



MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS ENDED MARCH 31, 2013

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INTRODUCTION

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business environments. This MD&A, prepared as of May 13, 2013, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2013. Financial information is reported in United States ("US") dollars ("\$"). However, as the Group primarily operates in Europe, certain financial information has been reported in Euros ("€"). At March 31, 2013, the €/\$ exchange rate was 1.28 (2012: 1.34) and the average exchange rate for the three months ended March 31, 2013, was 1.32 (2012: 1.31). 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 (MWp).

This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 17.

FIRST QUARTER 2013 HIGHLIGHTS

| | Three months ended March 31 | |
|--|-----------------------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Revenue ⁽¹⁾ | 8,322 | 10,738 |
| Gross profit | 1,511 | 4,746 |
| EBITDA ⁽²⁾ | 4,741 | 9,147 |
| EBITDA margin | 57% | 85% |
| Net loss | (5,456) | (2,301) |
| Adjusted net income before non-recurring and non-cash items ⁽²⁾ | 253 | 1,359 |
| Operating cash flow ⁽³⁾ (\$'000) | 959 | 5,081 |
| Working capital ⁽⁴⁾ (\$'000) | 17,021 | 21,910 |

Notes:

- (1) Revenues are received in Euros and have been translated at the average €/\$ exchange rate for the three months ended March 31, 2013, of 1.32 (2012: 1.31). The average price per kilowatt-hour ("kWh") received during the three months ended March 31, dropped from \$0.54, in the comparable period of 2012, to \$0.52, primarily due to a reduction in the spot market price in Italy, from €0.08 per kWh to €0.07 per kWh.
- (2) Refer to "Financial Review – Financial Results" on pages 7 and 8 for an overview of the Group's adjusted net income before non-recurring and non-cash items and earnings, before interest, tax, depreciation and amortization ("EBITDA") (both of which are non-International Financial Reporting Standard ("IFRS") measures).
- (3) Operating cash flow refers to cash flows before investing and financing activities and the effects of foreign exchange rate differences (refer to "Financial Review – Financial Results" on page 7).
- (4) Working capital refers to current assets less current liabilities (refer to "Financial Review – Financial Results" on page 7).

BUSINESS REVIEW

BUSINESS OVERVIEW

Etrion is an independent power producer that owns and operates renewable assets. The Company is listed on the Toronto Stock Exchange ("TSX") in Canada (primary listing) and the NASDAQ OMX Stockholm exchange ("NASDAQ OMX") in Sweden (secondary listing). Etrion is based in Geneva, Switzerland with offices in Rome, Italy and Santiago, Chile.

The Company operates in the downstream sector of the renewable energy value chain, focusing on owning and operating renewable energy projects. The Company's business model focuses on six key drivers for success: (1) stable revenues; (2) abundant renewable resources; (3) high wholesale electricity prices; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

The Company has an operating platform in Europe consisting of approximately 60 MW of ground-based solar photovoltaic ("PV") power plants all located in Italy. In addition, Etrion is pursuing opportunities to diversify in terms of geography (i.e., expansion into South America) and contract regime (i.e., FiT revenues complemented by long-term PPAs).

BUSINESS REVIEW (CONTINUED)

BUSINESS OVERVIEW (CONTINUED)

Due to the accelerated cost reductions of renewable power facilities and certain markets evolving beyond the need for government incentives, Etrion is complementing its business by focusing on markets with abundant renewable resources (i.e., high solar irradiation) and large energy demand where it expects to enter into long-term PPAs with industrial clients or local utilities. In addition, Etrion continues to evaluate opportunities in markets with attractive government incentives (such as FITs) and strong business fundamentals, where the Company believes it can develop and/or acquire additional renewable energy projects.

Future growth will be driven by the development and/or acquisition of additional renewable energy projects under long-term contracts in markets with: (a) high electricity prices and abundant renewable resources; or (b) attractive government incentives.

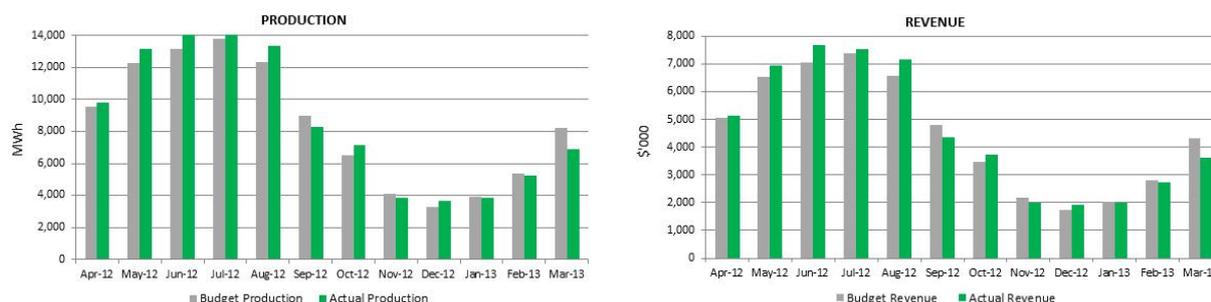
Refer to “Business Review – Development Activities” on pages 4 and 5 for a summary of the Group’s development activities and solar pipeline in Chile.

OPERATIONS REVIEW

OPERATING PERFORMANCE

During the three months ended March 31, 2013, the Group recognized revenues from seven solar power projects all located in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising seventeen solar power plants.

Solar-related revenues are subject to seasonality over the year due to the variability of daily sun hours in the summer versus winter months. However, on an annual basis, expected solar irradiation in Italy varies less than 10%. This seasonality should smooth over time as the Group secures new projects in South America. The following summarizes the Group’s actual and budgeted revenue and production information over the last twelve months and the effects of seasonality:



The Group has substantial revenues and cash flows from operations and its current platform, of approximately 60 MW, continues to perform above plan, producing more than 2% more electricity and revenues than budgeted over the last twelve months, primarily attributable to more daily sun hours and better performance of the Group’s solar power projects than expected. However, during the three months ended March 31, 2013, the Group’s production was significantly impacted by lower solar irradiation than expected.

Performance against budget and prior year

Production and revenue for the three months ended March 31, 2013, compared to budget and the same period of 2012 is as follows:

| | Performance against budget | | | | Performance against prior year | | | |
|---------------------------------|----------------------------|--------|----------|------|--------------------------------|--------|----------|-------|
| | Actual | Budget | Variance | | 2013 | 2012 | Variance | |
| Production ⁽¹⁾ (MWh) | 15,956 | 17,500 | (1,544) | (9)% | 15,956 | 20,128 | (4,172) | (21)% |
| Revenue (\$'000) | 8,322 | 9,165 | (843) | (9)% | 8,322 | 10,738 | (2,416) | (22)% |

Note:

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

The Group’s production for the first quarter of 2013 was adversely impacted by lower solar irradiation due to poor weather conditions, resulting in a 9% reduction against plan and a 21% reduction against the same period of 2012.

BUSINESS REVIEW (CONTINUED)

OPERATIONS REVIEW (CONTINUED)

OPERATING PERFORMANCE (CONTINUED)

Performance against budget and prior year (continued)

Production and pricing information for the three months ended March 31, 2013, compared to the same period of 2012 is as follows:

| | 2013 | | | 2012 | | |
|--|--------|----------------------------------|---------------------|--------|----------------------------------|---------------------|
| | MWh | Price ⁽¹⁾ (\$/kWh) | Revenue (\$'000) | MWh | Price ⁽¹⁾ (\$/kWh) | Revenue (\$'000) |
| FiT revenues (based on actual production) ⁽²⁾ | 15,956 | 0.43 | 6,929 | 20,128 | 0.43 | 8,655 |
| Market Price revenues (based on evacuated production) ⁽³⁾ | 15,689 | 0.09 | 1,393 | 18,936 | 0.11 | 2,083 |
| Total revenue | | | 8,322 | | | 10,738 |

Notes:

- (1) Revenues are received in Euros and have been translated at the average €/€ exchange rate for the three months ended March 31, 2013, of 1.32 (2012: 1.31). The average price per kWh received during the three months ended March 31, dropped from \$0.54, in the comparable period of 2012, to \$0.52, primarily due to a reduction in the spot market price in Italy, from €0.08 per kWh to €0.07 per kWh.
- (2) The FiT is received for each kWh of electricity produced.
- (3) The spot market price ("Market Price") is received in addition to the FiT and is based on evacuated production (i.e., electricity produced less transmission losses).

Revenues were also impacted by a reduction in the average spot market price in Italy accounting for approximately 17% (2012: 19%) of the Group's total revenues generated during the period. The remainder of the Group's revenues are secured by long-term contracts (i.e., FiT contracts), as outlined on page 6 within 'Business Review – Market Overview'.

OPERATING PROJECTS

A summary of the Group's current operating solar power projects all located in Italy at March 31, 2013 is as follows:

| Project | Region | Sites | Capacity (MW) | Technology | Contractor | Panels | Inverters | Connection date | FiT ⁽¹⁾ |
|--|--------|-----------|------------------|-------------|------------|----------|-------------|--------------------|--------------------|
| Cassiopea | Lazio | 1 | 23.9 | Single axis | SunPower | SunPower | SMA | Nov-09 | €0.353 |
| Helios ITA-3 (Brindisi, Mesagne) | Puglia | 2 | 10.0 | Single axis | ABB | Yingli | Bonfiglioli | Aug-11 | €0.250 |
| Centauro | Lazio | 1 | 8.7 | Single axis | SunPower | SunPower | SMA | Jul-10 | €0.346 |
| Helios ITA (Brindisi, Mesagne) ⁽²⁾ | Puglia | 7 | 6.4 | Single axis | Solon | Solon | Santerno | Dec-09 | €0.353 |
| Etrion Lazio (Borgo Piave, Rio Martino) ⁽³⁾ | Lazio | 2 | 5.2 | Fixed-tilt | Phoenix | Trina | SMA | Apr-11 | €0.346 |
| SVE (Oria, Martino, Ruffano) | Puglia | 3 | 3.0 | Single axis | SunPower | SunPower | Siemens | Dec-10 | €0.346 |
| Sagittario (Nettuno) | Lazio | 1 | 2.6 | Fixed-tilt | Phoenix | Trina | SMA | Aug-11 | €0.250 |
| Total | | 17 | 59.8 | | | | | | |

Notes:

- (1) FiT per kWh, based on connection date. In Italy, revenues are derived from the FiT and Market Price, both received for each kWh of electricity produced.
- (2) Six of the Helios ITA solar parks benefit from the 2009 FiT of €0.353 per kWh, and the last park built benefits from the 2010 FiT of €0.346 per kWh.
- (3) Etrion Lazio was installed at the end of 2010. However, the project was not connected to the electricity grid until April 2011.

Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 23.9 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower Corporation ("SunPower"), a US-based solar panel manufacturer and installer, using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Cassiopea has an operations and maintenance O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2009 FiT of €0.353 per kWh plus the Market Price of approximately €0.07 per kWh.

Helios ITA-3

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5 MW) and Mesagne (5 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB S.p.A. ("ABB"), the Swiss power and automation technology group, using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance. Both solar parks benefit from the August 2011 FiT of €0.250 per kWh plus the Market Price of approximately €0.07 per kWh.

BUSINESS REVIEW (CONTINUED)

OPERATIONS REVIEW (CONTINUED)

OPERATING PROJECTS (CONTINUED)

Centauro

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.7 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2010 FiT of €0.346 per kWh plus the Market Price of approximately €0.07 per kWh.

Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009 and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon poly-crystalline modules and Santerno inverters. In July 2012, the Group entered into a new O&M contract, including preventive and corrective maintenance, with ABB, the previous O&M contract was with Solon. Six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefit from the 2009 FiT of €0.353 per kWh plus the Market Price of approximately €0.07 per kWh. The last park built (0.6 MW) benefits from the 2010 FiT of €0.346 per kWh plus the Market Price of approximately €0.07 per kWh.

Etrion Lazio

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.7 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar ("Phoenix"), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance. Both solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price of approximately €0.07 per kWh.

SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Matino (1 MW) and Ruffano (1 MW). All three solar parks were connected to the electricity grid in December 2010. The SVE solar parks were built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance. All three solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price of approximately €0.07 per kWh.

Sagittario

The Sagittario project in Lazio, Italy, consists of one ground-mounted solar PV park with a total capacity of 2.6 MW. The solar park was completed and connected to the electricity grid in August 2011. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Sagittario has an O&M contract with Phoenix, including preventive and corrective maintenance. The solar park benefits from the August 2011 FiT of (€0.250 per kWh plus the Market Price of approximately €0.07 per kWh).

Refer also to "Business Review – Market Overview" on pages 5 and 6 for an overview of the renewable energy market in Italy.

DEVELOPMENT ACTIVITIES

CHILE

Etrion is pursuing renewable energy projects in South America, with an initial focus on Chile, due to the high solar irradiation and large energy demand. In these markets, the Group can compete with traditional sources of electricity without the need for government incentives by entering into long-term PPAs, denominated in US dollars, with industrial clients.

Refer to "Business Review – Market Overview" on page 6 for an overview of the renewable energy market in Chile.

BUSINESS REVIEW (CONTINUED)

DEVELOPMENT ACTIVITIES (CONTINUED)

CHILE (CONTINUED)

Aguas Blancas

In January 2013, the Company signed a letter of intent with Atacama Minerals Chile S.C.M. outlining the principal commercial terms of a long-term take-or-pay PPA to sell electricity to its Aguas Blancas mine located in the north of Chile. As a result, Etrion will develop, build and operate a solar power project with a capacity of 8.8 MW that is expected to be operational in the first half of 2014. The parties expect to sign a definitive PPA in the first half of 2013. The total project cost, including costs related to the licences, permits, development and construction, is estimated to be approximately \$20 million, a portion of which is expected to be financed through non-recourse project financing, with the remaining equity portion to be funded by the Company. Construction of Aguas Blancas is subject to a definitive PPA between the parties and Etrion arranging the necessary debt and equity financing as well as other conditions customary for transactions of this nature, including all necessary regulatory approvals.

Development pipeline

Etrion is also pursuing other opportunities to produce solar electricity in Chile and expects additional projects to be secured throughout 2013 and beyond.

In addition, Etrion continues to explore other opportunities to develop and/or acquire additional renewable energy projects in Chile as well as other countries in South America considering projects in varying stages of development.

MARKET OVERVIEW

The market for renewable energy sources, including solar, biomass, wind, hydro and bio fuels, is driven by a variety of factors, such as legislative and policy support, technology, macroeconomic conditions, pricing and environmental concerns. The overall goal for the solar energy market is to reach grid parity, whereby the price of solar energy is competitive with traditional sources of electricity, such as coal, natural gas and nuclear energy. Solar technology cost has dropped dramatically and continues to decrease. In addition, solar energy has reached grid parity in certain parts of the world where solar irradiation and electricity prices are high (for example Chile, where the Group is competing with traditional sources of electricity without government subsidies). As the cost of solar technology continues to drop, new potential markets are expected to develop in areas where solar electricity is price-competitive with other sources of energy.

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

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

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

ITALIAN MARKET

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

BUSINESS REVIEW (CONTINUED)

MARKET OVERVIEW (CONTINUED)

ITALIAN MARKET (CONTINUED)

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

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

In addition to the FiT, solar power generators receive the spot market rate on a per kWh basis. The Market Price during the three months ended March 31, 2013 was approximately €0.07 per kWh of energy produced (2012: €0.08 per kWh).

Although several changes have been made to the FiT regime in Italy for renewable energy sources such as solar (specifically, the decree approved in May 2011 establishing new tariffs for solar PV plants and the fifth 'Conto Energia' renewable energy law approved in April 2012 setting out a new scheme for the installation of solar PV plants), the Group's operating solar projects were not affected by these changes, apart from an additional administrative fee of approximately €0.0005 per kWh produced established by the fifth 'Conto Energia' renewable energy law.

Refer to "Business Review – Operations Review" on pages 3 and 4 for an overview of the Group's operating projects in Italy.

CHILEAN MARKET

Chile's energy demand has been growing rapidly since 1990, a result of increased power consumption by the mining sector, the country's single largest industry, and large urban areas such as the capital city Santiago. The increased demand combined with scarce fossil fuel resources has made the country a net importer of energy. The energy sector is largely privatized which enables energy producers to enter into bilateral agreements directly with industrial clients. The Chilean government has also instituted a "clean energy" mandate requiring 10% of its electricity to be generated from renewable sources by 2024, demonstrating strong support for the development and use of renewable energy sources. Due to the size of Chile's economy and well established capital markets, manufacturers and finance providers are available to support the growing demands for energy consumption. Today, mini-hydro is Chile's primary source of renewable energy. However, there is a large opportunity for growth in the solar sector, especially in the northern part of the country where more than 90% of the electricity consumption is by industrial users, such as mining operations.

The cost of solar generation has dropped significantly, enabling Etrion to provide competitive electricity solutions particularly in areas of high solar irradiation without the need for government subsidies. Chile is a country with abundant renewable resources (i.e., strong solar irradiation), high wholesale electricity prices and a large energy demand making it an ideal country for Etrion to grow and diversify through new opportunities.

Refer to "Business Review – Development Activities" on page 4 and 5 for an overview of the Group's development activities in Chile and progress made to date.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets (including Europe, Japan and North America) and are a key driver for market growth. The objective of these incentives is to increase investment in renewable energy generation in order to deliver greater efficiency and cost reductions. Etrion will continue to evaluate new markets with attractive government incentives where it can develop and/or acquire additional renewable projects and will remain opportunistic for solar power projects in Europe.

In addition, as the cost of renewable power generation continues to drop, Etrion will be able to compete with traditional sources of electricity in new markets with abundant renewable resources and high electricity prices. Specifically, the Group is currently evaluating opportunities to expand into other regions of South America, where it will enter into long-term PPAs with industrial users or the local utility.

FINANCIAL REVIEW

FINANCIAL RESULTS

FIRST QUARTER SELECTED FINANCIAL INFORMATION

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

| | Three months ended | |
|--|--------------------|----------------|
| | March 31 | |
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Revenue | 8,322 | 10,738 |
| Gross profit | 1,511 | 4,746 |
| Net loss⁽¹⁾ | (5,456) | (2,301) |
| Adjustments for non-recurring items: | | |
| - Other expenses/(income) ⁽²⁾ | 393 | (1,403) |
| Adjusted net loss before non-recurring items⁽³⁾ | (5,063) | (3,704) |
| Adjustments for non-cash items: | | |
| - Depreciation and amortization | 5,080 | 5,076 |
| - Fair value movements (derivative financial instruments) | 68 | (92) |
| - Share-based payment expense | 168 | 79 |
| Adjusted net income before non-recurring and non-cash items⁽³⁾ | 253 | 1,359 |
| Net loss | (5,456) | (2,301) |
| Adjustments for: | | |
| - Net income tax recovery | (2,033) | (448) |
| - Depreciation and amortization | 5,080 | 5,076 |
| - Gain on asset disposal | (17) | - |
| - Share-based payment expense | 168 | 79 |
| - Net finance costs | 7,080 | 6,714 |
| - Other expenses/(income) | 393 | (1,403) |
| - Income tax paid | (43) | - |
| - Changes in working capital | (4,213) | (2,636) |
| Operating cash flow⁽⁴⁾ | 959 | 5,081 |

Notes:

- (1) Net loss for the period includes both the net loss from continuing operations and the net loss attributable to owners of the parent company. Basic and diluted loss per share for the three months ended March 31, 2013, and 2012 was \$0.03 and \$0.01, respectively.
- (2) During the three months ended March 31, 2013, the Group impaired \$0.4 million of costs associated with its business development activities. During the three months ended March 31, 2012, the net results were positively impacted by non-recurring other income of \$1.4 million related to the 10% equity interest in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), previously held by Marco A. Northland, the Company's Chief Executive Officer and director ("Mr. Northland"), to adjust the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion in accordance with IFRS 2, *Share-based Payments* ("IFRS 2").
- (3) Adjusted net loss before non-recurring items and adjusted net income before non-recurring and non-cash items are a non-IFRS measure.
- (4) Operating cash flow refers to cash flows before investing and financing activities, working capital adjustments and the effects of foreign exchange rate differences.

| | March 31 | December 31 |
|---|----------------|----------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Non-current assets | 364,643 | 385,166 |
| Current assets | 62,887 | 67,611 |
| Total assets | 427,530 | 452,777 |
| Non-current liabilities | 398,683 | 417,515 |
| Current liabilities | 45,866 | 49,908 |
| Total liabilities | 444,549 | 467,423 |
| Working capital (current assets less current liabilities) | 17,021 | 17,703 |
| Dividends declared | - | - |

Refer to "Financial Review – Financial Results" on pages 8 to 10 for further information relating to Etrion's condensed consolidated interim financial information for the three months ended March 31, 2013.

QUARTERLY SELECTED FINANCIAL INFORMATION

Selected consolidated financial information, prepared in accordance with IFRS (presented in \$'000, except for per share data, which is presented in \$):

| | 2013 | 2012 | | | | 2011 | | |
|---|---------|---------|--------|--------|---------|----------|---------|---------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue | 8,322 | 7,385 | 18,341 | 19,198 | 10,738 | 8,585 | 18,219 | 17,829 |
| Net (loss)/gain ⁽¹⁾ | (5,456) | (7,292) | 379 | 756 | (2,301) | (19,795) | (2,849) | (2,124) |
| Basic and diluted (loss)/earnings per share | (0.027) | (0.036) | 0.002 | 0.004 | (0.012) | (0.106) | (0.015) | (0.012) |

Note:

- (1) Net loss for the period includes both the net loss from continuing operations and the net loss attributable to owners of the parent company.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

QUARTERLY SELECTED FINANCIAL INFORMATION (CONTINUED)

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months, resulting in lower revenues in the first and fourth quarter of every calendar year. Such variations should smooth over time as the Group secures additional solar power projects in Chile or other parts of South America.

FIRST QUARTER RESULTS

EBITDA

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

| | Three months ended March 31, 2013 | | | Three months ended March 31, 2012 | | |
|---|---|------------------------------------|-----------------|---|------------------------------------|-----------------|
| | Renewable energy ⁽¹⁾ \$'000 | Corporate ⁽¹⁾ \$'000 | Total \$'000 | Renewable energy ⁽¹⁾ \$'000 | Corporate ⁽¹⁾ \$'000 | Total \$'000 |
| Revenue | 8,322 | - | 8,322 | 10,738 | - | 10,738 |
| Operating expenses ⁽²⁾⁽³⁾ | (1,825) | - | (1,825) | (986) | - | (986) |
| General and administrative expenses ⁽²⁾⁽³⁾ | (330) | (1,033) | (1,363) | (207) | (1,801) | (2,008) |
| Other (expenses)/ income | - | (393) | (393) | - | 1,403 | 1,403 |
| EBITDA⁽⁴⁾ | 6,167 | (1,426) | 4,741 | 9,545 | (398) | 9,147 |
| Non-recurring items ⁽⁵⁾ : | | | | | | |
| - Other expenses/(income) | - | 393 | 393 | - | (1,403) | (1,403) |
| Adjusted EBITDA⁽³⁾ | 6,163 | (1,033) | 5,134 | 9,545 | (1,801) | 7,744 |

Notes:

- (1) The renewable energy segment includes only the Group's solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes the Group's passive oil and gas investments and all corporate overhead expenditure.
- (2) Operating expenses and general and administrative expenses shown here, for the purposes of calculating EBITDA and adjusted EBITDA, exclude depreciation and amortization expenses.
- (3) Corporate general and administrative expenses of \$0.4 million, incurred during the three months ended March 31, 2012, relating to internally generated costs and property taxes directly attributable to the Group's operating renewable energy assets, were reclassified to operating expenses associated with the Group's renewable energy assets, adjusting the amounts previously reported to be consistent with the classification of expenditure applied in 2013.
- (4) EBITDA is a non-IFRS measure and adjusted EBITDA excludes non-recurring items recognized during the relevant year.
- (5) Refer to "Financial Review – Financial Results" on page 7 for an overview of the non-recurring items that occurred during the relevant period.

Revenue

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|----------------------|----------------------------|----------------------------|
| FiT revenue | 6,929 | 8,655 |
| Market Price revenue | 1,393 | 2,083 |
| Total revenue | 8,322 | 10,738 |

Revenues decreased by \$2.4 million (22%) during the three months ended March 31, 2013, compared to the same period of 2012, due to lower than expected solar irradiation, a result of poor weather conditions, and a reduction in the spot market price in Italy.

Operating expenses

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|--|----------------------------|----------------------------|
| O&M costs | 755 | 172 |
| Operating personnel costs | 206 | 247 |
| Depreciation and amortization (operating solar power projects) | 4,987 | 5,006 |
| Taxes (other than income tax) ⁽¹⁾ | 430 | 148 |
| Insurance | 111 | 105 |
| Land lease | 53 | 51 |
| Other operating expenses | 269 | 263 |
| Total operating expenses | 6,811 | 5,992 |

Note:

- (1) Operating expenses incurred during the three months ended March 31, 2012, as previously reported of \$5.5 million were increased by \$0.4 million, due to a reclassification of certain general and administrative expenses, including internally generated costs and property taxes, directly related to the operation of the Group's solar power projects to be consistent with the classification of expenditure applied in 2013.

Operating expenses increased by \$0.8 million (14%) during the three months ended March 31, 2013, compared to the same period of 2012, due to additional O&M expenses associated with three of the Group's solar power projects (Cassiopea, Centauro and Helios ITA) that commenced after the second year of operations and higher property taxes associated with the Group's solar power projects due to a change in the Italian property tax legislation.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

FIRST QUARTER RESULTS (CONTINUED)

Operating expenses (continued)

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

General and administrative expenses

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|---|----------------------------|----------------------------|
| Salaries and benefits ⁽¹⁾ | 405 | 983 |
| Board of Directors fees | 22 | 60 |
| Share-based payment expense (non-cash item) | 168 | 79 |
| Corporate and professional fees | 512 | 476 |
| Listing, filing and marketing expenses | 84 | 117 |
| Depreciation and amortization (corporate assets) | 93 | 70 |
| Office lease expenses | 121 | 115 |
| Office, travel and other general and administrative expenses ⁽¹⁾ | 52 | 178 |
| Total general and administrative expenses | 1,457 | 2,078 |

Note:

- (1) General and administrative expenses incurred during the three months ended March 31, 2012, as previously reported of \$2.5 million were reduced by \$0.4 million, due to a reclassification of certain costs, including internally generated costs and property taxes, directly related to the operation of the Group's solar power projects to be consistent with the classification of expenditure applied in 2013.

General and administrative expenses decreased by \$0.6 million (30%) during the three months ended March 31, 2013, compared to the same period of 2012, primarily due to the capitalization of internally-generated costs within intangible assets, directly attributable to the Group's business development activities, a lower headcount, a reduction to the compensation of the Company's board of directors and a reduction in travel and other office related expenditure, offset by higher share-based payment expenses.

Other expenses/income

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|---|----------------------------|----------------------------|
| Impairment related to business development activities | 393 | - |
| Exchange right (non-cash compensation) | - | (1,403) |
| Total other expenses/(income) | 393 | (1,403) |

During the three months ended March 31, 2013, the Group impaired certain costs associated with its business development activities.

During the three month ended March 31, 2012, the Group recognized other income of \$1.4 million related to the 10% equity interest in the Company's subsidiary, SRH, previously held by Mr. Northland, to adjust the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion in accordance with IFRS 2

Net finance costs

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|--|----------------------------|----------------------------|
| Interest expense associated with non-recourse project loans ⁽¹⁾ | 4,962 | 5,064 |
| Interest expense associated with corporate borrowings ⁽¹⁾ | 1,809 | 1,940 |
| Net fair value movements associated with derivative financial instruments | 68 | (92) |
| Foreign exchange | 236 | (198) |
| Other net finance costs | 75 | 106 |
| Net finance costs | 7,150 | 6,820 |

Note:

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

Finance costs increased by \$0.3 million (5%) during the three months ended March 31, 2013, compared to the same period of 2012, primarily due to fair value losses being recognized during the period associated with the Group's interest rate swap contracts and the effects of foreign exchange rate movements, offset by a reduction of interest expenses at the project level due to the self-amortizing nature of the Group's non-recourse project loans.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

FIRST QUARTER RESULTS (CONTINUED)

Net finance costs (continued)

Refer to “Financial Review – Financial Position” on page 11 for an overview of the Group’s non-recourse project loans and corporate borrowings. All of the Group’s non-recourse project loans are hedged through interest rate swap contracts all of which qualified for hedge accounting during 2012 and for the first quarter of 2013.

Income tax expense

| | March 31 2013 \$'000 | March 31 2012 \$'000 |
|----------------------------------|----------------------------|----------------------------|
| Current income tax recovery | 3,012 | 627 |
| Deferred income tax expense | (979) | (179) |
| Total income tax recovery | 2,033 | 448 |

Income tax recovery increased by \$1.6 million (354%) during the three months ended March 31, 2013, compared to the same period of 2012, primarily due to higher taxable losses recognized during the period. During the first quarter of 2013 and 2012, the Group recognized taxable losses due to the seasonality of its revenues over the year.

FINANCIAL POSITION

During the three months ended March 31, 2013, the Group’s total equity decreased by \$2.4 million from a net liability position of \$14.6 million at December 31, 2012, to a net liability position of \$17.0 million at March 31, 2013, due to the \$5.5 million net loss reported by the Group during the period and a prior period adjustment of \$0.2 million, offset by unrealized gains of \$3.1 million recognized within other reserves associated with the Group’s derivative financial instruments (i.e., interest rate swap contracts) and foreign currency translation adjustments and share-based payment expenses of \$0.2 million.

The Group’s total equity at March 31, 2013, was negatively impacted by fair value losses of \$20.3 million recognized within other reserves associated with the Group’s derivative financial instruments that are not expected to be realized (i.e., the interest rate swap contracts will be held until the maturity of the associated non-recourse project loans). Excluding these fair value losses, the Group’s total equity at March 31, 2013, would have been positive \$3.3 million.

LIQUIDITY AND FINANCING

At March 31, 2013, the Group had cash and cash equivalents of \$25.7 million (December 31, 2012: \$37.8 million) and positive working capital (i.e., current assets less current liabilities) of \$17 million (December 31, 2012: \$17.7 million). Refer to “Financial Review – Financial Position” on page 12 for an overview of the Group’s going concern assumption assessment and working capital requirements.

The Group’s cash and cash equivalents at March 31, 2013, included restricted cash of \$20 million (December 31, 2012: \$30.8 million), which relates to cash and cash equivalents held at the project level that is restricted by the lending banks for future repayment of interest and principal and working capital requirements related to the specific project. Restricted cash and cash equivalents can be distributed from the Group’s projects, subject to approval from the lending banks, either through repayment of shareholder loans, payment of interest on shareholder loans or dividend distributions.

There have been no significant changes to the Group’s contractual obligations as outlined in the Company’s MD&A for the year ended December 31, 2012.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

Borrowings

The Group's adjusted net debt position, excluding non-cash items at March 31, 2013, is as follows:

| | March 31 2013 \$'000 | December 31 2012 \$'000 |
|---|----------------------------|-------------------------------|
| Total borrowings (per consolidated financial statements) | 383,649 | 399,771 |
| Value added tax ("VAT") facilities ⁽¹⁾ | (19,191) | (20,054) |
| Accrued interest ⁽²⁾ | (916) | (2,867) |
| Transaction costs ⁽²⁾ | 10,413 | 10,952 |
| Total borrowings (excluding non-cash items) | 373,955 | 387,802 |
| Cash and cash equivalents (including restricted cash) | (25,701) | (37,750) |
| Adjusted net debt | 348,254 | 350,052 |

Notes:

- (1) VAT facilities are excluded from total borrowings as these facilities are to be repaid using the proceeds from input VAT received from the Italian tax authorities.
- (2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

At March 31, 2013 and December 31, 2012, the Group was not in breach of any of the imposed operational and financial covenants associated with its non-recourse project loans and corporate borrowings.

Non-recourse project loans

The non-recourse project loans (i.e., facilities to which the lending bank is only entitled to the assets from the associated project) held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's solar power projects, mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin, ranging from 2.22% to 2.75%. At March 31, 2013 and December 31, 2012, all non-recourse projects loans were hedged through interest rate swap contracts. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into with the GSE and the proceeds from the collection of input VAT accumulated for construction costs.

The following is a summary of the Group's non-recourse project loans denominated in Euros, translated at the closing €/€ exchange rate of 1.28 at March 31, 2013, and 1.34 at December 31, 2012:

| | Capacity (MW) | Financial institution | Maturity | Balance outstanding ⁽¹⁾ | |
|--------------|------------------|---|--------------------|------------------------------------|-------------------------------|
| | | | | March 31 2013 \$'000 | December 31 2012 \$'000 |
| Cassiopea | 23.9 | BIIS ⁽²⁾ , Societe Generale and WestLB | March 31, 2024 | 133,332 | 140,370 |
| Helios ITA-3 | 10 | Natixis, WestLB and Mediocreval | June 30, 2027 | 44,297 | 45,317 |
| Centauro | 8.7 | Barclays | September 30, 2028 | 48,332 | 50,736 |
| Helios ITA | 6.4 | Societe Generale and Dexia | June 30, 2024 | 36,382 | 37,214 |
| Etrion Lazio | 5.2 | Natixis, WestLB and Mediocreval | June 30, 2027 | 20,587 | 21,027 |
| SVE | 3.0 | Centrobanca | June 30, 2028 | 15,500 | 16,032 |
| Sagittario | 2.6 | Natixis, WestLB and Mediocreval | June 30, 2027 | 8,806 | 9,008 |
| Total | 59.8 | | | 307,236 | 319,704 |

Notes:

- (1) Balances outstanding include the VAT facilities associated with the loans (to be repaid using the proceeds from input VAT from the Italian tax authorities) and accrued interest net of transaction costs (in accordance with IFRS). According to the facility agreements, the VAT facilities are to be repaid within forty-eight months from the amounts collected from the Italian tax authorities for input VAT on the Group's construction activities.
- (2) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).

Corporate borrowings

Corporate bonds

In April 2011, the Company issued €60 million of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At March 31, 2013, the amount outstanding, including accrued interest and net of transaction costs, was \$76.4 million (December 31, 2012: \$80.1 million).

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

Borrowings (continued)

Corporate borrowings (continued)

Corporate bonds (continued)

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in full or in part), after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At March 31, 2013, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

GOING CONCERN

The Company's condensed consolidated interim financial statements for the three months ended March 31, 2013, 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 March 31, 2013, the Group had cash and cash equivalents of \$25.7 million (December 31, 2012: \$37.8 million) and positive working capital (i.e., current assets less current liabilities) of \$17 million (December 31, 2012: \$17.7 million). During the three months ended March 31, 2013, the Group recognized a net loss of \$5.4 million. However, 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 this MD&A.

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt and equity financing, vendor financing or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditures or consider selling certain existing assets.

The Company's condensed consolidated interim financial statements for the three months ended March 31, 2013 do not include the adjustments that would result if the Group was unable to continue as a going concern.

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 205,746,419 common shares (December 31, 2012: 205,746,419) and options to purchase up to 7,610,000 common shares (December 31, 2012: 7,450,000) issued and outstanding. The options expire at various dates between September 30, 2013, and April 28, 2018, with exercise prices in Canadian dollars ("CAD\$") ranging between CAD\$0.25 and CAD\$1.59 per share.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at March 31, 2013 and December 31, 2012.

CAPITAL INVESTMENTS

The Group is evaluating opportunities to make significant capital investments in the future in order to acquire and/or build ground-mounted solar PV power plants. Etrion plans to finance the acquisition and construction of its projects under development with a combination of cash and cash equivalents, additional corporate debt or equity financing, non-recourse project loans and vendor financing, as required. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. For those projects with financing already secured through non-recourse project loans, no additional capital contributions are expected.

At March 31, 2013, and December 31, 2012, the Group had no committed capital expenditures outstanding.

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.

FINANCIAL REVIEW (CONTINUED)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2013 from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2012.

During the three months ended March 31, 2013, the Group adopted the following new standards and interpretations or amendments thereto applicable for financial periods beginning on January 1, 2013:

- **IAS 19 (revised), Employee Benefits ("IAS 19"):** The revised standard clarifies what is included in annual costs for defined benefit plans, requires actuarial gains and losses to be recognized immediately in comprehensive income and requires additional disclosures regarding the characteristics of the entity's benefit plans, amounts recognized in the financial statements, impacts on future cash flows and risks arising from the defined benefit plan. The Group assessed the full impact of IAS 19 and concluded that the adoption does not have a significant impact on the condensed consolidated interim financial statements for the three months ended March 31, 2013.
- **IFRS 10, Consolidated Financial Statements ("IFRS 10"):** This standard builds on the existing principals by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group assessed the full impact of IFRS 10 and concluded that the adoption does not have a significant impact on the condensed consolidated interim financial statements for the three months ended March 31, 2013.

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, whose position is held through various trusts which collectively own approximately 24.5% of the Company's share capital. 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 condensed consolidated interim financial statements for the three months ended March 31, 2013 are summarized below and on page 14.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives technical and legal services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a director of the Company. During the three months ended March 31, 2013, the Group incurred general and administrative expenses of \$10,000 (2012: \$1,000) and at March 31, 2013 the Group had \$2,000 (2012: \$1,000) outstanding in relation to these expenses.

At March 31, 2013, Lundin Services BV held €7.6 million (December 31, 2012: €7.6 million) of the corporate bonds issued by the Company in April 2011 at 9% annual interest with a 4-year maturity. During the three months ended March 31, 2013, the Group recognized \$0.2 million (2012: \$0.2 million) of interest expense and \$6,000 (2012: \$5,000) of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV.

Lundin family

At March 31, 2013, investment companies associated the Lundin family held €15 million of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity. During the three months ended March 31, 2013, the Group recognized \$0.4 million (2012: \$0.4 million) of interest expense and \$12,000 (2012: \$11,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

In December 2012, the Group received \$1.5 million from an investment company associated with the Lundin family, in order to fund certain business development activities. The short-term loan was non-interest bearing and was fully repaid in February 2013.

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.

FINANCIAL REVIEW (CONTINUED)

RELATED PARTIES (CONTINUED)

KEY MANAGEMENT PERSONNEL (CONTINUED)

During the three months ended March 31, 2013, the Group recognized \$0.3 million (March 31, 2012: \$0.4 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 March 31, 2013, the Group had \$6,000 in fees payable to the Board of Directors. At December 31, 2012, the Group had \$0.3 million outstanding to key management personnel for 2012 bonus compensation and fees payable to the Board of Directors

Mr. Northland's exchange right

Upon the acquisition of a 90% equity interest in SRH in September 2009, the Company entered into a shareholders' agreement with Mr. Northland, who then held the remaining 10% equity interest in SRH. The agreement provided Mr. Northland with the right to convert such interest in SRH for an equivalent fair value of shares in the Company with a guaranteed floor on the transaction of €4 million. On March 30, 2012, Mr. Northland exercised his right, and, as a result, 18,210,299 common shares of the Company were issued to Mr. Northland. As a result, the Company now owns 100% of SRH. The number of shares issued was calculated by reference to the weighted average share price of the Company's common shares over the three month period prior to March 30, 2012. Following the conversion, an adjustment was made to release the previously recognized financial liability and contributed surplus of \$5.3 million and \$4.7 million, respectively, increasing the Group's share capital by \$10 million. In addition, the Group recognized other income of \$1.4 million during the three months ended March 31, 2012, to adjust the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion in accordance with IFRS 2.

FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

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

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

Refer to the Company's consolidated financial statements for the year ended December 31, 2012, for further details relating to the Group's financial risk management.

DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments at March 31, 2013 and December 31, 2012 is as follows:

| | March 31 2013 \$'000 | December 31 2012 \$'000 |
|---|----------------------------|-------------------------------|
| Derivative financial liabilities: | | |
| Interest rate swap contracts | | |
| - Current portion | 6,534 | 9,662 |
| - Non-current portion | 38,442 | 40,558 |
| Total derivative financial liabilities | 44,976 | 50,220 |

Note:

- (1) All of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting at March 31, 2013 and December 31, 2012. As a result, any gain or loss associated with changes to the fair value (net of tax) of these derivative financial instruments is recognized within other reserves within equity with the ineffective portion of these derivative financial instruments included within finance income/costs.

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to hedge the risk of variations in the Group's cash flows as a result of floating interest rates on the Group's non-recourse project loans. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor interest rate forward yield curve and an appropriate discount factor.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Although all of the Group's derivative financial instruments qualified for hedge accounting, due to changes that were made in 2012 to amend the repayment schedule of one of the Group's credit facilities (Helios ITA), a fair value loss for the de-designation of \$0.1 million was recognized during the first quarter of 2013. During the three months ended March 31, 2012, the Group recognized a fair value gain of \$0.4 million, representing the market value of this derivative financial instrument when it was de-designated as well as a fair value loss of \$0.3 million, representing the previously recognized fair value losses within equity prior to the de-designation.

In addition, a net fair value gain of \$18,000 (2012: net fair value loss of \$0.1 million) was recognized during the three months ended March 31, 2013, representing the ineffective portion of the Group's derivative financial instruments.

During the three months ended March 31, 2013, the Group also recognized a net fair value gain of \$2.3 million (2012: net fair value loss of \$1.6 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

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. Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

FINANCIAL RISKS

DEBT AND EQUITY FINANCING

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

CAPITAL REQUIREMENTS AND LIQUIDITY

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

MARKET RISKS

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

COST UNCERTAINTY

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

RISKS AND UNCERTAINTIES (CONTINUED)

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 report, to the best of the Company's knowledge, all necessary licenses and permits have been obtained, 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 the current and future economic or 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 to continue operating in current markets. Specifically, reductions in the FiT payable to the Group on its existing solar power projects in Italy as well as other legislative or regulatory changes could impact the profitability of the Group's future solar power projects. Refer to "Business Review – Market Overview" on pages 5 and 6 for an overview of the renewable energy market.

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. Etrion 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

Although the Group focuses on acquiring, developing, building, owning and operating renewable energy projects in jurisdictions that provide a long-term FiT or PPA, a portion of the Group's revenues is derived from the spot market rate for electricity. Pricing for the sale of electricity may be subject to change based on economic and political conditions.

INTERNATIONAL OPERATIONS

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

RELIANCE ON CONTRACTORS AND KEY EMPLOYEES

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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: Etrion's plans for future growth and development activities, expectations relating to the Aguas Blancas project, including the expected signing of a PPA and the funding and construction of the solar project, the need for additional capital to fund the construction or acquisition of new projects and the expected sources of such capital. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties, assumptions and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the availability of suitable additional renewable energy projects; uncertainties with respect to the Company's ability to negotiate PPAs with industrial energy users; uncertainties and assumptions relating to the availability and costs of financing needed in the future; assumptions related to the applicability of the Italian FiT regime until December 31, 2016 and the new Italian energy law implemented during the second half of 2012; 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 Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Company; and other factors, many of which are beyond the Company'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. 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.