PRESS RELEASE

# Etrion Releases 2016 Results

---

March 13, 2017, Miami, Florida, United States – Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries on a consolidated basis, the "Group") (TSX: ETX) (OMX: ETX), a solar independent power producer, today released its annual consolidated financial statements, related management's discussion and analysis ("MD&A") and annual information form ("AIF") for the year ended December 31, 2016. Etrion also provides an update on its business strategy and announces 2017 guidance for project level revenues, earnings before interest, taxes, depreciation and amortization ("EBITDA") and electricity production regarding its operational solar parks in Japan and Chile and fully-funded project under construction in Japan.

**Management Comments**

Marco A. Northland, the Company's Chief Executive Officer, commented, "We are all about Japan. Great market, excellent opportunities and very attractive economics. Our decision to double down in this market is paying off. We hired a top senior Hitachi executive as managing director and assigned all corporate resources to Japan. I am also very pleased with our partnership with Hitachi and local financial institutions who continue to play an instrumental role in our continued success. To fund our growth and strengthen our balance sheet, we took advantage of an increased market appetite in Europe and divested from Italy. We received an initial payment of € 78 million for the sale and potential earn-outs of up to €24 million.  Part of the proceeds were used to reduce our corporate debt by 50%. We have exited 2016 with a very strong cash balance, putting us in a great position to accelerate our growth in Japan.".

**Business Strategy**

- Management believes Japan presents the highest opportunity to create value in a low risk jurisdiction environment. As part of this strategy, the Company successfully completed the divesture of its Italian assets to fund the growth in Japan and reduce its corporate debt.

**Operational Highlights**

- <u>Italian assets sale and contingent payment potential:</u> In December 2016, the Group completed the sale of its 60 MW Italian solar portfolio to EF Solare Italia, a joint venture owned equally by Enel Green Power S.p.A. and Fondo Italiano per le Infrastrutture. With the closing of this transaction, the Group has fully exited from its business in Italy. The initial cash consideration for the transaction was €78.1 million with potential additional cash earn-out payments of up to €24 million depending on the outcome of certain legal, tax and regulatory proceedings. Nearly half of the earn-out is related to certain tax credits (Tremonti Ambiente).  The Group received the first favorable resolution and payment for a small portion of our claim; this outcome has significantly increased the chances to obtain a positive outcome for most of the balance of this earn out within this year. Until the date of disposal, the Italian assets produced approximately 98.8 Gigawatt hours ("GWh") from the Company's disposed solar portfolio comprising 17 solar power plants.
- <u>Japan construction update:</u> On October 20, 2016, the Company's 24.7 megawatt ("MW") Shizukuishi solar project in northern Japan achieved full commercial operation and began collecting revenues from electricity production. The Company is progressing on the construction of the 9.5 MW Aomori project and on February, 2017, the first two sites, totaling 5.3 MW, were connected to the electricity grid and started producing revenues.
- <u>Japan project development:</u> Successfully completed the development phase of the 9.5 MW Aomori and 13.2 MW Komatsu solar power projects, both now under construction. In addition, significant advances were made in the development of the Kumamoto project.

- Production Japan: The Company produced approximately 15.2 GWh from the Company's 34 MW portfolio comprising 6 solar power plants sites in Japan (2015: 5.5 GWh) representing an overall production increase of 176% year-over-year.
- Production Chile: The Company produced approximately 159.4 GWh from the Company's 70 MW solar power plant in Chile (2015: 157.0 GWh) representing an overall production increase of 1.5% year-over-year.
- Corporate: Etrion recently announced the appointment of Toshihiro Awata as Managing Director for Japan, further demonstrating the commitment of the Company to accelerate its growth in Japan.

**Financial Highlights**

- Revenue from continuing operations: Generated revenues of US$15.2 million (2015: US$10.4 million) during the year ended December 31, 2016, a 46% increase over 2015, from the Company's 104 MW portfolio comprising two solar power plants in Japan and one solar plant in Chile.
- Solar segments EBITDA: Generated EBITDA from its solar segments in Japan and Chile of US$6.9 million (2015: US$4.9 million), an approximately 43% increase over 2015.
- Net results from continuing operations: Generated a net loss of US$110.4 million (2015: net loss of US$27.5 million) mainly due to the recognition of an impairment expense of US$75.7 million and a net deferred tax write-off of US$6.9 million, both associated with the 70 MW Project Salvador in Chile, partially offset by positive performance and an increase in production from Project Salvador and the solar power plants in Japan.
- Results from discontinued operations: Generated a gain on the sale of its Italian assets of $61.3 million. After transactions costs of $3.1 million, the Group increased its cash position by approximately US$79.5 million as a result of this sale. Including net income of US$7.6 million until the disposal dates, profit from discontinued operation amounted to US$35.9 million.
- Corporate bond: On December 19, 2016, the Company repurchased for cash €40 million principal amount of its outstanding corporate bonds at a price of 100% of par value plus accrued unpaid interest.
- Financing Japan: During 2016 the Company reached financial close for the new two solar projects in Japan, securing approximately US$61 million project finance facilities with Sumitomo Mitsui Trust Bank to finance the construction of the 9.5 MW Aomori project and the 13.2 MW Komatsu project.
- Cash and Working Capital: Closed the year ended December 31, 2016 with a cash balance of US$61.2 million, of which US$45.3 million is unrestricted (December 2015: US$52.5 million of which US$17.6 was unrestricted) and positive working capital of US$45.3 million (December 2015: US$1.5 million) mainly due to an increase in cash and a reduction in current debt following the Italian assets sale transaction.

**Results**

During 2016, Etrion reported a net profit from the Italian discontinued operations of US$35.9 million, compared to a net profit of US$8.7 million in 2015. In addition, Etrion reported a net loss from its continuing operations of US$110.4 million compared to a net loss of US$27.5 million during 2015, mainly due to non-cash total impairment charges of US$82.6 million from the Chilean solar project. Total net loss of the year was US$74.4 million compared to a net loss of US$18.7 million during 2015.

**2017 Guidance (1)**

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. 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 2017 is in the following ranges:

| US$ million otherwise stated | Low end | High end |
|---|---|---|
| Energy generation (GWh) | 146 | 154 |
| Revenue | 17 | 19 |
| Project-level EBITDA | 9 | 10 |

(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 of the Japanese portfolio comprising 43 MW from the Mito, Shizukuishi and Aomori solar parks, located in central and northern Japan, respectively, and are incorporated on a net basis. These projects benefit from 20-year power purchase agreements ("PPAs") with the Japanese public utilities, Tokyo Electric Power Company and, in the case of Shizukuishi and Aomori, the Tohoku Electric Power utility, under which they will receive between ¥36 and ¥40 per kWh produced (approximately between US$0.31 and US$0.34 per kWh). Aomori construction-related work began in October 2016, and the solar project is expected to be fully connected to the grid in the third quarter of 2017. For the purpose of this guidance and in accordance with Etrion's accounting policies, production and associated revenue and EBITDA will be recognized from the date every individual solar site is commissioned and starts generating economic benefits. In Japan, revenues are received in Japanese yen and are translated using the ¥/US$ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according to exchange rate variations.

**CHILE**

Revenue, project-level EBITDA and production forecast for our Chilean asset, incorporated in the above consolidated guidance, are based on Etrion's 70%-owned, 70 MW operational solar park, Project Salvador, located in northern Chile, and are incorporated on a net basis. Electricity production in Chile assumes curtailments of 15% of the total production capacity of the Project Salvador power plant. Revenue has been calculated using the PPA price of US$0.10 per kWh for the first 70 GWh of production and a spot price forecast prepared by independent consultants for the remaining electricity production of Project Salvador. Chilean project-level EBITDA is net of asset management service fees that are recharged to the operating project as part of operational expenses. In Chile, revenues are calculated with reference to the US dollar, which is also the reporting currency of the Group and therefore revenues forecast are not subject to exchange rate fluctuations.

**Project economics forecasts**

Etrion has forecasted revenue, EBITDA and electricity production at the project level for the fiscal year ending December 31, 2017 based on the assumptions set out below. These forecasts include a financial measure not defined under IFRS, specifically EBITDA. Non-IFRS measures have no standardized meaning prescribed under IFRS and therefore such measures may not be comparable with those used by other companies. Such forecasted financial information provides a financial outlook on the basis and for the year described above, and this information may not be appropriate for any other purposes.

**Earnings Call**

A conference call webcast to present the Company's fourth quarter and full year 2016 results will be held on Monday, March 13, 2017, at 9:00 a.m. Eastern Daylight Time (EDT) / 2:00 p.m. Central European Time (CET).

Dial-in details:
North America: +1-647-788-4919 / Toll Free: +1-877-291-4570 / Sweden Toll Free: 02-079-4343

Webcast:
A webcast will be available at https://www.webcaster4.com/Webcast/Page/1297/19080

The earnings call presentation and the Company's consolidated financial statements for the year ended December 31, 2016, as well as the related documents, will be available on the Company's website (www.etrion.com).

A replay of the telephone conference will be available until April 4, 2017.

Replay dial-in details:
North America: +1-416-621-4642 / Toll Free: +1-800-585-8367
Pass code for replay: 42900281

**About Etrion**

Etrion Corporation is an independent power producer that develops, builds, owns and operates utility-scale solar power generation plants. The Company owns 109 MW of installed solar capacity in Chile and Japan. Etrion has 17 MW of solar projects under construction in Japan and is also actively developing additional greenfield solar power projects in Japan. Etrion is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm Exchange in Sweden under ticker symbol "ETX". Etrion's largest shareholder is the Lundin family, which owns approximately 24% of the Company's shares directly and through various trusts.

For additional information, please visit the Company's website at www.etrion.com or contact:

Paul Rapisarda – Chief Financial Officer
Telephone: +41 (22) 715 20 90 or + (786) 636 64 49

*Note: The capacity of power plants in this release is described in approximate megawatts on a direct current ("DC") basis, also referred to as megawatt-peak ("MWp").*

*Etrion discloses the information provided herein pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication in Sweden at 08:05 Central European Time on March 13, 2017.*

*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, 2016 and 2015. 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 as of February 27, 2017 of ¥/US$ 1:112.*

*Assumptions for the forecasts:*
*The forecasts included herein also reflect assumptions with respect to certain factors outside the influence or control of management:*

- *There will be no major event or other circumstances which would cause a significant delay in the construction, completion and connection to the grid of new solar power plants.*
- *There will be no material change in the current management team, ownership of and control over the project level companies.*
- *There will be no material change in legislation or regulatory requirements impacting the Group's operations or its accounting policies.*
- *There will be no material differences between the actual or past recent weather and irradiation conditions and those anticipated or projected by management.*
- *There will be no material changes to general trading and economic conditions and no downturn in economic activity in Chile or in Japan, in each case, from that which is currently prevailing and/or anticipated by management which would cause a material change in levels of energy production and demand.*
- *There will be no major or international natural disasters, outbreaks of hostilities, terrorist attacks or other circumstances which would cause a material change in levels of energy production and demand.*
- *There will be no business interruptions that materially affect the Group, its major suppliers or its major customers.*

- *There will be no material change in interest rates from those currently prevailing, hedged and/or anticipated by management.*
- *There will be no material changes to the prices of energy electricity forecasted by the Group's projects.*

*Factors within the influence or control of management:*

- *There will be no loss of revenue due to underperformance of the solar projects which will have a material impact on the forecast.*
- *There will be no acquisitions and disposals by the Group which will have a material impact on the forecast.*

*Non-IFRS Measures:*
*This press release includes a non-IFRS measures not defined under IFRS, specifically EBITDA. Non-IFRS measures have no standardized meaning prescribed under IFRS and therefore such measures may not be comparable with those used by other companies.*

*EBITDA 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. In addition, EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting policy decisions. Refer to Etrion's MD&A for the year ended December 31, 2016, for a reconciliation of EBITDA and adjusted operating cash flow reported during the period.*

*Forward-Looking Information:*
*This press release contains certain "forward-looking information". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to the possibility of the Company receiving additional consideration for the sale of its Italian assets, the Company's projects in Japan under construction and in development, growth opportunities in Japan and the Company's forecast production and financial results for 2017) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company as well as certain assumptions including, without limitation, the ability of the Company to execute on its projects in Japan under construction or in development on economic terms and in a timely manner, the ability of the Company to secure additional projects in Japan and the assumptions with respect to 2017 results set forth elsewhere in this press release. Forward-looking information is subject to a number of significant risks and uncertainties and other factors that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to, the risk that the conditions for payment of additional consideration by the purchaser of the Italian assets may not be satisfied, the risk that the Company may not be able to obtain all applicable permits for the development of projects in Japan and the associated project financing required for the development of such projects on economic terms, the risk of unforeseen delays in the development and construction of its projects under construction or in development, the risk that the Company may not be able to source additional projects in Japan and the risk that the Company's operational projects in Japan and Chile may not produce electricity or generate revenues and earnings in the amounts anticipated. Reference is also made to the risk factors disclosed under the heading "Risk factors" in the Company's AIF for the year ended December 31, 2016 which has been filed on SEDAR and is available under the Company's profile at www.sedar.com.*

*Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.*

2016

# ETRION CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2016

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

Etrion is a solar platform with a proven track record operating assets in Japan and Chile. The Company has gross installed solar capacity of 109 MW plus 17 MW under construction or pre-construction, 45 MW of backlog projects and 200 MW of additional pipeline.

## CONTENTS



### 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 10, 2017, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2016. Financial information is reported in United States dollars ("$" or "USD"). However, certain material financial information has also been reported in Japanese yen ("¥") and Euros ("€"), because the Company has its main business activities in Japan and had operations in Italy, which were fully divested in December 2016. The Company remains with an asset in Chile that is reported in $. Exchange rates for the relevant currencies of the Group with respect to the $ and the € are as follows:

| | €/¥ | $/¥ | €/$ |
|---|---|---|---|
| Closing rate at December 31, 2016 | 123.06 | 117.11 | 1.05 |
| Closing rate at December 31, 2015 | 131.68 | 120.41 | 1.09 |
| Twelve months average rate December 31, 2016 | 120.35 | 108.84 | 1.11 |
| Twelve months average rate December 31, 2015 | 134.27 | 121.03 | 1.11 |

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.

### 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 16). 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 16). 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 27.

## FOURTH QUARTER AND FULL YEAR 2016 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- In December 2016, the Group completed the sale of its 60 megawatts ("MW") Italian solar portfolio to EF Solare Italia, a joint venture owned equally by Enel Green Power S.p.A. and Fondo Italiano per le Infrastrutture "F2i". With the closing of this transaction, the Group has fully-exited from its business in Italy.
- The Company is fully refocusing its strategy and all of its financial and human resources to its operations and growth in Japan. Management believes Japan presents the highest opportunity to create value in a very low risk jurisdiction environment. As a result of this strategy, the Company has divested in full from Italy and has prioritized all of its development in Japan.
- Successfully completed the development of the 9.5 MW Aomori and 13.2 MW Komatsu solar power projects, both currently under construction with expected completion by the third quarter of 2017 and second quarter of 2018, respectively.
- Significantly advanced on the development of the Kumamoto project in Japan with a total capacity of 45 MW. Management expects to reach financial close for this backlog project towards the second half of 2017. The Company is also advancing the development of additional projects in Japan with a combined capacity of 200 MW.
- On October 20, 2016, the Group's 24.7 MW Shizukuishi solar project in northern Japan achieved its commercial operation date, became 100% operational and started collecting revenues from its electricity production.
- Produced 15.2 million kilowatt-hours ("kWh") of electricity from the Company's 87%-owned 34 MW portfolio comprising 6 solar power plant sites in Japan.
- Produced 159.4 million kWh of electricity from the Company's 70%-owned 70 MW Salvador solar power plant in Chile ("Project Salvador").
- Until the date of disposal, the Italian assets produced approximately 98.8 million KWh from the Company's disposed solar portfolio comprising 17 solar power plants.

### FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of $15.2 million and $7.0 million, respectively,
- Generated a gain on the sale of its Italian assets of $61.3 million. After transactions costs of $3.1 million, the Group increased its cash position by approximately US$79.6 million as a result of this sale.
- In December 2016, the Company repurchased for cash a nominal amount of €40 million corporate bond at a price of 100% of par value plus accrued unpaid interest. Following completion of the bond repurchase transaction, the Company has outstanding €40 million in nominal amount of corporate bonds and effectively reduced its annual interest cost by 50%.
- Closed 2016 with a cash balance of $61.2 million, $42.3 million of which was unrestricted and held at the parent level, and working capital of $45.3 million.
- During 2016 the Company reached financial close for the two new solar projects in Japan, securing approximately US$61 million non-recourse facilities with Sumitomo Mitsui Trust Bank ("SuMi Trust") to finance the construction of the 9.5 MW Aomori project and the 13.2 MW Komatsu project.

**FOURTH QUARTER AND FULL YEAR 2016 HIGHLIGHTS**

| | Three months ended | | Twelve months ended | |
|---|---|---|---|---|
| **USD thousands (unless otherwise stated)** | **Q4-16** | **Q4-15** | **2016** | **2015** |
| **Electricity production (MWh)[1]** | **54,660** | **46,090** | **174,617** | **162,517** |
| **Financial results** | | | | |
| Revenues | 4,979 | 1,790 | 15,233 | 10,416 |
| Gross profit (loss) | 361 | (2,345) | (3,566) | (4,473) |
| EBITDA | (713) | (2,230) | (415) | (4,006) |
| Adjusted EBITDA | (713) | (1,956) | (778) | (3,440) |
| Net loss from continuing operations | (8,037) | (6,174) | (110,378) | (27,464) |
| Profit from discontinued operations | 29,018 | 4,366 | 35,960 | 8,727 |
| Net gain (loss) | 20,981 | (1,808) | (74,418) | (18,737) |
| Adjusted net loss | (6,544) | (2,784) | (17,741) | (12,826) |
| **Cash flow** | | | | |
| Cash flow (used in) from operations | (6,152) | 73,405 | (3,257) | 15,407 |
| Adjusted operating cash flow | (1,072) | (2,823) | (495) | (4,076) |

| | December 31 2016 | December 31 2015 |
|---|---|---|
| **Balance sheet** | | |
| Total assets | 288,641 | 613,320 |
| Operational assets | 187,644 | 457,745 |
| Unrestricted cash at parent level | 42,286 | 17,582 |
| Restricted cash at project level | 18,888 | 34,917 |
| Working capital | 45,257 | 1,459 |
| Consolidated net debt on a cash basis | 225,700 | 489,029 |
| Corporate net debt (cash) | (98) | 69,514 |

# BUSINESS REVIEW

## BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns and operates 109 MW of installed solar capacity in Japan and Chile. Etrion has 17 MW of solar projects under construction and several projects at different stages of development in Japan.

The Company has three operational projects and two projects under construction in Japan. In addition, the Company has an operating project in Chile. All operational projects in Japan benefit from revenues generated from Feed-in-Tariff (“FiT”) power purchase agreements (“PPAs”), fixed price contracts with local utilities. The project in Chile benefits from a combination of a long term PPA contract and the spot/merchant market.

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

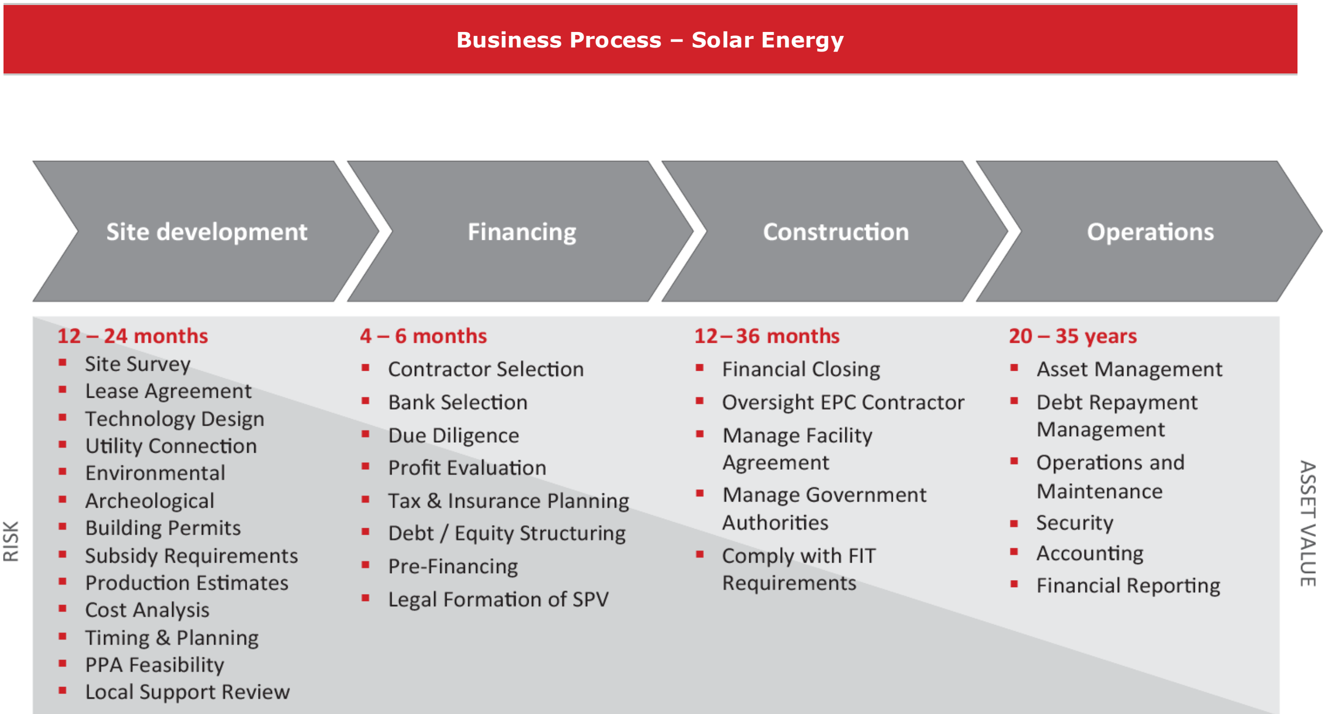
The Company’s business model focuses on six key drivers for success: (1) stable revenues; (2) low risk jurisdictions ; (3) strategic partnerships; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Oslo Stock Exchange in Norway. Etrion is based in Miami, Florida, United States with offices in Tokyo, Japan. As of the date of this MD&A, the Company has a total of 28 employees.

[1] 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 12 to 24 months. Where projects are developed from their infancy ("greenfield" projects), the development time will generally be close to 2 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 investments are made. In addition to evaluating all development risks, Etrion works extensively 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 contractors responsible for the engineering, procurement and construction ("EPC") 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. This process may be shortened when the projects are financed directly by the Company and then refinanced once construction and grid connection is complete.
- Phase 3 generally requires 12 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.




*PPA = power purchase agreement*
*SPV = special purpose vehicle (operational subsidiary)*
*EPC = engineering, procurement and construction*
*FIT = feed-in-tariff*

## OPERATIONS REVIEW

## OPERATIONS REVIEW – THREE MONTHS ENDED DECEMBER 31

| USD thousands (unless otherwise stated) | Q4-16 Chile | Q4-16 Japan | Q4-16 Total | Q4-15 Chile | Q4-15 Japan | Q4-15 Total |
|---|---|---|---|---|---|---|
| **Operational data** (1) | | | | | | |
| Electricity production (MWh) | 48,677 | 5,984 | **54,661** | 43,800 | 2,990 | **46,790** |
| **Operational performance** (1) | | | | | | |
| **Electricity revenue** | | | | | | |
| Feed-in-Tariff | - | 2,327 | **2,327** | - | 760 | **760** |
| Market price | 243 | - | **243** | 896 | - | **896** |
| PPAs | 2,152 | - | **2,152** | - | - | **-** |
| Other utility income | 257 | - | **257** | 134 | - | **134** |
| **Total revenues** | **2,652** | **2, 327** | **4,979** | **1,030** | **760** | **1,790** |
| **EBITDA** (2) | **923** | **1,944** | **2,867** | **(358)** | **421** | **63** |
| **EBITDA margin (%)** | **35%** | **84%** | **58%** | **(35%)** | **56%** | **4%** |
| **Net (loss) income** | **(3,582)** | **460** | **(3,122)** | **(1,468)** | **(146)** | **(1,614)** |

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

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

### OPERATING PERFORMANCE

#### Power Production

During Q4-16, the Group produced 19% more electricity compared to the same period in 2015, due primarily to the strong performance in Japan, additional production of the Shizukuishi project and better irradiation in Chile.

#### Japanese projects

The Japanese projects produced a total of approximately 6.0 million kWh of electricity during Q4-16, more than two times compared to the same period in 2015, due to the high irradiation, high performance ratio and the incremental production from the Shizukuishi solar power project connected in October 2016.

#### Chilean project

Project Salvador's production of approximately 48.7 million kWh of electricity during Q4-16 was 11% more than the comparable period in 2015 due to better solar irradiation and less curtailments.

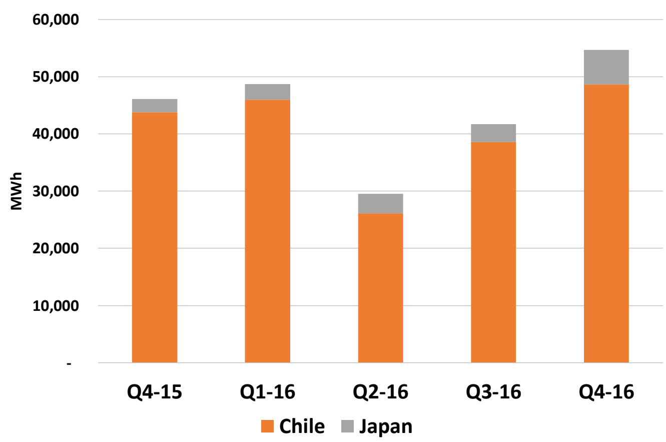
In general, Project Salvador's production is being affected by the electricity curtailments applied to all generators in the area near Project Salvador to balance supply and demand due to network bottlenecks. These bottlenecks are expected to be resolved by early 2018.

During Q4-16, approximately 21.8 million kWh were sold under the terms of a PPA agreement that started on January 1, 2016. Starting in July 2015, the Group also receives a capacity payment associated with its operation in Chile through its 70%-owned subsidiary, PV Salvador SpA ("Salvador"). The capacity payment is a monthly amount received by Salvador from other energy producers in the spot market and is calculated based on Project Salvador's production capacity, the maximum system demand in the peak period and a fixed tariff calculated by the Chilean authorities every six months (currently $9/kWh).

#### 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 of the Group is shown below, including the impact of seasonality. Etrion's current solar power plants in operation are capable of producing more than 236 million kWh on an annual basis.



### Electricity prices

The Group receives revenues denominated in USD and Japanese yen from its operating solar projects, depending on the market in which each project operates. Revenues come from three components: (1) the FiT system, whereby a premium constant price is received for each kWh of electricity produced through a 20-year 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, (2) the spot market price ("Market Price") received for each kWh of electricity produced in Chile, and (3) contracted PPAs within Chile, whereby a fixed price is received for each kWh of electricity sold under private electricity sale agreements.

### Japanese projects

In Japan, during Q4-16 the Group received the FiT of ¥40 per kWh applicable to Mito and the Shizukuishi solar park site operational since October 2016.

### Chilean project

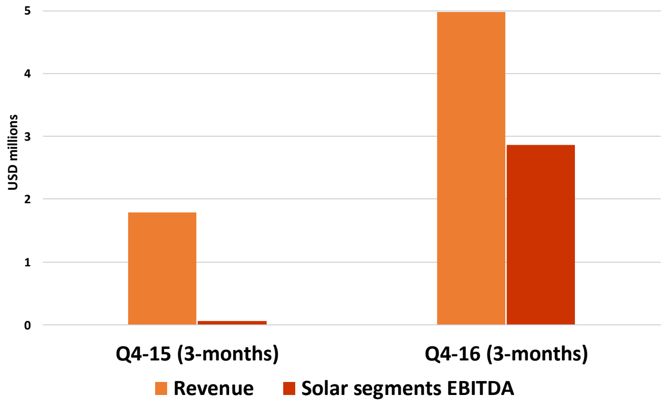
In Chile, during Q4-16 the average Market Price received by Project Salvador was $0.005 per kWh. The Market Price in the Sistema Interconectado Central ("SIC") electricity network in Chile was particularly low during Q4-16 due to a local grid congestion.

During 2016, the Group recognized an impairment charge of $75.7 million associated with the recoverable value of Salvador's operating assets as a result of the low projections for spot market prices of electricity in Chile.

Starting January 1, 2016, the Group also recognizes PPA revenues from Project Salvador. The PPA is for the first 70 gigawatt-hours ("GWh") per year of Project Salvador's production for 15 years with the electricity price denominated in USD (approximately $0.10 per kWh, CPI adjusted). In addition, according to the terms of the contract, Salvador pays the cost of electricity in the withdrawal node at the off-taker ("Nodal Costs"). During the three and twelve months ended December 31, 2016, the average Nodal Costs were approximately $0.029 per kWh and $0.046 per kWh and the price to Project Salvador net of Nodal Costs was $0.071 per kWh and $0.054 per kWh.

### Revenue and project-level EBITDA

During Q4-16 the Group's revenue and project-level EBITDA increased significantly compared to the same period in 2015, primarily due to the strong performance and incremental production in Japan, an overall production increase in Chile, and PPA revenues from Project Salvador, partially offset by lower Market Price affecting part of the electricity produced Chile.




Revenues from Japan are received in Japanese yen and have been translated to the Group's functional (€) and presentation ($) currencies using the corresponding Q4-16 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.

## OPERATIONS REVIEW – YEAR ENDED DECEMBER 31

| USD thousands (unless otherwise stated) | 2016 Chile | 2016 Japan | 2016 Total | 2015 Chile | 2015 Japan | 2015 Total |
|---|---|---|---|---|---|---|
| **Operational data** (1) | 159,397 | 15,221 | **174,618** | 157,018 | 5,499 | **162,517** |
| Electricity production (MWh) | | | | | | |
| **Operational performance** (1) | | | | | | |
| **Electricity revenue** | | | | | | |
| Feed-in-Tariff | - | 5,723 | **5,723** | - | 1,825 | **1,825** |
| Market price | 1,686 | - | **1,686** | 8,269 | - | **8,269** |
| PPAs | 6,904 | - | **6,904** | - | - | **-** |
| Other utility income | 920 | - | **920** | 322 | - | **322** |
| **Total revenues** | **9,510** | **5,723** | **15,233** | **8,591** | **1,825** | **10,416** |
| **EBITDA** (2) | **2,442** | **4,501** | **6,943** | **3,604** | **1,251** | **4,855** |
| **EBITDA margin (%)** | **26%** | **79%** | **46%** | **42%** | **69%** | **47%** |
| **Net (loss) income** | **(100,756)** | **981** | **(99,775)** | **(11,379)** | **109** | **(11,269)** |

(1) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries
(2) Refers to segment EBITDA as reconciled in the segment information section on page 15.

### OPERATING PERFORMANCE

**Power Production and Electricity Prices**

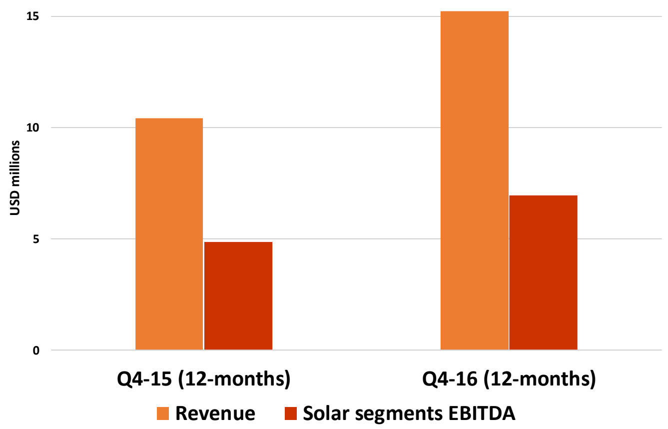
During 2016, the Group produced 7.4% more electricity compared to the same period of 2015, due primarily to the strong performance and increased capacity in Japan, as well as lower curtailments in Chile.

In Japan, the Group received the FiT of ¥40 per kWh applicable to Mito and to the Shizukuishi solar park site operational since October 2016.

In Chile, the average Market Price received by the Group in 2016 for Project Salvador was $0.011 per kWh. In addition, the Group's Chilean subsidiary benefited from the approximately $0.10 per kWh for the electricity sold under the terms of the PPA agreement, representing a significant contribution to the revenue generating capacity in Chile in comparison with 2015.

**Revenue and project-level EBITDA**

During 2016, the Group's revenue and project-level EBITDA increased by 46% and 43%, respectively, compared to the same period in 2015, primarily due to the strong performance and incremental production in Japan, an overall production increase in Chile, and PPA revenues from Project Salvador, partially offset by lower Market Price affecting part of the electricity produced Chile.



## 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 | 2015 |
|---|---|---|
| **Operational data** | | |
| Electricity production (MWh) | 98,765 | 102,433 |
| **Operational performance** | | |
| **Electricity revenue** | | |
| Feed-in-Tariff | 33,792 | 34,690 |
| Market price | 4,246 | 5,342 |
| **Total revenues** | **38,038** | **40,032** |
| **EBITDA** | **32,435** | **34,244** |
| **EBITDA margin (%)** | **85%** | **86%** |
| **Net income** | **7,622** | **8,727** |

### 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.

### Electricity Prices

During 2016 and 2015, the Group realized the weighted average FiT price of €0.30 per kWh applicable to all its previously owned solar projects in Italy. The average Italian Market Price decreased by approximately 20% as the Group received an average of €0.040 per kWh in 2016 compared to €0.050 per kWh during the same period in 2015, as a result of the combined effect of low demand and lower cost of fuel (mainly natural gas).

### 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) |
| **Cash received for the sale of shares** | **71,960** | **76,179** |
| Carrying amount of net assets sold | (15,232) | (16,105) |
| Goodwill at date of sale | (1,311) | (1,390) |
| Foreign exchange translation | - | 2,640 |
| **Gain on sale of subsidiaries** | **55,417** | **61,324** |

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 | 2015 |
|---|---|---|
| Revenue | 38,038 | 40,032 |
| Operating expenses | (4,145) | (5,450) |
| General and administrative expenses | (1,196) | (945) |
| Other (expense) income | (262) | 608 |
| **EBIDTA** | **32,435** | **34,245** |
| Depreciation and amortization | (11,551) | (13,158) |
| Finance income | 739 | 103 |
| Finance costs | (12,515) | (20,866) |
| **Income before tax expense** | **9,108** | **324** |
| Net income tax (expense) recovery | (1,486) | 8,403 |
| **Net income after tax** | **7,622** | **8,727** |
| Gain on sale of subsidiaries | 61,324 | - |
| Accumulated hedging losses | (29,884) | - |
| Transaction costs | (3,102) | - |
| **Profit from discontinued operation** | **35,960** | **8,727** |
| | | |
| **Cash flow from discontinued operation** | | |
| Net cash inflow from operating activities | 27,485 | 6,448 |
| Net cash inflow from investing activities | 1,035 | - |
| Net cash outflow from financing activities | (22,386) | (28,235) |
| **Net increase in cash** | **6,134** | **(21,797)** |

## OPERATING PROJECTS - JAPAN

### Mito

As of the date of this MD&A, the remaining PPA contract life of Mito 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 |
|---|---|---|---|---|---|
| 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 |
| **Total** | | **5** | **9.3** | | |

Mito's solar power sites in Japan are capable of producing more than 10.5 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 20 years. The Group's 87%-owned operating solar power project in Japan is shown below:


| Project | Region | Sites | Gross MW | Technology | Expected Connection date |
|---|---|---|---|---|---|
| Shizukuishi | Iwate | 1 | 24.7 | Fixed-tilt | Oct-2016 |
| **Total** | | **1** | **24.7** | | |

Shizukuishi' s solar power plant in Japan is capable of producing approximately 25.6 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 will connect through TOHOKU. 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).

### OPERATING PROJECT - CHILE

As of the date of this MD&A, the remaining PPA contract life for approximately 35% of Project Salvador's electricity production is approximately 14 years. The Group's 70%-owned operating solar power project in Chile is shown below:


| Project | Region | Sites | Gross MW | Technology | Connection date |
|---|---|---|---|---|---|
| Salvador | Atacama | 1 | 70 | Single axis | Nov-14 |
| **Total** | | **1** | **70** | | |

Etrion's solar power plant in Chile is capable of producing more than 200 million kWh of electricity on an annual basis.

Project Salvador is located in the Atacama region of northern Chile and consists of one ground-mounted solar PV park with a total capacity of 70 MW. The solar park was built by SunPower using SunPower high-efficiency, single-axis tracker technology and ABB inverters. Project Salvador has an O&M contract with SunPower and approximately 65% of the electricity produced is currently sold on the spot market and delivered to the SIC electricity network. In May 2015, Project Salvador executed a long-term PPA with EE-ERNC-1. The PPA is for the first 70 GWh of Project Salvador's production for 15 years and started on January 1, 2016, with the electricity price denominated in USD (approximately $0.10 per KWh) and inflated according to the US Consumer Price Index ("CPI"). Etrion currently owns 70% of Project Salvador. Project Salvador was connected to the electricity grid on November 3, 2014, and reached full operational capacity on January 10, 2015.

## DEVELOPMENT ACTIVITIES

### PROJECTS UNDER CONSTRUCTION - JAPAN

Etrion is actively pursuing renewable energy projects in Japan, due to the attractive solar FiT program and low financing costs. Japan is one of the largest solar PV markets in the world with over 31 gigawatts ("GW") of installed capacity projected by the end of 2016. This is expected to reach 52 GW by the end of 2019.[2] Etrion is currently allocating substantitally all of its resources and management to further develop this market.

**Aomori**


| Project | Region | Sites | Gross MW | Technology | Expected Connection date |
|---|---|---|---|---|---|
| Aomori | Tohoku | 4 | 9.5 | Fixed-tilt | July-2017 |
| **Total** | | **4** | **9.5** | | |

Aomori is a 9.5 MW utility-scale solar photovoltaic power plant under construction, located in Misawa city in the Aomori prefecture of the Tohoku region in Japan. The project consists of four sites. Construction-related works began in July 2016, and the first two sites of the Aomori solar project totaling 5.3 MW were connected to the grid and started recognizing revenues as of the end of February 2017. The solar project is expected to be fully operational by the third quarter of 2017. The solar power plant is being built on 16.3 hectares of owned land, and the facilities will connect through Tohoku Electric Power utility. Each project site will enter 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) is being financed 85% with non-recourse project debt from SMTB with the remaining approximately 15% equity portion already funded by the Group, HHT and Tamagawa Holdings Co ("Tamagawa") based on their respective ownership interests of 60%, 10% and 30%, respectively. Aomori has entered into a long-term fixed price O&M agreement with

[2] Bloomberg New Energy Finance

HHT. Once operational, Aomori is expected to produce approximately 10.7 million kWh of solar electricity per year.

Etrion has charged the Aomori project with a net development fee of approximately ¥177 million ($1.7 million).

**Komatsu**


| Project | Region | Sites | Gross MW | Technology | Expected Connection date |
|---|---|---|---|---|---|
| Komatsu | Honsu | 1 | 13.2 | Fixed-tilt | July-2018 |
| **Total** | | **1** | **13.2** | | |

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 solar project is expected to be fully operational by 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 will 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. 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).

**PROJECTS UNDER DEVELOPMENT - JAPAN**

Etrion is reviewing a large pipeline of opportunities in different stages of development and is in different stages of negotiation with third parties. The most advanced project totaling 45 MW, listed in the table below as backlog, is expected to be shovel-ready within the next 6-9 months. 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. Etrion expects to own up to 85% in these projects, with HHT and/or local development partners owning the remainder.

| Project | Region | Sites | MW | Technology |
|---|---|---|---|---|
| Kumamoto | South | 1 | 45 | Fixed-tilt |
| **Total backlog** | | **1** | **45** | |
| Brownfield 1 | Central | 1 | 55 | Fixed-tilt |
| Brownfield 2 | Central | 1 | 45 | Fixed-tilt |
| Greenfield 1 | Central | 1 | 40 | Fixed-tilt |
| Other early stage | | | 60 | Fixed-tilt |
| **Total early stage** | | | **200** | |
| **Total pipeline** | | | **245** | |

**Japanese backlog**

Kumamoto is a 45 MW solar project in southern Japan with the FiT secured and the land contract signed by the developer and land onwer. Etrion has secured exclusivity with the developer and the grid impact studies are complete. The project is expected to be shovel-ready by the second half of 2017.

Kumamoto is at an advanced development stage and while the Company believes it has a high degree of probability to reach shovel-ready status, it may be replaced by other projects within the next 12 months in order to accelerate construction or improve project economics.

The Company is currently in discussions with EPC contractors and in ongoing optimization activitites to reduce civil and installation works. Therefore it is not providing at this time an updated estimated total project costs associated with the develpment and construction of the backlog project. Total project costs are expected to be financed with a minimum of 85% non-recourse project debt with the remaining equity portion to be funded by the Group and its Japanese partners.

Etrion also expects to charge this project with development fees that effectively reduce the Company's net equity contribution.

The equity needed to build 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 constuction.

**Early stage pipeline**

Japan Brownfield Project 1 is a 55 MW solar project in central Japan with FiT and land exclusivity secured. The project is going through a complex environment permitting process. The project is expected to be shovel-ready by 2018.

Japan Brownfield Project 2 is a 45 MW solar project in central Japan with FiT and land exclusivity secured. The project is going through the permitting process and PPA negotiations with the utility. The project is expected to be shovel-ready by the first half of 2018.

Japan Greenfield Project 1 is a 40 MW solar project in central Japan with land exclusivity secured. The FiT application for this project has been filed. The project is expected to be shovel-ready in 2018.

Etrion is also advancing on other several project under early stage negotiations for a minimum capacity of additional 60 MW.

**PROJECTS UNDER DEVELOPMENT - CHILE**

The Company has decided to stop any further development in Chile because it has concluded that current growth opportunties in Japan provide a much higher economic returns and lower market risk.

The Company's 72 MW of shovel-ready projects, consisting of three sites in the Antofagasta region in Chile (Aguas Blancas) have been abandoned. Capitalized development costs associated with these projects were fully impaired in 2015.

## 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 the second largest solar market. 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.

Japan has implemented an attractive 20-year FiT program of ¥40 per kWh for projects secured by March 31, 2013, ¥36 per kWh for projects secured by March 31, 2014, and ¥32 per kWh for projects secured by March 31, 2015. The FiT was changed to ¥29 for projects secured from April 2015, ¥27 from July 2015 and recently changed to ¥24 from April 2016.

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 3 years from 1 April 2017 (i.e. by 31 March 2020); most probably will result in reduced FiT payments periods after these three years time,

• 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.

Management believes Etrion's previously communicated joint development target with HHT of reaching 100 MW shovel-ready in Japan should not be affected by the changes to the Japanese FiT regime described above, nor will the projects in operation or under construction.

**CHILEAN MARKET**

The energy sector in Chile is largely liberalized and privatized, which enables energy producers to enter into US dollar-denominated bilateral agreements directly with industrial clients. Chile's energy demand had been severely affected by the downturn of the natural resources sector. On the supply side, Chile has experienced an explosive growth in renewable energy power generation over the past 2 years resulting in a dramatic drop in energy prices.

Despite the current drop in energy prices and reduced investments in the mining sector, the market fundamentals in the medium to long- term are expected to recover and remain attractive for solar due to its anticipated continued cost reduction history. Growth is expected to pick up once the mining sector rebounds, especially in the northern part of the country where more than 90% of the electricity consumption arises from industrial users.

## FINANCIAL REVIEW

## FINANCIAL RESULTS

### SELECTED FINANCIAL INFORMATION

During 2016, the Group's performance and results from continuing operations were positively impacted by the incremental production of electricity in Japan and new PPA revenues recognized in Chile. Therefore revenue and project-level EBITDA increased in comparison with 2015. Nevertheless, consolidated net results were negatively impacted by an impairment charge of $75.7 million associated with its solar assets, lower than expected Market Price and also due to higher than expected Nodal Costs, all from Project Salvador in Chile. Total net results in 2016 also include profits from the discontinued operation, including the $61.3 million gain on the disposal of the Italian subsidiaries. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

| | Three months ended | | Twelve months ended | |
|---|---|---|---|---|
| **USD thousands (except per share data)** | **Q4-16** | **Q4-15** | **Q4-16** | **Q4-15** |
| | | | | |
| **Revenue** | **4,979** | **1,790** | **15,233** | **10,416** |
| Gross profit (loss) | 361 | (2,345) | (3,566) | (4,473) |
| **Net income (loss)** | **29,981** | **(1,808)** | **(74,418)** | **(18,737)** |
| **Net income (loss) attributable to owners of the Company** | **30,070** | **3,021** | **(43,153)** | **(15,317)** |
| **Basic and diluted loss per share** | **$0.09** | **$0.01** | **$(0.24)** | **$(0.07)** |
| | | | | |
| **Net loss from continuing operations** | **(8,037)** | **(6,174)** | **(110,378)** | **(27,464)** |
| **Adjustments to net loss for:** | | | | |
| Net income tax expense | (196) | (3,925) | 7,450 | (5,770) |
| Depreciation and amortization | 2,519 | 2,849 | 10,957 | 10,269 |
| Impairment | - | - | 75,953 | 2,881 |
| Share-based payment expense | 180 | (159) | 442 | 496 |
| Net finance costs | 4,779 | 4,530 | 15,381 | 15,588 |
| Other income | (317) | 55 | (300) | (77) |
| Income tax paid | 40 | (125) | (1,172) | (289) |
| Changes in working capital | (5,120) | 76,353 | (1,590) | 19,772 |
| **Operating cash flow** | **(6,152)** | **73,405** | **(3,257)** | **15,407** |

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

| **USD thousands** | **December 31 2016** | **December 31 2015** |
|---|---|---|
| | | |
| Non-current assets | 214,290 | 531,377 |
| Current assets | 74,351 | 81,943 |
| **Total assets** | **288,641** | **613,320** |
| Non-current liabilities | 305,836 | 526,432 |
| Current liabilities | 29,094 | 80,484 |
| **Total liabilities** | **334,930** | **606,916** |
| **Net (liabilities) assets** | (46,289) | 6,404 |
| Working capital | 45,257 | 1,459 |
| Dividends declared | - | - |

## SEGMENT INFORMATION

During 2016, management considered whether the operating segment disclosures continued to be appropriate in light of the company's strategic plan and introduced certain changes in the composition of Etrion's reportable segments. Management now considers reportable segments from a geographical perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("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 interim consolidated financial statements. To ensure a consistent comparison to the new structure, the prior year segmental information has been represented.

### 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 | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Solar Chile | Solar Japan | Corporate | Total | Solar Chile | Solar Japan | Corporate | Total |
| **Revenue** | **2,652** | **2,327** | **-** | **4,979** | **1,030** | **760** | **-** | **1,790** |
| Operating expenses (Opex) | (1,708) | (444) | - | (2,151) | (1,215) | (147) | - | (1,362) |
| General and administrative (G&A) | (43) | (67) | (3,747) | (3,858) | (173) | (190) | (2,240) | (2,603) |
| Other income (expenses) | 22 | 128 | 167 | 317 | - | (2) | (53) | (55) |
| **EBITDA** | **923** | **1,944** | **(3,580)** | **(713)** | **(358)** | **421** | **(2,293)** | **(2,230)** |
| Depreciation and amortization | (1,318) | (1,148) | (53) | (2,519) | (2,445) | (329) | (75) | (2,849) |
| Finance income | (53) | 145 | 1,156 | 1,248 | 28 | 2 | 1,257 | 1,287 |
| Finance costs | (3,134) | (478) | (2,637) | (6,249) | (3,361) | (225) | (2,721) | (6,307) |
| **(Loss) income before income tax** | **(3,582)** | **463** | **(5,114)** | **(8,233)** | **(6,136)** | **(131)** | **(3,832)** | **(10,099)** |
| Income tax (expense) recovery | - | (3) | 198 | 195 | 4,668 | (15) | (728) | 3,925 |
| **Net (loss) income for the period** | **(3,582)** | **460** | **(4,916)** | **(8,037)** | **(1,468)** | **(146)** | **(4,560)** | **(6,174)** |

**Solar Chile:** During Q4-16, the Group's Chilean solar segment generated revenues of $2.7 million and EBITDA of $0.9 million, representing a significant increase in comparison with the same period in 2015, mainly driven by the electricity sales under the PPA. The Group's Chilean segment generated a net loss of $3.6 million, in comparison with the net loss result of $1.5 million for the same period in 2015, mainly as a result of low spot market prices in Chile, only partially offset by management strategies to reduce the cost of operations. However, In comparison with the same period in 2015, total net loss before tax decreased as a result of the above mentioned positive effect of electricity sales under the PPA contract.

**Solar Japan:** During Q4-16, the Group's Japanese solar segment generated revenues of $2.3 million and EBITDA of $1.9 million, which represented a significant increase in comparison with the same period in 2015, driven by the additional production from the Shizukuishi solar project and production above expectations due to good irradiation and performance. In addition, the Group's Japanese segment generated a net income of $0.5 million, in comparison with the net loss result of $0.2 million for the same period in 2015.

**Corporate:** During Q4-16, the Group's corporate segment generated negative EBITDA of $3.6 million and a net loss of $5.3 million, respectively, mainly due to corporate general and administrative expenses and finance costs associated with the Company's corporate bond.

## SEGMENT INFORMATION TWELVE MONTHS ENDED DECEMBER 31

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Solar Chile | Solar Japan | Corporate | Total | Solar Chile | Solar Japan | Corporate | Total |
| **Revenue** | **9,510** | **5,723** | **-** | **15,233** | **8,591** | **1,825** | **-** | **10,416** |
| Operating expenses (Opex) | (6,896) | (1,162) | - | (8,058) | (4,639) | (308) | - | (4,947) |
| General and administrative (G&A) | (149) | (194) | (7,547) | (7,890) | (348) | (264) | (8,940) | (9,552) |
| Other income (expenses) | (23) | 134 | 189 | 300 | - | (2) | 79 | 77 |
| **EBITDA** | **2,442** | **4,501** | **(7,358)** | **(415)** | **3,604** | **1,251** | **(8,861)** | **(4,006)** |
| Impairment | (75,675) | - | (278) | (75,953) | - | - | (2,881) | (2,881) |
| Depreciation and amortization | (8,497) | (2,244) | (216) | (10,957) | (9,309) | (633) | (327) | (10,269) |
| Finance income | 223 | 164 | 5,725 | 6,112 | 684 | 23 | 5,425 | 6,132 |
| Finance costs | (12,395) | (1,181) | (8,139) | (21,715) | (13,155) | (397) | (8,658) | (22,210) |
| **(Loss) income before income tax** | **(93,902)** | **1,240** | **(10,266)** | **(102,928)** | **(18,176)** | **244** | **(15,302)** | **(33,234)** |
| Income tax (expense) recovery | (6,854) | (259) | (337) | (7,450) | 6,797 | (135) | (892) | 5,770 |
| **Net (loss) income for the year** | **(100,756)** | **981** | **(10,603)** | **(110,378)** | **(11,379)** | **109** | **(16,194)** | **(27,464)** |

**Solar Chile:** During 2016, the Group's Chilean solar segment generated revenues of $9.5 million and EBITDA of $2.4 million, which represented an increase of 11% and a decrease of 32%, respectively, in comparison with the same period in 2015. The increase in revenue is due to the electricity sales under the terms of the PPA, only partially offset by lower Market Price in Chile. The Group's Chilean segment generated a net loss of $100.8 million, in comparison with the net loss result of $11.4 million for the same period in 2015, mainly as a result of the impairment of $75.7 million associated with the recoverable value of the solar power plant and intangibles, recognized during the third quarter of 2016. Electricity sales under the terms of the PPA have positively contributed to reduce the impact of adverse market conditions, together with management strategies to reduce the cost of operations.

**Solar Japan:** During 2016, the Group's Japanese solar segment generated revenues of $5.7 million and EBITDA of $4.5 million, representing a significant increase in comparison with the same period in 2015, mainly driven by the increase in production following the connection of the Shizukuishi solar project and outstanding performance of the assets. The electricity production and performance in Japan during this period is not fully comparable with the same period in 2015 because Shizukuishi was operational only from the end of October 2016. However, the Japanese assets are performing above expectations both in terms of irradiation and performance. In addition, the Group's Japanese segment generated a net income of $1.0 million, in comparison with the net income result of $0.1 million for the same period in 2015.

**Corporate:** During 2016, the Group's corporate segment generated negative EBITDA of $7.4 million and a net loss of $10.6 million, mainly due to corporate general and administrative expenses and finance costs associated with the Company's corporate bond. The overall negative EBITDA in the corporate segment have reduced in comparison with the same period in 2015 due to reductions in general and administrative expenses.

## NON-GAAP PERFORMANCE MEASURES

### Reconciliation of adjusted net loss to net loss

| USD thousands | Three months ended Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| **Net loss** | **(8,037)** | **(6,174)** | **(110,378)** | **(27,464)** |
| **Adjustments for non-recurring items:** | | | | |
| General and administrative expenses | - | 274 | - | 566 |
| Net deferred tax write off | - | - | 6,854 | - |
| Impairment | - | - | 75,953 | 2,881 |
| RSUs expense reversal | - | - | (363) | - |
| **Adjustments for non-cash items:** | | | | |
| Depreciation and amortization | 2,519 | 2,849 | 10,957 | 10,269 |
| Fair value movements (derivative financial instruments) | (1,206) | 426 | (1,206) | 426 |
| Share-based payment expense | 180 | (159) | 442 | 496 |
| **Adjusted net loss** | **(6,544)** | **(2,784)** | **(17,741)** | **(12,826)** |

### Reconciliation of adjusted operating cash flows to operating cash flows

| USD thousands | Three months ended Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| **Operating cash flow** | **(6,152)** | **73,405** | **(3,257)** | **15,407** |
| - Changes in working capital | 5,120 | (76,353) | 1,590 | (19,772) |
| - Income tax paid | (40) | 125 | 1,172 | 289 |
| **Adjusted operating cash flow** | **(1,072)** | **(2,823)** | **(495)** | **(4,076)** |

### Reconciliation of Solar segments Adjusted EBITDA to EBITDA

| USD thousands | Three months ended Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| **Net loss** | **(8,037)** | **(6,174)** | **(110,378)** | **(27,464)** |
| Adjustments for: | | | | |
| Net income tax expense | (196) | (3,925) | 7,450 | (5,770) |
| Net finance costs | 5,001 | 5,020 | 15,603 | 16,078 |
| Depreciation and amortization | 2,519 | 2,849 | 10,957 | 10,269 |
| Impairment | - | - | 75,953 | 2,881 |
| **EBITDA** | **(713)** | **(2,230)** | **(415)** | **(4,006)** |
| **Adjustments for non-recurring items:** | | | | |
| General and administrative expenses | - | 274 | - | 566 |
| RSUs expense reversal | - | - | (363) | - |
| **Adjusted EBITDA** | **(713)** | **(1,956)** | **(778)** | **(3,440)** |
| Corporate G&A expenses after non-recurring items | 3,580 | 2,019 | 7,721 | 8,295 |
| **Solar segments Adjusted EBITDA** | **2,867** | **63** | **6,943** | **4,855** |

## QUARTERLY SELECTED FINANCIAL INFORMATION

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

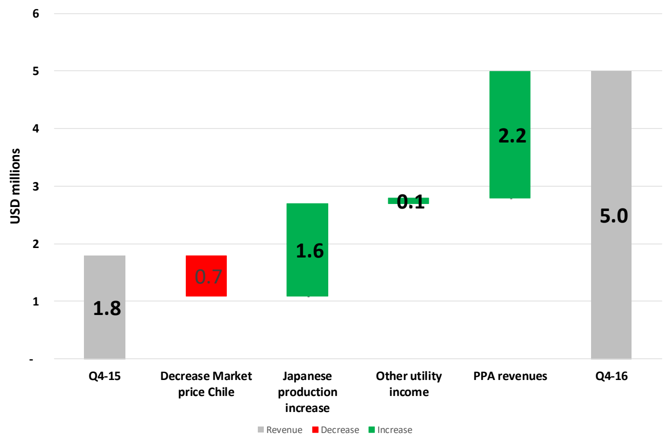
| USD thousands (except per share data) | Q4-16 | Q3-16 | Q2-16 | Q1-16 | Q4-15 | Q3-15 | Q2-15 | Q1-15 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 4,979 | 17,224 | 16,605 | 9,903 | 7,088 | 15,913 | 17,060 | 10,387 |
| Net (loss) income | 20,981 | (88,295) | 1,443 | (8,547) | (1,808) | (4,389) | (10,057) | (2,483) |
| Net gain (loss) income attributable to owners of Etrion | 30,070 | (61,131) | 2,438 | (7,588) | (1,340) | (3,136) | (9,227) | (1,614) |
| Basic and diluted earnings (loss) per share | 0.090 | (0.183) | 0.007 | (0.023) | (0.004) | (0.009) | (0.028) | (0.005) |

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.

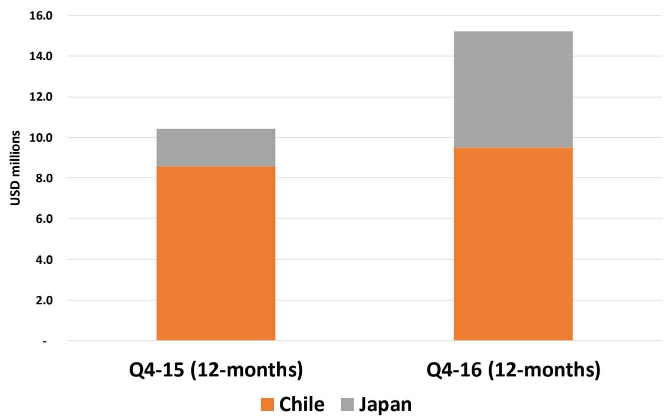
## REVENUE

| USD thousands | Three months ended | | Twelve months ended | |
|---|---|---|---|---|
| | Q4-16 | Q4-15 | Q4-16 | Q4-15 |
| FiT revenue | 2,327 | 760 | 5,723 | 1,825 |
| Market Price revenue | 243 | 896 | 1,686 | 8,269 |
| PPA revenue | 2,152 | - | 6,904 | - |
| Other utility income | 257 | 134 | 920 | 322 |
| **Total revenue** | **4,979** | **1,790** | **15,233** | **10,416** |

Revenues increased significantly by $3.2 million during Q4-16 compared to the same period of 2015, primarily due to an overall production increase in Chile, the performance in Japan and PPA revenues from Project Salvador, partially offset by lower Chilean Market Price. In Q4-16, the Group's revenue from Market Price represented 5% of total revenue. In addition, the Group also received $0.3 million of capacity payment associated with its operations in Chile. The capacity payment is a monthly fixed amount received by Salvador from other energy producers in the spot market. The reconciliation of total revenue in Q4-16 versus Q4-15 is as follows:




Revenues increased by $4.8 million (46.2%) during 2016, compared to the same period of 2015 mainly due the additional production and FiT revenues in Japan, partially offset by a decrease in Market Price in Chile.




## ADJUSTED CONSOLIDATED EBITDA

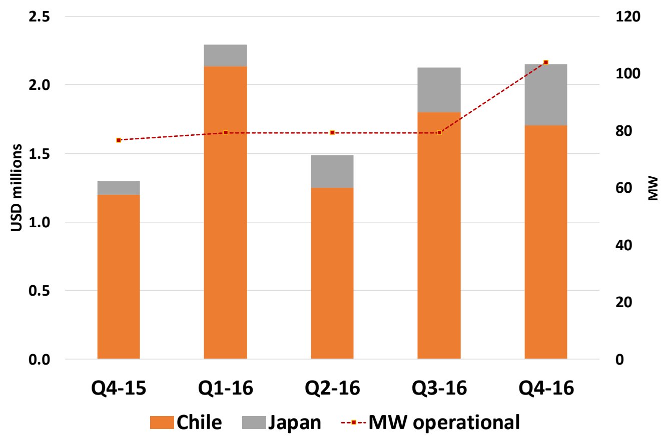
During Q4-16 and 2016 adjusted consolidated EBITDA decreased compared to the same period of 2015, mainly as a result of the negative EBITDA being contributed by the Group's corporate segment

## OPERATING EXPENSES

| USD thousands | hree months ended | | Twelve months ended | |
|---|---|---|---|---|
| | Q4-16 | Q4-15 | Q4-16 | Q4-15 |
| O&M costs | 431 | 581 | 2,266 | 2,079 |
| Purchased power | 623 | - | 3,114 | - |
| Personnel costs | 280 | 143 | 889 | 497 |
| D&A | 2,466 | 2,775 | 10,741 | 9,942 |
| Property tax | 58 | - | 231 | - |
| Insurance | 130 | 123 | 372 | 477 |
| Land lease | 210 | 44 | 353 | 105 |
| Transmission cost | 299 | 372 | 554 | 8,987 |
| Other expenses | 121 | 97 | 279 | 262 |
| **Total operating expenses** | **4,618** | **4,135** | **18,799** | **14,889** |

Operating expenses increased by $0.5 million (12%) and $3.9 million (26%) during the three and twelve months ended December 31, 2016, respectively, compared to the same period of 2015, primarily due to purchased power in Chile and the incremental depreciation expense and other operational costs associated with the Shizukuishi project. In order to satisfy the obligations under the terms of the PPA agreement, Salvador purchases and pays the cost of electricity in the withdrawal node at the off-taker. During the three and twelve months ended December 31, 2016, the average Nodal Costs were approximately $0.029 per kWh and $0.046 per kWh, respectively. These Nodal Costs are expected to drop significantly once the work underway to expand the transmission capacity in the north of the SIC network is completed; currently estimated by early 2018.

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 Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| Salaries and benefits | 2,016 | 670 | 3,690 | 3,241 |
| Pension costs | 164 | 170 | 164 | 170 |
| Board of directors fees | 39 | 129 | 151 | 270 |
| Share-based payments | 180 | (159) | 442 | 496 |
| Professional fees | 615 | 1,089 | 1,551 | 2,838 |
| Listing and marketing | 88 | 78 | 332 | 439 |
| D&A | 53 | 75 | 216 | 327 |
| Office lease | 76 | 83 | 384 | 396 |
| Office, travel and other | 679 | 544 | 1,176 | 1,702 |
| **Total general and admin** | **3,910** | **2,679** | **8,106** | **9,879** |

General and administrative expenses increased by $1.2 million (46%) and decreased by $1.7 million (18%) during the three and twelve months ended December 31, 2016, respectively, compared to the same period in 2015, primarily due to an increase in salaries, benefits incentive compensation and as a result of higher costs being capitalized and recharged to the Japanese development pipeline, and a general decrease in professional, listing and board fees, following management measures to optimize costs. In addition, during 2016, the Group recognized a reduction in the stock based compensation expense of $0.4 million as Etrion's management expected that none of the Company's restricted share units (”RSUs”) granted in July 2014 would reach the performance condition targets.

## IMPAIRMENT

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. Project Salvador was originally financed 30% with equity and 70% with non-recourse loans from the Overseas Private Investment Corporation (“OPIC”). Etrion's share of the total equity contribution amounted to $42.0 The recognition of the $75.7 million impairment expense has been calculated with reference to the unleveraged value of the solar assets of Project Salvador in accordance with IFRS and not with reference to Etrion's net economic interest in its subsidiary. The excess of the impairment charge relative to Etrion's total equity investment in Project Salvador is reflected in the negative equity of the subsidiary that has been fully consolidated at the Group level. However, it does not represent an additional loss on the Group's original investment in Project Salvador.

In addition, during 2016, the Company impaired capitalized development costs of $0.3 million (2015: $2.9 million) associated with development activities for other Chilean projects it is no longer pursuing.

## NET FINANCE COSTS

| USD thousands | Three months ended Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| Interest project loans | 3,709 | 3,567 | 12,286 | 12,297 |
| Interest corporate bond | 2,086 | 2,285 | 8,778 | 8,901 |
| Fair value movements | (1,613) | 72 | (1,206) | 426 |
| Foreign exchange | 779 | (1,180) | (4,414) | (4,893) |
| Other finance costs | 40 | 276 | 160 | (653) |
| **Net finance cost** | **5,001** | **5,020** | **15,603** | **16,078** |

During the fourth quarter of 2016, net finance costs remained flat compared to 2015 and during the twelve months ended December 31, 2016, net finance costs decreased by $0.5 million (3%) compared to 2015, primarily due to the recognition of income upon release of the carrying value of a written call option associated with Salvador. During Q4-16 and the twelve months ended December 31, 2016, the Group capitalized $0.1 million (2015: $0.1 million) and $0.8 million (2015: $0.9 million) of borrowing costs associated with credit facilities obtained to finance the construction of Shizukuishi and Aomori.

## INCOME TAX EXPENSE

| USD thousands | Three months ended Q4-16 | Q4-15 | Twelve months ended Q4-16 | Q4-15 |
|---|---|---|---|---|
| Current income tax expense | (176) | (645) | (1,046) | (964) |
| Deferred tax recovery | 372 | 4,570 | (6,404) | 6,734 |
| **Net income tax (expense) recovery** | **196** | **3,925** | **(7,450)** | **5,770** |

Net income tax expense increased significantly by $3.7 million and $13.2 million during the three and twelve months ended December 31, 2016, compared to the same period of 2015, primarily due to the derecognition of net deferred tax assets associated with Salvador, following the negative impact that long-term price projections have caused to future taxable profits for this solar project in Chile.

## FINANCIAL POSITION

### LIQUIDITY AND FINANCING

### CASH POSITION

| USD thousands | December 31 2016 | December 31 2015 |
|---|---|---|
| Cash and cash equivalents: | | |
| Unrestricted at parent level | 42,286 | 17,582 |
| Restricted at project level | 18,888 | 34,917 |
| **Total cash and cash equivalents** | **61,174** | **52,499** |

### UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at December 31, 2016, included unrestricted cash of $42.3 million (December 31, 2015: $17.6 million) held at the parent level. 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 2017 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 2016 | December 31 2015 |
|---|---|---|
| Italy | - | 6,585 |
| Chile | 4,122 | 19,474 |
| Japan | 14,765 | 8,858 |
| **Total restricted cash** | **18,888** | **34,917** |

The Group's cash and cash equivalents at December 31, 2016, included restricted cash held at the project level in Japan and Chile 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.

### WORKING CAPITAL

At December 31, 2016, the Group had working capital of $45.3 million (December 31, 2015: $1.5 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but are not expected to be settled in cash in the next 12 months 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 $46.4 million. (December 31, 2015: $4.7 million).

At December 31, 2016, the Group's contractual obligations for the next five years and thereafter are as follows:

| USD thousands | 2017 | 2018 | 2019 | 2020 | 2021 | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| EPC contract | 45,976 | 2,328 | - | - | - | - | 48,304 |
| Project loans | 25,201 | 21,444 | 19,123 | 19,660 | 20,494 | 287,056 | 392,978 |
| Corporate bond | 3,420 | 3,420 | 43,185 | - | - | - | 50,025 |
| O&M contracts | 2,406 | 2,724 | 2,503 | 3,273 | 3,243 | 45,956 | 60,105 |
| Operating leases | 1,322 | 1,161 | 992 | 992 | 992 | 15,052 | 20,511 |
| Trade payables | 10,671 | - | - | - | - | - | 10,671 |
| **Total** | **88,996** | **31,077** | **65,803** | **23,925** | **24,729** | **348,064** | **582,594** |

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 2016, the total equity attributable to owners of the Company decreased by $21.8 million from a net asset position of $7.0 million at December 31, 2015, to a net liability position of $14.8 million at December 31, 2016. This change was primarily due to the net loss reported by the Group during the period, unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments and the cumulative foreign exchange translation adjustment. Total equity attributable to owners of the Company at December 31, 2016, was negatively impacted by the cumulative fair value losses of $12.7 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, 2016, would have resulted in a net liability position of $2.1 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 2016 | December 31 2015 |
|---|---|---|---|---|
| Etrion SpA | 54 | December 31, 2029 | - | 222,990 |
| Helios ITA | 6 | December 31, 2028 | - | 26,250 |
| Salvador | 70 | September 1, 2033 | 148,900 | 153,231 |
| Shizukuishi | 25 | December 31, 2034 | 63,093 | 19,952 |
| Mito | 9 | December 31, 2034 | 22,199 | 23,578 |
| Aomori | 10 | December 31,2034 | 8,477 | - |
| **Total** | **174** | | **242,669** | **446,001** |

### Japanese projects

During 2016, the Company entered into new senior secured financing agreements, to finance the construction of the Aomori and Komatsu Japanese solar power projects for a total amount of ¥6,564 million ($56.1 million). In addition, Aomori and Komatsu entered into a VAT credit facility agreement of ¥542 million ($4.6 million) in order to finance the associated VAT capital disbursements. These VAT credit facilities have a term of two years and bear a variable interest rate plus a margin.

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, 2016, 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, 2016, and December 31, 2015.

During 2016, The Group's Japanese operating subsidiaries drew down a total of ¥5,670 million ($48.4 million) and ¥384 million ($3.3 million) under the senior financing agreements and under the VAT credit facility, respectively (2015: ¥3,929 million ($32.1 million) and ¥301 million ($2.5 million), respectively). At December 31, 2016, the combined undrawn gross amount under these Japanese credit facilities amounted to ¥6,075 million ($51.9 million) (2015: ¥4,724 million ($39.2 million).

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, 2016, was $101.7 million (2015: $62.8).

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

The non-recourse project loan obtained by the Group's Chilean subsidiary, 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 and by the PPA. The loan is accounted for using the amortized cost method based on the effective interest rate. At December 31, 2016 and 2015, there were no undrawn amounts under the OPIC senior credit facility.

The fair value of this credit facility equals its carrying amount, as the interest rates approximate the market rates. The fair values are based on cash flows discounted using an average rate of 7.1% (2015: 7.1%) and are within level 2 of the fair value hierarchy.

Salvador's financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Salvador's fixed assets pledged as collateral at December 31, 2016, was $87.9 million (2015: $166.2).

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

On March 9, 2017, Etrion signed an amendment to the existing senior finance agreement with OPIC, Salvador's lender, whereby all scheduled interest and principal payments between May 31, 2017 and May 31, 2018 will be deferred and due at the end of the period, if the debt is not restructured or period extended. The deferred interest and principal payments will accrue additional interest at the level of the existing interest rate, i.e. around 7% p.a. All defaults resulting from financial covenants and ratios calculations during this period will be waived.

### Italian projects

In December 2016, The Group completed the sale transaction of its Italian assets, transferred its obligations under the non-recourse loan agreements and derecognized the carrying value of these liabilities at the disposal date.

### Corporate borrowings

At December 31, 2016 the Group had €40 million of corporate bonds outstanding listed on the Oslo Stock Exchange (2015: € 80 million). 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.

The bonds were issued by the Company in April 2014 with an annual interest rate of 8.0% and a 5-year maturity. The carrying amount of the corporate bond as at December 31, 2016, including accrued interest net of transaction costs, was $42.1 million (December 31, 2015: $87.1 million). The corporate bond agreement requires the Company to maintain a minimum unrestricted cash balance of €3 million.

At December 31, 2016, and December 31, 2015, the Group was not in breach of any of the operational and financial covenants associated with its corporate borrowings.

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. At December 31, 2016 and December 31, 2015, no separate amount was recognized in relation to this call option.

### 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 2016 | December 31 2015 |
|---|---|---|
| **Total borrowings as per IFRS** | **284,777** | **533,060** |
| VAT facilities | (726) | (2,481) |
| Accrued interest | (1,548) | (2,231) |
| Transaction costs | 4,371 | 13,180 |
| **Adjusted borrowings** | **286,874** | **541,528** |
| Cash and cash equivalents | (61,174) | (52,499) |
| **Adjusted consolidated net debt** | **225,700** | **489,029** |
| **Adjusted corporate net debt** | **(98)** | **69,514** |

The Group's consolidated net debt decreased during 2016, in comparison with December 31, 2015, mainly due to the derecognition of the Italian net debt, the net increase in unrestricted cash following the sale of the Italian assets and the bond repurchase transaction, partially offset with additional funds drawn from the SMTB credit facility to fund the constructions costs of Shizukuishi and Aomori.

## OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (March 15, 2015: 334,094,324) and options to acquire 3,202,000 common shares of the Company (March 15, 2015: 3,527,000) issued and outstanding. The options expire at various dates between March 19, 2017, and April 28, 2018, with exercise prices ranging between Canadian dollar ("CAD$") CAD$0.24 and 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. The Company had 29,962,627 RSUs outstanding as of March 10, 2017.

## OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at December 31, 2016, and December 31, 2015.

## 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 the Japanese backlog until the second half of 2017.

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

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, the sale or partial sale of existing operating assets, particularly in those situations where the company believes arbitrage opportunities exist to sell assets to institutional investors with substantially lower return requirements than the Company's, additional corporate debt or equity financing and non-recourse project loans, as required. Changes in the estimated net equity needs compared to the previously disclosed values is due to changes in the USD versus Japanese yen exchange rate and timing of the investments.

During 2016, general and administrative expenses of $2.5 million (2015: $2.1 million) representing internally-generated costs ($2.0 million) and third-party costs ($0.5 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Japan.

### 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, 2016, the Group had a contractual obligation to acquire construction services in the amount of $48.3 million related to the construction of the 9.5 MW Aomori and 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 early 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, 2016, 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 addresses the classification, measurement and recognition of financial assets and liabilities, replacing IAS 39 Financial Instruments: Recognition and Measurement. Management expects IFRS 9 to affect the Companies' s hedge accounting processes and controls. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is in the process of evaluating the impact of the IFRS 9 on the financial statements and on the internal controls and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2018.

*IFRS 15, Revenue from contracts with customers:* This standard deals with revenue recognition and 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. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company's revenue generating activities are governed by power purchase agreements with defined standards terms and conditions widely used in the renewable energy industry. The Group continues with the preliminary assessment and full impact of IFRS 15 which are not expected to be material to the Company and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2017.

*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 below affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

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

The Group assesses goodwill for impairment on an annual basis and 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 earnings before interest, tax, depreciation and amortization ("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, 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 Project Salvador. 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, 2016, the Group recognized net financial liabilities of $9.5 million (2015: $13.2 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, 2016, the Group recognized $2.8 million (2015: $19.4 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. 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, 2016, 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 2016, the Group incurred general and administrative expenses of $14,000 (2015: $59,000), respectively, from Lundin Services BV and, at December 31, 2016, the Group had $1,000 (December 31, 2015: $2,000) 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 2016, the Group incurred general and administrative expenses of $27,000 (2015: $29,000), 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. As at December 31, 2016, the total corporate bonds held by the Lundin family amounted to €6.1 million.

During 2016, the Group recognized $0.9 million (2015: $0.9 million) of interest expense and $0.1 million (2015: $43,000) 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, Paul Rapisarda.

During 2016, the Group recognized $2.0 million (2015: $2.1 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, 2016, the Group had $0.5 million outstanding to key management personnel (December 31, 2015: $0.1 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.

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, 2016, 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 2016 | December 31 2015 |
|---|---|---|
| **Derivative financial assets:** | | |
| Interest rate swap contracts | | |
| Current portion | - | 702 |
| **Total derivative financial assets** | **-** | **702** |
| | | |
| **Derivative financial liabilities:** | | |
| Interest rate swap contracts | | |
| Current portion | 1,167 | 3,230 |
| Non-current portion | 8,347 | 10,639 |
| **Total derivative financial instruments** | **9,514** | **13,869** |

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in 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 curve and an appropriate discount factor.

During 2016, the Group recognized a net fair value loss of $3.1 million (2015: $0.9 million) net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts. The fair market value of the interest rate swap contracts at December 31, 2016, decreased to a liability position of $9.5 million (2015: $13.9 million) due to the disposal of the Italian assets and associated liabilities.

At December 31, 2016, and December 31, 2015 all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is transferred to finance income and 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, 2016, which has been filed on SEDAR and is available under Etrion's profile at 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**

Historically, the Group was not exposed to significant electricity market price risk as the majority of the revenues generated by its operating solar power projects in Italy were secured by long-term contracts based on a FiT. However, in Chile, the Company's subsidiary, Salvador, is exposed to market price risk associated with the electricity sold at the spot rate, which may fluctuate based on supply and demand and other conditions.

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

**INTERNATIONAL OPERATIONS**

Renewable energy development and production activities are subject to significant political and economic uncertainties that may adversely affect the Group's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future 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. 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 2017 is in the following ranges:

| 2017 Guidance<br>USD million otherwise stated | Low end | High end |
|---|---|---|
| Energy generation (MWh) | 146,765 | 154,291 |
| Revenue | 17.6 | 19.4 |
| Project-level EBITDA | 9.2 | 10.2 |

(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 43 MW operational and under construction Japanese portfolio comprising the Mito, Shizukuishi and Aomori 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 utility, Tokyo Electric Power Company and the Tohoku Electric Power utility, in the case of Shizukuishi and Aomori, under which they will receive between ¥36 and ¥40 per kWh produced (approximately between US$0.31 and US$0.34 per kWh). Aomori construction-related work began in October 2016, and the solar project is expected to be fully connected to the grid in the third quarter of 2017. For the purpose of this guidance and in accordance with Etrion's accounting policies, production and associated revenue and EBITDA will be recognized from the date every individual solar site is commissioned and starts generating economic benefits. In Japan, revenues are received in Japanese Yen and are translated using the ¥/$ exchange rate of the corresponding period. Consequently, revenues expressed in $ may fluctuate according to exchange rate variations.

**CHILE**

Revenue, project-level EBITDA and production forecast for our Chilean asset, incorporated in the above consolidated guidance, are based on Etrion's 70%-owned, 70 MW operational solar park, Project Salvador, located in northern Chile, and are incorporated on a net basis. Electricity production in Chile assumes curtailments of 15% of the total production capacity of the Project Salvador power plant. Revenue has been calculated using the PPA price of US$0.10 per kWh for the first 70 GWh of production and a spot price forecast prepared by independent consultants for the remaining electricity production of Project Salvador. Chilean project-level EBITDA is net of asset management service fees that are recharged to the operating project as part of operational expenses. In Chile, revenues are calculated with reference to the US dollar, which is also the reporting currency of the Group and therefore revenues forecast are not subject to exchange rate fluctuations.

**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, 2016 and 2015.

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 as of February 27, 2017 of ¥/US$ 1: 112.

**PREVIOUS FORECASTS**

On March 15, 2016, Etrion issued a forecast for the fiscal year ending December 31 2016. Actual results in comparison with the guidance are shown in the table below:

| **Net to Etrion's interest**<br>USD million otherwise stated | **Low end guidance** | **Actual results** | **High end guidance** |
|---|---|---|---|
| Energy generation (MWh) | 219,349 | 223,600 | 230,597 |
| Revenue | 50 | 50 | 52 |
| Project-level EBITDA | 39 | 38 | 41 |

Below is a description of the major variables that affected the 2016 revenue and EBITDA forecasts:

Japanese revenue and EBITDA in 2016 were lower in comparison with the values included in the guidance provided on March 15, 2016, mainly due to the three months delay in start recognizing revenues from the Shizukuishi solar project, which represented more than 30% of the guidance and was not compensated with the over performance of the Mito project. The overall decrease in revenue and EBITDA was partially offset by the approximately 11% depreciation of the ¥ in respect of the average exchange rate used for the preparation of the guidance.

The revenue and EBITDA in 2016 for Project Salvador were lower than originally expected given the unusual low spot market prices in the SIC network in Chile, due to a combination of local grid congestion, increasing solar and wind electricity generation, strong hydro electricity production due to wet winter conditions and low electricity demand because of depressed mining activity as a result of the collapse in commodity prices. In addition, higher than expected nodal costs also affected the EBITDA contribution from Project Salvador.

Italian revenue and EBITDA in 2016 were lower in comparison with the values included in the guidance provided on March 15, 2016, mainly due to the disposal of the Italian assets in December 2016. According to the Group's accounting policies, subsidiaries are deconsolidated from the date that control ceases and related revenues and expensed are recognized until the date of disposal.

## 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 and Chile); 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 expected key drivers for growth and expectations with respect to future mining growth in Chile. 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; uncertainties with respect to the timing of the expansion of the SIC electricity grid and the interconnection of the SIC and SING networks in Chile; 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. 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** or by visiting the Company's website at **www.etrion.com**.

2016

# ETRION CORPORATION

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2016

etrion

## CONTENTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Etrion Corporation

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Etrion Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of loss and other comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Etrion Corporation and its subsidiaries as at December 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Other matters**

The financial statements of Etrion Corporation for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on March 15, 2016.

As part of our audit of the 2016 consolidated financial statements, we also audited the adjustments described in Note 1 that were applied to amend the 2015 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of Etrion Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 consolidated financial statements taken as a whole.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 10, 2017

## CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS

FOR THE YEAR ENDED DECEMBER 31, 2016

*Expressed in US$'000*

| | Note | 2016 | 2015 (Restated)* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7 | 15,233 | 10,416 |
| Operating expenses | 8 | (18,799) | (14,889) |
| **Gross loss** | | **(3,566)** | **(4,473)** |
| General and administrative expenses | 9 | (8,106) | (9,879) |
| Impairment | 10 | (75,953) | (2,881) |
| Other income | | 300 | 77 |
| **Operating loss** | | **(87,325)** | **(17,156)** |
| Finance income | 11 | 6,112 | 6,132 |
| Finance costs | 11 | (21,715) | (22,210) |
| **Net finance costs** | | **(15,603)** | **(16,078)** |
| **Loss before income tax** | | **(102,928)** | **(33,234)** |
| Income tax (expense) recovery | 12 | (7,450) | 5,770 |
| **Loss for the year from continuing operations** | | **(110,378)** | **(27,464)** |
| Profit from discontinued operations, net of tax | 5 | 35,960 | 8,727 |
| **Net loss for the year** | | **(74,418)** | **(18,737)** |
| | | | |
| **Other comprehensive loss** | | | |
| **Items that may be reclassified to profit and loss:** | | | |
| (Loss) gain on currency translation | | (4,936) | 532 |
| Loss on cash flow hedges, net of tax | 22 | (3,062) | (869) |
| Loss on cash flow hedges, net of tax – discontinued operations | 5 | 29,146 | (8,494) |
| **Items that will not be reclassified to profit and loss:** | | | |
| Actuarial gain (loss) of post-employment benefits | 27 | 424 | (254) |
| **Total other comprehensive loss** | | **21,572** | **(9,085)** |
| | | | |
| **Total comprehensive loss for the year** | | **(52,846)** | **(27,822)** |
| | | | |
| **Loss attributable to:** | | | |
| Common shareholders | | (43,153) | (15,317) |
| Non-controlling interest | 14 | (31,265) | (3,420) |
| **Total comprehensive loss attributable to:** | | | |
| Common shareholders | | (21,016) | (24,309) |
| Non-controlling interest | 14 | (31,830) | (3,513) |
| **Total comprehensive loss attributable to owners of Etrion from:** | | | |
| Continuing operations | | (86,122) | (24,542) |
| Discontinued operations | 5 | 65,106 | 233 |
| | | | |
| **Basic and diluted loss per share from continuing operations** | 13 | **$(0.24)** | **$(0.07)** |
| **Basic and diluted loss per share from loss of the year** | 13 | **$(0.13)** | **$(0.05)** |

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

* See note 1 for details regarding the restatement as a result of discontinued operation.

# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2016

*Expressed in US$'000*

| | Note | December 31 2016 | December 31 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 189,599 | 480,973 |
| Intangible assets | 16 | 15,879 | 27,637 |
| Deferred income tax assets | 12 | 2,848 | 19,809 |
| Derivative financial instruments | | - | 702 |
| Trade and other receivables | 18 | 5,964 | 2,256 |
| **Total non-current assets** | | **214,290** | **531,377** |
| **Current assets** | | | |
| Trade and other receivables | 18 | 13,177 | 29,444 |
| Cash and cash equivalents (including restricted cash) | 19 | 61,174 | 52,499 |
| **Total current assets** | | **74,351** | **81,943** |
| | | | |
| **Total assets** | | **288,641** | **613,320** |
| | | | |
| **Equity** | | | |
| **Attributable to common shareholders** | | | |
| Share capital | 20 | 111,304 | 111,304 |
| Contributed surplus | | 11,989 | 11,547 |
| Other reserves | 22 | (17,340) | (37,782) |
| Accumulated deficit | | (120,768) | (78,039) |
| **Total attributable to common shareholders** | | **(14,815)** | **7,030** |
| | | | |
| **Non-controlling interest** | 14 | **(31,474)** | **(626)** |
| **Total equity** | | **(46,289)** | **6,404** |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 269,350 | 485,372 |
| Derivative financial instruments | 25 | 8,347 | 10,639 |
| Deferred income tax liabilities | 12 | - | 400 |
| Provisions | 26 | 5,618 | 7,226 |
| Other liabilities | 26 | 22,521 | 22,795 |
| **Total non-current liabilities** | | **305,836** | **526,432** |
| **Current liabilities** | | | |
| Trade and other payables | 28 | 10,671 | 27,379 |
| Current tax liabilities | 12 | 558 | 672 |
| Borrowings | 23 | 15,427 | 47,688 |
| Derivative financial instruments | 25 | 1,167 | 3,230 |
| Other liabilities | 26 | 1,271 | 1,515 |
| **Total current liabilities** | | **29,094** | **80,484** |
| **Total liabilities** | | **334,930** | **606,916** |
| | | | |
| **Total equity and liabilities** | | **288,641** | **613,320** |

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

Approved by the Board of Directors:

*"Marco Antonio Northland"*
Marco A. Northland, CEO and Director

*"Aksel Azrac"*
Aksel Azrac, Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

*Expressed in US$'000*

| | | Attributable to common shareholders | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Contributed surplus | Other reserves | Accumulated deficit | Total | Non-controlling interest | Total equity |
| **Balance at January 1, 2015** | | **111,300** | **11,048** | **(29,837)** | **(62,468)** | **30,043** | **2,887** | **32,930** |
| Comprehensive loss: | | | | | | | | |
| - Loss for the year | | - | - | - | (15,317) | (15,317) | (3,420) | (18,737) |
| - Other comprehensive loss: | | | | | | | | |
| Cash flow hedges (net of tax) | 22 | - | - | (8,876) | - | (8,876) | (114) | (8,990) |
| Currency translation | 22 | - | - | 511 | - | 511 | 21 | 532 |
| Actuarial loss on post-employment benefits | 27 | - | - | - | (254) | (254) | - | (254) |
| **Total comprehensive loss** | | **-** | **-** | **(8,365)** | **(15,571)** | **(23,936)** | **(3,513)** | **(27,449)** |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| - Stock options exercised | 20 | 4 | (2) | - | - | 2 | - | 2 |
| - Written call options | 22 | - | - | 420 | - | 420 | - | 420 |
| - Share-based payments | 21 | - | 501 | - | - | 501 | - | 501 |
| **Balance at December 31, 2015** | | **111,304** | **11,547** | **(37,782)** | **(78,039)** | **7,030** | **(626)** | **6,404** |
| Comprehensive loss: | | | | | | | | |
| - Loss for the year | | - | - | - | (43,153) | (43,153) | (31,265) | (74,418) |
| - Other comprehensive loss: | | | | | | | | |
| Cash flow hedges (net of tax) | 22 | - | - | 26,553 | - | 26,553 | (469) | 26,084 |
| Currency translation | 22 | - | - | (4,840) | - | (4,840) | (96) | (4,936) |
| Actuarial gain on post-employment benefits | 27 | - | - | - | 424 | 424 | - | 424 |
| **Total comprehensive loss** | | **-** | **-** | **21,713** | **(42,729)** | **(21,016)** | **(31,830)** | **(52,846)** |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| - Stock options exercised | 21 | - | (46) | - | - | (46) | - | (46) |
| - Written call options | 22 | - | - | (1,271) | - | (1,271) | - | (1,271) |
| - Share-based payments | 21 | - | 488 | - | - | 488 | - | 488 |
| - Capital contributions | 14 | - | - | - | - | - | 982 | 982 |
| **Balance at December 31, 2016** | | **111,304** | **11,989** | **(17,340)** | **(120,768)** | **(14,815)** | **(31,474)** | **(46,289)** |

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

## CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2016

*Expressed in US$'000*

| | Note | 2016 | 2015 (Restated)* |
|---|---|---|---|
| **Operating activities:** | | | |
| **Net loss for the year** | | **(74,418)** | **(18,737)** |
| Less: profit from discontinued operations, net of tax | | 35,960 | 8,727 |
| **Loss for the year from continuing operations** | | **(110,378)** | **(27,464)** |
| Adjustments for the following non-cash items: | | | |
| Depreciation and amortization | 8/9 | 10,957 | 10,269 |
| Impairment | | 75,953 | 2,881 |
| Current income tax expense | 12 | 1,046 | 964 |
| Deferred income tax expense | 12 | 6,404 | (6,734) |
| Share-based payment expense | 9/21 | 442 | 496 |
| Interest expense | 11 | 19,805 | 20,209 |
| Interest expense relating to interest rate swap contracts | 11 | 176 | - |
| Amortization of transaction costs | 11 | 1,083 | 989 |
| Foreign exchange gain | 11 | (4,414) | (4,893) |
| Fair value changes associated with derivative financial instruments | 11 | (1,206) | 427 |
| Other income | | (300) | (77) |
| Interest income | 11 | (63) | (1,143) |
| **Sub-total** | | **(495)** | **(4,076)** |
| Changes in working capital: | | | |
| Decrease (increase) in trade and other receivables | | (3,996) | 6,853 |
| Decrease in trade and other payables | | 2,406 | 12,919 |
| Income tax paid | | (1,172) | (289) |
| **Total cash flow from (used in) operating activities** | | **(3,257)** | **15,407** |
| | | | |
| **Investing activities:** | | | |
| Purchases of property, plant and equipment | | (46,934) | (29,317) |
| Purchases of intangible assets | 16 | (3,918) | (2,748) |
| Proceeds from sale of subsidiary | 5 | 76,179 | - |
| Proceeds from sale of financial asset | 5 | 6,473 | - |
| **Total cash flow from (used in) investing activities** | | **31,800** | **(32,065)** |
| | | | |
| **Financing activities:** | | | |
| Interest paid (including interest relating to interest rate swap contracts) | 23 | (19,217) | (18,980) |
| Interest income | | 63 | 1,143 |
| Repayment of borrowings | 23 | (51,163) | (26,400) |
| Proceeds from borrowings | 23 | 56,455 | 43,259 |
| Contributions from non-controlling interest | 26/14 | 2,350 | - |
| **Total cash flow (used in) from financing activities** | | **(11,512)** | **(978)** |
| | | | |
| **Net (decrease) increase in cash and cash equivalents** | | **17,031** | **(17,636)** |
| Effect of exchange rate changes on cash and cash equivalents | | (1,769) | (3,406) |
| **Cash and cash equivalents (including restricted cash) at the beginning of the year** | | | |
| From continuing operations | | **45,912** | **66,954** |
| **Cash and cash equivalents (including restricted cash) at the end of the year:** | | | |
| From continuing operations | | 61,174 | 45,912 |
| From discontinued operations | | - | 6,587 |
| **Cash and cash equivalents (including restricted cash) at the end of the year** | | **61,174** | **52,499** |

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

* See note 1 for details regarding the restatement as a result of discontinued operation.

## 1. GENERAL INFORMATION

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

Etrion is an independent power producer that develops, builds, owns and operates solar power generation plants. The Company owns 109.3 megawatts ("MW") of installed solar capacity in Japan and Chile, including the 5.3 MW from the Aomori solar park that achieved commercial operation in February 2017 (Note 33).

The Company has 17.4 MW of solar projects under construction as of the date of approval of this consolidated financial statements and 200 MW of greenfield solar power projects which it is pursuing in Japan.

In December 2016, the Group completed, in two phases, a sale transaction where its 60 MW portfolio of Italian assets was disposed in exchange for €78.1 million cash consideration (Note 5), not including certain contingent payments.

These consolidated financial statements are presented in United States ("US") Dollars ("$"), which is the Group's presentation currency. The Company's functional currency is the Euro ("€"). However, since the Group operates in Japan, had operations in Europe until the date of disposal of its Italian assets, and is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these consolidated financial statements has been presented in Japanese yen ("¥"), Euros and Canadian dollars ("CAD$"). The Company's Board of Directors approved these consolidated financial statements on March 10, 2017.

The Company has restated the disclosures for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the year ended December 31, 2016.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *(a) BASIS OF PREPARATION*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") that are effective or available for early adoption for accounting periods beginning on January 1, 2016. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities, such as derivative financial instruments and defined benefit plans that are measured at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

### *(b) GOING CONCERN*

The Company's consolidated financial statements for the year ended December 31, 2016, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future. At December 31, 2016, the Group had cash and cash equivalents of $61.2 million, $42.3 million of which was unrestricted and held at the parent level (2015: $52.5 million and $17.6 million, respectively) and working capital of $45.3 million (2015: $1.5 million). During 2016, the Group recognized a net loss of $74.4 million (2015: $18.7 million). The Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these consolidated financial statements. These consolidated financial statements for the year ended December 31, 2016, do not include the adjustments that would result if the Group were unable to continue as a going concern.

### *(c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES*

*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, 2016, 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 addresses the classification, measurement and recognition of financial assets and liabilities, replacing IAS 39 Financial Instruments: Recognition and Measurement.

Management expects IFRS 9 to affect the Companies' hedge accounting processes and controls. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is in the process of evaluating the impact of the IFRS 9 on the financial statements and on the internal controls and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2018.

*IFRS 15, Revenue from contracts with customers:* This standard deals with revenue recognition and 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. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company's revenue generating activities are governed by power purchase agreements with defined standards terms and conditions widely used in the renewable energy industry Note 7. The Group continues with the preliminary assessment and full impact of IFRS 15 which are not expected to be material to the Company and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2018.

*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 (Note 29) 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.

### *(d) BASIS OF CONSOLIDATION*

*Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control and are consolidated. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Non-controlling interests' share of total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Inter-company transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. The accounting policies used by subsidiaries, where different from those of the Group, are amended where necessary to ensure consistency with the accounting policies adopted by the Group.

*Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the Group's share of the carrying value of the net assets is recorded within equity. Gains or losses recognized on the disposal of non-controlling interests are also recorded in equity.

### *(e) SEGMENT REPORTING*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors is the Chief Operating Decision-Maker ("CODM") responsible for making strategic decisions, allocating resources and assessing the performance of the operating segments.

### *(f) FOREIGN CURRENCY TRANSLATION*

*Functional and presentation currency*

Items included in the financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries is primarily the €, $ and ¥. The consolidated financial statements are presented in $, which is the Group's presentation currency, due to the Company's listing in North America. Foreign exchange gains and losses are presented within finance income and costs.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies translated at the year-end exchange rate are recognized in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

*Group companies*

The results and financial position of all Group entities that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

*Expressed in US$'000 unless otherwise stated*

- assets and liabilities for each balance sheet item are translated at the closing exchange rates prevailing at the balance sheet date;
- income and expenses for each statement of comprehensive income item are translated at the exchange rate at the transaction date (or the average exchange rate if this represents a reasonable approximation); and
- all resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) are recognized initially in other comprehensive income. On the disposal or partial disposal of the net investment (reduction in ownership percentage), the amounts recognized in other comprehensive income are reclassified from equity to profit or loss. Management does not consider the repayment of quasi-equity loans designated as 'net investment' to qualify as a disposal and therefore no reclassification of exchange differences is made from equity to profit or loss when such repayment occurs. Where, as a result of a change in circumstances, a previously designated 'net investment' loan is settled (monetary items receivable from or payable to a foreign operation are actually repaid), the loan is de-designated and then exchange differences arising from the translation are accounted for in profit or loss from that point forward.

In preparing the consolidated financial statements, the individual financial statements of the Company's subsidiaries are translated into the functional currency of the Company, the Euro. Once the financial statements have been consolidated, they are then translated into the presentation currency, the US dollar. Exchange rates for the relevant currencies of the Group with respect to the US dollar are as follows: (CHF refers to Swiss francs and CLP refers to Chilean pesos)

| | CHF/$ | €/$ | CLP/$ | CAD$/$ | ¥/$ |
|---|---|---|---|---|---|
| December 31, 2016 | 0.97 | 1.05 | 0.0015 | 0.74 | 0.0085 |
| December 31, 2015 | 1.01 | 1.09 | 0.0014 | 0.72 | 0.0083 |
| December 31, 2014 | 1.01 | 1.21 | 0.0016 | 0.86 | 0.0083 |
| Average 2016 | 1.02 | 1.11 | 0.0015 | 0.76 | 0.0094 |
| Average 2015 | 1.05 | 1.11 | 0.0015 | 0.79 | 0.0083 |

### *(g) PROPERTY, PLANT AND EQUIPMENT*

#### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure directly attributable to the acquisition of the asset and, for self-constructed assets, the costs include material costs, direct labor and any other costs directly attributable to bringing the asset into working condition for its intended use. The cost of dismantling and removing items of property, plant and equipment and site restoration are also included as part of the cost of the relevant asset.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continues until the date in which development of the relevant asset is complete. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items within property, plant and equipment.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or as a separate asset, as appropriate, only if it is probable that the future economic benefits embodied within the item will flow to the Group and its cost can be measured reliably. The carrying amount of any replaced items of property, plant and equipment are derecognized and the cost of maintenance and repairs are charged to the profit or loss during the financial period in which they are incurred. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss within other income and expenses.

#### *Depreciation*

Depreciation is recognized within operating expenses for operating solar power projects and general and administrative expenses for all other items of property, plant and equipment. In order to expense the cost of assets less their residual values over their useful lives the straight-line method is used. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period with the effect of any changes in estimates accounted for on a prospective basis. Land is not depreciated. The estimated useful lives are as follows:

| | 2016 | 2015 |
|---|---|---|
| Solar power plants - Japan | 20 years | 20 years |
| Solar power plants – Chile | 20 years | 20 years |
| Equipment and furniture | 1-5 years | 1-5 years |

### *(h) INTANGIBLE ASSETS*

#### *Recognition and measurement*

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Costs include expenditures directly attributable to the acquisition of the asset and, for self-constructed assets, the costs include material costs, direct labor and any other costs directly attributable to prepare the asset for its intended use.

*Licenses and permits*

Costs of licenses and permits for projects internally developed include all the associated expenditures and internally generated costs incurred by the Group to successfully meet all the technical and environmental requirements from the local authorities where the Group operates that are necessary to build and operate solar power projects. Project permits and licenses acquired through business combinations or through the acquisition of a project company accounted for as an asset acquisition are recognized at their fair values at the date of acquisition Note 2(d). Project permits and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method. The estimated useful life of project permits and licenses is based on the applicable energy supply contracts which is generally 20 years. The amortization expense recognized in relation to intangible assets is included within operating expenses. The amortization expense of permits and licenses related to the construction of solar power projects is capitalized as assets under construction within property, plant and equipment during the construction phase.

*Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, including the fair value of non-controlling interests in the acquiree at the date of acquisition, less the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is not amortized and is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGUs") expected to benefit from the synergies of the combination. Note 2(i). CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount, the impairment is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets on a pro-rata basis. An impairment loss recognized for goodwill is not subsequently reversed.

***(i) IMPAIRMENT OF TANGIBLE ASSETS AND INTANGIBLE ASSETS***

At the end of each reporting period, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. CGUs are identified for each operating solar power project.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. The recoverable amount of the asset is the higher of the fair value less costs of disposal and value-in-use calculations. In assessing value-in-use calculations, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and an impairment loss is recognized immediately in the profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss.

***(j) FINANCIAL ASSETS***

*Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; available-for-sale; and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired and the Company's management determines the classification of its financial assets at initial recognition as follows:

*Financial assets at fair value through profit or loss:* This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as cash flow hedges. Assets in this category are classified as current assets if expected to be settled within the next twelve months or as non-current assets if expected to be settled after twelve months.

*Loans and receivables:* This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are classified as current assets, except when the maturity is greater than twelve months from the reporting date, which are classified as non-current assets. The Group's loans and receivables are comprised of trade and other receivables and cash and cash equivalents.

*Available-for-sale financial assets:* This category includes non-derivative financial assets that are either designated in this category or that are not classified in any of the other categories. Assets in this category are classified as non-current assets unless the investment matures or the Company's management intends to dispose of it within twelve months from the reporting date.

*Held-to-maturity investments:* This category includes financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

*Recognition and measurement*

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed within finance income or costs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except where the fair value cannot be measured reliably in which case the assets are carried at cost less impairment. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included within finance income or costs in the period in which they arise.

*Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are only recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group uses the following criteria to determine whether there is objective evidence for the recognition of an impairment loss associated with financial assets:

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

<u>Assets carried at amortized cost</u>

The Group first assesses whether objective evidence of impairment exists at the end of each reporting period and in the event such evidence exists, the amount of impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the impairment loss is recognized in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If, in a subsequent period, the fair value of the asset carried at amortized cost increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized (such as an improvement in the debtor's credit rating), the impairment loss is reversed in the profit or loss.

<u>Assets classified as available for sale</u>

The Group uses the same criteria to assess whether there is objective evidence that a financial asset classified as available for sale is impaired, at the end of each reporting period, as outlined above for assets carried at amortized cost. However, in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from equity and recognized in the profit or loss in the period it occurs. Impairment losses relating to equity instruments recognized in the profit or loss are not subsequently reversed. However, if, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed.

*Offsetting financial instruments*

Financial assets and liabilities are offset and shown net in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

### *(k) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES*

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction or
- hedges of the fair value of recognized assets and liabilities or a firm commitment or
- Hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction, the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 25. Movements on the hedging reserve in other comprehensive income are shown in Note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as current assets or liabilities.

*Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately within finance income or costs. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss finance income or costs.

### *(l) TRADE RECEIVABLES*

Trade receivables are amounts due for solar energy produced by the Group and sold to the electricity grid operator in accordance with electricity sale contracts. If collection is expected in one year or less, they are classified as current assets. If not, they are recognized as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less any provision for impairment.

### *(m) CASH AND CASH EQUIVALENTS*

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities. Restricted cash relates to cash and cash equivalents held at the project level that are restricted by the lending banks to future repayment of interest and principal and working capital requirements related to the specific project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans or through dividend distributions.

### *(n) SHARE CAPITAL*

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

### *(o) TRADE PAYABLES*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### *(p) BORROWINGS*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest rate method, with any difference between the proceeds (net of transaction costs) and the redemption value recognized in the profit or loss within finance costs. Since the Group's non-recourse project loans are floating rate instruments, the application of the effective interest rate method is not necessary as re-estimating the future interest payments has no significant impact on the carrying amount of the financial liability. Transaction costs incurred in acquiring a floating rate instrument are amortized using the straight-line amortization method.

Fees paid on the establishment of loan facilities are recognized as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. If there is no evidence to indicate that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized within property plant and equipment. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continue to be capitalized until the date in which development of the relevant asset is complete. All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

***(q) CURRENT AND DEFERRED INCOME TAX***

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. The Company's management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***(r) PROVISIONS***

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate of the obligation can be made. The Group recognizes a provision for the future costs expected to be incurred in relation to the decommissioning, dismantling and site restoration associated with its solar power projects Japan and Chile with a corresponding increase in the relevant asset. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the project, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Period charges for changes in the net present value of the provision arising from discounting are included within finance costs.

***(s) REVENUE RECOGNITION***

Revenue is recognized upon delivery of electricity produced to the local operator of the electricity grid, and when applicable, when customers receive electricity from the off take point in accordance existing contracts. Delivery is deemed complete when all the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of electricity are recognized at the time the electricity is supplied on the basis of periodic meter readings. Revenues are recognized net of value added tax ("VAT") and rebates. Revenues are measured at the fair value of the consideration received or receivable, which is calculated based on the price of electricity established in the contract. Revenues obtained from solar power plants that are still within the testing period (the time interval to bring the asset to the intended use conditions) are deducted from capitalized costs.

***(t) INTEREST INCOME***

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

### *(u) SHARE-BASED PAYMENT*

*Stock-options*

The Company operates an equity-settled, share-based compensation plan under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments of the Company. The total amount to be expensed within general and administrative expenses is determined by reference to the fair value of the options granted. The fair value of share-based payments is determined using the Black-Scholes option-pricing model. When a stock option is exercised, the Company recognizes an increase in its share capital equivalent to the consideration paid by the option holder and the amount previously recognized in equity within contributed surplus. The fair value of any stock options granted to employees, consultants, directors and officers of the Group is recorded as an expense over the vesting period of the options granted, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity within contributed surplus.

*Restricted share units (RSUs)*

The Company also operates another equity-settled, share-based compensation plan under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments of the Company. The Board of Directors of the Company has, in its sole discretion, the option to settle the RSUs in either treasury shares, cash or through open market share purchases. The total amount to be expensed within general and administrative expenses is determined by reference to the fair value of the options granted. The fair value of non-market performance and service condition grants is determined using the share market price at the date of grant. The fair value of grants with market performance conditions is calculated using an adjusted share market price calculated with a valuation model that incorporates all the variables included in the market conditions. Once the fair value is calculated this is not reassessed since the valuation model includes the value of all possible outcomes including the possibility that the grant is never exercised. The fair value of any RSUs granted to employees, consultants, directors and officers of the Group is recorded as an expense over the vesting period of the RSUs granted, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity within contributed surplus. For grants with non-market performance conditions, management assesses the vesting conditions and adjust the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the expense amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### *(v) EMPLOYEE BENEFITS*

*Pension obligations*

The Group's Swiss subsidiary has a defined benefit pension plan that is managed through a private fund. Independent actuaries determine the cost of the defined benefit plan on an annual basis, and the Swiss subsidiary pays the annual insurance premium. The fund provides benefits coverage to the employees in the event of retirement, death or disability. The Group's Swiss subsidiary and its employees jointly finance retirement and risk benefit contributions. As per the agreement, the Swiss subsidiary contributes between 60% and 67% of the monthly pension costs, and the remaining balance is deducted from the employees' pay.

*Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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. The 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.

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

### *(a) IMPAIRMENT OF GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS*

The Group assesses goodwill for impairment on an annual basis and 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 earnings before interest, tax, depreciation and amortization ("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, 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 its PV Salvador, SpA ("Salvador") operating subsidiary in Chile. Note 15 and Note 16. The group did not identify indicators of impairment associated with its solar operating projects in Japan.

### *(b) 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, 2016, the Group recognized net financial liabilities of $9.5 million (2015: $13.2 million) associated with its derivative financial instruments. Note 25. Refer also to Note 4(c) for a summary of the valuation techniques used by the Group.

### *(c) 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 as described in the Note 3(a). 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, 2016, the Group recognized $2.8 million (2015: $19.4 million) of net deferred income tax assets. Note 12

## 4. FINANCIAL RISK MANAGEMENT

### *(a) CAPITAL RISK MANAGEMENT*

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing returns to stakeholders by increasing its operating capacity and cash flow with new projects. The capital structure of the Group consists of total equity and borrowings. The Group's objectives when managing the capital structure are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain flexibility and liquidity for investment opportunities in the renewable energy segment. The Company's Board of Directors reviews the capital structure of the Group throughout the year and, as part of this review, considers the cost of capital and the risks associated with each class of capital. This review specifically focuses on the gearing ratio and working capital requirements at the corporate level. These objectives are primarily met through cash management and continuous review of attractive acquisition and development opportunities. In order to maintain or maximize the capital structure of the Group at the corporate level, the Group may raise additional funds through equity financing, long-term corporate debt or sell assets in order to manage debt levels or pursue additional opportunities within the renewable energy segment.

### *(b) FINANCIAL RISK MANAGEMENT*

The Group is exposed to a variety of financial risks relating to its operations in Japan and Chile. These risks include market risk (interest rate risk, foreign currency risk, and price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign currency exchange rates and interest rates, and seeks to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks primarily by using derivative financial instruments to hedge interest rate risk exposures. The Company's management carries out risk management procedures with guidance from the Audit Committee. The Board of Directors also provides regular guidance on the Group's overall risk management procedures.

*Market risk*

Interest rate risk

The Group is highly leveraged through financing at the project and corporate level for the construction of its solar power projects. The Group enters into non-recourse project loans issued at variable interest rates with financial institutions that provide financing for up to 85% of the total project costs. In addition, in April 2014, the Group issued $87 million (€80 million) of new corporate bonds in the Norwegian bond market with a fixed interest rate.

The Group is exposed to interest rate risks associated with its non-recourse project loans in Japan as these are floating rate instruments. These risks are mitigated through the Company's hedging strategy. The Group is not exposed to interest rate risks associated with the corporate bond and long-term non-recourse loans in Chile as these are fixed-rate instruments. Short-term and working capital credit facilities in Chile are not hedged.

The Group manages its cash flow and interest rate risks by using floating-to-fixed interest rate swap contracts, primarily entered into with the same financial institutions providing the underlying debt facility. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swap contracts, the Group agrees to exchange at specified intervals the difference between the fixed contract rates and floating interest rates calculated by reference to the agreed notional amounts. The fair value of the interest rate swap contracts at the end of each reporting period is determined by discounting the future cash flows using forward interest rate curves at the balance sheet date.

The following table shows the sensitivity analysis on the profit or loss if interest rates on Euro and Japanese yen denominated borrowings change by 10 basis points ("bps") with all other variables held constant.

*Expressed in US$'000 unless otherwise stated*

| | | +10 bps shift in interest rate curve | | -10 bps shift in interest rate curve | |
|---|---|---|---|---|---|
| | Carrying amount | Impact on profit/(loss) | Impact on other comprehensive income | Impact on profit/(loss) | Impact on other comprehensive income |
| **At December 31, 2016** | | | | | |
| Sumitomo Mitsui Trust Bank | 93,769 | (87) | - | 87 | - |
| **Total impact** | | **(87)** | **-** | **87** | **-** |
| Derivative financial instruments | 9,514 | - | 946 | - | (959) |
| **Total net impact** | | **(87)** | **946** | **87** | **(959)** |
| **At December 31, 2015** | | | | | |
| Societe Generale and Dexia | 26,250 | - | - | - | - |
| Natixis and project bond | 222,990 | (2) | - | 2 | - |
| Sumitomo Mitsui Trust Bank | 43,524 | (12) | - | 12 | - |
| **Total impact** | | **(14)** | **-** | **14** | **-** |
| Derivative financial instruments | 13,167 | - | 2,347 | - | (2,347) |
| **Total net impact** | | **(14)** | **2,347** | **14** | **(2,347)** |

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, Swiss franc, US dollar, Japanese yen and Chilean peso. The Group's foreign currency exposure is due primarily to intercompany borrowings made in Japanese yen from subsidiaries that have a different functional currency. The Group does not undertake hedging arrangements to mitigate the foreign currency exposure on its net investments in foreign operations or on income from foreign operations in order to hedge the risk of foreign currency variations.

Price risk

Revenues generated by the Group's solar power projects in Japan are secured by long-term contracts based on a feed-in-tariff ("FiT"). The Group is only exposed to price risks associated with the electricity sold at the spot rate in Chile. These market revenues represented 11% and 79% of total revenues during 2016 and 2015, respectively.

*Credit risk*

Credit risk mainly arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only high and medium rated institutions operating in local markets are accepted. The sale of electricity is made to the public utilities in Japan, in the open electricity market in Chile and to private industrial clients, and therefore the Company's management considers, based on the collection experience, the credit risk associated with trade receivables to be minor.

The carrying amount of financial assets net of impairment represents the Group's maximum exposure to credit risk. The Group does not have policies in place to assign internal ratings or to set credit limits to its counterparties.

The credit risk on liquid funds and derivative financial instruments is considered to be limited due to the fact that counterparties are financial institutions with high and medium credit ratings assigned by international credit agencies. The credit quality of financial assets that are neither past due nor impaired at December 31, 2016, can be assessed by reference to credit ratings from Standard & Poors, if available, as follows:

| | 2016 | 2015 |
|---|---|---|
| **Cash and cash equivalents:** | | |
| AA- | 39,093 | 8,260 |
| A+ | 4,121 | - |
| A | 16,085 | 33,292 |
| A- | - | 416 |
| BBB+ | 371 | 3,517 |
| BBB- | 150 | 5,954 |
| BB- | 1,354 | |
| BB | - | 1,060 |
| **Total cash and cash equivalents** | **61,174** | **52,499** |

*Liquidity risk*

The Company's management prepares cash flow forecasts in order to ensure that sufficient cash is available to meet operational needs at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by matching maturity profiles of financial assets and liabilities. The Company's management monitors the Group's liquidity position taking into consideration the Group's debt financing plans and covenant compliance. Note 23

*Expressed in US$'000 unless otherwise stated*

The following table analyses the Group's financial liabilities based on the remaining period outstanding at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the forward interest rate curve existing at the balance sheet date.

| | Carrying amount | Contractual Amount | Less than 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **At December 31, 2016** | | | | | | |
| Borrowings and interest repayments | 284,777 | 443,004 | 28,621 | 127,327 | 287,056 | 443,004 |
| Interest rate swap contracts, net | 9,514 | 9,514 | 1,167 | 4,452 | 3,895 | 9,514 |
| Trade and other payables | 10,671 | 10,671 | 10,671 | - | - | 10,671 |
| **Total financial and non-financial liabilities** | **304,962** | **463,189** | **40,459** | **131,779** | **290,951** | **463,189** |
| **At December 31, 2015** | | | | | | |
| Borrowings and interest repayments | 533,060 | 606,564 | 51,324 | 202,361 | 352,879 | 606,564 |
| Interest rate swap contracts, net | 13,167 | 13,167 | 3,230 | 11,115 | (1,178) | 13,167 |
| Trade and other payables | 27,379 | 27,379 | 27,379 | - | - | 27,379 |
| **Total financial and non-financial liabilities** | **573,606** | **647,110** | **81,933** | **213,476** | **351,701** | **647,110** |

### *(c) FAIR VALUE ESTIMATION*

The Group's financial instruments carried at fair value are classified within the following measurement hierarchy depending on the valuation technique used to estimate their fair values:

Level 1: includes fair value measurements derived from quoted prices in active markets for identical assets or liabilities. The fair values of financial instruments traded in the active market are based on quoted market prices at the balance sheet date. At December 31, 2016 and 2015, the Group had no financial instruments classified as Level 1.

Level 2: includes fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques that maximize the use of observable market data, where it is available, and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At December 31, 2016 and 2015, the Group's interest rate swap contracts were classified as Level 2 and the fair value of such instruments was calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor and Tibor forward interest rate curves and an appropriate discount factor. Note 25

Level 3: includes fair value measurements derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data. At December 31, 2016 and 2015, the Group had no financial instruments classified as Level 3.

The Group's assets and liabilities that are measured at fair value are as follows:

| | 2016 | 2015 |
|---|---|---|
| **Financial assets** | | |
| **Level 2:** | | |
| - Derivative financial instruments | - | 702 |
| **Total financial assets** | **-** | **702** |
| | | |
| **Financial liabilities** | | |
| **Level 2:** | | |
| - Derivative financial instruments | 9,514 | 13,869 |
| **Total financial liabilities** | **9,514** | **13,869** |

*Expressed in US$'000 unless otherwise stated*

## 5. DISCONTINUED OPERATION

On November 14, 2016, the Group announced the signing of a definitive sale and purchase agreement with EF Solare Italia, a joint venture owned equally by Enel Green Power S.p.A. and Fondo Italiano per le Infrastrutture "F2i" for the disposal of its 100% economic interest in Etrion Spa and Helios ITA Srl (collectively the "Italian subsidiaries"). The Italian subsidiaries held or owned the economic interest and rights over the 60 MW operational solar power plants in Italy, which comprised 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. 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 applicable date of disposal is set out below.

### *(a) FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION*

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

| | **2016** | **2015** |
|---|---|---|
| Revenue | 38,038 | 40,032 |
| Operating expenses | (4,145) | (5,450) |
| General and administrative expenses | (1,196) | (945) |
| Other (expense) income | (262) | 608 |
| Depreciation and amortization | (11,551) | (13,158) |
| Finance income | 739 | 103 |
| Finance costs | (12,515) | (20,866) |
| **Income before tax expense** | **9,108** | **324** |
| Net income tax (expense) recovery | (1,486) | 8,403 |
| **Net income after tax** | **7,622** | **8,727** |
| Gain on sale of subsidiaries | 61,324 | - |
| Accumulated hedging losses | (29,884) | |
| Transaction costs | (3,102) | - |
| **Profit from discontinued operation** | **35,960** | **8,727** |

| | | |
|---|---|---|
| **Cash flow from discontinued operation** | | |
| Net cash inflow from operating activities | 27,485 | 6,448 |
| Net cash inflow from investing activities | 1,035 | - |
| Net cash outflow from financing activities | (22,386) | (28,235) |
| **Net increase in cash** | **6,134** | **(21,797)** |

### *(b) DETAILS OF THE SALE OF THE ITALIAN SUBSIDIARIES*

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

Upon the execution of the sale and purchase agreement, the 100% participation in the shares of the Italian subsidiaries and the shareholder loan 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 the sale transaction of approximately $3.1 million have been recognized as part of the results from the discontinued operation.

The carrying amounts of assets and liabilities as at the date of sale were as follows:

| | **€** | **$** |
|---|---|---|
| Property, plant and equipment | 221,271 | 234,057 |
| Intangibles | 5,543 | 5,865 |
| Trade receivables | 91,906 | 97,367 |
| Other assets | 22,444 | 23,730 |
| Cash | 12,032 | 12,721 |
| **Total assets** | **353,196** | **373,740** |
| | | |
| Borrowings | 224,132 | 237,138 |
| Trade payables | 10,432 | 11,027 |
| Derivative financial liabilities | 10,702 | 11,259 |
| Other liabilities | 92,698 | 98,211 |
| **Total liabilities** | **337,964** | **357,635** |

*Expressed in US$'000 unless otherwise stated*

## 6. SEGMENT REPORTING

During 2016, the CODM represented by the Board of Directors, considered whether the operating segment disclosures continued to be appropriate in light of the Company's strategic plan and introduced certain changes in the composition of Etrion's reportable segments.

The Board of Directors now considers reportable segments from a geographical perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("EBITDA") and reviews and monitors performance of the Group on this basis.

The Company's management identified three reportable segments, solar energy Italy ("Solar Italy"), solar energy Chile ("Solar Chile") and solar energy Japan ("Solar Japan"), which include the Group's solar power projects that were previously aggregated under the renewable segment. In December 2016, the Group disposed of its Italian assets that were part of the solar energy segment and have been presented as part of the discontinued operations.

While the Company's management has determined that the Company has only two reportable segments (following the sale of the solar energy Italy segment), 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. To ensure a consistent comparison to the new structure, the prior year segmented information has been restated.

The Group's country of domicile is Canada. However, all revenues from external customers are derived from Japan and Chile. The Group's electricity production in Japan is sold to the Japanese public utilities, Tokyo Electric Power Company ("TEPCO") and Tohoku Electric Power Co.,Inc. ("TOHOKU"), and in Chile to the spot electricity market and to a third party under a long-term power purchase agreement ("PPA"). Note 7.

The Group's revenues, EBITDA and results from continuing operations are presented as follows under the new individual reportable segments (prior year's information has been restated to conform with the new structure):

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Solar Chile | Solar Japan | Corporate | Total | Solar Chile | Solar Japan | Corporate | Total |
| **Revenue** | **9,510** | **5,723** | **-** | **15,233** | **8,591** | **1,825** | **-** | **10,416** |
| Operating expenses (Opex) | (6,896) | (1,162) | - | (8,058) | (4,639) | (308) | - | (4,947) |
| General and administrative (G&A) | (149) | (194) | (7,547) | (7,890) | (348) | (264) | (8,940) | (9,552) |
| Other income (expenses) | (23) | 134 | 189 | 300 | - | (2) | 79 | 77 |
| **EBITDA** | **2,442** | **4,501** | **(7,358)** | **(415)** | **3,604** | **1,251** | **(8,861)** | **(4,006)** |
| Impairment | (75,675) | - | (278) | (75,953) | - | - | (2,881) | (2,881) |
| Depreciation and amortization | (8,497) | (2,244) | (216) | (10,957) | (9,309) | (633) | (327) | (10,269) |
| Finance income | 223 | 164 | 5,725 | 6,112 | 684 | 23 | 5,425 | 6,132 |
| Finance costs | (12,395) | (1,181) | (8,139) | (21,715) | (13,155) | (397) | (8,658) | (22,210) |
| **(Loss) income before income tax** | **(93,902)** | **1,240** | **(10,266)** | **(102,928)** | **(18,176)** | **244** | **(15,302)** | **(33,234)** |
| Income tax (expense) recovery | (6,854) | (259) | (337) | (7,450) | 6,797 | (135) | (892) | 5,770 |
| **Net (loss) income for the year** | **(100,756)** | **981** | **(10,603)** | **(110,378)** | **(11,379)** | **109** | **(16,194)** | **(27,464)** |

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

| | December 31, 2016 | | | | December 31, 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Solar Chile | Solar Japan | Corporate | Total | Solar Italy | Solar Chile | Solar Japan | Corporate | Total |
| Property, plant and equipment | 87,907 | 101,555 | 137 | 189,599 | 252,132 | 165,865 | 62,811 | 165 | 480,973 |
| Intangible assets | 7,226 | 5,558 | 3,095 | 15,879 | 7,752 | 13,528 | 2,996 | 3,361 | 27,637 |
| Cash and cash equivalents | 4,121 | 14,767 | 42,286 | 61,174 | 6,587 | 19,472 | 8,858 | 17,582 | 52,499 |
| Other assets | 3,614 | 11,079 | 7,296 | 21,989 | 26,780 | 10,478 | 6,323 | 8,630 | 52,211 |
| **Total assets** | **102,868** | **132,959** | **52,814** | **288,641** | **293,251** | **209,343** | **80,988** | **29,738** | **613,320** |
| Borrowings | 148,900 | 93,769 | 42,108 | 284,777 | 249,245 | 153,231 | 43,525 | 87,059 | 533,060 |
| Trade and other payables | 639 | 6,328 | 3,704 | 10,671 | 1,678 | 3,791 | 17,727 | 4,183 | 27,379 |
| Other liabilities | 20,599 | 18,191 | 692 | 39,482 | 14,256 | 20,162 | 7,650 | 4,409 | 46,477 |
| **Total liabilities** | **170,138** | **118,288** | **46,504** | **334,930** | **265,179** | **177,184** | **68,902** | **95,651** | **606,916** |

*Expressed in US$'000 unless otherwise stated*

## 7. REVENUE

| | 2016 | 2015 |
|---|---|---|
| Feed-in Tariff | 5,723 | 1,825 |
| Spot market price | 1,686 | 8,269 |
| PPA agreement | 6,904 | - |
| Other utility income | 920 | 322 |
| **Total revenue** | **15,233** | **10,416** |

The Group receives revenues denominated in $ and Japanese yen from its operating solar projects. Revenues come from three components: (1) the FiT system, whereby a premium constant price is received for each kWh of electricity produced through a 20-year contract with TEPCO or TOHOKU, as applicable, (2) the spot market price ("Market Price") received for each kWh of electricity generated in Chile, and (3) contracted PPAs within Chile, whereby a fixed price is received for each KWh of electricity sold under private electricity sale agreements.

*PPA revenues*

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

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

Solar-related production is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months. Note 15

## 8. OPERATING EXPENSES

| | 2016 | 2015 |
|---|---|---|
| O&M | 2,266 | 2,709 |
| Purchased power | 3,114 | - |
| Personnel costs | 889 | 497 |
| D&A | 10,741 | 9,942 |
| Property tax | 231 | - |
| Insurance | 372 | 477 |
| Land lease | 353 | 105 |
| Transmission costs | 554 | 897 |
| Other operating expenses | 279 | 262 |
| **Total Opex** | **18,799** | **14,889** |

O&M costs relate to fees paid in connection with the operation and maintenance activities of the Group's operating solar power projects in Japan and Chile. The Group outsources these O&M services to third parties.

In addition, in order to satisfy the obligations under the terms of the PPA agreement, Salvador purchases and pays the cost of electricity in the withdrawal node at the off-taker ("Nodal Costs"). During 2016, the average Nodal Costs were approximately $0.052/KWh (2015: nil).

Depreciation and amortization relate to the Group's operating solar power projects producing electricity during the year.

Transmission costs during 2016 and 2015, relate to fees paid by electricity producers, including Salvador, for the utilization of the private electricity grid in the Sistema Interconectado Central ("SIC") electricity network area in Chile to deliver electricity to final consumers.

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Salaries and benefits | 3,690 | 3,241 |
| Pension costs | 164 | 170 |
| Board of directors fees | 151 | 270 |
| Share-based payments | 442 | 496 |
| Professional fees | 1,551 | 2,838 |
| Listing and marketing | 332 | 439 |
| D&A | 216 | 327 |
| Office lease | 384 | 396 |
| Office, travel and other | 1,176 | 1,702 |
| **Total G&A** | **8,106** | **9,879** |

## 10. IMPAIRMENT

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. In addition, during 2016, the Company impaired capitalized development costs of $0.3 million (2015: $2.9 million) associated with development activities for other Chilean projects it is no longer pursuing.

*Expressed in US$'000 unless otherwise stated*

## 11. FINANCE INCOME AND COSTS

| | 2016 | 2015 |
|---|---|---|
| **Finance income:** | | |
| Changes in fair values of derivative financial instruments: | | |
| - Ineffective portion reclassified from other comprehensive income Note 22 | 162 | 96 |
| - Written call option Note 22 | 1,473 | - |
| Foreign exchange gain | 4,414 | 4,893 |
| Other finance income | 63 | 1,143 |
| **Total finance income** | **6,112** | **6,132** |
| | | |
| **Finance costs:** | | |
| Interest rate expense: | | |
| - Credit facilities and non-recourse loans and bond Note 23 | 11,741 | 12,287 |
| - Interest rate swap contracts associated with non-recourse loans | 176 | - |
| - Corporate bond Note 23/30 | 6,994 | 7,101 |
| - Credit facility with non-controlling interest Note 26 | 1,784 | 1,800 |
| - Amortization of transaction costs | 1,140 | 989 |
| **Changes in fair values of derivative financial instruments:** | | |
| - Ineffective portion reclassified from other comprehensive income Note 22 | 226 | 102 |
| - Written call option Note 22 | 202 | 420 |
| Other finance costs | 223 | 490 |
| **Total finance costs before deducting amounts capitalized** | **22,486** | **23,189** |
| Amounts capitalized on qualifying assets Note 15 | (771) | (979) |
| **Total finance costs** | **21,715** | **22,210** |
| **Net finance costs** | **15,603** | **16,078** |

The Group has three floating-rate credit facilities outstanding associated with its operating solar power projects and assets under construction in Japan. These credit facilities are hedged using interest rate swap contracts. In addition, the Group has a fixed-rate credit facility that financed the construction of its solar power plant in Chile. Refer to Note 23 and Note 25 for further details on the Group's credit facilities and derivative financial instruments.

Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment. Note 15

During 2016, the Group recognized $4.4 million of foreign exchange gain (2015: $4.9 million) mainly associated with intragroup loans denominated in foreign currencies.

During 2016, the Group recognized a net fair value loss of $3.1 million (2015: $0.9 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

During 2016, the Group recognized a $1.5 million gain upon the release of the written call options associated with its 70% economic interest in Salvador. Note 22

*Expressed in US$'000 unless otherwise stated*

## 12. INCOME TAXES

### (a) INCOME TAX EXPENSE

| | 2016 | 2015 |
|---|---|---|
| **Current income tax expense:** | | |
| Corporate income tax | (828) | (500) |
| Provincial income tax | (218) | (464) |
| **Total current income tax expense** | **(1,046)** | **(964)** |
| **Deferred income tax recovery:** | | |
| Temporary differences | 403 | (1,882) |
| Tax benefits recognized during the year | (6,807) | 8,616 |
| **Total deferred income tax recovery** | **(6,404)** | **6,734** |
| **Total income tax recovery (expense)** | **(7,450)** | **5,770** |

The Group recognized an income tax expense of $0.3 million (2015: $0.2 million) associated with its solar power projects in Japan and an income tax expense of $0.7 million (2015: $0.8 million) associated with its management services subsidiaries. In addition, the Group recognized a deferred income tax expense of $6.4 million (2015: $6.7 million income tax recovery) primarily due to the derecognition of net deferred tax assets associated with Salvador, following the negative impact that long-term price projections have caused to future taxable profits for this solar project in Chile. The net deferred income tax expense also includes the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

The Group's income tax expense (recovery) is reconciled to the loss before tax at the Canadian statutory tax rate as follows:

| | 2016 | 2015 |
|---|---|---|
| **Loss before tax from continuing operations** | **(102,928)** | **(33,234)** |
| Income tax expense calculated at 26.00% (2015: 26.00%) | (26,762) | (8,646) |
| **Tax effects of:** | | |
| Permanent differences | - | 8,306 |
| De-recognition deferred tax assets | 6,562 | (48) |
| Benefit from tax losses not recognized | 26,833 | (7,887) |
| Differences in foreign tax rates | 787 | 2,481 |
| Other | 30 | 24 |
| **Total income tax expense (recovery)** | **7,450** | **(5,770)** |

### (b) CURRENT INCOME TAX LIABILITIES

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Corporate income tax | 443 | 566 |
| Provincial income tax | 115 | 106 |
| **Total current income tax liabilities** | **558** | **672** |

*Expressed in US$'000 unless otherwise stated*

### *(c) DEFERRED INCOME TAX*

The movements in deferred income tax assets and liabilities during 2016 were as follows:

| | Opening balance | Profit or loss | Other comprehensive income | Exchange differences | Recognized directly in equity | Disposal of subsidiaries | Closing balance |
|---|---|---|---|---|---|---|---|
| **Taxable temporary differences:** | | | | | | | |
| Property, plant and equipment | - | | | | | | - |
| Intangible assets | 400 | (389) | - | (11) | - | - | - |
| **Total deferred income tax liability** | **400** | **(389)** | **-** | **(11)** | **-** | **-** | **-** |
| **Deductible temporary differences:** | | | | | | | |
| Property, plant and equipment | 200 | - | - | 12 | - | (212) | - |
| Intangible assets | - | (30) | - | 47 | - | - | 17 |
| Tax losses carried forward | 6,927 | (6,807) | | (120) | - | | - |
| Interest expense carried forward | 9,093 | - | - | (1,152) | - | (7,941) | - |
| Derivative financial instruments | 3,075 | 10 | 992 | 909 | - | (2,452) | 2,534 |
| Provisions | 100 | 35 | 270 | (108) | - | - | 297 |
| Special tax credits | 414 | - | - | (20) | - | (394) | - |
| **Total deferred income tax asset** | **19,809** | **(6,792)** | **1,262** | **(432)** | **-** | **(10,999)** | **2,848** |
| **Net deferred income tax asset** | **19,409** | **(6,403)** | **1,262** | **(421)** | **-** | **(10,999)** | **2,848** |

The movements in deferred income tax assets and liabilities during 2015 were as follows:

| | Opening balance | Profit or loss | Other comprehensive income | Exchange differences | Recognized directly in equity | Reclassifications | Closing balance |
|---|---|---|---|---|---|---|---|
| **Taxable temporary differences:** | | | | | | | |
| Property, plant and equipment | 39 | 1,847 | - | (819) | - | (1,067) | - |
| Intangible assets | 441 | (46) | - | (55) | - | 60 | 400 |
| **Total deferred income tax liability** | **480** | **1,801** | **-** | **(874)** | **-** | **(1,007)** | **400** |
| **Deductible temporary differences:** | | | | | | | |
| Property, plant and equipment | - | (38) | - | (25) | - | 263 | 200 |
| Intangible assets | - | (126) | - | (12) | - | 138 | - |
| Tax losses carried forward | - | 10,089 | - | 147 | - | (3,309) | 6,927 |
| Interest expense carried forward | 8,465 | 8,416 | - | (933) | - | (6,855) | 9,093 |
| Derivative financial instruments | 5,547 | 66 | (10,046) | (1,140) | (80) | 8,728 | 3,075 |
| Provisions | 181 | (11) | - | (12) | (79) | 21 | 100 |
| Special tax credits | 233 | 202 | - | (28) | - | 7 | 414 |
| **Total deferred income tax asset** | **14,426** | **18,598** | **(10,046)** | **(2,003)** | **(159)** | **(1,007)** | **19,809** |
| **Net deferred income tax asset** | **13,946** | **16,797** | **(10,046)** | **(1,129)** | **(159)** | **-** | **19,409** |

Deferred income tax assets and liabilities that relate to the same fiscal authority have been offset (as there is a legally enforceable right to offset the current tax assets against the current tax liabilities).

At December 31, 2016, deferred income tax assets and liabilities of $2.8 million and nil, respectively (2015: $19.8 million and $0.4 million, respectively) were expected to be recovered more than twelve months after the balance sheet date. At December 31, 2016, the Group had unrecognized deferred income tax assets in respect of tax losses associated with Canada, Chile, Japan and Luxembourg of $180.3 million (2015: $164.9 million), of which $2.0 million (2015: $0.9 million) expires between one and ten years, $38.4 million (2015: $35.2 million) expires between ten and twenty years and $139.9 million (2015: $128.8 million) has no expiry.

In addition, during 2016, the Group recognized an income tax expense of $1.0 million (2015: income tax expense recovery of $10.0 million) within other comprehensive income associated with its derivative financial instruments. Note 22

*Expressed in US$'000 unless otherwise stated*

## 13. (LOSS) GAIN PER SHARE

Basic and diluted loss per share is calculated by dividing the net loss for the year attributable to owners of the Company by the weighted average number of shares outstanding during the year. The calculation of basic and diluted loss per share is as follows:

| | Twelve months ended 2016 | 2015 |
|---|---|---|
| **(Loss) gain attributable to owners of the Company:** | | |
| Loss from continuing operations | (79,113) | (24,044) |
| Gain from discontinued operations | 35,960 | 8,727 |
| **Total loss for the period attributable to owners of the Company** | **(43,153)** | **(15,317)** |
| | **Number of shares** | |
| Weighted average number of thousand shares outstanding | 334,094 | 334,094 |
| **Basic and diluted (loss) gain per share:** | | |
| Loss from continuing operations | $(0.24) | $(0.07) |
| Gain from discontinued operations | $0.11 | $0.02 |
| **Total basic and diluted loss per share attributable to owners of the Company** | **$(0.13)** | **$(0.05)** |

Diluted loss per share equals basic loss per share as, due to losses incurred in 2016 and 2015, there is no dilutive effect from the existing stock options. Note 21

## 14. NON-CONTROLLING INTERESTS

The Group's subsidiaries in which there is a non-controlling interest ("NCI") are Shizukuishi Solar GK ("Shizukuishi"), Etrion Energy 1 GK ("Mito"), Etrion Energy 4 GK ("Komatsu"), Etrion Energy 5 GK ("Aomori") and Salvador.

Shizukuishi, Mito, Komatsu and Aomori are Japanese entities that own the licenses, permits and facilities to build and operate solar parks in Japan totaling 56 MW ("the Japanese project companies"). Mito and Shizukuishi are owned 87% by Etrion and 13% by Hitachi High-Tech ("HHT"). Komatsu is owned 85.1% by Etrion, 14.9% by HHT. The Komatsu Project is under construction and is expected to be fully operational by the third quarter of 2018. Aomori is owned 60% by Etrion, 10% by HHT and 30% by Tamagawa Holdings, a Japanese real state and solar power developer. The Aomori Project is under construction and is expected to be fully operational by the third quarter of 2017.

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

The non-controlling interest at December 31, 2016, of negative $31.5 million (2015: negative $0.6 million), represents the value attributable to non-controlling interests in the Japanese project companies and Salvador. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of Salvador, and the Japanese project companies, other than those imposed by the lending banks related to cash distributions.

*Expressed in US$'000 unless otherwise stated*

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations:

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Current assets (liabilities)** | **Non-current assets (liabilities)** | **Net assets (Liabilities)** | **Current assets (liabilities)** | **Non-current assets (liabilities)** | **Net assets (Liabilities)** |
| Shizukuishi | 3,916 | (5,485) | (1,569) | (9,632) | 10,251 | 619 |
| Mito | 3,658 | (3,016) | 642 | 4,295 | (3,786) | 509 |
| Aomori | (2,331) | 3,469 | 1,138 | - | - | - |
| Komatsu | 531 | 1,258 | 1,789 | - | - | - |
| Salvador | 39 | (110,555) | (110,516) | 17,443 | (20,021) | (2,579) |
| **Total net assets (liabilities)** | **5,813** | **(114,329)** | **(108,516)** | **12,106** | **(13,556)** | **(1,450)** |

The summarized income statement for the Japanese entities and Salvador including the portion allocated to NCI for the ended December 31, is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **(Loss) income for the period** | **Comprehensive loss for the period** | **Comprehensive loss allocated to NCI** | **(Loss) income for the period** | **Comprehensive (loss) income for the period** | **Comprehensive (loss) income allocated to NCI** |
| Shizukuishi | (208) | (2,252) | (295) | (217) | (871) | (114) |
| Mito | 760 | 126 | 16 | 328 | 118 | 15 |
| Aomori | (31) | (403) | (161) | - | - | - |
| Komatsu | (32) | (32) | (5) | - | - | - |
| Salvador | (104,402) | (104,402) | (31,321) | (11,379) | (11,379) | (3,414) |
| **Total** | **(103,913)** | **(106,963)** | **(31,766)** | **(11,268)** | **(12,132)** | **(3,513)** |

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

| | **Salvador** | **Shizukuishi** | **Mito** | **Komatsu** | **Aomori** | **Total** |
|---|---|---|---|---|---|---|
| **As at December 31, 2015** | **(774)** | **81** | **67** | **-** | **-** | **(626)** |
| Net (loss) income and other comprehensive (loss) income attributable to non-controlling interest | (31,450) | (274) | 60 | (5) | (161) | (31,830) |
| Capital contributions | - | - | - | 296 | 686 | 982 |
| **As at December 31, 2016** | **(32,224)** | **(193)** | **127** | **291** | **525** | **(31,474)** |
| Interest held by third parties | 30% | 13% | 13% | 15% | 40% | |

*Expressed in US$'000 unless otherwise stated*

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land | Solar power projects | Assets under construction | Other PPE | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **At January 1, 2015** | **11,886** | **350,665** | **185,698** | **1,437** | **549,686** |
| Additions | - | 33 | 54,820 | 2,055 | 56,908 |
| Disposal | - | - | - | (224) | (224) |
| Reclassification | - | 200,007 | (200,007) | - | - |
| Exchange differences | (995) | (29,351) | (7,140) | (120) | (37,606) |
| **At December 31, 2015** | **10,891** | **521,354** | **33,371** | **3,148** | **568,764** |
| Additions | 2,777 | 1,084 | 37,029 | 3,039 | 43,929 |
| Sale of subsidiaries Note 5 | (10,467) | (304,572) | - | (4,131) | (319,170) |
| Disposals | (30) | (325) | - | - | (355) |
| Impairment | - | (70,005) | - | - | (70,005) |
| Transfer from intangibles | - | - | 327 | - | 327 |
| Reclassification | - | 60,290 | (63,436) | 3,146 | - |
| Exchange differences | (594) | (17,897) | 4,919 | (1,015) | (14,587) |
| **At December 31, 2016** | **2,577** | **189,929** | **12,210** | **4,187** | **208,903** |
| | | | | | |
| **Accumulated depreciation:** | | | | | |
| **At January 1, 2015** | **-** | **70,722** | **-** | **1,309** | **72,031** |
| Charge for the year | - | 21,656 | - | 353 | 22,009 |
| Disposals | - | - | - | (221) | (221) |
| Exchange differences | - | (5,918) | - | (110) | (6,028) |
| **At December 31, 2015** | **-** | **86,460** | **-** | **1,331** | **87,791** |
| Charge for the year | - | 20,903 | - | 303 | 21,206 |
| Sale of subsidiaries | - | (84,453) | - | (660) | (85,113) |
| Disposals | - | (101) | - | - | (101) |
| Exchange differences | - | (4,435) | - | (44) | (4,479) |
| **At December 31, 2016** | **-** | **18,374** | **-** | **930** | **19,304** |
| | | | | | |
| **Net book value:** | | | | | |
| At December 31, 2015 | 10,891 | 434,894 | 33,371 | 1,817 | 480,973 |
| At December 31, 2016 | 2,577 | 171,555 | 12,210 | 3,257 | 189,599 |

During 2016, the Group capitalized as assets under construction $37.0 million (2015:$53.9 million) of incurred capital expenditures associated with the solar power projects in Japan. On October 20, 2016, the Group's 24.7 MW Japanese solar power plant (Shizukuishi) achieved its commercial operation date and the Company reclassified total construction costs to solar power project in accordance with the Group's accounting policies.

In addition, during 2016, the Group capitalized $0.8 million (2015: $1.0 million) of borrowing costs associated with credit facilities obtained to finance the construction of Shizukuishi and Aomori. Note 11 and Note 23

Other PPE includes mainly dismantling costs and during 2016, the Group recognized an increase in dismantling costs associated with its Japanese and Chilean solar parks based on a revision of the previous estimates. In addition, the Group recognized an increase in the dismantling costs associated with the Shizukuishi project, in accordance with the Group's accounting policies. Note 26

In December 2016, The Group completed the sale transaction of its Italian assets, transferred the ownership of its solar power plants and derecognized the net carrying value at the disposal date. Note 5

*Expressed in US$'000 unless otherwise stated*

## 16. INTANGIBLE ASSETS

| | Goodwill | Licenses and permits | Internally generated development costs and other | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| **At January 1, 2015** | **1,595** | **30,393** | **2,540** | **34,528** |
| Additions | - | - | 2,748 | 2,748 |
| Reclassifications | - | (1,849) | 1,849 | - |
| Impairment | - | - | (2,881) | (2,881) |
| Exchange differences | (167) | (1,966) | (293) | (2,426) |
| **At December 31, 2015** | **1,428** | **26,578** | **3,963** | **31,969** |
| Additions | - | 1,749 | 2,169 | 3,918 |
| Sale of subsidiaries Note 5 | (1,390) | (8,282) | - | (9,672) |
| Impairment | - | (5,670) | (278) | (5,948) |
| Transfer to property, plant and equipment | - | - | (327) | (327) |
| Reclassifications | - | 1,895 | (1,136) | 759 |
| Exchange differences | (38) | (519) | (97) | (654) |
| **At December 31, 2016** | **-** | **15,751** | **4,294** | **20,045** |
| **Accumulated amortization:** | | | | |
| **At January 1, 2015** | **-** | **3,213** | **373** | **3,586** |
| Charge for the year | - | 785 | 260 | 1,045 |
| Exchange differences | - | (268) | (31) | (299) |
| **At December 31, 2015** | **-** | **3,730** | **602** | **4,332** |
| Charge for the year | - | 1,486 | 56 | 1,542 |
| Sale of subsidiaries | - | (2,417) | - | (2,417) |
| Reclassifications | - | 299 | 460 | 759 |
| Exchange differences | - | (114) | 64 | (50) |
| **At December 31, 2016** | **-** | **2,984** | **1,182** | **4,166** |
| **Net book value:** | | | | |
| At December 31, 2015 | 1,428 | 22,848 | 3,361 | 27,637 |
| At December 31, 2016 | - | 12,767 | 3,112 | 15,879 |

During 2016, general and administrative expenses of $2.5 million (2015: $2.1 million) representing internally-generated costs of $2.0 million (2015: $1.5 million) and third-party costs of $0.5 million (2015: $0.6 million) were capitalized during the year within intangible assets as they directly related to the Group's development activities in Japan.

In December 2016, the Group completed the sale transaction of its Italian assets, transferred the ownership of its licenses and permits and derecognized the net carrying value at the disposal date.

Goodwill of $1.4 million allocated to the CGUs relating to the Group's solar power in Italy was derecognized at the disposal date. Note 5

*Expressed in US$'000 unless otherwise stated*

## 17. FINANCIAL ASSETS

| | Loans and receivables |
|---|---|
| **At December 31, 2016** | |
| **Current assets** | |
| Trade and other receivables | 1,761 |
| Cash and cash equivalents | 61,174 |
| **Total current financial assets** | **62,935** |
| **Total financial assets** | **62,935** |
| | |
| **At December 31, 2015** | |
| **Current assets** | |
| Trade and other receivables | 11,759 |
| Cash and cash equivalents | 52,499 |
| **Total current financial assets** | **64,258** |
| **Total financial assets** | **64,258** |

## 18. TRADE AND OTHER RECEIVABLES

| | December 31 2016 | December 31 2015 |
|---|---|---|
| **Current portion:** | | |
| Financial assets | | |
| - Trade receivables | 1,711 | 11,364 |
| - Other financial assets | 50 | 395 |
| **Total financial assets Note 17** | **1,761** | **11,759** |
| Input VAT | 7,869 | 7,783 |
| Advances paid and prepaid expenses | 1,122 | 3,311 |
| Other current assets | 2,425 | 6,603 |
| Impairment loss provision | - | (12) |
| **Total current portion** | **13,177** | **29,444** |
| | | |
| **Non-current portion:** | | |
| Input VAT | 46 | 51 |
| Advances and prepaid expenses | 5,918 | 2,205 |
| **Total non-current portion** | **5,964** | **2,256** |
| **Total trade and other receivables** | **19,141** | **31,700** |

The carrying values of the financial assets approximate their fair values due to these assets having a relatively short maturity. The Group has no non-current financial assets included within trade and other receivables. The Group does not hold any collateral as security.

### *Current portion*

Trade receivables relate to the sale of electricity from the Group's solar power projects to the operators of the electricity grid and to private clients in the spot market in Chile. Other receivables include input VAT primarily related to amounts expected to be collected for eligible expenditures from the relevant authorities in Japan and Chile associated with the Group's solar power projects.

### *Non-current portion*

A portion of the VAT is classified as non-current as the amounts are expected to be collected more than twelve months after the balance sheet date. The non-current portion of the VAT has not been discounted as the amounts are interest-bearing at market rates.

Other non-current assets include $5.5 million of advance payments made to local developers associated with the projects currently under development in Japan. An aging analysis of the Group's trade receivables is as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Up to three months | 1,711 | 2,401 |
| **Total trade receivables past due but not impaired** | 1,711 | 2,401 |
| Trade receivables not past due | - | 8,963 |
| **Total trade receivables** | **1,711** | **11,364** |

At December 31, 2016, trade receivables of $1.7 million (2015:$2.4 million) were past due but not impaired, of which $1.7 million (2015:$2.4 million) was received after the balance sheet date. The currencies of the Group's financial assets included within trade receivables are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Euros | 1,713 | 17,265 |
| US dollars | 876 | 1,132 |
| Canadian dollars | 12 | 14 |
| Japanese Yen | 13,261 | 10,226 |
| Swiss francs | 80 | 147 |
| Chilean pesos | 3,199 | 2,916 |
| **Total trade and other receivables** | **19,141** | **31,700** |

## 19. CASH AND CASH EQUIVALENTS

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Cash at banks | 61,174 | 52,499 |
| **Total** | **61,174** | **52,499** |

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Unrestricted cash at parent level | 42,286 | 17,582 |
| Restricted cash at project level | 18,888 | 34,917 |
| **Total** | **61,174** | **52,499** |

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

## 20. SHARE CAPITAL

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

| | Number of Shares outstanding | Share capital $'000 |
|---|---|---|
| **At January 1, 2015** | **334,082,657** | **111,300** |
| Stock options exercised | 11,667 | 4 |
| **At December 31, 2015** | **334,094,324** | **111,304** |
| **At December 31, 2016** | **334,094,324** | **111,304** |

During 2015, the Company issued 11,667 shares with a fair value of CAD$0.41 as a result of stock options being exercised during the year. RSUs exercised during 2016 were settled in cash. Note 21

## 21. SHARE-BASED PAYMENTS

The Company maintains an equity-settled stock option awards scheme for employees, consultants, directors and officers. All outstanding stock options have a contractual term ranging from five to ten years and generally vest over a period of three years with the exercise price set equal to the market price at the date of grant. In addition, the Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, directors and officers. RSUs have a contractual term of approximately four years and have time-based and performance-based vesting conditions that are market and non-market based. During 2016, the Group recognized share-based payment expenses of $0.4 million (2015: $0.5 million) related to its stock option and RSU award schemes. Note 9. Changes in the Company's outstanding stock options and RSUs are as follows:

| | Number of share options | Weighted average exercise price CAD$ |
|---|---|---|
| **At December 31, 2014** | **5,380,000** | **0.48** |
| Exercised | (11,667) | 0.24 |
| Forfeited | (163,333) | 0.40 |
| Expired | (1,454,000) | 0.66 |
| **At December 31, 2015** | **3,751,000** | **0.42** |
| Forfeited | (549,000) | 0.34 |
| **At December 31, 2016** | **3,202,000** | **0.43** |
| **Stock options exercisable:** | | |
| **At December 31, 2015** | **3,709,333** | **0.42** |
| **At December 31, 2016** | **3,202,000** | **0.43** |

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

| | Number of RSUs |
|---|---|
| **At December 31, 2014** | **6,660,440** |
| Granted | 10,445,677 |
| Forfeited | (213,324) |
| **At December 31, 2015** | **16,892,793** |
| Granted | 17,000,000 |
| Exercised | (211,373) |
| Expired | (3,662,813) |
| **At December 31, 2016** | **30,018,607** |

A summary of the Company's stock options issued and outstanding at December 31, 2016, is as follows:

| Exercise price (CAD$) | Number of share options outstanding | Number of share options exercisable | Expiry date | Weighted average contractual life (years) |
|---|---|---|---|---|
| 0.24 | 125,000 | 125,000 | 24 April 2018 | 1.31 |
| 0.34 | 1,063,000 | 1,063,000 | 24 September 2017 | 0.73 |
| 0.36 | 1,300,000 | 1,300,000 | 05 July 2017 | 0.51 |
| 0.52 | 564,000 | 564,000 | 19 March 2017 | 0.22 |
| 1.59 | 150,000 | 150,000 | 28 April 2018 | 1.32 |
| | **3,202,000** | **3,202,000** | | |

A summary of the Company's RSUs issued and outstanding at December 31, 2016, is as follows:

| Performance condition | Number of RSUs outstanding | Expiry date | Weighted average contractual life (years) |
|---|---|---|---|
| Time-based | 205,000 | December 31, 2018 | 2.00 |
| Time-based | 55,980 | December 31, 2017 | 1.00 |
| Time-based | 723,010 | December 9, 2019 | 2.94 |
| Market | 2,695,000 | December 31, 2018 | 2.00 |
| Market | 9,339,617 | December 9, 2019 | 2.94 |
| Market | 17,000,000 | December 31, 2020 | 4.00 |
| | **30,018,607** | | |

As of December 31, 2016 there were 55,980 exercisable RSUs outstanding. Performance RSU awards with market conditions granted in December 2016 and 2015 were valued using an adjusted share price calculated with a hybrid valuation model based on the Monte Carlo simulation. The assumptions used in the calculation of the adjusted share price were as follows:

| | 2016 | 2015 |
|---|---|---|
| Share price at grant date | CAD$0.29 | CAD$0.35 |
| Exercise price | CAD$0.00 | CAD$0.00 |
| Risk-free interest rate | 0.85% | 0.57% |
| Expected volatility | 57.00% | 90.50% |
| Dividend yield rate | 0.00% | 0.00% |
| Contractual life of RSUs | 4 years | 4 years |
| **Fair value at grant date** | **CAD$0.08** | **CAD$0.26** |

*Expressed in US$'000 unless otherwise stated*

## 22. OTHER RESERVES

| | Translation reserve | Hedging reserve | Transactions with non-controlling interests | Total |
|---|---|---|---|---|
| **At January 1, 2015** | **(399)** | **(30,332)** | **894** | **(29,837)** |
| Currency translation difference: | | | | |
| - Loss on translation adjustment | (3,926) | - | - | (3,926) |
| - Gain on net investment in foreign subsidiary | 4,437 | - | - | 4,437 |
| Written call options | - | - | 420 | 420 |
| Cash flow hedges: | | | | |
| - Gain on fair value movements | - | 940 | - | 940 |
| - Tax on gain on fair value movements | - | (10,125) | - | (10,125) |
| - Ineffective portion of fair value movements to profit or loss | - | (71) | - | (71) |
| - Tax on ineffective portion of fair value movements to profit or loss | - | 7 | - | 7 |
| - Re-designated portion of derivative to profit or loss | - | 451 | - | 451 |
| - Tax on re-designated portion of derivative to profit or loss | - | (78) | - | (78) |
| **At December 31, 2015** | **112** | **(39,208)** | **1,314** | **(37,782)** |
| Currency translation difference: | | | | |
| - Loss on translation adjustment | (4,534) | - | - | (4,534) |
| - Loss on net investment in foreign subsidiary | (306) | - | - | (306) |
| Written call options | - | - | (1,271) | (1,271) |
| Cash flow hedges: | | | | |
| - Loss on fair value movements | - | (6,114) | - | (6,114) |
| - Tax on loss on fair value movements | - | 903 | - | 903 |
| - Ineffective portion of fair value movements to profit or loss | - | (392) | - | (392) |
| - Tax on ineffective portion of fair value movements to profit or loss | - | 94 | - | 94 |
| - Re-designated portion of derivative to profit or loss | - | 2,281 | - | 2,281 |
| - Tax on re-designated portion of derivative to profit or loss | - | (103) | - | (103) |
| - Reclassification to profit from discontinued operation | - | 29,884 | - | 29,884 |
| **At December 31, 2016** | **(4,728)** | **(12,655)** | **43** | **(17,340)** |

*Translation reserve*

The translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations as described in Note 2(f).

*Hedging reserve*

The hedging reserve includes the effective portion of changes in the fair value (net of tax) of the Group's derivative financial instruments that qualify for hedge accounting. The ineffective portion of these derivative financial instruments is included within finance income/costs Note 11. At December 31, 2016 and 2015, all of the Group's interest rate swap contracts qualified for hedge accounting. The accumulated losses in the hedging reserve associated with the Italian assets were reclassified to discontinued operation Note 5.

*Written call options*

According to the terms of a shareholder agreement entered into by one of the Group's Chilean subsidiaries, Etrion is deemed to be the underwriter of two call options in relation to its initial 70% shareholding in Salvador. The call options give the right but not the obligation to Total Energie and Solventus to acquire from Etrion all of its shares in Salvador in two separate transactions for a total consideration of $2 during the life of the solar project. As of December 31, 2016, and according to the economic projections used to calculate the impairment charge in Q316, Etrion will not recover its initial investment and therefore Total and/or Solventus would not be able to exercise the option.

*Expressed in US$'000 unless otherwise stated*

## 23. BORROWINGS

| | Corporate bond | Project bond | Project loans | Total |
|---|---|---|---|---|
| **At January 1, 2015** | **96,709** | **-** | **428,542** | **525,251** |
| Proceeds from loans | - | 38,051 | 240,443 | 278,494 |
| Repayment of loans and interest | (7,101) | (441) | (256,914) | (264,456) |
| Accrued interest | 7,101 | 441 | 17,824 | 25,366 |
| Amortization of transaction costs | 345 | 54 | 7,625 | 8,024 |
| Exchange differences | (9,995) | (583) | (29,041) | (39,619) |
| **At December 31, 2015** | **87,059** | **37,522** | **408,479** | **533,060** |
| **- Current portion** | **1,316** | **2,144** | **44,228** | **47,688** |
| **- Non-current portion** | **85,743** | **35,378** | **364,251** | **485,372** |
| | | | | |
| **At January 1, 2016** | **87,059** | **37,522** | **408,479** | **533,060** |
| Proceeds from loans | - | - | 56,455 | 56,455 |
| Repayment of loans and interest | (52,158) | (7,370) | (31,813) | (91,341) |
| Sale of subsidiaries Note 5 | - | (34,578) | (202,560) | (237,138) |
| Accrued interest | 6,994 | 4,997 | 12,450 | 24,441 |
| Amortization of transaction costs | 877 | (571) | 192 | 498 |
| Exchange difference | (664) | - | (534) | (1,198) |
| **At December 31, 2016** | **42,108** | **-** | **242,669** | **284,777** |
| **- Current portion** | **645** | **-** | **14,782** | **15,427** |
| **- Non-current portion** | **41,463** | **-** | **227,887** | **269,350** |

The Group's borrowings are denominated in €, ¥ and $, and the minimum principal repayment obligations are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Less than 1 year | 15,427 | 47,688 |
| Between 1 and 5 years | 70,574 | 158,991 |
| After 5 years | 198,776 | 326,381 |
| **Total borrowings** | **284,777** | **533,060** |

### *(a) 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.

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. At December 31, 2016 and 2015, no separate amount was recognized in relation to this call option.

The carrying value of the corporate bonds as at December 31, 2016, including accrued interest net of transaction costs, was $42.1 million. The corporate bond agreement requires the Company to maintain a minimum unrestricted cash balance of €3 million. At December 31, 2016, the fair value of the corporate bond amounted to $42.6 million (2015: $76.3 million) based on cash flows discounted at 8.2%. The discount rate equals Euribor plus the appropriate credit rating.

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

### *(b) NON-RECOURSE PROJECT LOANS*

*Japanese subsidiaries*

During 2016, the Company entered into new senior secured financing agreements, to finance the construction of the Aomori and Komatsu Japanese solar power projects for a total amount of ¥6,564 million ($56.1 million). In addition, Aomori and Komatsu entered into a VAT credit facility agreement of ¥542 million ($4.6 million) in order to finance the associated VAT capital disbursements. These VAT credit facilities have a term of two years and bear a variable interest rate plus a margin.

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, 2016, 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, 2016, and December 31, 2015.

During 2016, The Group's Japanese operating subsidiaries drew down a total of ¥5,670 million ($48.4 million) and ¥384 million ($3.3 million) under the senior financing agreements and under the VAT credit facility, respectively

*Expressed in US$'000 unless otherwise stated*

(2015: ¥3,929 million ($32.1 million) and ¥301 million ($2.5 million), respectively). At December 31, 2016, the combined undrawn gross amount under these Japanese credit facilities amounted to ¥6,075 million ($51.9 million) (2015: ¥4,724 million ($39.2 million).

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 grid operator 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, 2016, was $101.7 million (2015: $62.8 million).

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 subsidiaries*

The non-recourse project loan obtained by the Group's Chilean subsidiary, 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. The loan is accounted for using the amortized cost method based on the effective interest rate. At December 31, 2016 and 2015, there were no undrawn amounts under the OPIC senior credit facility.

The fair value of this credit facility equals its carrying amount, as the interest rates approximate the market rates. The fair values are based on cash flows discounted using an average rate of 7.1% (2015: 7.1%) and are within level 2 of the fair value hierarchy.

Salvador's financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Salvador's fixed assets pledged as collateral at December 31, 2016, was $87.9 million (2015: $166.2).

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

*Italian subsidiaries*

In December 2016, The Group completed the sale transaction of its Italian assets, transferred its obligations under the non-recourse loan agreements and derecognized the carrying value of these liabilities at the disposal date. Note 5

## 24. FINANCIAL LIABILITIES

| | Other financial liabilities | Derivative financial instruments | Total |
|---|---|---|---|
| **At December 31, 2016** | | | |
| **Non-current financial liabilities:** | | | |
| Borrowings | 269,350 | - | 269,350 |
| Derivative financial instruments | - | 8,347 | 8,347 |
| **Total non-current** | **269,350** | **8,347** | **277,697** |
| **Current financial liabilities:** | | | |
| Trade and other payables | 862 | - | 862 |
| Borrowings | 15,427 | - | 15,427 |
| Derivative financial instruments | - | 1,167 | 1,167 |
| **Total current** | **16,289** | **1,167** | **17,456** |
| **Total financial liabilities** | **285,639** | **9,514** | **295,153** |
| **At December 31, 2015** | | | |
| **Non-current financial liabilities:** | | | |
| Borrowings | 485,372 | - | 485,372 |
| Derivative financial instruments | - | 10,639 | 10,639 |
| **Total non-current** | **485,372** | **10,639** | **496,011** |
| **Current financial liabilities:** | | | |
| Trade and other payables | 3,055 | - | 3,055 |
| Borrowings | 47,688 | - | 47,688 |
| Derivative financial instruments | - | 3,230 | 3,230 |
| **Total current** | **50,743** | **3,230** | **53,973** |
| **Total financial liabilities** | **536,115** | **13,869** | **549,984** |

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

| | December 31 2016 | December 31 2015 |
|---|---|---|
| **Derivative financial assets:** | | |
| Interest rate swap contracts | | |
| - Non-current portion | - | 702 |
| **Total derivative financial assets** | **-** | **702** |
| **Derivative financial liabilities:** | | |
| Interest rate swap contracts | | |
| - Current portion | 1,167 | 3,230 |
| - Non-current portion | 8,347 | 10,639 |
| **Total derivative financial liabilities** | **9,514** | **13,869** |

*Interest rate swap contracts*

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.

*Expressed in US$'000 unless otherwise stated*

At December 31, 2016, the notional amount of the Group's interest rate swap contracts was $99.9 million (2015: $308.2 million), which was denominated in Japanese yen (2015: Euros and Japanese yen). The fair market value of the interest rate swap contracts at December 31, 2015, decreased to a liability position of $9.5 million (2015: $13.2 million) due to the disposal of the Italian assets and associated liabilities. During 2016, upon completion of the sale of the Italian assets, the Group transferred its obligations under interest rate swap contracts in Italy and derecognized the carrying value of these derivative financial instruments at the disposal date. Note 5.

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

## 26. PROVISIONS AND OTHER LIABILITIES

The movement of provisions over the year is as follows:

| | Site restoration | Shared revenue | Pension plan | Total |
|---|---|---|---|---|
| **At January 1, 2015** | **4,229** | **784** | **992** | **6,005** |
| Additions | 1,698 | - | 247 | 1,945 |
| Change in estimate | 370 | - | 254 | 624 |
| Unwinding of discount | 95 | - | - | 95 |
| Utilization | - | (717) | (203) | (920) |
| Exchange differences | (447) | (67) | (9) | (523) |
| **At December 31, 2015** | **5,945** | **-** | **1,281** | **7,226** |
| **Non-current** | **5,945** | **-** | **1,281** | **7,226** |
| **At January 1, 2016** | **5,945** | **-** | **1,281** | **7,226** |
| Additions | 2,670 | - | 173 | 2,843 |
| Change in estimate | 228 | - | (139) | 89 |
| Unwinding of discount | 165 | - | - | 165 |
| Disposal of subsidiaries | (4,400) | - | - | (4,400) |
| Utilization | - | - | (147) | (147) |
| Exchange differences | (114) | - | (44) | (158) |
| **At December 31, 2016** | **4,494** | **-** | **1,124** | **5,618** |
| **Non-current** | **4,494** | **-** | **1,124** | **5,618** |

### *(a) DECOMMISSIONING AND SITE RESTORATION*

The Group has legal and constructive obligation to complete the landfill site restoration and decommissioning of its solar power projects in Japan and Chile after their expected closure. The provision for decommissioning and site restoration is determined using the nominal prices effective at the reporting dates by applying the forecasted rate of inflation for the expected life of the solar power projects. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, discounts applied for economies of scale and the rate of inflation.

Principal assumptions made in order to calculate the Group's provision for decommissioning and site restoration are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Japan** | **Chile** | **Japan** | **Chile** |
| Discount rate | 0.6% | 4.0% | 1.0% | 3.6% |
| Inflation rate | 1.0% | 2.7% | 1.0% | 2.0% |
| Weighted average expected remaining life of solar power plant | 20 years | 28 years | 20 years | 29 years |

The discount rates represent the government bond yield rate for a period equivalent to the expected life of the solar power projects in these countries. The inflation rate represents the inflationary environment in the above mentioned countries where the liability will be settled and is consistent with the rate used by the Company's management to value the Group's solar power projects.

The Group's other liabilities as at December 31, 2016 and 2015 are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Right of use | - | 824 |
| Equipment liability | - | 1,448 |
| Investment tax credit | - | 1,667 |
| Imbalance costs | - | 115 |
| Deferred income | 567 | 67 |
| Contributions from NCI | 23,225 | 20,189 |
| **Total other liabilities** | **23,792** | **24,310** |
| **Non-current** | **22,521** | **22,795** |
| **Current** | **1,271** | **1,515** |

### *(b) CONTRIBUTIONS FROM NON-CONTROLLING INTEREST*

In accordance with the shareholder agreements between Etrion and its partners in Japan and Chile, total project costs for the solar power plants are financed through a combination of non-recourse project debt and equity. The equity is funded by Etrion and its partners based on their respective ownership interests. During 2016, $1.4 million were contributed by non-controlling interests under the existing shareholder loan agreements (2015:nil). These shareholder loans have a fixed annual interest rate of 8% for the Japanese entities and 10% for Salvador, respectively. Contributions from non-controlling interest in the form of shareholder loans qualify as financial liabilities and have been accounted for using the amortised cost method based on the effective interest rate method. The fair value of the shareholder loans equal their carrying amount, as the impact of discounting is not significant given their fixed-rate terms. The fair values are based on cash flows discounted using an average rate of 8% for the Japanese entities and 10% for Salvador and are within level 2 of the fair value hierarchy.

## 27. RETIREMENT OBLIGATIONS

The Group operates a defined benefit pension plan in Switzerland that is managed through a private fund. At December 31, 2016, the Group recognized $0.1 million within other comprehensive loss associated with actuarial gains (2015: $0.3 million of actuarial losses).

The amount recognized in the balance sheet associated with the Group's Swiss pension plan is as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Present value of funded obligations | 2,784 | 2,962 |
| Fair value of plan assets | (1,660) | (1,666) |
| Adjustment for amounts not paid | - | (12) |
| **Net liability position** | **1,124** | **1,284** |

The movement in the defined benefit obligation over the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Defined benefit obligation at the beginning** | **2,962** | **2,506** |
| Current service cost | 221 | 232 |
| Employee contributions | 97 | 130 |
| Interest cost | 27 | 39 |
| Past service cost | (59) | - |
| Benefits paid | (245) | (223) |
| Remeasurement loss | (110) | 296 |
| Exchange differences | (107) | (18) |
| **Defined benefit obligation at the end** | **2,784** | **2,962** |

The weighted average duration of the defined benefit obligation is 18.4 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 10.5 years.

The movement in the fair value of the plan assets over the year is as follows:

| | 2016 | 2015 |
|---|---|---|
| **Fair value of plan assets at the beginning** | **1,666** | **1,489** |
| Interest income on plan assets | 15 | 23 |
| Return on plan assets (excluding interest) | 29 | 42 |
| Employer contributions | 163 | 212 |
| Employee contributions | 97 | 130 |
| Benefits paid | (245) | (223) |
| Foreign exchange | (64) | (7) |
| **Fair value of plan assets at the end** | **1,660** | **1,666** |

The plan assets comprise the following:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | % | $'000 | % | $'000 |
| Cash and cash equivalents | 7.5% | 124 | 6.5% | 108 |
| Fixed interest rate instruments | 40.5% | 672 | 45.7% | 761 |
| Equity instruments | 37.2% | 618 | 36.9% | 615 |
| Real estate | 14.8% | 246 | 10.9% | 182 |
| **Total fair value of plan assets** | | **1,660** | | **1,666** |

Investments are well diversified such that failure of any single investment would not have a material impact on the overall level of assets. All investment instruments are quoted in active markets. No asset-liability strategy was performed in the years ended December 31, 2016 and 2015.The amount recognized in the income statement associated with the Group's pension plan is as follows:

| | 2016 | 2015 |
|---|---|---|
| Current service cost | 221 | 232 |
| Interest expense on defined benefit obligation | 27 | 39 |
| Interest income on plan assets | (15) | (23) |
| Past service cost | (59) | - |
| **Total expense recognized** | **173** | **248** |

The expense associated with the Group's pension plan of $0.2 million (2015: $0.2 million) for the year ended December 31, 2016, was included within general and administrative expenses. Note 9

The principal actuarial assumptions used to estimate the Group's pension obligation are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 0.6% | 0.9% |
| Inflation rate | 1.0% | 1.0% |
| Future salary increases | 1.0% | 1.0% |
| Future pension increases | 0.0% | 0.0% |
| Retirement age | Men 65<br>Women 64 | Men 65<br>Women 64 |

Assumptions regarding future mortality are set based on actuarial advice in accordance with the LPP 2010 generational published statistics and experience in Switzerland. The discount rate is determined by reference to the yield on high-quality corporate bonds. The rate of inflation is based on the expected value of future annual inflation adjustments in Switzerland. The rate for future salary increases is based on the average increase in the salaries paid by the Group, and the rate of pension increases is based on the annual increase in risk, retirement and survivors' benefits. Contributions to the Group's pension plan during 2017 are expected to total $0.3 million. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Change in assumption | Increase in assumption | Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.50% | Decrease by 8.4% | Increase by 9.7% |
| Salary growth rate | 0.50% | Increase by 0.8% | Decrease by 0.7% |
| Life expectancy | 1 year | Increase by 1.7% | Decrease by 1.8% |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized within the consolidated balance sheet.

*Expressed in US$'000 unless otherwise stated*

## 28. TRADE AND OTHER PAYABLES

| | December 31 2016 | December 31 2015 |
|---|---|---|
| **Financial liabilities:** | | |
| Trade payables | 862 | 3,055 |
| **Total financial liabilities** | **862** | **3,055** |
| Accrued expenses | 7,823 | 21,321 |
| Other trade and other payables | 1,986 | 3,003 |
| **Total trade and other payables** | **10,671** | **27,379** |

Accrued expenses at December 31, 2015, of $7.8 million (2015: $21.3 million) include $4.5 million for the construction of the Aomori and Komatsu solar power project (2015: $15.0 million Shizukuishi power project).

The carrying value of the Group's financial liabilities within trade and other payables approximates their fair value due to the relatively short maturity of these liabilities.

The currencies of the Group's trade and other payables are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Japanese yen | 7,264 | 18,342 |
| Euros | 1,480 | 4,267 |
| Swiss francs | 1,150 | 761 |
| US dollars | 748 | 3,998 |
| Canadian dollars | 29 | 11 |
| **Total trade and other payables** | **10,671** | **27,379** |

## 29. OPERATING LEASES

The Group has operating leases for land associated with its solar power projects in Japan and Chile and for its offices in Miami, Tokyo, Geneva and Santiago.

The minimum lease payments associated with the Group's operating leases are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Next year | 1,322 | 1,063 |
| Years 2 through 5 | 4,145 | 4,288 |
| Beyond 5 years | 15,052 | 16,729 |
| **Total minimum payments** | **20,519** | **22,080** |

During 2016, the Group recognized $0.8 million (2015: $0.7 million) of operating lease expenses, of which $0.4 million (2015: $0.3 million) related to land leases included within operating expenses and $0.4 million (2015: $0.4 million) related to office leases included within general and administrative expenses. Note 8 and Note 9. The Group had no finance leases at December 31, 2016 and 2015.

## 30. RELATED PARTIES

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

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed below. Details of transactions between the Group and other related parties are disclosed below.

### *(a) RELATED PARTY TRANSACTIONS*

The Group entered into the following transactions with related parties:

| | Twelve months ended 2016 | Twelve months ended 2015 |
|---|---|---|
| **General and administrative expenses:** | | |
| Lundin Services BV | 14 | 59 |
| Lundin Petroleum AB | 27 | 29 |
| Lundin SA | 112 | - |
| **Finance costs:** | | |
| Lundin family: | | |
| - Interest expense | 865 | 877 |
| - Transaction costs | 106 | 43 |
| **Total transactions with related parties** | **1,124** | **1,008** |

Amounts outstanding to related parties at December 31, 2016 and 2015 are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| **Current liabilities:** | | |
| Lundin Services BV: | | |
| General and administrative expenses | 1 | 2 |
| Lundin family share in corporate bond | 98 | 387 |
| **Total current liabilities** | **99** | **389** |
| **Non-current liabilities:** | | |
| Lundin family share in corporate bond | 6,323 | 10,908 |
| **Total non-current liabilities** | **6,323** | **10,908** |
| **Total amounts outstanding** | **6,422** | **11,297** |

There were no amounts outstanding from related parties at December 31, 2016 and 2015.

*Lundin Services BV*

The Group receives professional services from Lundin Services BV ("Lundin Services"), a wholly-owned subsidiary of Lundin Petroleum AB. The Chairman of Lundin Petroleum AB is a Director of the Company.

*Lundin family*

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue completed in April 2014. As at December 31, 2016, the total corporate bonds held by the Lundin family amounted to €6.1 million.

*Expressed in US$'000 unless otherwise stated*

*Lundin SA*

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

***(b) KEY MANAGEMENT PERSONNEL***

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

| | Twelve months ended | |
|---|---|---|
| | **2016** | **2015** |
| Salaries and short-term benefits | 1,307 | 1,342 |
| Pension costs | 125 | 168 |
| Board of Directors | 150 | 262 |
| Share-based payment | 376 | 297 |
| **Total** | **1,958** | **2,069** |

Amounts outstanding to key management personnel at December 31, 2016 and 2015 are as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Other (bonus and pension costs) | 500 | 107 |
| **Total** | **500** | **107** |

There were no amounts outstanding from key management personnel at December 31, 2016 and 2015.

## 31. COMMITMENTS

*Contractual commitments*

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of December 31, 2016, the Group had a contractual obligation over one year to acquire construction services in the amount of $48.3 million related to the construction of the 9.5 MW Aomori and 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 and/or from the Group's unrestricted cash balance upon financial close. The Group also has contractual commitments associated with its lease contracts Note 29.

## 32. CONTINGENT LIABILITIES

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

## 33. SUBSEQUENT EVENTS

*Aomori partial completion*

In February, 2017, the Company connected the first two solar park sites of the Group's Aomori solar project in Japan, representing 5.3 MW of the 9.5 MW total planned capacity.

*Forbearance agreement*

On March 9, 2017, Etrion signed an amendment to the existing senior finance agreement with Overseas Private Investment Corporation ("OPIC"), Salvador's lender, 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. The deferred interest and principal payments will accrue additional interest rate at the level of existing interest rate, i.e. around 7% p.a. All defaults resulting from financial covenants and ratios calculations during this period will be waived.