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Etrion Corporation

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2019

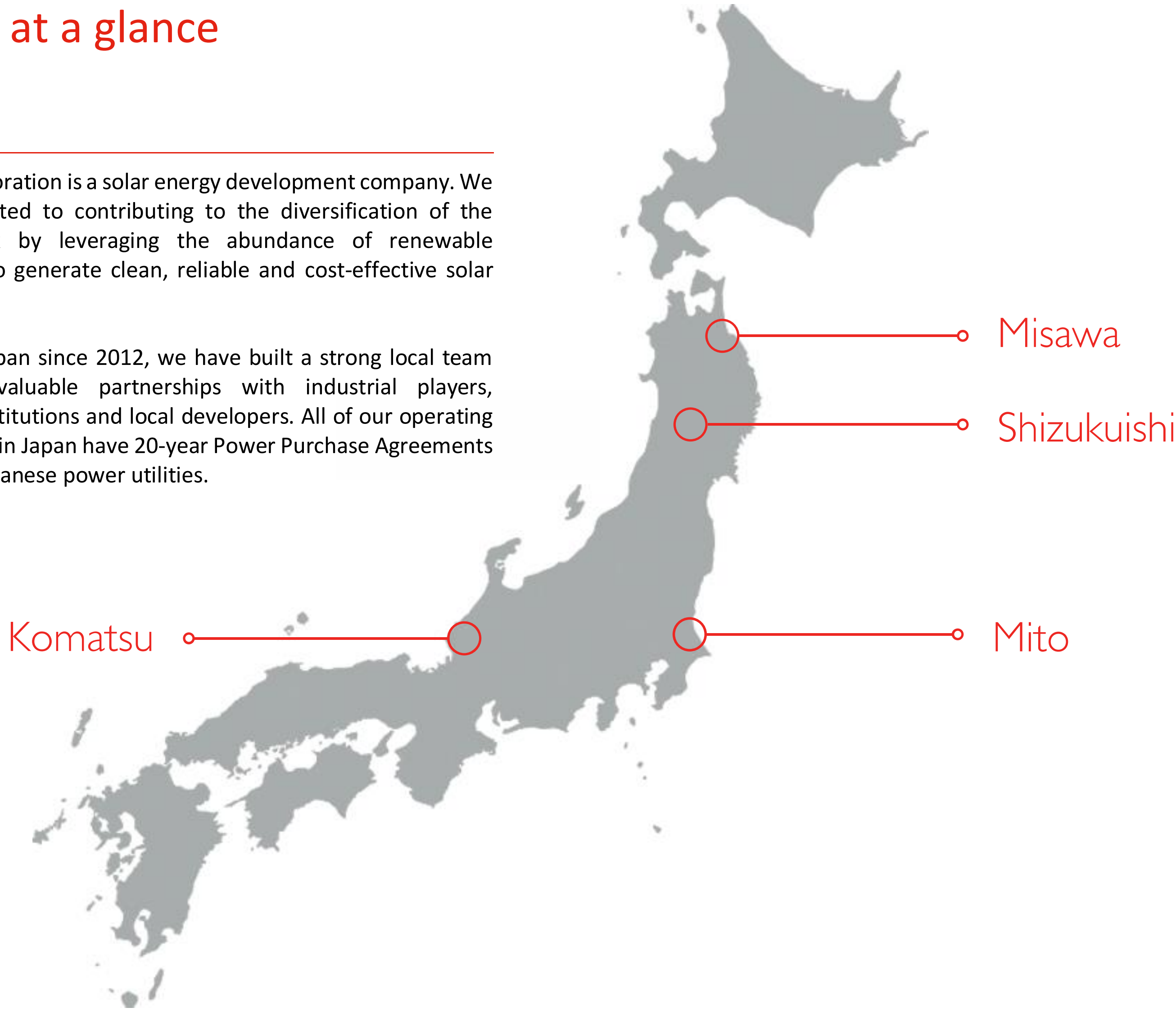
UNAUDITED

Mito solar power project in Japan

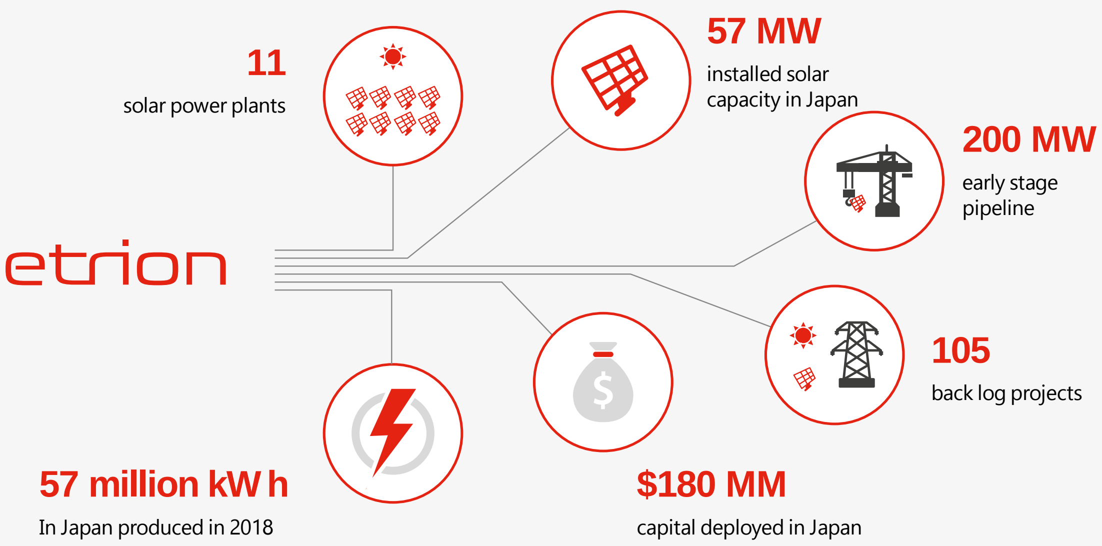
Etrion at a glance

Etrion Corporation is a solar energy development company. We are committed to contributing to the diversification of the energy mix by leveraging the abundance of renewable resources to generate clean, reliable and cost-effective solar energy.

Active in Japan since 2012, we have built a strong local team secured invaluable partnerships with industrial players, financial institutions and local developers. All of our operating solar assets in Japan have 20-year Power Purchase Agreements with the Japanese power utilities.



ETRION FACTS



Contents

01 Financial Statements

02 Notes to the Consolidated financial statements

01

FINANCIAL STATEMENTS

The accompanying condensed consolidated unaudited interim financial statements of the Company for the three months ended March 31, 2019, have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements. Readers are cautioned that these condensed consolidated unaudited interim financial statements may not be appropriate for their purposes.

Condensed consolidated interim statement of net loss and comprehensive loss

For the three months ended March 31, 2019 and 2018

UNAUDITED

Expressed in US$'000

		Three months ended	
		Q1-19	**Q1-18**
	Note		
Revenue	5	4,216	2,910
Operating expenses	6	(3,575)	(2,794)
Gross profit		**641**	**116**
General and administrative expenses	7	(955)	(1,138)
Other expenses		(245)	(38)
Operating loss		**(559)**	**(1,060)**
Finance income	8	683	-
Finance costs	8	(1,851)	(2,498)
Net finance costs		**(1,168)**	**(2,498)**
Loss before income tax		**(1,727)**	**(3,558)**
Income tax expense	9	(500)	(295)
Net loss for the period		**(2,227)**	**(3,853)**
Other comprehensive (loss) income			
Items that may be reclassified to profit and loss:			
(Loss) gain on currency translation		(58)	1,628
(Loss) gain on cash flow hedges, net of tax		(543)	113
Total other comprehensive (loss) income		**(601)**	**1,741**
Total comprehensive loss for the period		**(2,828)**	**(2,112)**
Loss attributable to:			
Owners of the parent		(1,970)	(3,663)
Non-controlling interest	11	(257)	(190)
Total		**(2,227)**	**(3,853)**
Total comprehensive loss attributable to:			
Owners of the parent		(2,473)	(1,982)
Non-controlling interest	11	(355)	(130)
Total		**(2,828)**	**(2,112)**
Basic and diluted loss per share from loss for the period	10	**$(0.01)**	**$(0.01)**

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

Condensed consolidated interim balance sheet

As at March 31, 2019
UNAUDITED

Expressed in US$'000

	Note	March 31 2019	December 31 2018
Assets			
Non-current assets			
Property, plant and equipment	12	153,622	146,594
Intangible assets	13	14,614	13,318
Deferred income tax assets		2,926	3,076
Trade and other receivables		597	588
Total non-current assets		**171,759**	**163,576**
Current assets			
Trade and other receivables	20	13,234	14,923
Cash and cash equivalents (including restricted cash)	14	23,231	24,727
Total current assets		**36,465**	**39,650**
Total assets		**208,224**	**203,226**
Equity			
Attributable to common shareholders			
Share capital	15	111,304	111,304
Contributed surplus		13,267	13,281
Other reserves		(13,443)	(12,940)
Accumulated deficit		(111,818)	(109,848)
Total attributable to common shareholders		**(690)**	**1,797**
Non-controlling interest	11	**777**	**1,132**
Total equity		**87**	**2,929**
Liabilities			
Non-current liabilities			
Borrowings	17	164,404	166,760
Derivative financial instruments	18	9,705	8,706
Provisions		15,203	5,631
Other liabilities		2,651	2,385
Total non-current liabilities		**191,963**	**183,482**
Current liabilities			
Trade and other payables		2,761	3,997
Current tax liabilities	9	183	795
Borrowings	17	10,886	9,847
Derivative financial instruments	18	1,532	1,452
Provisions		334	-
Other liabilities		478	724
Total current liabilities		**16,174**	**16,815**
Total liabilities		**208,137**	**200,297**
Total equity and liabilities		**208,224**	**203,226**

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

Condensed consolidated interim statement of changes in equity

For the three months ended March 31, 2019 and 2018

UNAUDITED

Expressed in US$'000

	Attributable to owners of the parent						
	Share capital	Contributed surplus	Other reserves	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at January 1, 2018	**111,304**	**12,538**	**(13,766)**	**(101,047)**	**9,029**	**818**	**9,847**
Comprehensive income (loss):							
Income (loss) for the period	-	-	-	(3,663)	(3,663)	(190)	(3,853)
Other comprehensive (loss) income:							
Cash flow hedges (net of tax)	-	-	99	-	99	14	113
Currency translation	-	-	1,582	-	1,582	46	1,628
Total comprehensive income (loss)	**-**	**-**	**1,681**	**(3,663)**	**(1,982)**	**(130)**	**(2,112)**
Transactions with owners in their capacity as owners:							
Share-based payments	-	188	-	-	188	-	188
Balance at March 31, 2018	**111,304**	**12,726**	**(12,085)**	**(104,710)**	**7,235**	**688**	**7,923**
Balance at January 1, 2019	**111,304**	**13,281**	**(12,940)**	**(109,848)**	**1,797**	**1,132**	**2,929**
Comprehensive income (loss):							
(Loss) income for the period	-	-	-	(1,970)	(1,970)	(257)	(2,227)
Other comprehensive income (loss):							
Cash flow hedges (net of tax)	-	-	(445)	-	(445)	(98)	(543)
Currency translation	-	-	(58)	-	(58)	-	(58)
Total comprehensive income (loss)	**-**	**-**	**(503)**	**(1,970)**	**(2,473)**	**(355)**	**(2,828)**
Transactions with owners in their capacity as owners:							
Share-based payments	-	(14)	-	-	(14)	-	(14)
Balance at March 31, 2019	**111,304**	**13,267**	**(13,443)**	**(111,818)**	**(690)**	**777**	**87**

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

Condensed consolidated interim statement of cash flow

For the three months ended March 31, 2019 and 2018

UNAUDITED

Expressed in US$'000

	Note	Three months ended Q1-19	Q1-18
Operating activities:			
Net loss for the period		**(2,227)**	**(3,853)**
Adjustments for the following non-cash items:			
Depreciation and amortization	6/7	2,293	1,718
Current income tax expense	9	169	230
Deferred income tax expense	9	331	65
Share-based payment expense	7/16	24	188
Interest expense	8	1,296	1,287
Interest expense relating to interest rate swap contracts	8	376	342
Amortization of transaction costs	8	107	104
Foreign exchange (gain) loss	8	(682)	629
Fair value changes associated with derivative financial instruments	8	72	81
Other expenses (income)		245	38
Sub-total		**2,004**	**829**
Changes in working capital:			
Trade and other receivables		1,681	(2,180)
Trade and other payables		(2,124)	(1,040)
Income tax paid		(778)	(404)
Total cash flow from (used in) operating activities		**783**	**(2,795)**
Investing activities:			
Purchases of property, plant and equipment		(86)	(8,723)
Purchases of intangible assets	13	(1,657)	(270)
Total cash flow used in investing activities		**(1,743)**	**(8,993)**
Financing activities:			
Proceeds from borrowings		-	4,853
Contributions from non-controlling interest		-	119
Total cash flow from financing activities		**-**	**4,972**
Net decrease in cash and cash equivalents		**(960)**	**(6,816)**
Effect of exchange rate changes on cash and cash equivalents		(536)	1,672
Cash and cash equivalents (including restricted cash) at the beginning of the period		**24,727**	**43,203**
Cash and cash equivalents (including restricted cash) at the end of the period	14	**23,231**	**38,059**

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

02

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2019 and 2018
UNAUDITED

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 2200 HSBC Building, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8, 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 57 megawatts ("MW") of installed solar capacity in Japan.

These condensed consolidated interim financial statements are presented in United States ("US") Dollars ("$"), which is the Group's presentation currency. The Company's Board of Directors approved these condensed consolidated interim financial statements on May 7, 2019.

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

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018. These condensed consolidated interim financial statements have been prepared on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2018, except for those relating to the application of the new standards applicable from January 1, 2019, as indicated in these condensed consolidated interim financial statements. Certain reclassifications have been made to conform to the current presentation.

(b) GOING CONCERN

The Company's condensed consolidated financial statements for the three months ended March 31, 2019, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future. At March 31, 2019, the Group had cash and cash equivalents of $23.2 million, $6.9 million of which was unrestricted and held at the parent level (December 31, 2018: $24.7 million and $9.3 million, respectively) and working capital of $20.3 million (December 31, 2018: $22.8 million). During the three months ended March 31, 2019, the Group recognized a net loss of $2.2 million (2018 net loss: $3.6 million). The Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these consolidated financial statements. These condensed consolidated interim financial statements for the three months ended March 31, 2019, 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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group has reviewed all the Group's leasing arrangements considering the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the existing commitments under the solar projects land lease contracts. As at January 1, 2019, the Group had non-cancellable operating lease commitments of US$ 18.3 million. Of these commitments, approximately US$0.3 million related to short-term and low value office leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group recognised right-of-use assets and lease liabilities of approximately $10.7 million on January 1, 2019, (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net current assets were approximately $1.0 million lower due to the presentation of a portion of the liability as a current liability. Net results after tax are expected to increase by approximately $0.4 million in 2019 because of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately $1.0 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows are expected to increase, and financing cash flows to decrease by approximately $1.0 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group applies IFRS 16 from its mandatory adoption date of January 1, 2019. The Group applies the simplified transition approach and has not restated comparative amounts for the year prior to first adoption. Right-of-use assets are measured on transition as if the new rules had always been applied.

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.

3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported amounts 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 condensed consolidated interim financial statements are prepared.

On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results may differ from the assumptions and estimates, and such differences could be material. There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2019, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2018.

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2019 and 2018
UNAUDITED

Expressed in US$'000 unless otherwise stated

4. 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. 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"), Hokuriku Electric Power Co., Inc ("HOKURIKU"), and Tohoku Electric Power Co.,Inc. ("TOHOKU"). The Company's revenue breakdown by major customers in Japan is shown below:

	Three months ended	
	Q1-19	**Q1-18**
TEPCO	982	1,051
HOKURIKU	2,442	1,859
TOHOKU	793	-
TOTAL	**4,216**	**2,910**

The Group's revenues, EBITDA and results from continuing operations are presented as follows:

	Q1-19			Q1-18		
	Solar Japan	**Corporate**	**Total**	**Solar Japan**	**Corporate**	**Total**
Revenue	**4,216**	**-**	**4,216**	**2,910**	**-**	**2,910**
Operating expenses	(1,314)	-	(1,314)	(1,116)	-	(1,116)
General and administrative	(72)	(851)	(923)	(52)	(1,046)	(1,098)
Other income (expense)	(260)	15	(245)	(12)	(26)	(38)
EBITDA	**2,570**	**(836)**	**1,734**	**1,730**	**(1072)**	**658**
Depreciation and amortization	(2,261)	(32)	(2,293)	(1,678)	(40)	(1,718)
Finance income	-	683	683	-	-	-
Finance costs	(1,046)	(805)	(1,851)	(892)	(1,606)	(2,498)
Loss before income tax	**(737)**	**(990)**	**(1,727)**	**(840)**	**(2,718)**	**(3,558)**
Income tax expense	(367)	(133)	(500)	(153)	(142)	(295)
Net loss for the period	**(1,104)**	**(1,123)**	**(2,227)**	**(993)**	**(2,860)**	**(3,853)**

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

	March 31, 2019			December 31, 2018		
	Solar Japan	**Corporate**	**Total**	**Solar Japan**	**Corporate**	**Total**
Property, plant and equipment	153,562	60	153,622	146,529	65	146,594
Intangible assets	10,420	4,194	14,614	8,411	4,907	13,318
Cash and cash equivalents	16,285	6,946	23,231	15,399	9,328	24,727
Other assets	9,429	7,328	16,757	8,504	10,083	18,587
Total assets	**189,696**	**18,528**	**208,224**	**178,843**	**24,383**	**203,226**
Borrowings	137,435	37,855	175,290	138,465	38,142	176,607
Trade and other payables	1,978	783	2,761	1,244	2,753	3,997
Other liabilities	29,145	941	30,086	18,653	1,040	19,693
Total liabilities	**168,558**	**39,579**	**208,137**	**158,362**	**41,935**	**200,297**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2019 and 2018
UNAUDITED

Expressed in US$'000 unless otherwise stated

5. REVENUE

	Three months ended	
	Q1-19	**Q1-18**
Feed-in Tariff ("FiT")	4,216	2,910
Total Revenue	**4,216**	**2,910**

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.

6. OPERATING EXPENSES

	Three months ended	
	Q1-19	**Q1-18**
Operating and maintenance ("O&M")	355	207
Personnel costs	295	243
Depreciation and amortization ("D&A")	2,261	1,678
Property tax	385	294
Insurance	98	62
Land lease	-	235
Other operating expenses	181	75
Total Operating expenses	**3,575**	**2,794**

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

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended	
	Q1-19	**Q1-18**
Salaries and benefits	306	468
Board of directors' fees	68	69
Share-based payments	24	188
Professional fees	280	136
Listing and marketing	60	73
D&A	32	40
Office lease	72	80
Office, travel and other	113	84
Total General and administrative expenses	**955**	**1,138**

8. FINANCE INCOME AND COSTS

	Three months ended	
	Q1-19	**Q1-18**
Finance income:		
Foreign exchange gain	682	-
Other finance income	1	-
Total finance income	**683**	**-**
Finance costs:		
Credit facilities and non-recourse loans	474	519
Interest rate swap contracts	376	342
Corporate bond	705	806
Credit facility with non-controlling interest	57	56
Amortization of transaction costs	107	114
Corporate bond call option	-	81
Ineffective portion cash flow hedges	72	-
Foreign exchange loss	-	629
Other finance costs	60	56
Total finance costs before deducting amounts capitalized	**1,851**	**2,603**
Amounts capitalized on qualifying assets	-	(105)
Total finance costs	**1,851**	**2,498**
Net finance costs	**1,168**	**2,498**

The Group has four floating-rate credit facilities outstanding associated with its operating solar power projects in Japan. These credit facilities are hedged using interest rate swap contracts. Refer to Note 17 and Note 18 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.

Expressed in US$'000 unless otherwise stated

9. INCOME TAXES

(a) INCOME TAX EXPENSE

	Three months ended	
	Q1-19	**Q1-18**
Current Income tax expense:		
Corporate income tax	(169)	(230)
Total current income tax expense	(169)	(230)
Deferred income tax expense:		
Temporary differences	(331)	(65)
Total deferred Income tax expense	(331)	(65)
Total income tax expense	**(500)**	**(295)**

The Group recognized a current income tax expense of $0.1 million (2018: $0.1 million) associated with its solar power projects in Japan, and an income tax expense of $0.1 million (2018: $0.1 million) associated with its holding and management services subsidiaries. In addition, the Group recognized a deferred income tax expense of $0.3 million (2018 deferred income tax expense: $0.1 million) due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

(b) CURRENT INCOME TAX LIABILITIES

	March 31 2019	December 31 2018
Corporate income tax	183	795
Total current income tax liabilities	**183**	**795**

10. LOSS PER SHARE

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

	Three months ended	
	Q1-19	**Q1-18**
Total loss attributable to common shareholders	(1,970)	(3,663)
Weighted average number of thousand shares outstanding	334,094	334,094
Total basic and diluted (loss) earnings per share	**$(0.006)**	**$(0.011)**

Diluted loss per share equals basic loss per share, as there is no dilutive effect from the existing RSUs, since the performance conditions have not been satisfied and are out-of-the-money.

11. 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." Shizukuishi, Mito, Komatsu and Misawa are Japanese entities that own the licenses, permits and facilities to build and operate solar parks in Japan totalling 57 MW. 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. Misawa is owned 60% by Etrion, 10% by HHT and 30% by Tamagawa Holdings, a Japanese real state and solar power developer. The non-controlling interest at March 31, 2019, of $0.8 million (December 31, 2018: $1.1 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.

Expressed in US$'000 unless otherwise stated

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

	March 31, 2019			December 31, 2018		
	Current assets (liabilities)	**Non-current assets (liabilities)**	**Net assets (Liabilities)**	**Current assets (liabilities)**	**Non-current assets (liabilities)**	**Net assets (Liabilities)**
Shizukuishi	3,335	(5,255)	(1,920)	3,091	(3,856)	(765)
Mito	1,503	940	2,443	1,036	1,321	2,357
Misawa	1,143	282	1,425	866	903	1,769
Komatsu	2,284	(1,336)	948	2,121	(654)	1,467
Total net assets (liabilities)	**8,265**	**(5,369)**	**2,896**	**7,114**	**(2,286)**	**4,828**

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 three months ended March 31, is as follows:

	Q1-19			Q1-18		
	(Loss) income for the period	**Comprehensive (loss) income for the period**	**Comprehensive (loss) income allocated to NCI**	**(Loss) income for the period**	**Comprehensive (loss) income for the period**	**Comprehensive (loss) income allocated to NCI**
Shizukuishi	(959)	(1,163)	(154)	(1,219)	(1,165)	(153)
Mito	165	94	12	148	265	35
Misawa	(253)	(340)	(136)	(117)	(17)	(7)
Komatsu	(337)	(517)	(77)	(20)	(35)	(5)
Total	**(1,384)**	**(1,926)**	**(355)**	**(1,208)**	**(952)**	**(130)**

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

	Shizukuishi	**Mito**	**Komatsu**	**Misawa**	**Total**
As at December 31, 2018	**(101)**	**307**	**219**	**707**	**1,132**
Net (loss) income attributable to non-controlling interest	(126)	21	(51)	(101)	(257)
Other comprehensive income attributable to non-controlling interest	(25)	(10)	(27)	(36)	(98)
As at March 31, 2019	**(252)**	**318**	**141**	**570**	**777**
Interest held by third parties	13%	13%	15%	40%	

Expressed in US$'000 unless otherwise stated

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Solar power projects	Rights of use	Other PPE	Total
Cost:					
At December 31, 2018	**8,049**	**149,129**	**-**	**5,115**	**162,293**
Additions	-	77	10,753	9	10,840
Disposal	-	-	-	(7)	(7)
Exchange differences	(88)	(1,640)	(118)	(56)	(1,902)
At March 31, 2019	**7,961**	**147,567**	**10,635**	**5,061**	**171,223**
Accumulated depreciation:					
At December 31, 2018	**-**	**15,093**	**-**	**606**	**15,699**
Depreciation	-	(1,893)	148	62	2,103
Disposals	-	-	-	(7)	(7)
Exchange differences	-	(187)	(2)	(6)	(194)
At March 31, 2019	**-**	**16,799**	**146**	**656**	**17,601**
Net book value:					
At December 31, 2018	8,049	134,036	-	4,509	146,594
At March 31, 2019	**7,961**	**130,768**	**10,488**	**4,405**	**153,622**

During the three months ended March 31, 2019, the Group recognised right-of-use assets of $10.7 million in accordance with IFRS 16, associated with the long-term land lease contracts of its operational subsidiaries in Japan. Note 2c.

13. INTANGIBLE ASSETS

	Licenses and permits	Internally generated development costs and other	Total
Cost:			
At December 31, 2018	**7,061**	**10,056**	**17,117**
Additions	-	1,657	1,657
Exchange differences	(78)	(146)	(224)
At March 31, 2019	**6,983**	**11,567**	**18,550**
Accumulated amortization:			
At December 31, 2018	**2,255**	**1,544**	**3,799**
Amortization	160	-	160
Exchange differences	(27)	4	(23)
At March 31, 2019	**2,388**	**1,548**	**3,936**
Net book value:			
At December 31, 2018	4,806	8,512	13,318
At March 31, 2019	**4,595**	**10,019**	**14,614**

During the first quarter of 2019, general and administrative expenses of $1.7 million (2018: $0.4 million) representing internally-generated costs of $0.4 million (2018: $0.3 million) and third-party costs of $1.3 million (2018: $0.1 million) were capitalized during the period within intangible assets as they directly related to the Group's development activities in Japan.

Expressed in US$'000 unless otherwise stated

14. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents (including restricted cash) are held in banks in Canada, Luxembourg, Switzerland, United States and Japan 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.

	March 31 2019	December 31 2018
Unrestricted cash at parent level	6,946	9,328
Restricted cash at project level	16,285	15,399
Total	**23,231**	**24,727**

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.

15. 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 March 31, 2019 (December 31, 2018: 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 during the three months ended March 31, 2019 and 2018.

16. SHARE-BASED PAYMENTS

The Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, directors and officers. RSUs have a contractual term of approximately four years and have time-based and performance-based vesting conditions that are market and non-market based. During the three months ended March 31, 2019, the Group recognized share-based payment expenses of $24,000 thousand (2018 expenses: $0.2 million) related to its RSUs scheme. Note 7

Changes in the Company's outstanding RSUs are as follows:

	Number of RSUs
At December 31, 2018	15,491,706
Exercised	(241,706)
Forfeited	(2,000,000)
At March 31, 2019	**13,250,000**

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

Expressed in US$'000 unless otherwise stated

17. BORROWINGS

	Corporate bond	Project loans	Total
At December 31, 2018	**38,142**	**138,465**	**176,607**
Accrued interest	705	474	1,179
Amortization of transaction costs	69	38	107
Exchange differences	(1,061)	(1,542)	(2,603)
At March 31, 2019	**37,855**	**137,435**	**175,290**
- Current portion	797	10,089	10,886
- Non-current portion	**37,058**	**127,346**	**164,404**

At March 31, 2019 and December 31,2018, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	March 31 2019	December 31 2018
Derivative financial liabilities:		
Interest rate swap contracts		
- Current portion	1,532	1,452
- Non-current portion	9,705	8,706
Total derivative financial liabilities	**11,237**	**10,158**

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.

At March 31, 2019, and December 31, 2018, 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.

19. RELATED PARTIES

For the purposes of preparing the Company's condensed consolidated interim 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 36% of the Company's common shares (2018: 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

During the three months ended March 31, 2019, and 2018, the Group entered into the following transactions with related parties:

	Three months ended	
	Q1-19	**Q1-18**
General and administrative expenses:		
Lundin Petroleum AB	7	7
Lundin SA	30	30
Finance costs:		
Lundin family:		
- Interest expense	63	10
- Transaction costs	6	1
Total transactions with related parties	**106**	**48**

Amounts outstanding to related parties at March 31, 2019 and December 31, 2018 are as follows:

	March 31 2019	December 31 2018
Current liabilities:		
Lundin family share in corporate bond	70	9
Total current financial liabilities	70	9
Non-current financial liabilities:		
Lundin family share in corporate bond	3,310	3,303
Total non-current liabilities	**3,310**	**3,303**
Total transactions with related parties	**3,380**	**3,312**

There were no amounts outstanding from related parties at March 31, 2019 and December 31, 2018.

Expressed in US$'000 unless otherwise stated

20. FINANCIAL ASSETS AND LIABILITIES

	March 31, 2019			December 31, 2018		
	Financial assets at amortized cost	Fair value recognized in profit and loss	Total	Financial assets at amortized cost	Fair value recognized in profit and loss	Total
Financial assets						
Current						
Trade and other receivables	2,451	-	**2,451**	1,544	-	**1,544**
Cash and cash equivalents	23,231	-	**23,231**	24,727	-	**24,727**
Total financial assets	**25,682**	**-**	**25,682**	**26,271**	**-**	**26,271**

	March 31, 2019			December 31, 2018		
	Financial and other liabilities at amortized cost	Derivatives used for hedging	Total	Financial and other liabilities at amortized cost	Derivatives used for hedging	Total
Financial liabilities						
Non-current						
Borrowings	164,404	-	**164,404**	166,760	-	**166,760**
Derivative financial instruments	-	9,705	**9,705**	-	8,706	**8,706**
Total non-current	**164,404**	**9,705**	**174,109**	**165,760**	**8,706**	**175,466**
Current						
Trade and other payables	110	-	**110**	449	-	449
Borrowings	10,886	-	**10,886**	9,847	-	**9,847**
Derivative financial instruments	-	1,532	**1,532**	-	1,452	**1,452**
Total current	**10,996**	**1,532**	**15,528**	**10,296**	**1,452**	**11,748**
Total financial liabilities	**175,400**	**11,237**	**189,637**	**176,056**	**10,158**	**187,214**

Notes to the condensed consolidated interim financial statements

For the three months ended March 31, 2019 and 2018
UNAUDITED

Expressed in US$'000 unless otherwise stated

21. 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 current 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 condensed consolidated interim financial statements.