</b>	<b>2,603</b>	<b>7,005</b>	<b>7,042</b>	<b>5,198</b>	<b>4,979</b>	<b>3,351</b>	<b>3,141</b>	<b>3,762</b>
Japan	2,603	4,867	5,256	2,597	2,327	1,180	1,258	958
Chile	-	2,138	1,786	2,601	2,652	2,171	1,883	2,804
<b>Net (loss) income</b>	<b>(4,225)</b>	<b>35,161</b>	<b>(6,865)</b>	<b>(7,564)</b>	<b>20,981</b>	<b>(88,295)</b>	<b>1,443</b>	<b>(8,547)</b>
Net (loss) income from continuing operations attributable to owners of Etrion	(4,165)	36,080	(5,865)	(6,497)	(5,981)	(65,476)	(1,876)	(5,870)
Net (loss) income attributable to owners of Etrion	(4,165)	36,080	(5,865)	(6,497)	23,128	(61,131)	2,438	(7,588)
<b>Basic and diluted loss (gain) per share:</b>								
From continuing operations attributable to owners of Etrion	\$(0.01)	\$0.11	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.20)	\$(0.01)	\$(0.02)
From total results attributable to owners of Etrion	\$(0.01)	\$0.11	\$(0.02)	\$(0.02)	\$0.07	\$(0.18)	\$0.01	\$(0.02)

Solar-related production and revenues experience seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months, resulting in lower revenues in the first and fourth quarters each year. In Japan, revenues are received in Japanese Yen and have been translated at the average ¥/\$ exchange rate for the corresponding period. Consequently, revenues expressed in \$ may fluctuate according to exchange rate variations. The Group's consolidated financial statements are presented in \$, which is the Group's presentation currency. The Company's functional currency is the ¥. The consolidated financial statements have been prepared in accordance with IFRS.

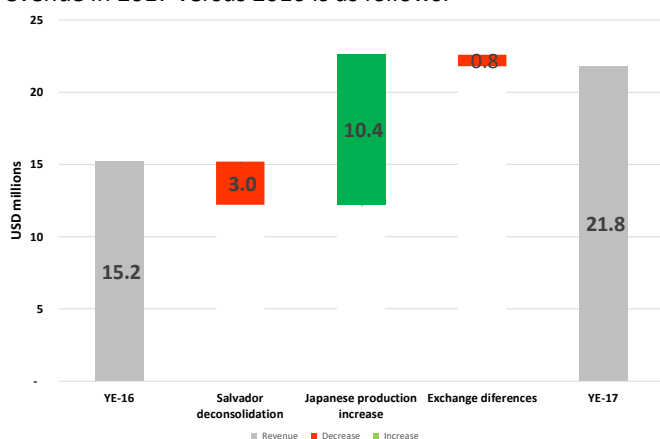
## REVENUE

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
FIT revenue	2,603	2,327	15,323	5,723
Market Price revenue	-	243	727	1,686
PPA revenue	-	2,152	4,838	6,904
Other utility income	-	257	960	920
<b>Total revenue</b>	<b>2,603</b>	<b>4,979</b>	<b>21,848</b>	<b>15,233</b>

Revenues decreased significantly by \$2.4 million during Q4-17 compared to the same period of 2016, primarily due to the deconsolidation of Salvador, effective September 30, 2017. However, during Q4-17, the Group's revenue from its Japanese subsidiaries increased by 12% driven by the additional production from the Shizukuishi and Misawa solar projects. The reconciliation of total revenue in Q4-17 versus Q4-16 is as follows:



During 2017, revenues increased by \$6.6 million (43%), compared to the same period of 2016 mainly due the additional production and FIT revenues in Japan, partially offset the effect of the deconsolidation of Salvador. The reconciliation of total revenue in 2017 versus 2016 is as follows:



## ADJUSTED CONSOLIDATED EBITDA

During Q4-17 and the twelve months ended December 31, 2017, adjusted consolidated EBITDA increased and significantly improved compared to the same periods of 2016, mainly as a result of EBITDA being contributed by the Group's Japanese solar segment, partially offset by the deconsolidation of the Chilean subsidiary.

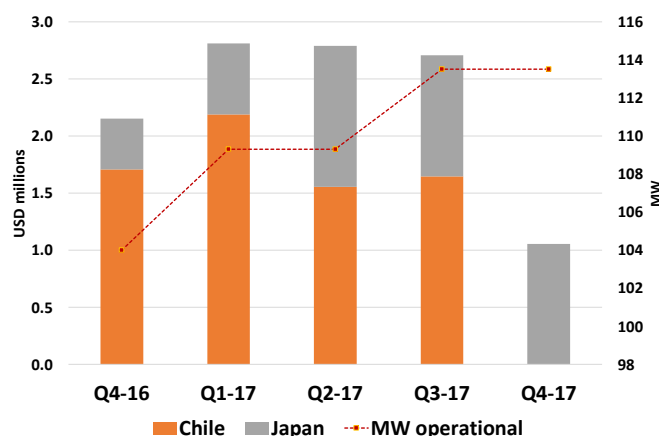
## OPERATING EXPENSES

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
O&M costs	192	431	2,303	2,266
Purchased power	-	623	2,013	3,114
Personnel costs	233	280	1,209	889
D&A	1,509	2,466	10,093	10,741
Property tax	256	58	1,030	231
Insurance	61	130	448	372
Land lease	227	210	940	353
Transmission cost	-	299	899	554
Other expenses	86	121	521	279
<b>Total operating expenses</b>	<b>2,564</b>	<b>4,618</b>	<b>19,456</b>	<b>18,799</b>

During Q4-17, operating expenses decreased by \$2.0 million (43%), compared to the same period of 2016, primarily due to the deconsolidation of the Chilean subsidiary, effective September 30, 2017, partially offset by the incremental operational costs (O&M and other operating costs) associated with the Shizukuishi and Misawa solar projects.

During 2017, operating expenses increased by \$0.7 million (4%), compared to the same period of 2016, primarily due to the incremental operational costs (O&M and other operating costs) associated with the Shizukuishi and Misawa solar projects, partially offset by the deconsolidation of the Chilean subsidiary, effective September 30, 2017.

The chart below shows the historical operating expenses before depreciation and amortization over the last five quarters including the effect of the recently added projects in Japan.



## GENERAL AND ADMINISTRATIVE EXPENSES

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
Salaries and benefits	1,397	2,016	3,707	3,690
Pension costs	114	164	114	164
Board of directors fees	43	39	156	151
Share-based payments	(96)	180	566	442
Professional fees	831	615	2,298	1,551
Listing and marketing	69	88	636	332
D&A	42	53	184	216
Office lease	186	76	391	384
Office, travel and other	231	679	916	1,176
Write off guarantees	-	-	389	-
<b>Total general and admin</b>	<b>2,817</b>	<b>3,910</b>	<b>9,357</b>	<b>8,106</b>

During Q4-17, general and administrative expenses decreased by \$1.1 million (28%), compared to the same period in 2016, primarily due to a share-based payments reversals due to forfeitures, decrease in salaries and benefits as a result of higher costs being capitalized and recharged to the Japanese development pipeline, and a general decrease in discretionary employee compensation.

During 2017, general and administrative expenses increased by \$1.3 million (15%), compared to the same period in 2016, primarily due to the write-off of certain deposits in guarantee associated with projects that the Company is no longer pursuing in Chile, one-time additional professional fees associated with the sale of the Italian subsidiaries and one-time marketing expenses.

## IMPAIRMENT

During 2017, the Company impaired capitalized development costs of \$0.2 million (2016: \$0.3 million) associated with development activities of Japanese projects. In addition, during 2016, the Company identified indicators of impairment related to Salvador, an entity within its Solar Chile segment. The carrying value of the Salvador solar assets in Chile was compared to the recoverable amount of this cash generating unit based on its value-in-use. The Company completed an impairment assessment based on value-in-use estimates derived from long-range forecasts and market values observed in the marketplace. To determine the value-in-use a before tax discount rate of 8.33% was utilized. As a result of the impairment assessment, the Company determined that the recoverable amount was equal to \$98.3 million (before consolidation adjustments) and recorded impairment charges of \$70.0 million and \$5.7 million against property, plant and equipment and intangible assets respectively. The impairment resulted from a sharp decline in the outlook for long term power prices in the Chilean market where Salvador is located.

## NET FINANCE COSTS

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
Interest project loans	876	3,709	11,135	12,286
Interest corporate bond	908	2,086	3,792	8,778
Fair value movements	(229)	(1,613)	(300)	(1,206)
Foreign exchange	222	779	1,911	(4,414)
Other finance costs	32	40	189	160
<b>Net finance cost</b>	<b>1,809</b>	<b>5,001</b>	<b>16,727</b>	<b>15,603</b>

During Q4-17 net finance costs decreased by \$3.2 million compared to the same period in 2016, mainly due to a decrease in corporate bond interest following the partial repayment executed in December 2016 and bond repurchase completed in October 2017. In addition, net finance costs decreased due to the deconsolidation of the Chilean subsidiary, effective September 30, 2017.

During 2017, net finance costs increased by \$1.1 million (7%) mainly as a result of the increase in project loan interest associated with the Shizukuishi and Misawa solar operational projects in Japan was offset by a decrease in corporate bond interest following the partial repayment and repurchase transactions. In addition, net finance costs increased due to the recognition of foreign exchange losses, relative to the same period in 2016, when the Company recognized foreign exchange gains due to its previously Euro-denominated intercompany loans.

During Q4-17 and the twelve months ended December 31, 2017, the Group capitalized \$0.1 million (2016: \$0.1 million) and \$0.4 million (2016: \$0.8 million) of borrowing costs associated with credit facilities obtained to finance the construction of Komatsu and Misawa.

## INCOME TAX EXPENSE

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
Current income tax expense	131	(176)	(1,020)	(1,046)
Deferred tax recovery	(143)	372	(105)	(6,404)
<b>Net income tax (expense) recovery</b>	<b>(12)</b>	<b>196</b>	<b>(1,125)</b>	<b>(7,450)</b>

The Group recognized an income tax expense of \$0.3 million (2016: \$0.3 million) associated with its solar power projects in Japan and an income tax expense of \$0.7 million (2016: \$0.7 million) associated with its holding and management services subsidiaries. In addition, the Group recognized a deferred income tax expense of \$0.1 million (2016: \$6.4 million) due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

## FINANCIAL POSITION

### LIQUIDITY AND FINANCING

#### CASH POSITION

USD thousands	December 31 2017	December 31 2016
Cash and cash equivalents:		
Unrestricted at parent level	30,385	42,286
Restricted at project level	12,818	18,888
<b>Total cash and cash equivalents</b>	<b>43,203</b>	<b>61,174</b>

#### UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at December 31, 2017, included unrestricted cash of \$30.4 million (December 31, 2016: \$42.3 million) held at the corporate level. Unrestricted cash decreased by \$11.9 million (28%) mainly due to the bond repurchase transaction, equity contributions made in the Komatsu project and corporate G&A, partially offset by project cash distributions received from the Japanese operating projects, the Komatsu development fee and exchange rate differences.

The Group has a fully-funded portfolio of operational and under construction projects. In addition, the Group expects to generate sufficient operating cash flows in 2018 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity, assets sale or debt financing and non-recourse project loans, as required.

#### RESTRICTED CASH ANALYSIS

USD thousands	December 31 2017	December 31 2016
Chile	-	4,122
Japan	12,818	14,765
<b>Total restricted cash</b>	<b>12,818</b>	<b>18,888</b>

The Group's cash and cash equivalents at December 31, 2017, included restricted cash held at the project level in Japan that is restricted by the lending banks for future repayment of interest and principal and working capital requirements related to each project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, through repayment of shareholder loans, through payment of interest on shareholder loans or through dividend distributions. Following the deconsolidation of the Chilean subsidiary, the Group is not presenting cash balances associated with Salvador.

## WORKING CAPITAL

At December 31, 2017, the Group had working capital of \$43.6 million (December 31, 2016: \$45.3 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but are not expected to be settled in cash in the next 12 months without replacement. Excluding these derivative financial liabilities that are not expected to be settled in the near-term, the Group's working capital would have been \$45.1 million. (December 31, 2016: \$46.4 million).

At December 31, 2017, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2018	2019	2020	2021	2022	After 5 years	Total
EPC contract	3,047	-	-	-	-	-	3,047
Project loans	10,145	11,297	8,898	8,602	8,826	120,998	168,766
Corporate bond	3,278	41,395	-	-	-	-	44,673
O&M contracts	753	900	1,000	1,223	1,166	15,010	20,052
Operating leases	1,186	993	993	993	993	13,756	18,914
Trade payables	3,493	-	-	-	-	-	3,493
<b>Total</b>	<b>21,902</b>	<b>54,585</b>	<b>10,891</b>	<b>10,818</b>	<b>10,985</b>	<b>149,764</b>	<b>258,945</b>

The Group's main contractual obligations are related to contracts entered into by the Japanese project companies to finance, build and/or maintain solar power plants in Japan (i.e. EPC, O&M, operating leases and trade payables). All of the contractual obligations will be funded from existing cash available, future cash flows from operations and/or debt refinancing with no additional capital investments to be made by the Group.

#### NET EQUITY

During 2017, the total equity attributable to owners of the Company increased by \$23.8 million from a net liability position of \$14.8 million at December 31, 2016, to a net assets position of \$9.0 million at December 31, 2017. This change was primarily due to the recognition of the \$41.0 million non-cash gain upon deconsolidation of Salvador and the cumulative foreign exchange translation adjustment, partially offset by unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments. Total equity attributable to owners of the Company at December 31, 2017, was negatively impacted by the cumulative fair value losses of \$13.0 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses, the total equity attributable to owners of the Company at December 31, 2017, would have resulted in a net asset position of \$22.0 million.

## BORROWINGS

### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans and bond balances:

USD thousands	MW	Maturity	December 31 2017	December 31 2016
Shizukuishi	25	December 31, 2034	59,319	63,093
Mito	9	December 31, 2034	21,993	22,199
Misawa	10	December 31, 2034	28,415	8,477
Komatsu	13	December 31, 2034	29,286	-
Salvador	70	September 1, 2033	-	148,900
<b>Total</b>			<b>139,013</b>	<b>242,669</b>

### Japanese projects

The non-recourse project loans obtained by the Group's Japanese subsidiaries to finance the construction costs of the Group's Japanese solar power projects, mature between 2034 and 2036 and bear annual interest rates of TIBOR plus a margin ranging from 1.1% to 1.4%. The Japanese non-recourse project loans are 90% hedged through interest rate swap contracts during the operational period at an interest rate ranging from 1.72% to 3.13% all-in. At December 31, 2017, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. All the Japanese interest rate swap contracts qualified for hedge accounting at December 31, 2017, and December 31, 2016.

Repayment of these credit facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the local utilities in Japan and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates. The Company's Japanese subsidiaries have provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Japanese fixed assets pledged as collateral at December 31, 2017, was \$140.6 million (2016: \$101.6 million).

During 2017, the Group's Japanese subsidiaries with solar power projects under construction drew down a total of ¥5,113 million (\$45.5 million) and ¥423 million (\$3.8 million) under the senior financing agreements and under the VAT credit facility, respectively (2016: ¥5,760 million (\$48.4 million) and ¥384 million (\$3.3 million), respectively). At December 31, 2017, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥525 million (\$4.6 million) (2016: ¥6,075 million (\$51.9 million)). At December 31, 2017, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. All the Japanese interest rate swap contracts qualified for hedge accounting at December 31, 2017, and December 31, 2016.

On March 24, 2017, the Company's subsidiary which holds the Shizukuishi project company received a cash reimbursement of ¥501 million (\$4.5 million) from the Japanese tax authorities associated with VAT credits accumulated during the construction of its solar power plant. On September 30, 2017, the Company's subsidiary

repaid ¥435 million (\$3.8 million) to the lender bank in relation to the associated VAT credit facility.

The Japanese financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security.

At December 31, 2016 and 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

### Chilean projects

As of September 30, 2017, the Group completed a control reassessment and derecognized the net carrying amount of the Salvador non-recourse project loan of \$154 million. (page 10)

### Corporate borrowings

On April 23, 2014, Etrion issued €80 million principal amount of new secured bonds in the Norwegian bond market. The bonds have an annual interest rate of 8.0% and mature in April 2019. In December 2016, Etrion completed a bond repurchase transaction where the Company purchased a nominal amount of €40 million of bonds via a buy-back offer for offers up to and including a price of 100% of par value plus accrued unpaid interest.

On October 24, 2017, Etrion purchased a nominal amount of approximately €6.3 million (\$7.4 million) of its outstanding corporate bonds at par value, from certain existing bondholders. These Bonds will be held by the Company and will not be cancelled. The bond repurchase was considered as debt extinguishment and the Company recognizes a \$0.1 million finance cost associated with this transaction.

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. The Company can call the bonds 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. During 2017, the Company's corporate bond started trading at a premium, triggering an implicit yield below the 8% fixed-rate coupon and management concluded that the corporate bond call option was "in-the-money" and therefore the embedded derivative had value. At December 31, 2016, no separate amount was recognized in relation to this call option.

The carrying value of the corporate bonds as at December 31, 2017, including accrued interest net of transaction costs, was \$40.7 million. The corporate bond agreement requires the Company to maintain a minimum unrestricted cash balance of €3 million. At December 31, 2017, the fair value of the corporate bond amounted to \$40.8 million (2016: \$42.6 million).

At December 31, 2017 and 2016, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

## Net debt reconciliation

The Group's adjusted net debt position on a cash basis, (excluding non-cash items and VAT facilities) is as follows:

USD thousands	December 31 2017	December 31 2016
<b>Total borrowings as per IFRS</b>	<b>179,701</b>	<b>284,777</b>
VAT facilities	(2,441)	(726)
Accrued interest	(620)	(1,548)
Transaction costs	2,736	4,371
<b>Adjusted borrowings</b>	<b>179,376</b>	<b>286,874</b>
Cash and cash equivalents	(43,203)	(61,174)
<b>Adjusted consolidated net debt</b>	<b>136,173</b>	<b>225,700</b>
<b>Adjusted corporate net debt</b>	<b>10,110</b>	<b>(98)</b>

The Group's consolidated net debt decreased during 2017, in comparison with 2016, mainly due to the derecognition of Salvador's net debt following the deconsolidation of this subsidiary, partially offset by the additional funds drawn from the SMTB credit facilities to fund the construction costs of Misawa and Komatsu.

## OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (March 10, 2017: 334,094,324) and options to acquire 150,000 common shares of the Company (March 10, 2017: 3,202,000) issued and outstanding. The options expire on April 28, 2018, with exercise price Canadian dollar ("CAD\$") CAD\$1.59 per share.

In addition, the Company maintains the 2014 Restricted Share Unit Plan pursuant to which employees, consultants, directors and officers of the Group may be awarded RSUs. The RSUs have a contractual term of four years and are subject to certain time-based conditions and in certain cases are also subject to performance-based vesting conditions. At the date of this MD&A, the Company had 22,424,433 RSUs outstanding.

## OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at December 31, 2017, and December 31, 2016.

## CAPITAL INVESTMENTS

The Group plans to allocate its unrestricted cash by prioritizing the Japanese market. Based on the current status, the Company does not anticipate beginning construction of its Japanese backlog project until late 2018.

The equity needs to build the Japanese backlog project are likely to be contributed throughout the construction period, rather than at start of construction.

The Group will finance the development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

## Contractual commitments

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of December 31, 2017, the Group had a contractual obligation to acquire construction services in the amount of \$3.0 million related to the construction of the 13.2 MW Komatsu solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level or from future cash flows from operations with no additional capital investments to be made by the Group or additional funding from the Group's unrestricted cash balance.

## Contingencies

On August 10, 2015, the Group received a litigation notice from a former employee alleging unreconciled labor-related differences. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself. Given the stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### *New standards and amendments adopted by the Group*

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2017, that would have a material impact on the Company's consolidated financial statements.

### *New standards and amendments issued and not yet adopted by the Group*

The following new standards and amendments, applicable to the Group, available for application and not yet adopted, are as follows:

#### *IFRS 9, Financial Instruments:*

This standard reflects all parts of the financial instrument project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard sets out principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements. The new standard most notably affects the criteria surrounding hedge accounting adopting principles based approach. While this does not change the type of hedging relationships or the requirement to measure ineffectiveness, it simplifies the application of hedge accounting and is intended to allow for better alignment of entities risk management strategies with their accounting presentation. As well the standard replaces the multiple different financial asset impairment models present in IAS 39 with a single model based on expected credit losses on all financial assets and replacing the existing complex classifications structure with a business model approach based on the intent and nature of the cash flows.

Management has chosen to adopt the standard retrospectively with the exception of hedge accounting which it will apply on a prospective basis. Management's assessment of the impact of IFRS 9 is complete. Based on the assessment, management has concluded that the impact of the standard will not be material to the Groups financial statements upon adoption of IFRS 9. The Group's hedging documentation and controls have been updated for compliance with IFRS 9.

*IFRS 15, Revenue from contracts with customers:* This standard details a comprehensive model to account for revenue arising from contracts with customers. The standard will replace the majority of the existing IFRS requirements on revenue recognition including IAS 18 Revenue. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard has proscribed a five-step model to apply the principles within. The standard also specifies how to account for incremental costs of obtaining a contract and the costs directly attributable to fulfilling a contract. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principle versus agent and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Management has chosen to adopt the standard using a modified retrospective approach. Management has completed its review of all material revenue streams. All of the Company's revenue streams are within the scope of IFRS 15 and relate to the sale of energy through power purchase agreements or feed-in-tariffs ("FiT"). Based on management's analysis, substantially all of the contracts in place for the year beginning January 1, 2018 do not contain a difference in the timing or measurement of revenue recognition under the new standard. The IFRS 15 adoption will have no quantitative impact in the Company's financial statements and therefore there will be no impact on the accumulated deficit balance.

*IFRS 16, Leases:* This standard addresses the measurement and recognition of leases which will result in almost all lease contracts being recognized in the balance sheet, as the distinction between operating and finance leases is removed. IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. The Group is in the process of assessing to what extent existing commitments under lease contracts will result in the recognition of an asset and a liability for future payments.

There are no other IFRS or interpretations that are not yet effective and that would be expected to have a material impact on the Group.

The Company's management believes the critical accounting policies outlined above are the more significant judgments and estimates used in the preparation of the consolidated financial statements.

### **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

The Group assesses property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are based on the forecasted EBITDA over the expected life of the solar power assets, as derived from the financial models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These



financial models include various assumptions such as future market prices for solar energy, the forecasted rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2017, no impairment was provided in relation to the Group's previously recognized property, plant and equipment and intangible assets. At December 31, 2016, a total of \$76 million impairment expense was provided in relation to the Group's previously recognized property, plant and equipment and intangible assets associated with it Salvador, its operating subsidiary in Chile. The group did not identify indicators of impairment associated with its solar operating projects in Japan.

#### **FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS**

In determining the fair value of the Group's financial instruments, the Company's management uses judgment to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. The fair value of the Group's interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity, the observable TIBOR forward interest rate curves and an appropriate discount factor. At December 31, 2017, the Group recognized net financial liabilities of \$9.9 million (2016: \$9.5 million) associated with its derivative financial instruments.

#### **DEFERRED INCOME TAX ASSETS**

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with *IAS 12, Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the financial models used to value the solar power projects. Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2017, the Group recognized \$2.8 million (2016: \$2.8 million) of net deferred income tax assets.

#### **RELATED PARTIES**

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

through various investment trust approximately 24.3% of the Company's common shares. The Lundin Family controls those entities listed below under "Related party transaction". All related party transactions are made on terms equivalent to those made on an arm's length basis. The related party transactions disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2017, are summarized below.

#### **RELATED PARTY TRANSACTIONS**

##### **Lundin Services BV**

The Group receives professional services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. During 2017, the Group incurred general and administrative expenses of \$8,000 (2016: \$14,000), respectively, from Lundin Services BV and, at December 31, 2017, the Group had \$1,000 (December 31, 2016: \$1,000) outstanding in relation to these expenses.

##### **Lundin Petroleum AB**

The Group receives professional services from Lundin Petroleum AB for market and investor relation activities in Sweden. During 2017, the Group incurred general and administrative expenses of \$19,000 (2016: \$27,000), respectively, from Lundin Petroleum AB.

##### **Lundin family**

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue completed in April 2014. . On October 24, 2017, The Lundin family sold to the Company a nominal amount of approximately €5.7 million (\$6.7 million) of corporate bonds. As at December 31, 2017, the total corporate bonds held by the Lundin family amounted to €0.4 million.

During 2017, the Group recognized \$0.6 million (2016: \$0.9 million) of interest expense and \$48,000 (2016: \$0.1 million) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

##### **Lundin SA**

On April 1, 2016, The Group entered into a new service agreement with Lundin SA for an annual amount of \$0.1 million, to make available fully staffed and equipped premises to serve members of its Board of Directors. The contract is renewed automatically, unless terminated by either party.

#### **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, Marco A. Northland and the Chief Financial Officer, Christian Lacueva.

During 2017, the Group recognized \$2.1 million (2016: \$2.0 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-

based payment expenses. At December 31, 2017, the Group had \$0.4 million outstanding to key management personnel (December 31, 2016: \$0.5 million).

## FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate risk exposures through interest rate swap contracts. However, the Group has not entered into any foreign exchange rate hedges as monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currencies. In addition, the Group is directly exposed to inflation in Japan, as the FiT contracts are not inflation-adjusted, but some of the operating costs will be impacted by inflation, if it increases or decreases in the future.

The Company's management carries out risk management procedures with guidance from the Audit Committee and Board of Directors. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2017, for further details relating to the Group's financial risk management.

## DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments is as follows:

USD thousands	December 31 2017	December 31 2016
<b>Derivative financial assets:</b>		
Corporate bond call option	319	-
<b>Total derivative financial assets</b>	<b>319</b>	<b>-</b>
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts		
Current portion	1,444	1,167
Non-current portion	8,788	8,347
<b>Total derivative financial instruments</b>	<b>10,232</b>	<b>9,514</b>

During 2017, the Group recognized finance income of \$0.3 million associated with the fair value of the corporate bond call option, which is considered an embedded derivative in the debt contract and deemed to be in-the-money as of the end of 2017. The Group's corporate bond call option was classified as Level 2 and the fair value was calculated using the Hull-white model using observable market data in the Norwegian bond market.

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to

maturity as per the interest rate swap contracts, the observable TIBOR interest rate forward yield curves and an appropriate discount factor. The Group's derivative financial instruments are classified within level 2 of the fair value hierarchy. During 2017, the Group recognized a net fair value loss of \$0.4 million (2016: \$3.1 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts. At December 31, 2017, the notional amount of the Group's interest rate swap contracts was \$123.5 million (2016: \$99.9 million), which was denominated in Japanese yen. The fair market value of the interest rate swap contracts at December 31, 2017, increased to a liability position of \$10.2 million (2016: \$9.5 million) due to new interest rate swap contracts entered into during the year. At December 31, 2017, and 2016, all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is recorded in to finance income/costs.

## RISKS AND UNCERTAINTIES

The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. Certain of such risks are discussed below. For a more detailed discussion of risk factors applicable to the Group, see Etrion's Annual Information Form for the year ended December 31, 2017, which has been filed on SEDAR and is available under Etrion's profile at [www.sedar.com](http://www.sedar.com). Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

## FINANCIAL RISKS

### DEBT AND EQUITY FINANCING

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

### CAPITAL REQUIREMENTS AND LIQUIDITY

Although the Group is currently generating significant cash flows from its operational projects, the construction and acquisition of additional projects will require significant external funding. Failure to obtain financing on a timely basis could cause the Group to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no

assurance that debt and/or equity financing, or cash generated from operations, will be available or sufficient to meet these requirements or for other corporate purposes, or, if debt and/or equity financing is available, that it will be available on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material impact on the Group's business model, financial position and performance.

#### **MARKET RISKS**

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

#### **COST UNCERTAINTY**

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

#### **NON-FINANCIAL RISKS**

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

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

##### **GOVERNMENTAL REGULATION**

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

##### **COMPETITION**

The renewable energy industry is extremely competitive and many of the Group's competitors have greater financial and operational resources. There is no assurance that the Group will be able to acquire new renewable energy projects in order to grow in accordance with the Company's strategy. The Group also competes in securing the equipment necessary for the construction of solar energy projects.

Equipment and other materials necessary to construct production and transmission facilities may be in short supply, causing project delays or cost fluctuations.

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

The Group is not exposed to significant electricity market price risk as the revenues generated by its operating solar power projects in Japan were secured by long-term contracts based on a FiT.

#### **INTERNATIONAL OPERATIONS**

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

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

The ability of the Company to conduct its operations is highly dependent on the availability of skilled workers. The labor force in many parts of the world is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group. The Group's business model relies on qualified and experienced contractors to design, construct and operate its renewable energy projects. There is a risk that such contractors are not available or that the price for their services impairs the economic viability of the Group's projects.

## ETRION OUTLOOK AND GUIDANCE

Etrion prepares and updates on a quarterly basis forecasts for project level production, revenues and EBITDA information regarding its operational and fully-funded solar parks in Japan. The purpose of these forecasts is to provide investors with management's view on the expected performance of the Company's solar assets over the coming fiscal year. Readers are advised to not place undue reliance on this forecasted financial and operational information. Etrion's consolidated project-level forecast for 2018 is in the following ranges:

<b>2018 Guidance</b> USD million otherwise stated	<b>Low end</b>	<b>High end</b>
Energy generation (MWh)	37,517	41,466
Revenue	12.9	14.3
Project-level EBITDA	8.7	9.6

(1) Forecasts are presented on a net basis (Net to Etrion's interest)

### JAPAN

Revenue, project-level EBITDA and production forecast for our Japanese business, incorporated in the above consolidated guidance, are based on Etrion's ownership over the 57 MW operational and under construction Japanese portfolio comprising the Mito, Shizukuishi, Misawa and Komatsu solar parks, located in central and northern Japan, respectively, and are incorporated on a net basis. These projects benefit from 20-year PPAs with the Japanese public utilities, under which they will receive between ¥32 and ¥40 per kWh produced (approximately between US\$0.27 and US\$0.34 per kWh). Komatsu construction-related work began in October 2016, and the solar project is expected to be fully operational by the end of the second quarter of 2018.

For the purpose of this guidance and in accordance with Etrion's accounting policies, production and associated revenue and EBITDA will be recognized from the date every individual solar site is commissioned and starts generating economic benefits. In Japan, revenues are received in Japanese Yen and are translated using the ¥/\$ exchange rate of the corresponding period. Consequently, revenues expressed in \$ may fluctuate according to exchange rate variations.

#### Basis of preparation of the forecasts

The revenue forecasts have been prepared on a basis consistent with the accounting policies that are expected to be used in the Group's consolidated financial statements for the year to be then ended. These policies are consistent with those set out in the accounting policies in the Group's consolidated financial statements for the years ended December 31, 2017 and 2016. The project-level EBITDA forecasts have been prepared using a non-IFRS widely accepted methodology which consist of earnings before interest, tax, depreciation and amortization and is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and

certain accounting policy decisions. Electricity production forecasts have been prepared using the installed production capacity of the solar power plants, the guaranteed availability and irradiation levels based on historical data from the various solar park locations. Revenue and project-level EBITDA forecasts have been prepared using the project currency and translated, where applicable, to US dollars using the 2017 average of ¥/US\$ 1: 112.16

### PREVIOUS FORECASTS

On March 13, 2017, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2017. Given the decision to deconsolidate Salvador as of September 30, 2017 (page 9), Etrion was required to revise the 2017 revenue and project-level EBITDA forecast based on the Company's Japanese assets only. Actual results in comparison with the revised guidance with primary focus on the Japanese assets are shown in the table below:

<b>Net to Etrion's interest</b> USD million otherwise stated	<b>Low end guidance</b>	<b>Actual results</b>	<b>High end guidance</b>
Energy generation (MWh)	33,500	36,018	35,200
Revenue	11.5	12.7	12.7
Project-level EBITDA	7.8	9.2	8.6

Japanese production, revenue and project-level EBITDA in 2017 met or exceeded the high end of the revised guidance provided on November 13, 2017. The performance of the operating solar assets in Japan during 2017 were exceptional and this was reflected in production being 2.3% above the high end and revenues being at the high end of the guidance, respectively. EBITDA in 2017 was well above the high end due to the combination of higher than expected production, earlier connection of the Misawa plant and optimization of the contingency budgets. In comparison with the original guidance released on March 13, 2017, actual results were below the low end range due to the deconsolidation of the Chilean subsidiary on September 30, 2017 as discussed on page 10.

## DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan); expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; expectations relating to grid parity. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; risks associated with the regulatory frameworks in the jurisdictions in which the Company operates, or expects to operate, including the possibility of changes thereto; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; uncertainties with respect to the impact of the changes to the Japanese FiT regime that came into effect in 2015; the risk that the Company's solar projects may not produce electricity or generate revenues and earnings at the levels expected; the risk that the Company may not be able to renegotiate certain of its O&M contracts as anticipated; the risk that the construction or operating costs of the Company's projects may be higher than anticipated; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FiT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; and other factors, many of which are beyond the Group's control.

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

## **ADDITIONAL INFORMATION**

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