

2017

Annual  
Report

- etrion -





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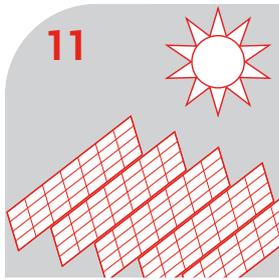
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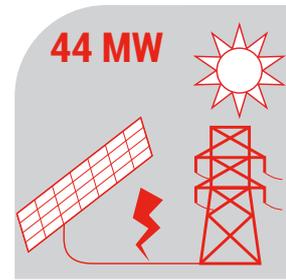




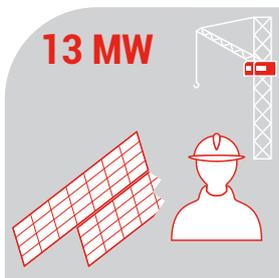
**11**  
**10** solar power plants  
in Japan



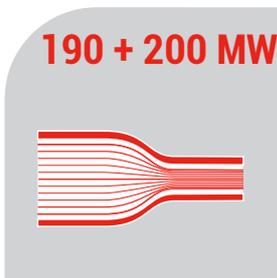
**4**  
**4** sites



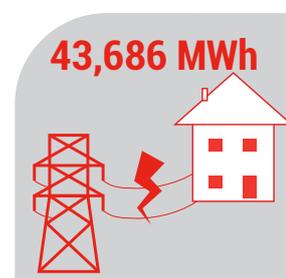
**44 MW**  
**44 MW** of installed  
solar capacity in Japan



**13 MW**  
**13 MW** under construction  
in Japan



**190 + 200 MW**  
**190 MW** as backlog and  
**200 MW** as pipeline  
development in Japan



**43,686 MWh**  
Produced **44** million  
kWh in 2017 in Japan

## This is Etrion

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. The Company has gross installed solar capacity of 44 MW plus 13 MW under construction, 190 MW of backlog projects and 200 MW of additional pipeline.

## CHIEF EXECUTIVE OFFICER'S LETTER

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Dear Shareholders,

I am very excited to have successfully streamlined our internal resources to maximize our growth opportunities in Japan. Our focus in this market continues to pay off and remains the best option for the company to deliver the highest economic returns.

Japan is considered to be one of the most politically and economically stable countries in the OECD. It is the fifth largest energy consumer, with a yearly demand of 437 MTOE (Million Tonnes of Oil Equivalent) and the 34th largest energy producer, with a total production capacity of just 38 MTOE, or less than 10% of their energy demand. It is the largest importers of natural gas and the third largest importer of coal. It ranks among the top five largest solar PV markets in the world.

After the Fukushima nuclear disaster, the Japanese government, committed to diversifying its energy mix, introduced several changes to the energy sector, fostering competition, deregulation and attractive government incentives for new investments. The introduction of the Feed-in-Tariff ("FiT") program in 2012 was a key component of their strategy to promote the fast adoption of renewables to their energy mix. Under this program, solar projects can secure 20 year fixed price term contracts with local utilities for all of their generation. As of end of 2017 there were still over 26 GW of solar projects with secured FiT that have not been built; many of them held by original developers looking to partner with companies like

Etrion to complete their development. This is the market opportunity where we are most active today and likely to keep us fully dedicated for the next 2-3 years to maximize our pipeline.

Last year we experienced the first signs of consolidation for solar operational assets, driven by demand from investors seeking yield and, from utilities and industrial players wishing to expand into the solar market. The search for quality assets is expected to continue to grow over the next few years further improving the economics of our installed based.

We are among the top 30 solar energy producers in Japan today with 44 MW operational solar plants. We have additional 13 MW under construction and are pursuing a large number of opportunities. We have made substantial investment on building a strong local team, transferring know how and supported by our corporate team resulting in superior operational results and expanded opportunities. We are advancing on the development of our backlog projects and on track to begin the construction on additional 50MW to 100 MW within the next 12 to 18 months. With that additional capacity online, we would be among the top 10 solar producers in Japan, an incredible position given our size.

Our cash position remains strong with sufficient cash to fund our operations and development in the foreseeable future. We delivered strong financial results exceeding our upper guidance for the year in 2017

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and are committed to deliver another strong year. A lot of work remains ahead of us but we are cautiously optimistic that our continued focus in this market will enable us to deliver concrete results.

On behalf of our entire organization, I would like to extend our sincere gratitude for your continued support. Our team is fully committed to execute on our plans, to expand our partnerships and work steadily to deliver economic value to all our shareholders.

Kind Regards,



Marco A. Northland, CEO and Director



*Misawa solar power project in northern Japan*



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Year ended  
December 31, 2017

## INTRODUCTION

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

The terms "adjusted net income (loss)", earnings before interest, tax, depreciation and amortization ("EBITDA"), "Adjusted EBITDA", "solar segments EBITDA" and "adjusted operating cash flow", used throughout this MD&A, are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently by the Company over all periods presented. Adjusted net income (loss) is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income (loss) as reconciled on page 21). 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 22). 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 33.

## FOURTH QUARTER AND FULL YEAR 2017 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

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

### FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of \$21.8 million and \$12.5 million, respectively.
- Closed 2017 with a cash balance of \$43.2 million, \$30.4 million of which was unrestricted and held at corporate level, and, working capital of \$43.6 million. Etrion has sufficient liquidity to fund the backlog projects.
- On October 24, 2017, the Company purchased a nominal amount of approximately €6.3 million (\$7.4 million) of its outstanding corporate bonds at par value from certain existing bondholders. These bonds will be held by the Company and will not be cancelled but effectively reducing its annual net interest cost of this corporate bond by 16%.
- Etrion management concluded that it is no longer appropriate to consolidate the financial statements of PV Salvador SpA (“Salvador”), the 70%-owned subsidiary that owns the licenses and rights to operate Project Salvador, due to Etrion’s lack of control in accordance with IFRS 10, *Consolidated Financial Statements*. As a result, effective September 30, 2017, the Salvador investment is accounted for under the equity method and carried at zero value, resulting in a non-cash extraordinary gain of \$41.0 million. See Deconsolidation of Subsidiary disclosures on page 17.

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

#### FOURTH QUARTER AND FULL YEAR 2017 HIGHLIGHTS

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

## BUSINESS REVIEW

### BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants in Japan. The Company owns and operates 44 MW of installed solar capacity in Japan. Etrion has 13 MW of solar projects under construction and several projects at different stages of development in Japan. The Company has three operational projects (ten solar park sites) and one project under construction (one solar park site) in Japan. All operational projects in Japan benefit from revenues generated from 20 year feed-in-tariff (“FIT”) power purchase agreements (“PPAs”), fixed price contracts with local utilities for all the electricity generated. As of September 30, 2017, the Group completed a control reassessment in accordance with IFRS 10 and derecognized the net carrying amount of the Chilean Salvador solar power project. See Deconsolidation of Subsidiary disclosures on page 17. The Company believes that, after the Salvador deconsolidation, the financial results to be disclosed going forward will provide better clarity to investors when evaluating the Etrion business.

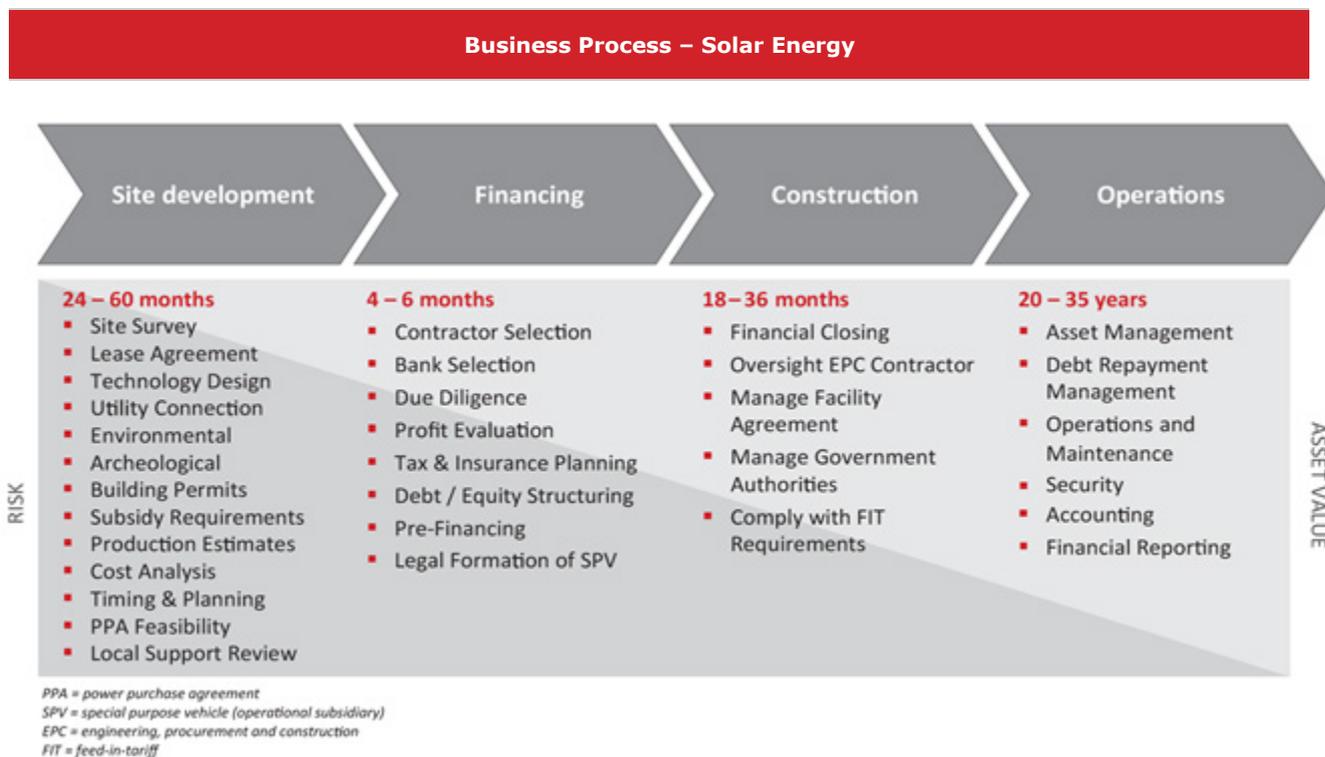
Etrion’s current strategy is to focus exclusively on continuing to develop and operate solar power projects in Japan.

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

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

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

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



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

USD thousands (unless otherwise stated) **JAPAN**<sup>(4)</sup>  
**Q4-17** **Q4-16**

**Operational data**<sup>(1)</sup>

Electricity production (MWh)	7,485	5,984
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**Operational performance**<sup>(1)</sup>

**Electricity revenue**

Feed-in-Tariff <sup>(2)</sup>	2,603	2,327
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**Total revenues**

	<b>2,603</b>	<b>2,327</b>
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**EBITDA**<sup>(3)</sup>

	<b>1,987</b>	<b>1,944</b>
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**EBITDA margin (%)**

	<b>76%</b>	<b>84%</b>
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**Net (loss) income**

	<b>(114)</b>	<b>460</b>
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(1) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.

(2) FiT scheme under PPA with utilities.

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

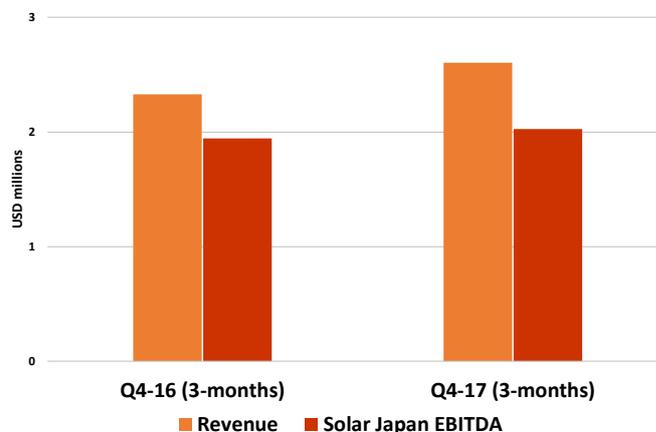
(4) As of September 30, 2017, the Group no longer consolidates the Chilean operating subsidiary, Salvador, because the Group lost control for IFRS purposes. See deconsolidation of subsidiary disclosures on page 17.

**OPERATING PERFORMANCE IN JAPAN**

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

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

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

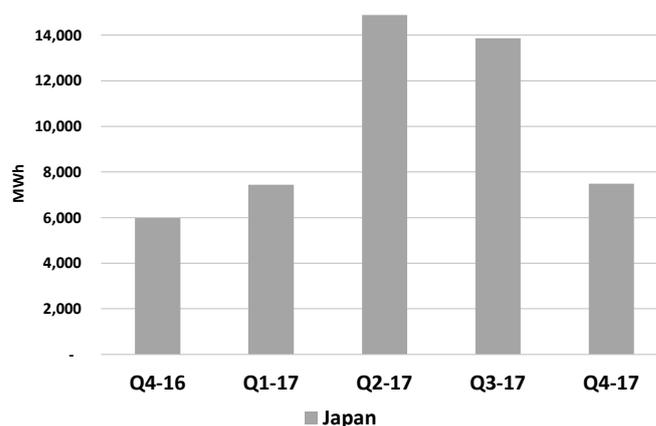


Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency (\$) using the corresponding Q4-17 average rates.

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

**Historical production**

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



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

USD thousands (unless otherwise stated)

	JAPAN	
	2017	2016

Operational data <sup>(1)</sup>		
Electricity production (MWh)	43,686	15,221

Operational performance <sup>(1)</sup>		
<b>Electricity revenue</b>		
Feed-in-Tariff <sup>(2)</sup>	15,323	5,723
<b>Total revenues</b>	<b>15,323</b>	<b>5,723</b>
<b>EBITDA <sup>(3)</sup></b>	<b>11,674</b>	<b>4,501</b>
<b>EBITDA margin (%)</b>	<b>76%</b>	<b>79%</b>
<b>Net income</b>	<b>2,127</b>	<b>981</b>

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

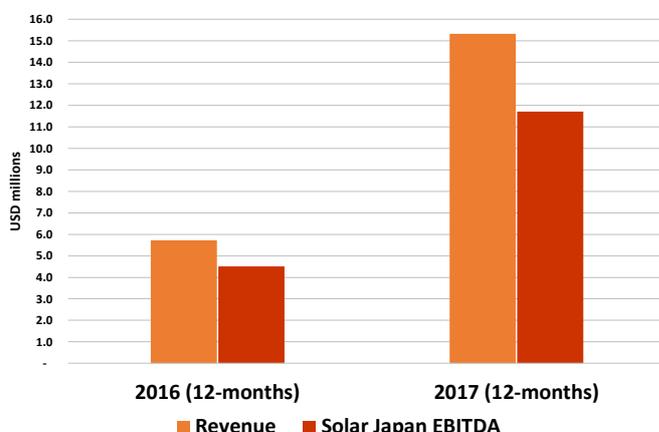
(2) FiT scheme under PPA with utilities.

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

**OPERATING PERFORMANCE IN JAPAN**

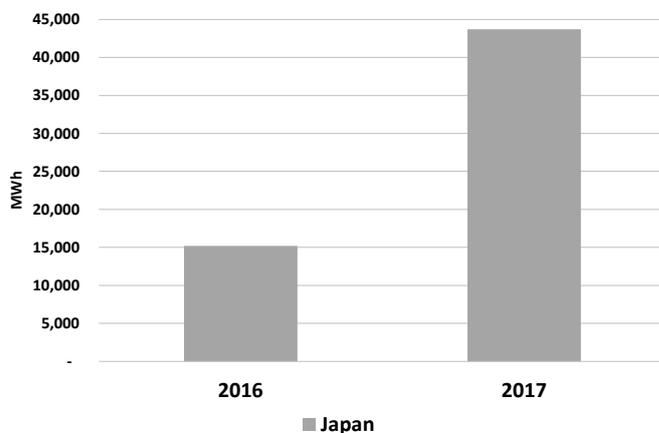
The Japanese projects produced a total of approximately 43.7 million kWh of electricity during 2017, more than two times the amount compared to the same period in 2016, due to the high irradiation, high performance ratio and the incremental production from the Shizukuishi and Misawa solar power projects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

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



**Historical production**

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



## OPERATING PROJECTS

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



### Mito

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

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

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

### Shizukuishi

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

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

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

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

### Misawa (previously named Aomori)

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

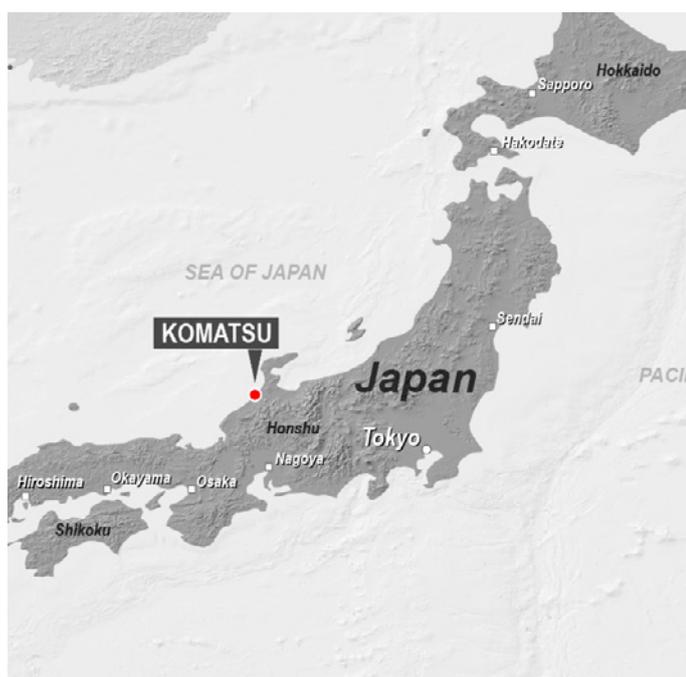
Project	Region	Sites	Gross MW	Technology	Connection date
Misawa	Tohoku	3-4	5.3	Fixed-tilt	Feb-2017
Misawa	Tohoku	1-2	4.2	Fixed-tilt	Jul-2017
<b>Total</b>		<b>4</b>	<b>9.5</b>		

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

## DEVELOPMENT ACTIVITIES

### PROJECTS UNDER CONSTRUCTION - JAPAN

#### Komatsu



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

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

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

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

### PROJECTS UNDER DEVELOPMENT - JAPAN

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

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

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

#### Japanese backlog

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

The Company continues to advance discussions with land owners to resolve current project constraints. Management believes it will take additional 4-6 months to assess final land feasibility for the project. Assuming land constraints are solved and final land configuration is completed the company will file for the forest development authorization, a process that typically takes additional four to six months. The project does not require an environmental impact assessment. The Company is targeting to complete all permits, secured all land and finalize the private line easement rights within the first half of 2019. The project remains with a high degree of execution risk due to unresolved matters with certain landowners critical to the project. Management remains cautiously optimistic such issues will be resolved so that the project can proceed. Management believes this project could reach financial close within the next 12-18 months.

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

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

**Brownfield Tk-4.** This project, located the Saitama prefecture, is currently configured as a 40 MW solar park project. The project has secured the FiT of ¥24/kWh. It entered into a grid connection agreement (i.e. construction cost allocation

agreement) with the off-taker utility after July 31, 2016 but before March 2017. This means, this project is subject to a three year limit for development from March 31, 2017. In other words, if this project starts operation two years late (i.e. by March 31, 2022) it will have its FiT period shortened to 18 years.

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

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

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

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

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

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

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

### Early stage Japanese pipeline

Etrion is actively working on several opportunities in the market, leveraging its network of developers and partners. It is currently managing a pipeline of approximately 200 MW of projects in different stages. Some are at very early stages of due diligence while others are at advanced stages of negotiations. The Company will continue to provide visibility of individual projects once it enters into a binding agreement

with developers and completes due diligences to validate the interconnection agreement with the utilities, evaluate the land rights acquisition, review status of permits and complete economic analysis. Given the early stage nature of these projects the Company will not provide timing status until the projects reach backlog stage. The estimated aggregate capacity disclosed for the pipeline is management's best estimates, however, final capacity may be adjusted based on permit restrictions, land availability and economics.

## **SOLAR MARKET OVERVIEW**

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

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

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

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

## **JAPANESE MARKET**

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

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

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

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

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

## FINANCIAL REVIEW

### DECONSOLIDATION OF SUBSIDIARY

#### Salvador

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

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

(1) Operational performance information is included only until September 30, 2017, when the Group lost control of PV Salvador for IFRS purposes.

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

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

#### Salvador control reassessment

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

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

#### Accounting upon Salvador deconsolidation

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

#### Gain on Salvador deconsolidation

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

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

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

## DISCONTINUED OPERATION

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

USD thousands (unless otherwise stated) 2016

### Operational data

Electricity production (MWh)	98,765
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### Operational performance

#### Electricity revenue

Feed-in-Tariff	33,792
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Market price	4,246
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<b>Total revenues</b>	<b>38,038</b>
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<b>EBITDA</b>	<b>32,435</b>
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<b>EBITDA margin (%)</b>	<b>85%</b>
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<b>Net income</b>	<b>7,622</b>
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### Power Production

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

### Details of the sale of the Italian subsidiaries

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

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

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

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

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

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

### Performance and cash flow information

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

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

## FINANCIAL RESULTS

### SELECTED FINANCIAL INFORMATION

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

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

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

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

## SEGMENT INFORMATION

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

### SEGMENT INFORMATION THREE MONTHS ENDED DECEMBER 31

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

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

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

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

**Solar Chile:** Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines. See Deconsolidation of Subsidiary disclosures on page 17.

**SEGMENT INFORMATION TWELVE MONTHS ENDED DECEMBER 31**

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

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

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

**Solar Chile:** Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary, in accordance with the control reassessment completed by management under the IFRS guidelines. See Deconsolidation of Subsidiary disclosures on page 17.

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

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
<b>Net (loss) income</b>	<b>(4,225)</b>	<b>(8,037)</b>	<b>16,507</b>	<b>(110,378)</b>
<b>Adjustments for non-recurring items:</b>				
General and administrative expenses <sup>1</sup>	-	-	488	(363)
Impairment	225	-	225	75,953
Net deferred tax write off	-	-	-	6,854
Write off guarantees	-	-	389	-
Gain on deconsolidation of subsidiary	-	-	(41,015)	-
<b>Adjustments for non-cash items:</b>				
Depreciation and amortization	1,551	2,519	10,277	10,957
Fair value movements (derivative financial instruments)	(229)	(1,206)	(300)	(1,206)
Share-based payment expense	(96)	180	566	442
<b>Adjusted net loss</b>	<b>(2,774)</b>	<b>(6,554)</b>	<b>(12,863)</b>	<b>(17,741)</b>

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

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

USD thousands	Three months ended		Twelve months ended	
	Q4-17	Q4-16	Q4-17	Q4-16
<b>Operating cash flow</b>	<b>1,700</b>	<b>(6,152)</b>	<b>(1,352)</b>	<b>(3,257)</b>
- Changes in working capital	(3,090)	5,120	3,971	1,590
- Income tax paid	2	(40)	1,036	1,172
<b>Adjusted operating cash flow</b>	<b>(1,388)</b>	<b>(1,072)</b>	<b>3,655</b>	<b>(495)</b>

## NON-GAAP PERFORMANCE MEASURES

### Reconciliation of Solar segments Adjusted EBITDA to EBITDA

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

### QUARTERLY SELECTED FINANCIAL INFORMATION

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

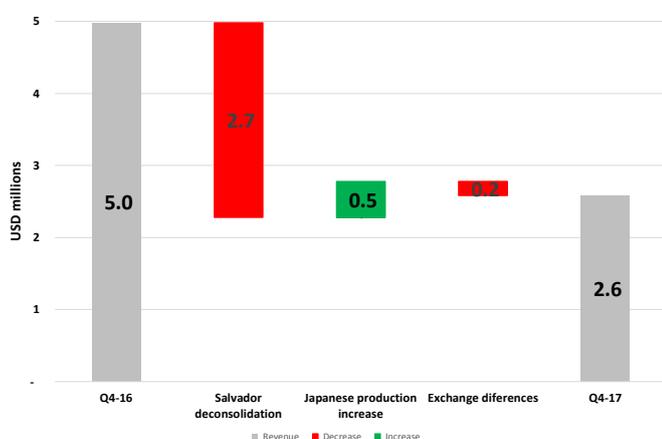
USD thousands (except per share data)	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
<b>Revenue</b>	<b>2,603</b>	<b>7,005</b>	<b>7,042</b>	<b>5,198</b>	<b>4,979</b>	<b>3,351</b>	<b>3,141</b>	<b>3,762</b>
Japan	2,603	4,867	5,256	2,597	2,327	1,180	1,258	958
Chile	-	2,138	1,786	2,601	2,652	2,171	1,883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

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

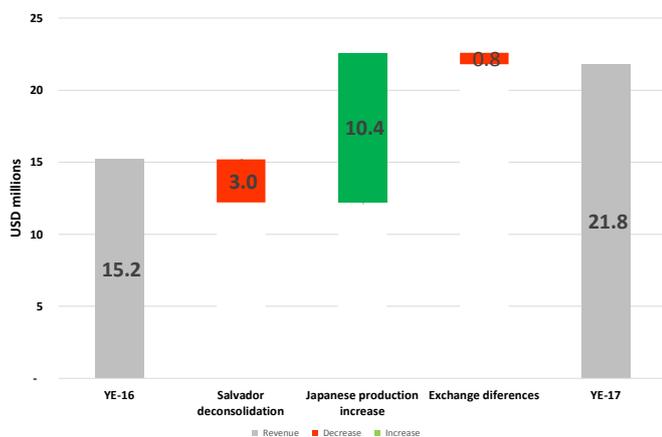
## REVENUE

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

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



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



## ADJUSTED CONSOLIDATED EBITDA

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

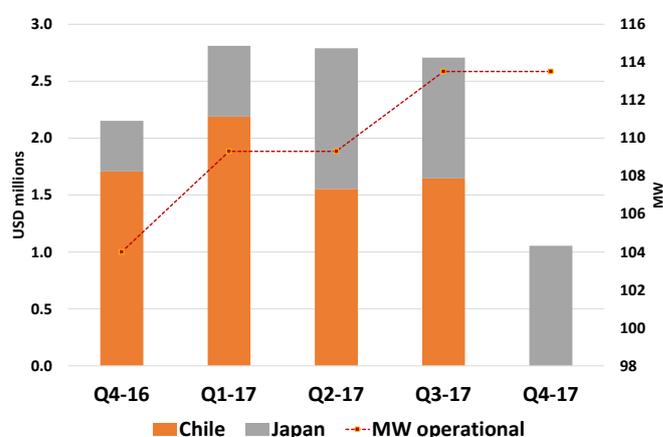
## OPERATING EXPENSES

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

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

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

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



## GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

## IMPAIRMENT

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

## NET FINANCE COSTS

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

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

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

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

## INCOME TAX EXPENSE

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

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

## FINANCIAL POSITION

### LIQUIDITY AND FINANCING

#### CASH POSITION

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

#### UNRESTRICTED CASH ANALYSIS

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

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

#### RESTRICTED CASH ANALYSIS

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

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

## WORKING CAPITAL

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

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

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

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

#### NET EQUITY

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

## BORROWINGS

### Non-recourse project loans

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

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

### Japanese projects

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

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

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

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

plant. On September 30, 2017, the Company's subsidiary repaid ¥435 million (\$3.8 million) to the lender bank in relation to the associated VAT credit facility.

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

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

### Chilean projects

As of September 30, 2017, the Group completed a control reassessment and derecognized the net carrying amount of the Salvador non-recourse project loan of \$154 million. (page 17)

### Corporate borrowings

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

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

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value. The Company can call the bonds after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value. During 2017, the Company's corporate bond started trading at a premium, triggering an implicit yield below the 8% fixed-rate coupon and management concluded that the corporate bond call option was "in-the-money" and therefore the embedded derivative had value. At December 31, 2016, no separate amount was recognized in relation to this call option.

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

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

## Net debt reconciliation

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

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

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

## OUTSTANDING SHARE DATA

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

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

## OFF-BALANCE SHEET ARRANGEMENTS

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

## CAPITAL INVESTMENTS

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

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

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

## Contractual commitments

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

## Contingencies

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

hedging documentation and controls have been updated for compliance with IFRS 9.

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

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

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

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

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

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

The Group assesses property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are

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

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

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

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

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

## **RELATED PARTIES**

For the purposes of preparing the Company's consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns directly and through various investment trust approximately 24.3% of the Company's common shares. The Lundin Family controls those entities listed below under "Related party transaction". All related party transactions are made on terms equivalent to those made on an arm's length basis. The related party transactions disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2017, are summarized below.

### **RELATED PARTY TRANSACTIONS**

#### **Lundin Services BV**

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

#### **Lundin Petroleum AB**

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

#### **Lundin family**

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

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

#### **Lundin SA**

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

### **KEY MANAGEMENT PERSONNEL**

Key management personnel are those persons having authority and responsibility for planning, directing and

controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer, Marco A. Northland and the Chief Financial Officer, Christian Lacueva.

During 2017, the Group recognized \$2.1 million (2016: \$2.0 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At December 31, 2017, the Group had \$0.4 million outstanding to key management personnel (December 31, 2016: \$0.5 million).

## FINANCIAL RISK MANAGEMENT

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

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

## DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During 2017, the Group recognized finance income of \$0.3 million associated with the fair value of the corporate bond call option, which is considered an embedded derivative in the debt contract and deemed to be in-the-money as of the

end of 2017. The Group's corporate bond call option was classified as Level 2 and the fair value was calculated using the Hull-white model using observable market data in the Norwegian bond market.

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

## RISKS AND UNCERTAINTIES

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

## FINANCIAL RISKS

### DEBT AND EQUITY FINANCING

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., equity financing, corporate debt, and/or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditures. In addition, the Group's level of indebtedness from time to time could impair its ability to obtain additional financing and to take advantage of business

opportunities as they arise. Failure to comply with facility covenants and obligations could also expose the Group to the risk of seizure or forced sale of some or all of its assets.

#### **CAPITAL REQUIREMENTS AND LIQUIDITY**

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

#### **MARKET RISKS**

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

#### **COST UNCERTAINTY**

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

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

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

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

##### **GOVERNMENTAL REGULATION**

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

to the Group on its existing solar power projects in Italy and Japan as well as other legislative or regulatory changes could impact the profitability of the Group's solar power projects.

#### **COMPETITION**

The renewable energy industry is extremely competitive and many of the Group's competitors have greater financial and operational resources. There is no assurance that the Group will be able to acquire new renewable energy projects in order to grow in accordance with the Company's strategy. The Group also competes in securing the equipment necessary for the construction of solar energy projects. Equipment and other materials necessary to construct production and transmission facilities may be in short supply, causing project delays or cost fluctuations.

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

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

#### **INTERNATIONAL OPERATIONS**

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

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

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

## ETRION OUTLOOK AND GUIDANCE

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

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

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

### JAPAN

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

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

#### Basis of preparation of the forecasts

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

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

### PREVIOUS FORECASTS

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

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

Japanese production, revenue and project-level EBITDA in 2017 met or exceeded the high end of the revised guidance provided on November 13, 2017. The performance of the operating solar assets in Japan during 2017 were exceptional and this was reflected in production being 2.3% above the high end and revenues being at the high end of the guidance, respectively. EBITDA in 2017 was well above the high end due to the combination of higher than expected production, earlier connection of the Misawa plant and optimization of the contingency budgets. In comparison with the original guidance released on March 13, 2017, actual results were below the low end range due to the deconsolidation of the Chilean subsidiary on September 30, 2017 as discussed on page 17.

## DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

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

## **ADDITIONAL INFORMATION**

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



# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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Year ended  
December 31, 2017

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Etrion Corporation

We have audited the accompanying consolidated financial statements of Etrion Corporation and its subsidiaries (the "entity"), which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the consolidated statement of net income and comprehensive income, statement of changes in equity and statement of cash flows for the years 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.

### **Auditors' 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 auditors' 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 in our audit 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst + Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 12, 2018

## CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

Expressed in US\$'000

	Note	2017	2016
<b>Continuing operations</b>			
Revenue	8	21,848	15,233
Operating expenses	9	(19,456)	(18,799)
<b>Gross income (loss)</b>		<b>2,392</b>	<b>(3,566)</b>
General and administrative expenses	10	(9,357)	(8,106)
Impairment	11	(225)	(75,953)
Other income		534	300
<b>Operating loss</b>		<b>(6,656)</b>	<b>(87,325)</b>
Finance income	12	439	6,112
Finance costs	12	(17,166)	(21,715)
<b>Net finance costs</b>		<b>(16,727)</b>	<b>(15,603)</b>
Gain on deconsolidation of subsidiary	6	41,015	-
<b>Income (loss) before income tax</b>		<b>17,632</b>	<b>(102,928)</b>
Income tax expense	13	(1,125)	(7,450)
<b>Income (loss) for the year from continuing operations</b>		<b>16,507</b>	<b>(110,378)</b>
Profit from discontinued operations, net of tax	7	-	35,960
<b>Net income (loss) for the year</b>		<b>16,507</b>	<b>(74,418)</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit and loss:</b>			
Gain (loss) on currency translation		3,924	(4,936)
Loss on cash flow hedges, net of tax		(380)	(3,062)
Cash flow hedges, net of tax – discontinued operations	7	-	29,146
<b>Items that will not be reclassified to profit and loss:</b>			
Actuarial gain of post-employment benefits	28	170	424
<b>Total other comprehensive income</b>		<b>3,714</b>	<b>21,572</b>
<b>Total comprehensive income (loss) for the year</b>		<b>20,221</b>	<b>(52,846)</b>
<b>Income (loss) attributable to:</b>			
Common shareholders		19,551	(43,153)
Non-controlling interest	15	(3,044)	(31,265)
<b>Total comprehensive income (loss) attributable to:</b>			
Common shareholders		23,295	(21,016)
Non-controlling interest	15	(3,074)	(31,830)
<b>Total comprehensive income (loss) attributable to owners of Etrion from:</b>			
Continuing operations		23,295	(86,122)
Discontinued operations		-	65,106
<b>Basic and diluted earnings (loss) per share from continuing operations</b>	14	<b>\$0.06</b>	<b>\$(0.24)</b>
<b>Basic and diluted earnings (loss) per share from income (loss) of the year</b>	14	<b>\$0.06</b>	<b>\$(0.13)</b>

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

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2017

Expressed in US\$'000

		December 31 2017	December 31 2016
	<b>Note</b>		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	140,608	189,599
Intangible assets	17	9,725	15,879
Deferred income tax assets	13	2,771	2,848
Trade and other receivables	19	647	5,964
<b>Total non-current assets</b>		<b>153,751</b>	<b>214,290</b>
<b>Current assets</b>			
Derivative financial instruments	26	319	-
Trade and other receivables	19	14,862	13,177
Cash and cash equivalents (including restricted cash)	20	43,203	61,174
<b>Total current assets</b>		<b>58,384</b>	<b>74,351</b>
<b>Total assets</b>		<b>212,135</b>	<b>288,641</b>
<b>Equity</b>			
<b>Attributable to common shareholders</b>			
Share capital	21	111,304	111,304
Contributed surplus		12,538	11,989
Other reserves	23	(13,766)	(17,340)
Accumulated deficit		(101,047)	(120,768)
<b>Total attributable to common shareholders</b>		<b>9,029</b>	<b>(14,815)</b>
<b>Non-controlling interest</b>	15	<b>818</b>	<b>(31,474)</b>
<b>Total equity</b>		<b>9,847</b>	<b>(46,289)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	24	170,784	269,350
Derivative financial instruments	26	8,788	8,347
Provisions	27	4,620	5,618
Other liabilities	27	3,323	22,521
<b>Total non-current liabilities</b>		<b>187,515</b>	<b>305,836</b>
<b>Current liabilities</b>			
Trade and other payables	29	3,493	10,671
Current tax liabilities	13	535	558
Borrowings	24	8,917	15,427
Derivative financial instruments	26	1,444	1,167
Other liabilities	27	384	1,271
<b>Total current liabilities</b>		<b>14,773</b>	<b>29,094</b>
<b>Total liabilities</b>		<b>202,288</b>	<b>334,930</b>
<b>Total equity and liabilities</b>		<b>212,135</b>	<b>288,641</b>

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, 2017

Expressed in US\$'000

	Attributable to common shareholders				Total	Non-controlling interest	Total equity	
	Share capital	Contributed surplus	Other reserves	Accumulated deficit				
	<b>Note</b>							
<b>Balance at January 1, 2016</b>		<b>111,304</b>	<b>11,547</b>	<b>(37,782)</b>	<b>(78,039)</b>	<b>7,030</b>	<b>(626)</b>	<b>6,404</b>
Comprehensive loss:								
- Loss for the year		-	-	-	(43,153)	(43,153)	(31,265)	(74,418)
- Other comprehensive loss:								
Cash flow hedges (net of tax)	<b>23</b>	-	-	26,553	-	26,553	(469)	26,084
Currency translation	<b>23</b>	-	-	(4,840)	-	(4,840)	(96)	(4,936)
Actuarial loss on post-employment benefits	<b>28</b>	-	-	-	424	424	-	424
<b>Total comprehensive loss</b>		-	-	<b>21,713</b>	<b>(42,729)</b>	<b>(21,016)</b>	<b>(31,830)</b>	<b>(52,846)</b>
Transactions with owners in their capacity as owners:								
- Stock options exercised	<b>22</b>	-	(46)	-	-	(46)	-	(46)
- Written call options	<b>23</b>	-	-	(1,271)	-	(1,271)	-	(1,271)
- Share-based payments	<b>22</b>	-	488	-	-	488	-	488
- Capital contributions	<b>15</b>	-	-	-	-	-	982	982
<b>Balance at December 31, 2016</b>		<b>111,304</b>	<b>11,989</b>	<b>(17,340)</b>	<b>(120,768)</b>	<b>(14,815)</b>	<b>(31,474)</b>	<b>(46,289)</b>
Comprehensive income (loss):								
- Income for the year		-	-	-	19,551	19,551	(3,044)	16,507
- Other comprehensive income (loss):								
Cash flow hedges (net of tax)	<b>23</b>	-	-	(326)	-	(326)	(54)	(380)
Currency translation	<b>23</b>	-	-	3,900	-	3,900	24	3,924
Actuarial gain on post-employment benefits	<b>28</b>	-	-	-	170	170	-	170
<b>Total comprehensive income (loss)</b>		-	-	<b>3,574</b>	<b>19,721</b>	<b>23,295</b>	<b>(3,074)</b>	<b>20,221</b>
Transactions with owners in their capacity as owners:								
- Share-based payments	<b>22</b>	-	549	-	-	549	-	549
- Loan conversion and other	<b>15</b>	-	-	-	-	-	17,788	17,788
- Deconsolidation of subsidiary	<b>15</b>	-	-	-	-	-	17,578	17,578
<b>Balance at December 31, 2017</b>		<b>111,304</b>	<b>12,538</b>	<b>(13,766)</b>	<b>(101,047)</b>	<b>9,029</b>	<b>818</b>	<b>9,847</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2017

Expressed in US\$'000

	2017	2016
	<b>Note</b>	
<b>Operating activities:</b>		
<b>Net income (loss) for the year</b>	<b>16,507</b>	<b>(74,418)</b>
Less: profit from discontinued operations, net of tax	-	35,960
<b>Income (loss) for the year from continuing operations</b>	<b>16,507</b>	<b>(110,378)</b>
Adjustments for the following non-cash items:		
Depreciation and amortization	<b>9/10</b> 10,277	10,957
Gain on deconsolidation of subsidiary	<b>6</b> (41,015)	-
Impairment	225	75,953
Current income tax expense	<b>13</b> 1,020	1,046
Deferred income tax expense	<b>13</b> 105	6,404
Share-based payment expense	<b>10/22</b> 566	442
Interest expense	<b>12</b> 13,072	19,805
Interest expense relating to interest rate swap contracts	<b>12</b> 1,240	176
Amortization of transaction costs	<b>12</b> 614	1,083
Foreign exchange gain	<b>12</b> 1,911	(4,414)
Fair value changes associated with derivative financial instruments	<b>12</b> (300)	(1,206)
Other income	(534)	(300)
Interest income	<b>12</b> (33)	(63)
<b>Sub-total</b>	<b>3,655</b>	<b>(495)</b>
Changes in working capital:		
(Increase) decrease in trade and other receivables	3,632	(3,996)
Decrease in trade and other payables	(7,603)	2,406
Income tax paid	(1,036)	(1,172)
<b>Total cash flow from (used in) operating activities</b>	<b>(1,352)</b>	<b>(3,257)</b>
<b>Investing activities:</b>		
Purchases of property, plant and equipment	<b>16</b> (43,720)	(46,934)
Purchases of intangible assets	<b>17</b> (1,512)	(3,918)
Proceeds from sale of subsidiary	<b>7</b> -	76,179
Proceeds from sale of financial asset	<b>7</b> -	6,473
<b>Total cash flow (used in) from investing activities</b>	<b>(45,232)</b>	<b>31,800</b>
<b>Financing activities:</b>		
Interest paid (including interest relating to interest rate swap contracts)	<b>24</b> (9,288)	(19,217)
Interest income	<b>12</b> 33	63
Repayment of borrowings	<b>24</b> (15,524)	(51,163)
Proceeds from borrowings	<b>24</b> 48,844	56,455
Contributions from non-controlling interest	<b>27</b> 547	2,350
<b>Total cash flow from (used in) financing activities</b>	<b>24,612</b>	<b>(11,512)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(21,972)</b>	<b>17,031</b>
Effect of exchange rate changes on cash and cash equivalents	6,585	(1,769)
Cash from deconsolidated subsidiary	<b>6</b> (2,584)	-
<b>Cash and cash equivalents (including restricted cash) at the beginning of the year</b>	<b>61,174</b>	<b>45,912</b>
<b>Cash and cash equivalents (including restricted cash) at the end of the year</b>	<b>43,203</b>	<b>61,174</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

Expressed in US\$'000 unless otherwise stated

### 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 V6Z 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 44 megawatts ("MW") of installed solar capacity in Japan.

The Company has 13.2 MW of solar projects under construction as of the date of approval of these consolidated financial statements and 390 MW of greenfield solar power projects which it is pursuing in Japan.

These consolidated financial statements are presented in United States ("US") dollars ("\$"), which is the Group's presentation currency.

Effective January 1, 2017, the Company's functional currency changed from the Euro ("€") to the Japanese yen ("¥"), following a change in the principal environment where the Group conducts its business. The change has been applied prospectively.

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 divestiture of its Italian assets in 2016 to fund the growth in Japan and reduce its corporate debt. [Note 7](#)

However, since the Company is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these consolidated financial statements has been presented in Canadian dollars ("CAD\$"). The Company's Board of Directors approved these consolidated financial statements on March 12, 2018.

### 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, 2017. 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, 2017, 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. During 2017, the Group recognized a net income of \$16.5 million (2016: net loss of \$74.4 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. At December 31, 2017, the Group had cash and cash equivalents of \$43.2 million, \$30.4 million of which was unrestricted and held at the parent level (2016: \$61.2 million and \$42.3 million, respectively) and working capital of \$43.6 million (2016: \$45.3 million). These consolidated financial statements for the year ended December 31, 2017, 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 issued and not yet adopted by the Group*

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

**IFRS 9, Financial Instruments:** This standard reflects all parts of the financial instrument project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard sets out principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements. The new standard most notably affects the criteria surrounding hedge accounting adopting principles based approach. While this does not change the type of hedging relationships or the requirement to measure ineffectiveness, it simplifies the application of hedge accounting and is intended to allow for better alignment

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

Expressed in US\$'000 unless otherwise stated

of entities risk management strategies with their accounting presentation. As well the standard replaces the multiple different financial asset impairment models present in IAS 39 with a single model based on expected credit losses on all financial assets and replacing the existing complex classifications structure with a business model approach based on the intent and nature of the cash flows.

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

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

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

**IFRS 16, Leases:** This standard addresses the measurement and recognition of leases which will result

in almost all lease contracts being recognized in the balance sheet, as the distinction between operating and finance leases is removed. IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. The Group is in the process of assessing to what extent existing commitments under lease contracts (**Note 30**) 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 in accordance with IFRS 10, *Consolidated Financial Statements*. 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.

The Company is applying the equity method to account for its investment in the Chilean solar power subsidiary starting September 30, 2017. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

#### *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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

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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:

- 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 Japanese yen. 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)

	¥/\$	€/€	CAD/\$	CLP/\$	CHF/\$
December 31, 2017	0.0089	1.20	0.80	0.0016	1.03
December 31, 2016	0.0085	1.05	0.74	0.0015	0.97
December 31, 2015	0.0083	1.09	0.72	0.0014	1.01
Average 2017	0.0089	1.13	0.77	0.0016	1.02
Average 2016	0.0094	1.11	0.76	0.0015	1.02

### (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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

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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:

	2017	2016
Solar power plants - Japan	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.

### (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 Cash Generating Unit ("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

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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.

### Assets carried at amortized cost

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.

### 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

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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 Group does not recognize a decommissioning provision when it has the legal property of the land and there is not a legal obligation to dismantle in the jurisdictions where the solar power plants were built. 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

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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.

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### (u) SHARE-BASED PAYMENT

#### *Restricted share units (RSUs)*

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 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.

#### *Stock-options*

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 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.

### (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.

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### 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 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group assesses property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are based on the forecasted 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, 2017, no impairment was provided in relation to the Group's previously recognized, property, plant and equipment and intangible assets, other than \$0.2 million of impaired development costs. 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 11](#)

#### (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 Tokyo Interbank Offered Rate ("TIBOR") forward interest rate curves and an appropriate discount factor. At December 31, 2017, the Group recognized net financial liabilities of \$9.9 million (2016: \$9.5 million) associated with its derivative financial instruments. [Note 26](#). 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, 2017, the Group recognized \$2.8 million (2016: \$2.8 million) of net deferred income tax assets. [Note 13](#)

## 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

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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. 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 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.

	Carrying amount	+10 bps shift in interest rate curve		-10 bps shift in interest rate curve	
		Impact on profit/(loss)	Impact on other comprehensive income	Impact on profit/(loss)	Impact on other comprehensive income
<b>At December 31, 2017</b>					
Sumitomo Mitsui Trust Bank	139,013	(93)	-	93	-
<b>Total impact</b>		<b>(93)</b>	<b>-</b>	<b>93</b>	<b>-</b>
Derivative financial instruments	10,232	-	1,178	-	(1,193)
<b>Total net impact</b>		<b>(93)</b>	<b>1,178</b>	<b>93</b>	<b>(1,193)</b>
<b>At December 31, 2016</b>					
Sumitomo Mitsui Trust Bank	93,769	(87)	-	87	-
<b>Total impact</b>		<b>(87)</b>	<b>-</b>	<b>87</b>	<b>-</b>
Derivative financial instruments	9,514	-	946	-	(959)
<b>Total net impact</b>		<b>(87)</b>	<b>946</b>	<b>87</b>	<b>(959)</b>

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### 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 and US dollar. The Group's foreign currency exposure is due primarily to intercompany borrowings made in US dollars 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").

### *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, 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, 2017, can be assessed by reference to credit ratings from Standard & Poors, if available, as follows:

	2017	2016
<b>Cash and cash equivalents:</b>		
AA-	18,613	39,093
A+	1,379	4,121
A	15,108	16,085
A-	-	-
BBB+	6,758	371
BBB-	394	150
BB-	-	1,354
BBB	76	-
Other	874	-
<b>Total cash and cash equivalents</b>	<b>43,203</b>	<b>61,174</b>

### *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 24**

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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
<b>At December 31, 2017</b>						
Borrowings	179,701	213,439	13,423	79,018	120,998	213,439
Interest rate swap contracts, net	10,232	10,232	1,444	5,323	3,465	10,232
Trade and other payables	3,493	3,493	3,493	-	-	3,493
<b>Total financial and non-financial liabilities</b>	<b>193,426</b>	<b>227,164</b>	<b>18,360</b>	<b>84,341</b>	<b>124,463</b>	<b>227,164</b>
<b>At December 31, 2016</b>						
Borrowings	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
<b>Total financial and non-financial liabilities</b>	<b>304,962</b>	<b>463,189</b>	<b>40,459</b>	<b>131,779</b>	<b>290,951</b>	<b>463,189</b>

### (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, 2017 and 2016, 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, 2017 and 2016, 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 TIBOR forward interest rate curves and an appropriate discount factor. In addition, at December 31, 2017, the Group's corporate bond call option was classified as Level 2 and the fair value was calculated using the Hull-white model using observable market data in the Norwegian bond market.

#### Note 24

**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, 2017 and 2016, 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:

	2017	2016
<b>Financial assets</b>		
<b>Level 2:</b>		
- Bond call option	319	-
<b>Total financial assets</b>	<b>319</b>	<b>-</b>
<b>Financial liabilities</b>		
<b>Level 2:</b>		
- Derivative financial instruments	10,232	9,514
<b>Total financial liabilities</b>	<b>10,232</b>	<b>9,514</b>

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### 5. SEGMENT REPORTING

The Board of Directors considers reportable segments from a geographical perspective and measures performance based on EBITDA and reviews and monitors performance of the Group on this basis. The Company's management identified two reportable segments, solar energy Chile ("Solar Chile") and solar energy Japan ("Solar Japan"). Salvador's income and expenses are included only in the Group's consolidated financial statements until September 30, 2017, the date when the Group ceased to control this subsidiary.

While the Company's management has determined that the Company has only two reportable segments, the Company has decided to disclose additional information about its corporate activities as it believes that this information is useful for readers of the consolidated financial statements.

The Group's country of domicile is Canada. However, all consolidated revenues from external customers are derived from Japan. 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"). **Note 8.** The Group's revenues, EBITDA and results from continuing operations are presented as follows:

	2017				2016			
	Solar Chile	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
<b>Revenue</b>	<b>6,525</b>	<b>15,323</b>	-	<b>21,848</b>	<b>9,510</b>	<b>5,723</b>	-	<b>15,233</b>
Operating expenses (Opex)	(5,389)	(3,974)	-	(9,363)	(6,896)	(1,162)	-	(8,058)
General and administrative (G&A)	(269)	(251)	(8,653)	(9,173)	(149)	(194)	(7,547)	(7,890)
Other income (expenses)	(6)	576	(36)	534	(23)	134	189	300
<b>EBITDA</b>	<b>861</b>	<b>11,674</b>	<b>(8,689)</b>	<b>3,846</b>	<b>2,442</b>	<b>4,501</b>	<b>(7,358)</b>	<b>(415)</b>
Gain on deconsolidation of subsidiary	-	-	41,015	41,015	-	-	-	-
Impairment	-	(18)	(207)	(225)	(75,675)	-	(278)	(75,953)
Depreciation and amortization	(4,034)	(6,059)	(184)	(10,277)	(8,497)	(2,244)	(216)	(10,957)
Finance income	28	92	319	439	223	164	5,725	6,112
Finance costs	(7,822)	(3,159)	(6,185)	(17,166)	(12,395)	(1,181)	(8,139)	(21,715)
<b>(Loss) income before income tax</b>	<b>(10,967)</b>	<b>2,530</b>	<b>26,069</b>	<b>17,632</b>	<b>(93,902)</b>	<b>1,240</b>	<b>(10,266)</b>	<b>(102,928)</b>
Income tax (expense) recovery	-	(403)	(722)	(1,125)	(6,854)	(259)	(337)	(7,450)
<b>Net (loss) income for the year</b>	<b>(10,967)</b>	<b>2,127</b>	<b>25,347</b>	<b>16,507</b>	<b>(100,756)</b>	<b>981</b>	<b>(10,603)</b>	<b>(110,378)</b>

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

	December 31, 2017			December 31, 2016			
	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Property, plant and equipment	140,563	45	140,608	87,907	101,555	137	189,599
Intangible assets	5,327	4,398	9,725	7,226	5,558	3,095	15,879
Cash and cash equivalents	12,818	30,385	43,203	4,121	14,767	42,286	61,174
Other assets	8,747	9,852	18,599	3,614	11,079	7,296	21,989
<b>Total assets</b>	<b>167,455</b>	<b>44,680</b>	<b>212,135</b>	<b>102,868</b>	<b>132,959</b>	<b>52,814</b>	<b>288,641</b>
Borrowings	139,013	40,688	179,701	148,900	93,769	42,108	284,777
Trade and other payables	1,460	2,033	3,493	639	6,328	3,704	10,671
Other liabilities	17,603	1,491	19,094	20,599	18,191	692	39,482
<b>Total liabilities</b>	<b>158,076</b>	<b>44,212</b>	<b>202,288</b>	<b>170,138</b>	<b>118,288</b>	<b>46,504</b>	<b>334,930</b>

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### 6. DECONSOLIDATION OF SUBSIDIARY

#### Salvador

On September 30, 2017 the Group concluded that in accordance with IFRS it no longer has control of Salvador, the 70%-owned subsidiary that owns the licenses and rights to operate the 70 MW solar power project in Northern Chile ("Project Salvador"). As a result of the deemed loss of control the Group no longer consolidates Salvador's financial position and performance from September 30, 2017.

The Salvador impairment of \$75.7 million against property, plant and equipment and intangible assets recognized in 2016 resulted from a sharp decline in the outlook for long term power prices in the Chilean market where Salvador is located. The current and expected Chilean market conditions are so adverse to Salvador's operations that according to management projections, based on third party market price studies, the only party that would be affected by the returns on the project is the project lender bank. Therefore it is no longer appropriate to consolidate Salvador.

#### Salvador control reassessment

Due to the signing of the forbearance agreement with the Overseas Private Investment Corporation ("OPIC") in March 2017, the capitalization of the shareholder loan in January 2017, the unlikelihood to obtain any positive returns from Salvador (due to negative long-term outlook of the spot market prices in the Chilean market) and the impact of potential debt restructurings, all unfavorable developments, management concluded that it was necessary to perform a reassessment of control in accordance with IFRS 10.

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

#### Accounting upon Salvador deconsolidation

September 30, 2017, is regarded as the date when the Group "ceased to control" of Salvador as a result of the control reassessment. In accordance with IFRS 10, income and expenses from Salvador are being recognized in the Group's consolidated financial statements until September 30, 2017, when Etrion

ceased to control Salvador. After deconsolidation, the retained investment in Salvador is accounted for as an equity investment and recorded at a fair value of nil. The net present value of Etrion's share in the forecasted shortfall is negative and Etrion does not have any legal obligation to fund Salvador's deficit and has no current commitment or intentions to provide additional financial support to Salvador.

#### Gain on Salvador deconsolidation

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

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

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

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### 7. 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"). 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 in the comparative 2016 income statement. 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.

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

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

Upon the execution of the sale and purchase agreement, the 100% participation in the shares of the Italian subsidiaries and the shareholder 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 assessed the nature of the earn-out clauses and 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
<b>Total assets</b>	<b>353,196</b>	<b>373,740</b>
Borrowings	224,132	237,138
Trade payables	10,432	11,027
Derivative financial liabilities	10,702	11,259
Other liabilities	92,698	98,211
<b>Total liabilities</b>	<b>337,964</b>	<b>357,635</b>

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### 8. REVENUE

	2017	2016
Feed-in Tariff	15,323	5,723
Spot market price	727	1,686
PPA agreement	4,838	6,904
Other utility income	960	920
<b>Total revenue</b>	<b>21,848</b>	<b>15,233</b>

The Group receives revenues denominated in Japanese yen from its operating solar projects. Revenues in Japan come from 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.

Until September 30, 2017, the Group also recognized revenue denominated in \$ from its Chilean solar project from (1) the spot market price ("Market Price") received for each kWh of electricity generated in Chile, and (2) contracted PPAs within Chile, whereby a fixed price is received for each kWh of electricity sold under private electricity sale agreements. Effective September 30, 2017, the Group no longer controls Salvador. [Note 6](#)

In February/July, 2017, the Company connected the four solar park sites of the Group's Misawa solar project in Japan (respectively), representing the 9.5 MW total planned capacity and started recognizing FiT revenues from these solar park sites.

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.

### 9. OPERATING EXPENSES

	2017	2016
O&M	2,303	2,266
Purchased power	2,013	3,114
Personnel costs	1,209	889
D&A	10,093	10,741
Property tax	1,030	231
Insurance	448	372
Land lease	940	353
Transmission costs	899	554
Other operating expenses	521	279
<b>Total Opex</b>	<b>19,456</b>	<b>18,799</b>

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"). These Nodal costs were recognized and consolidated until September 30, 2017, the date when Etrion ceased to control Salvador.

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

Transmission costs during 2017 and 2016, 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.

### 10. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and benefits	3,707	3,690
Pension costs	114	164
Board of directors fees	156	151
Share-based payments	566	442
Professional fees	2,298	1,551
Listing and marketing	636	332
D&A	184	216
Office lease	391	384
Office, travel and other	916	1,176
Write-off guarantees	389	-
<b>Total G&amp;A</b>	<b>9,357</b>	<b>8,106</b>

### 11. IMPAIRMENT

During 2017, the Company impaired capitalized development costs of \$0.2 million (2016: \$0.3 million) associated with development activities of Japanese projects. In addition, during 2016, the Company identified indicators of impairment related to Salvador, an entity within its Solar Chile segment. The carrying value of the Salvador solar assets in Chile was compared to the recoverable amount of its 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.

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### 12. FINANCE INCOME AND COSTS

	2017	2016
<b>Finance income:</b>		
Changes in fair values of derivative financial instruments:		
- Corporate bond call option <a href="#">Note 24</a>	319	-
- Ineffective portion reclassified from other comprehensive income <a href="#">Note 26</a>	87	162
- Written call option	-	1,473
Foreign exchange gain	-	4,414
Other finance income	33	63
<b>Total finance income</b>	<b>439</b>	<b>6,112</b>
<b>Finance costs:</b>		
Interest rate expense:		
- Credit facilities and non-recourse loans <a href="#">Note 24</a>	9,606	11,741
- Interest rate swap contracts associated with non-recourse loans	1,240	176
- Corporate bond <a href="#">Note 24/31</a>	3,525	6,994
- Credit facility with non-controlling interest <a href="#">Note 27</a>	267	1,784
- Amortization of transaction costs	668	1,140
<b>Changes in fair values of derivative financial instruments:</b>		
- Ineffective portion reclassified from other comprehensive income <a href="#">Note 26</a>	106	226
- Written call option	-	202
Foreign exchange loss	1,911	-
Other finance costs	222	223
<b>Total finance costs before deducting amounts capitalized</b>	<b>17,545</b>	<b>22,486</b>
Amounts capitalized on qualifying assets <a href="#">Note 16</a>	(379)	(771)
<b>Total finance costs</b>	<b>17,166</b>	<b>21,715</b>
<b>Net finance costs</b>	<b>16,727</b>	<b>15,603</b>

The Group has four 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 24](#) and [Note 26](#) 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 16](#)

During 2017, the Group recognized finance income of \$0.3 million associated with the fair value of the corporate bond call option, which is considered an embedded derivative in the debt contract and deemed to be in-the-money as of the end of 2017. [Note 24](#)

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.

In addition, during 2017, the Group recognized \$1.9 million of foreign exchange loss (2016: foreign exchange gain \$4.4 million) mainly associated with intragroup loans denominated in foreign currencies.

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### 13. INCOME TAXES

#### (a) INCOME TAX EXPENSE

	2017	2016
<b>Current income tax expense:</b>		
Corporate income tax	(1,020)	(1,046)
<b>Total current income tax expense</b>	<b>(1,020)</b>	<b>(1,046)</b>
<b>Deferred income tax expense:</b>		
Temporary differences	(105)	403
Tax benefits recognized during the year	-	(6,807)
<b>Total deferred income tax expense</b>	<b>(105)</b>	<b>(6,404)</b>
<b>Total income tax expense</b>	<b>(1,125)</b>	<b>(7,450)</b>

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

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

	2017	2016
<b>Loss before tax from continuing operations</b>	<b>17,362</b>	<b>(102,928)</b>
Income tax expense calculated at 26.00% (2016: 26.00%)	4,514	(26,762)
<b>Tax effects of:</b>		
Permanent differences	1,812	-
Non-taxable income	(10,254)	-
De-recognition deferred tax assets	-	6,562
Tax losses not recognized	4,299	26,833
Differences in foreign tax rates	667	787
Other	87	30
<b>Total income tax expense</b>	<b>1,125</b>	<b>7,450</b>

#### (b) CURRENT INCOME TAX LIABILITIES

	December 31 2017	December 31 2016
Corporate income tax	265	443
Provincial income tax	270	115
<b>Total current income tax liabilities</b>	<b>535</b>	<b>558</b>

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### (c) DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during 2017 were as follows:

	Opening balance	Profit or loss	Other comprehensive income	Exchange differences	Closing balance
<b>Deductible temporary differences:</b>					
Intangible assets	17	(10)	-	-	7
Tax losses carried forward	-	76	-	-	76
Derivative financial instruments	2,534	(21)	(49)	121	2,585
Provisions	297	139	(60)	16	392
<b>Total deferred income tax asset</b>	<b>2,848</b>	<b>184</b>	<b>(109)</b>	<b>137</b>	<b>3,060</b>
<b>Taxable temporary differences:</b>					
Intangible assets	-	289	-	-	289
<b>Total deferred income tax liability</b>	<b>-</b>	<b>289</b>	<b>-</b>	<b>-</b>	<b>289</b>
<b>Net deferred income tax asset</b>	<b>2,848</b>	<b>(105)</b>	<b>(109)</b>	<b>137</b>	<b>2,771</b>

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

	Opening balance	Profit or loss	Other comprehensive income	Exchange differences	Reclassifications	Closing balance
<b>Deductible temporary differences:</b>						
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)	-
<b>Total deferred income tax asset</b>	<b>19,809</b>	<b>(6,792)</b>	<b>1,262</b>	<b>(432)</b>	<b>(10,999)</b>	<b>2,848</b>
<b>Taxable temporary differences:</b>						
Intangible assets	400	(389)	-	(11)	-	-
<b>Total deferred income tax liability</b>	<b>400</b>	<b>(389)</b>	<b>-</b>	<b>(11)</b>	<b>-</b>	<b>-</b>
<b>Net deferred income tax asset</b>	<b>19,409</b>	<b>(6,403)</b>	<b>1,262</b>	<b>(421)</b>	<b>(10,999)</b>	<b>2,848</b>

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, 2017, deferred income tax assets and liabilities of \$2.7 million and nil, respectively (2016: \$2.8 million and nil, respectively) were expected to be recovered more than twelve months after the balance sheet date. At December 31, 2017, the Group had unrecognized deferred income tax assets in respect of

tax losses associated with Canada, Chile, Japan and Luxembourg of \$183.7 million (2016: \$180.3 million), of which \$3.3 million (2016: \$2.0 million) expires between one and ten years, \$35.7 million (2016: \$38.4 million) expires between ten and twenty years and \$144.6 million (2016: \$139.9 million) has no expiry.

In addition, during 2017, the Group recognized an income tax expense of \$0.1 million (2016: \$1.0 million) within other comprehensive income associated with its derivative financial instruments. [Note 23](#)

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### 14. EARNING (LOSS) PER SHARE

Basic and diluted earnings (loss) per share is calculated by dividing the net income (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 earnings (loss) per share is as follows:

	2017	2016
<b>Income (loss) attributable to common shareholders:</b>		
From continuing operations	19,551	(79,113)
From discontinued operations	-	35,960
<b>Total Income (loss) for the year attributable to common shareholders</b>	<b>19,551</b>	<b>(43,153)</b>
<b>Weighted average number of thousand shares outstanding</b>		
	334,094	334,094
<b>Basic and diluted earnings (loss) per share:</b>		
From continuing operations	\$0.06	\$(0.24)
From discontinued operations	-	\$0.11
<b>Total basic and diluted earnings (loss) per share attributable to common shareholders</b>	<b>\$0.06</b>	<b>\$(0.13)</b>

Basic earnings (loss) per share equals diluted earnings (loss) per share, as there is no dilutive effect from the existing stock options since they are all out of the money and conditions of the existing RSUs were not satisfied. [Note 22](#)

### 15. 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 ("Misawa"), all together the "Japanese entities", and Salvador.

Shizukuishi, Mito, Komatsu and Misawa are Japanese entities that own the licenses, permits and facilities to build and operate solar parks in Japan totaling 57 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 second quarter of 2018. Misawa (previously named Aomori) is owned 60% by Etrion, 10% by HHT and 30% by Tamagawa Holdings, a Japanese real state and solar power developer. The construction of the Misawa project sites finished in February/July 2017 and became fully operational.

The non-controlling interest at December 31, 2017, of \$0.8 million (2016: negative \$31.5 million), represents the value attributable to non-controlling interests in the Japanese project companies. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Japanese project companies, other than those imposed by the lending banks related to cash distributions.

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

	December 31, 2017			December 31, 2016		
	Current assets (liabilities)	Non-current assets (liabilities)	Net assets (Liabilities)	Current assets (liabilities)	Non-current assets (liabilities)	Net assets (Liabilities)
Shizukuishi	1,730	(2,606)	(876)	3,916	(5,485)	(1,569)
Mito	663	781	1,444	3,658	(3,016)	642
Misawa	2,652	(1,028)	1,624	(2,331)	3,469	1,138
Komatsu	2,374	(1,739)	635	531	1,258	1,789
Salvador	-	-	-	39	(110,555)	(110,516)
<b>Total net assets (liabilities)</b>	<b>7,419</b>	<b>(4,592)</b>	<b>2,867</b>	<b>5,813</b>	<b>(114,329)</b>	<b>(108,516)</b>

Changes in the net assets (liabilities) position over time of the subsidiaries above are mainly driven by the ability of accumulating positive operating results and changes in the fair value of derivatives instruments (i.e. interest rate swaps).

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

	2017			2016		
	(Loss) income for the period	Comprehensive income (loss) for the period	Comprehensive income (loss) allocated to NCI	(Loss) income for the period	Comprehensive income (loss) for the period	Comprehensive income (loss) allocated to NCI
Shizukuishi	283	703	92	(208)	(2,252)	(295)
Mito	606	777	101	760	126	16
Misawa	379	438	175	(31)	(403)	(161)
Komatsu	(147)	(1,239)	(185)	(32)	(32)	(5)
Salvador	(10,967)	(10,967)	(3,290)	(104,402)	(104,402)	(31,321)
<b>Total</b>	<b>(9,846)</b>	<b>(10,288)</b>	<b>(3,107)</b>	<b>(103,913)</b>	<b>(106,963)</b>	<b>(31,766)</b>

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

	Salvador	Shizukuishi	Mito	Komatsu	Misawa	Total
<b>As at December 31, 2016</b>	<b>(32,224)</b>	<b>(193)</b>	<b>127</b>	<b>291</b>	<b>525</b>	<b>(31,474)</b>
Net (loss) income attributable to NCI	(3,290)	37	79	(22)	152	(3,044)
Other comprehensive income (loss) attributable to NCI	-	54	26	(152)	42	(30)
Loans conversion	19,510	-	-	-	-	19,510
Deconsolidation of subsidiary <a href="#">Note 6</a>	17,578	-	-	-	-	17,578
Intercompany eliminations and other	(1,574)	(14)	(43)	(22)	(69)	(1,722)
<b>As at December 31, 2017</b>	<b>-</b>	<b>(116)</b>	<b>189</b>	<b>95</b>	<b>650</b>	<b>818</b>
Interest held by third parties	30%	13%	13%	15%	40%	

On January 13, 2017, Salvador signed an agreement whereby the shareholders waived the outstanding balance of the shareholders loans and accumulated interest of \$65.1 million and converted to share capital (\$19.5 million attributable to the 30% non-controlling interests). In addition, as of September 30, 2017, the Group completed a control reassessment and derecognized the carrying amount of the 30% non-controlling interest in Salvador of approximately US\$17.6 million. [Note 6](#)

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### 16. PROPERTY, PLANT AND EQUIPMENT

	Land	Solar power projects	Assets under construction	Other PPE	Total
<b>Cost:</b>					
<b>At January 1, 2016</b>	<b>10,891</b>	<b>521,354</b>	<b>33,371</b>	<b>3,148</b>	<b>568,764</b>
Additions	2,777	1,084	37,029	3,039	43,929
Sale of subsidiaries <a href="#">Note 7</a>	(10,467)	(304,572)	-	(4,131)	(319,170)
Disposals	(30)	(325)	-	-	(355)
Impairment	-	(70,005)	-	-	(70,005)
Transfer from intangibles	-	-	327	-	327
Reclassifications	-	60,290	(63,436)	3,146	-
Exchange differences	(594)	(17,897)	4,919	(1,015)	(14,587)
<b>At December 31, 2016</b>	<b>2,577</b>	<b>189,929</b>	<b>12,210</b>	<b>4,187</b>	<b>208,903</b>
Additions	-	346	39,586	114	40,046
Deconsolidation of subsidiary <a href="#">Note 6</a>	-	(103,457)	-	(1,000)	(104,457)
Disposals	-	-	-	(256)	(256)
Reclassifications	44	23,079	(23,123)	-	-
Exchange differences	52	3,367	482	818	4,719
<b>At December 31, 2017</b>	<b>2,673</b>	<b>113,264</b>	<b>29,155</b>	<b>3,863</b>	<b>148,955</b>
<b>Accumulated depreciation:</b>					
<b>At January 1, 2016</b>	-	<b>86,460</b>	-	<b>1,331</b>	<b>87,791</b>
Charge for the year	-	20,903	-	303	21,206
Sale of subsidiaries <a href="#">Note 7</a>	-	(84,453)	-	(660)	(85,113)
Disposals	-	(101)	-	-	(101)
Exchange differences	-	(4,435)	-	(44)	(4,479)
<b>At December 31, 2016</b>	-	<b>18,374</b>	-	<b>930</b>	<b>19,304</b>
Charge for the year	-	9,115	-	62	9,177
Deconsolidation of subsidiary <a href="#">Note 6</a>	-	(20,099)	-	(99)	(20,198)
Disposals	-	-	-	(62)	(62)
Exchange differences and other	-	579	-	(453)	126
<b>At December 31, 2017</b>	-	<b>7,969</b>	-	<b>378</b>	<b>8,347</b>
<b>Net book value:</b>					
At December 31, 2016	2,577	171,555	12,210	3,257	189,599
At December 31, 2017	2,673	105,295	29,155	3,485	140,608

During 2017, the Group capitalized as assets under construction \$39.2 million (2016: \$37.0 million) of incurred capital expenditures associated with the solar power projects in Japan. In February and July 2017, the Group's 9.5 MW Japanese solar power project (Misawa) achieved commercial operation date and the Company reclassified the associated construction costs to solar power projects in accordance with the Group's accounting policies.

In addition, during 2017, the Group capitalized \$0.4 million (2016: \$0.8 million) of borrowing costs associated with credit facilities obtained to finance the construction of Misawa and Komatsu. [Note 12](#)

As of September 30, 2017, the Group completed a control reassessment and derecognized the net carrying amount of the Salvador solar power plant and asset retirement obligation of US\$84 million. [Note 6](#)

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 7](#)

Other PPE includes mainly dismantling costs and during 2017, the Group recognized an increase associated with its Japanese solar parks based on a revision of the previous estimates.

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### 17. INTANGIBLE ASSETS

	Goodwill	Licenses and permits	Internally generated development costs and other	Total
<b>Cost:</b>				
<b>At January 1, 2016</b>	<b>1,428</b>	<b>26,578</b>	<b>3,963</b>	<b>31,969</b>
Additions	-	1,749	2,169	3,918
Sale of subsidiaries <a href="#">Note 7</a>	(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)
<b>At December 31, 2016</b>	<b>-</b>	<b>15,751</b>	<b>4,294</b>	<b>20,045</b>
Additions	-	184	1,328	1,512
Deconsolidation of subsidiary <a href="#">Note 6</a>	-	(9,330)	-	(9,330)
Impairment	-	-	(225)	(225)
Exchange differences	-	301	465	766
<b>At December 31, 2017</b>	<b>-</b>	<b>6,906</b>	<b>5,862</b>	<b>12,768</b>
<b>Accumulated amortization:</b>				
<b>At January 1, 2016</b>	<b>-</b>	<b>3,730</b>	<b>602</b>	<b>4,332</b>
Charge for the year	-	1,486	56	1,542
Sale of subsidiaries <a href="#">Note 7</a>	-	(2,417)	-	(2,417)
Reclassifications	-	299	460	759
Exchange differences	-	(114)	64	(50)
<b>At December 31, 2016</b>	<b>-</b>	<b>2,984</b>	<b>1,182</b>	<b>4,166</b>
Charge for the year	-	927	151	1,078
Deconsolidation of subsidiary <a href="#">Note 6</a>	-	(2,371)	-	(2,371)
Exchange differences	-	39	131	170
<b>At December 31, 2017</b>	<b>-</b>	<b>1,579</b>	<b>1,464</b>	<b>3,043</b>
<b>Net book value:</b>				
At December 31, 2016	-	12,767	3,112	15,879
At December 31, 2017	-	5,327	4,398	9,725

During 2017, general and administrative expenses of \$1.3 million (2016: \$2.5 million) representing internally-generated costs of \$1.2 million (2016: \$2.0 million) and third-party costs of \$0.1 million (2016: \$0.5 million) were capitalized during the year within intangible assets as they directly related to the Group's development activities in Japan.

As of September 30, 2017, the Group completed a control reassessment and derecognized the net carrying amount of the Salvador licenses and permits of US\$7.0 million. [Note 6](#)

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 7](#)

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### 18. FINANCIAL ASSETS

	Loans and receivables
<b>At December 31, 2017</b>	
<b>Current assets</b>	
Derivative financial instruments	319
Trade and other receivables	941
Cash and cash equivalents	43,203
<b>Total current financial assets</b>	<b>44,463</b>
<b>Total financial assets</b>	<b>44,463</b>

<b>At December 31, 2016</b>	
<b>Current assets</b>	
Trade and other receivables	1,761
Cash and cash equivalents	61,174
<b>Total current financial assets</b>	<b>62,935</b>
<b>Total financial assets</b>	<b>62,935</b>

### 19. TRADE AND OTHER RECEIVABLES

	December 31 2017	December 31 2016
<b>Current portion:</b>		
Financial assets		
- Trade receivables	881	1,711
- Other financial assets	60	50
<b>Total financial assets Note 18</b>	<b>941</b>	<b>1,761</b>
Input VAT	4,689	7,869
Advances paid and prepaid expenses	1,196	1,122
Other current assets	8,036	2,425
<b>Total current portion</b>	<b>14,862</b>	<b>13,177</b>
<b>Non-current portion:</b>		
Input VAT	66	46
Advances and prepaid expenses	581	5,918
<b>Total non-current portion</b>	<b>647</b>	<b>5,964</b>
<b>Total trade and other receivables</b>	<b>15,509</b>	<b>19,141</b>

An aging analysis of the Group's trade receivables is as follows:

	December 31 2017	December 31 2016
Up to three months	881	1,711
<b>Total trade receivables</b>	<b>881</b>	<b>1,711</b>

At December 31, 2017, trade receivables of \$0.9 million (2016:\$1.7 million) were past due but not impaired, of which \$0.9 million (2016:\$1.7 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 2017	December 31 2016
Euros	581	1,713
US dollars	60	876
Canadian dollars	118	12
Japanese Yen	14,326	13,261
Swiss francs	424	80
Chilean pesos	-	3,199
<b>Total trade and other receivables</b>	<b>15,509</b>	<b>19,141</b>

### 20. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents (including restricted cash) are held in banks 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. Included within cash and cash equivalents is restricted cash relating to the Group's solar power projects as follows:

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

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.

### 21. 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, 2017 (2016: 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, 2017 and 2016.

	Number of Shares outstanding	Share capital \$'000
<b>At December 31, 2016</b>	<b>334,094,324</b>	<b>111,304</b>
<b>At December 31, 2017</b>	<b>334,094,324</b>	<b>111,304</b>

Restricted Share Unit (RSUs) exercised during 2017 were settled in cash.

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### 23. OTHER RESERVES

	Translation reserve	Hedging reserve	Transactions with non- controlling interests	Total
<b>At January 1, 2016</b>	<b>112</b>	<b>(39,208)</b>	<b>1,314</b>	<b>(37,782)</b>
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
<b>At December 31, 2016</b>	<b>(4,728)</b>	<b>(12,655)</b>	<b>43</b>	<b>(17,340)</b>
Currency translation difference:				
- Gain on translation adjustment	3,900	-	-	3,900
Cash flow hedges:				
- Loss on fair value movements	-	(200)	-	(200)
- Tax on loss on fair value movements	-	(90)	-	(90)
- Ineffective portion of fair value movements to profit or loss	-	(57)	-	(57)
- Tax on ineffective portion of fair value movements to profit or loss	-	21	-	21
<b>At December 31, 2017</b>	<b>(828)</b>	<b>(12,981)</b>	<b>43</b>	<b>(13,766)</b>

#### *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 12](#). At December 31, 2017 and 2016, all of the Group's interest rate swap contracts qualified for hedge accounting. In 2016, the accumulated losses in the hedging reserve associated with the Italian assets were reclassified to discontinued operation [Note 7](#).

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### 24. BORROWINGS

	Corporate bond	Project bond	Project loans	Total
<b>At January 1, 2016</b>	<b>87,059</b>	<b>37,522</b>	<b>408,479</b>	<b>533,060</b>
Proceeds from loans	-	-	56,455	56,455
Repayment of loans and interest	(52,158)	(7,370)	(31,813)	(91,341)
Sale of subsidiaries <i>Note 7</i>	-	(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)
<b>At December 31, 2016</b>	<b>42,108</b>	<b>-</b>	<b>242,669</b>	<b>284,777</b>
- Current portion	645	-	14,782	15,427
- Non-current portion	41,463	-	227,887	269,350
<b>At January 1, 2017</b>	<b>42,108</b>	<b>-</b>	<b>242,669</b>	<b>284,777</b>
Proceeds from loans	-	-	48,844	48,844
Repayment of loans and interest	(10,978)	-	(12,667)	(23,645)
Deconsolidation of subsidiary <i>Note 6</i>	-	-	(154,015)	(154,015)
Accrued interest	3,525	-	9,606	13,131
Amortization of transaction costs	386	-	175	561
Exchange difference	5,647	-	4,401	10,048
<b>At December 31, 2017</b>	<b>40,688</b>	<b>-</b>	<b>139,013</b>	<b>179,701</b>
- Current portion	605	-	8,312	8,917
- Non-current portion	40,083	-	130,701	170,784

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

	December 31 2017	December 31 2016
Less than 1 year	8,917	15,427
Between 1 and 5 years	69,812	70,574
After 5 years	102,975	198,776
<b>Total borrowings</b>	<b>181,704</b>	<b>284,777</b>

#### (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.

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

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value. The Company can call the bonds after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value. During 2017, the Company's corporate

bond started trading at a premium, triggering an implicit yield below the 8% fixed-rate coupon and management concluded that the corporate bond call option of \$0.3 million was "in-the-money" and therefore the embedded derivative had value. At December 31, 2016, no separate amount was recognized in relation to this call option.

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

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

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

##### *Japanese subsidiaries*

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

During 2017, the Group's Japanese subsidiaries with solar power projects under construction drew down a

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total of ¥5,113 million (\$45.5 million) and ¥423 million (\$3.8 million) under the senior financing agreements and under the VAT credit facility, respectively (2016: ¥5,760 million (\$48.4 million) and ¥384 (\$3.3 million), respectively). At December 31, 2017, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥525 million (\$4.6 million) (2016: ¥6,075 million (\$51.9 million)). On March 24, 2017, Shizukuishi received a cash reimbursement of ¥501 million (\$4.5 million) from the Japanese tax authorities associated with VAT credits accumulated during the construction of its solar power plant. On September 30, 2017, Shizukuishi repaid ¥435 million (\$3.8 million) to the lender bank in relation to the associated VAT credit facility.

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, 2017, was \$140.6 million (2016: \$101.7 million).

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

### Chilean subsidiaries

During the third quarter of 2017, the Group completed a control reassessment and derecognized the net carrying amount of the Salvador non-recourse project loan of US\$154 million. [Note 6](#)

### 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 7](#)

## 25. FINANCIAL LIABILITIES

	Other financial liabilities	Derivative financial instruments	Total
<b>At December 31, 2017</b>			
<b>Non-current financial liabilities:</b>			
Borrowings	170,784	-	170,784
Derivative financial instruments	-	8,788	8,788
<b>Total non-current</b>	<b>170,784</b>	<b>8,788</b>	<b>179,572</b>
<b>Current financial liabilities:</b>			
Trade and other payables	285	-	285
Borrowings	8,917	-	8,917
Derivative financial instruments	-	1,444	1,444
<b>Total current</b>	<b>9,202</b>	<b>1,444</b>	<b>10,646</b>
<b>Total financial liabilities</b>	<b>179,986</b>	<b>10,232</b>	<b>190,218</b>

<b>At December 31, 2016</b>			
<b>Non-current financial liabilities:</b>			
Borrowings	269,350	-	269,350
Derivative financial instruments	-	8,347	8,347
<b>Total non-current</b>	<b>269,350</b>	<b>8,347</b>	<b>277,697</b>
<b>Current financial liabilities:</b>			
Trade and other payables	862	-	862
Borrowings	15,427	-	15,427
Derivative financial instruments	-	1,167	1,167
<b>Total current</b>	<b>16,289</b>	<b>1,167</b>	<b>17,456</b>
<b>Total financial liabilities</b>	<b>285,639</b>	<b>9,514</b>	<b>295,153</b>

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

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

### Corporate bond call option

During 2017, the Group recognized the fair value of the corporate bond call option of \$0.3 million which is deemed to be in-the-money as of the end of 2017. [Note 24](#)

### 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. During 2017, the Group recognized a net fair value loss of \$0.4 million (2016: \$3.1 million), net of tax, within other

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comprehensive income related to the effective portion of the Group's interest rate swap contracts.

At December 31, 2017, the notional amount of the Group's interest rate swap contracts was \$123.5 million (2016: \$99.9 million), which was denominated in Japanese yen. The fair market value of the interest rate swap contracts at December 31, 2017, increased to a liability position of \$10.2 million (2016: \$9.5 million) due to new interest rate swap contracts entered into during the year.

At December 31, 2017, and 2016, all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is recorded in to finance income/costs.

### 27. PROVISIONS AND OTHER LIABILITIES

The movement of provisions over the year is as follows:

	Site restoration	Pension plan	Total
<b>At January 1, 2016</b>	<b>5,945</b>	<b>1,281</b>	<b>7,226</b>
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)
<b>At December 31, 2016</b>	<b>4,494</b>	<b>1,124</b>	<b>5,618</b>
<b>Non-current</b>	<b>4,494</b>	<b>1,124</b>	<b>5,618</b>
<b>At January 1, 2017</b>	<b>4,494</b>	<b>1,124</b>	<b>5,618</b>
Additions	-	114	114
Change in estimate	84	(229)	(145)
Unwinding of discount	52	-	52
Deconsolidation of subsidiaries	(1,107)	-	(1,107)
Utilization	-	(134)	(134)
Exchange differences	162	60	222
<b>At December 31, 2017</b>	<b>3,685</b>	<b>935</b>	<b>4,620</b>
<b>Non-current</b>	<b>3,685</b>	<b>935</b>	<b>4,620</b>

#### (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 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:

	2017	2016	
	Japan	Japan	Chile
Discount rate	0.5%	0.6%	4.0%
Inflation rate	1.0%	1.0%	2.7%
Weighted average expected remaining life of solar power plant	19 years	20 years	28 years

The discount rates represent the government bond yield rate for a period equivalent to the expected life of the solar power projects in Japan. 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, 2017 and 2016 are as follows:

	December 31 2017	December 31 2016
Deferred income	163	567
Contributions from NCI	3,544	23,225
<b>Total other liabilities</b>	<b>3,707</b>	<b>23,792</b>
<b>Non-current</b>	<b>3,323</b>	<b>22,521</b>
<b>Current</b>	<b>384</b>	<b>1,271</b>

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

In accordance with the shareholder agreements between Etrion and its partners in Japan, 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 2017, \$0.5 million were contributed by non-controlling interests under the existing shareholder loan agreements (2016: \$1.4 million). These shareholder loans have a fixed annual interest rate of 8% for the Japanese entities. 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 are within level 2 of the fair value hierarchy.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Expressed in US\$'000 unless otherwise stated

### 28. RETIREMENT OBLIGATIONS

The Group operates a defined benefit pension plan in Switzerland that is managed through a private fund. At December 31, 2017, the Group recognized \$0.2 million within other comprehensive loss associated with actuarial gains (2016: \$0.1 million of actuarial losses).

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

	December 31 2017	December 31 2016
Present value of funded obligations	2,565	2,784
Fair value of plan assets	(1,630)	(1,660)
<b>Net liability position</b>	<b>935</b>	<b>1,124</b>

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

	2017	2016
<b>Defined benefit obligation at the beginning</b>	<b>2,784</b>	<b>2,962</b>
Current service cost	134	221
Employee contributions	76	97
Interest cost	17	27
Past service cost	(27)	(59)
Benefits paid	(353)	(245)
Remeasurement loss	(215)	(110)
Exchange differences	149	(109)
<b>Defined benefit obligation at the end</b>	<b>2,565</b>	<b>2,784</b>

The weighted average duration of the defined benefit obligation is 17.4 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 10.4 years.

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

	2017	2016
<b>Fair value of plan assets at the beginning</b>	<b>1,660</b>	<b>1,666</b>
Interest income on plan assets	10	15
Return on plan assets (excluding interest)	14	29
Employer contributions	134	163
Employee contributions	76	97
Benefits paid	(353)	(245)
Foreign exchange	89	(65)
<b>Fair value of plan assets at the end</b>	<b>1,630</b>	<b>1,660</b>

The plan assets comprise the following:

	2017		2016	
	%	\$'000	%	\$'000
Cash and cash equivalents	8.3%	135	7.5%	124
Fixed interest rate instruments	42.4%	691	40.5%	672
Equity instruments	34.5%	562	37.2%	618
Real estate	14.8%	242	14.8%	246
<b>Total fair value of plan assets</b>		<b>1,630</b>		<b>1,660</b>

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 not quoted in active markets. No asset-liability strategy was performed in the years ended December 31, 2017 and 2016. The amount recognized in the income statement associated with the Group's pension plan is as follows:

	2017	2016
Current service cost	134	221
Interest expense on defined benefit obligation	17	27
Interest income on plan assets	(10)	(15)
Past service cost	(27)	(59)
<b>Total expense recognized</b>	<b>114</b>	<b>174</b>

The expense associated with the Group's pension plan of \$0.1 million (2016: \$0.2 million) for the year ended December 31, 2017, was included within general and administrative expenses. **Note 10**

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

	2017	2016
Discount rate	0.7%	0.6%
Inflation rate	1.0%	1.0%
Future salary increases	1.0%	1.0%
Future pension increases	0.0%	0.0%
Retirement age	Men 65 Women 64	Men 65 Women 64

Assumptions regarding future mortality are set based on actuarial advice in accordance with the LPP 2015 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 2018 are expected to total \$0.2 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 7.9%	Increase by 9.1%
Salary growth rate	0.50%	Increase by 0.6%	Decrease by 0.6%
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

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### 29. TRADE AND OTHER PAYABLES

	December 31 2017	December 31 2016
<b>Financial liabilities:</b>		
Trade payables	285	862
<b>Total financial liabilities</b>	<b>285</b>	<b>862</b>
Accrued expenses	2,496	7,823
Other trade and other payables	712	1,986
<b>Total trade and other payables</b>	<b>3,493</b>	<b>10,671</b>

Accrued expenses at December 31, 2017, of \$2.5 million (2016: \$7.8 million) include \$0.4 million for the construction of the Komatsu solar power project (2016: \$4.5 million).

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 2017	December 31 2016
Japanese yen	2,106	7,264
Euros	30	1,480
Swiss francs	716	1,150
US dollars	100	748
Canadian dollars	541	29
<b>Total trade and other payables</b>	<b>3,493</b>	<b>10,671</b>

### 30. OPERATING LEASES

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

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

	December 31 2017	December 31 2016
Next year	1,186	1,322
Years 2 through 5	3,972	4,145
Beyond 5 years	13,756	15,052
<b>Total minimum payments</b>	<b>18,914</b>	<b>20,519</b>

During 2017, the Group recognized \$1.4 million (2016: \$0.8 million) of operating lease expenses, of which \$1.0 million (2016: \$0.4 million) related to land leases included within operating expenses and \$0.4 million (2016: \$0.4 million) related to office leases included within general and administrative expenses. [Note 9](#) and [Note 10](#). The Group had no finance leases at December 31, 2017 and 2016.

### 31. 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 (2016: 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:

	2017	2016
<b>General and administrative expenses:</b>		
Lundin Services BV	8	14
Lundin Petroleum AB	19	27
Lundin SA	124	112
<b>Finance costs:</b>		
Lundin family:		
- Interest expense	560	865
- Transaction costs	48	106
<b>Total transactions with related parties</b>	<b>759</b>	<b>1,124</b>

Amounts outstanding to related parties at December 31, 2017 and 2016 are as follows:

	December 31 2017	December 31 2016
<b>Current liabilities:</b>		
Lundin Services BV:		
General and administrative expenses	1	1
Lundin family share in corporate bond	17	98
<b>Total current liabilities</b>	<b>18</b>	<b>99</b>
<b>Non-current liabilities:</b>		
Lundin family share in corporate bond	466	6,323
<b>Total non-current liabilities</b>	<b>466</b>	<b>6,323</b>
<b>Total amounts outstanding</b>	<b>484</b>	<b>6,422</b>

There were no amounts outstanding from related parties at December 31, 2017 and 2016.

#### 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. On October 24, 2017, the Lundin family sold to the Company a nominal amount of approximately €5.7 million (\$6.7 million) of corporate bonds. As at December 31, 2017, the total corporate bonds held by the Lundin family amounted to €0.4 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	2017	2016
Salaries and short-term benefits	956	1,307
Pension costs	154	125
Termination benefits	236	-
Board of Directors	150	150
Share-based payment	582	376
<b>Total</b>	<b>2,078</b>	<b>1,958</b>

Amounts outstanding to key management personnel at December 31, 2017 and 2016 are as follows:

	December 31 2017	December 31 2016
Termination benefits	236	-
Other (bonus and pension costs)	148	500
<b>Total</b>	<b>384</b>	<b>500</b>

There were no amounts outstanding from key management personnel at December 31, 2017 and 2016.

## 32. 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, 2017, the Group had a contractual obligation in less than one year to acquire construction services in the amount of \$3.0 million related to the construction of the 13.2 MW Komatsu solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level and/or from the Group's unrestricted cash balance upon financial close. The Group also has contractual commitments associated with its lease contracts [Note 30](#).

## 33. 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 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.

## BOARD AND MANAGEMENT

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### BOARD OF DIRECTORS

**Ashley Heppenstall**  
Non-Executive Chairman

**Marco A. Northland**  
Chief Executive Officer and Director

**Ian H. Lundin**  
Independent Director

**Aksel Azrac**  
Independent Director

**Garrett Soden**  
Director

### MANAGEMENT

**Marco A. Northland**  
Chief Executive Officer and Director

**Christian Lacueva**  
Chief Financial Officer

**Giora Salita**  
Executive Vice President, Business Development and  
M&A

**Martin Oravec**  
Chief Investment Officer

## CORPORATE INFORMATION

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### AUDITORS

**Ernst & Young LLP**  
Toronto, Canada

### LEGAL COUNSEL

**Norton Rose Fulbright Canada LLP**  
Toronto, Canada

### EXCHANGE LISTINGS

**Primary – Toronto Stock Exchange (Canada)**  
Ticker symbol “ETX”

**Secondary – NASDAQ OMX (Sweden)**  
Ticker symbol “ETX”

**Corporate Bonds – Oslo Stock Exchange (Norway)**  
Ticker symbol “ETRION02”

### REGISTRAR AND TRANSFER AGENT

**Computershare**  
Vancouver, Canada  
Stockholm, Sweden

### SECURITIES FILINGS

SEDAR, [www.sedar.com](http://www.sedar.com)

### ETRION WEBSITE

[www.etrion.com](http://www.etrion.com)

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