etrion

Management's Discussion and Analysis
Year ended December 31, 2019

9.5 MW Misawa solar power park in Japan

At a Glance

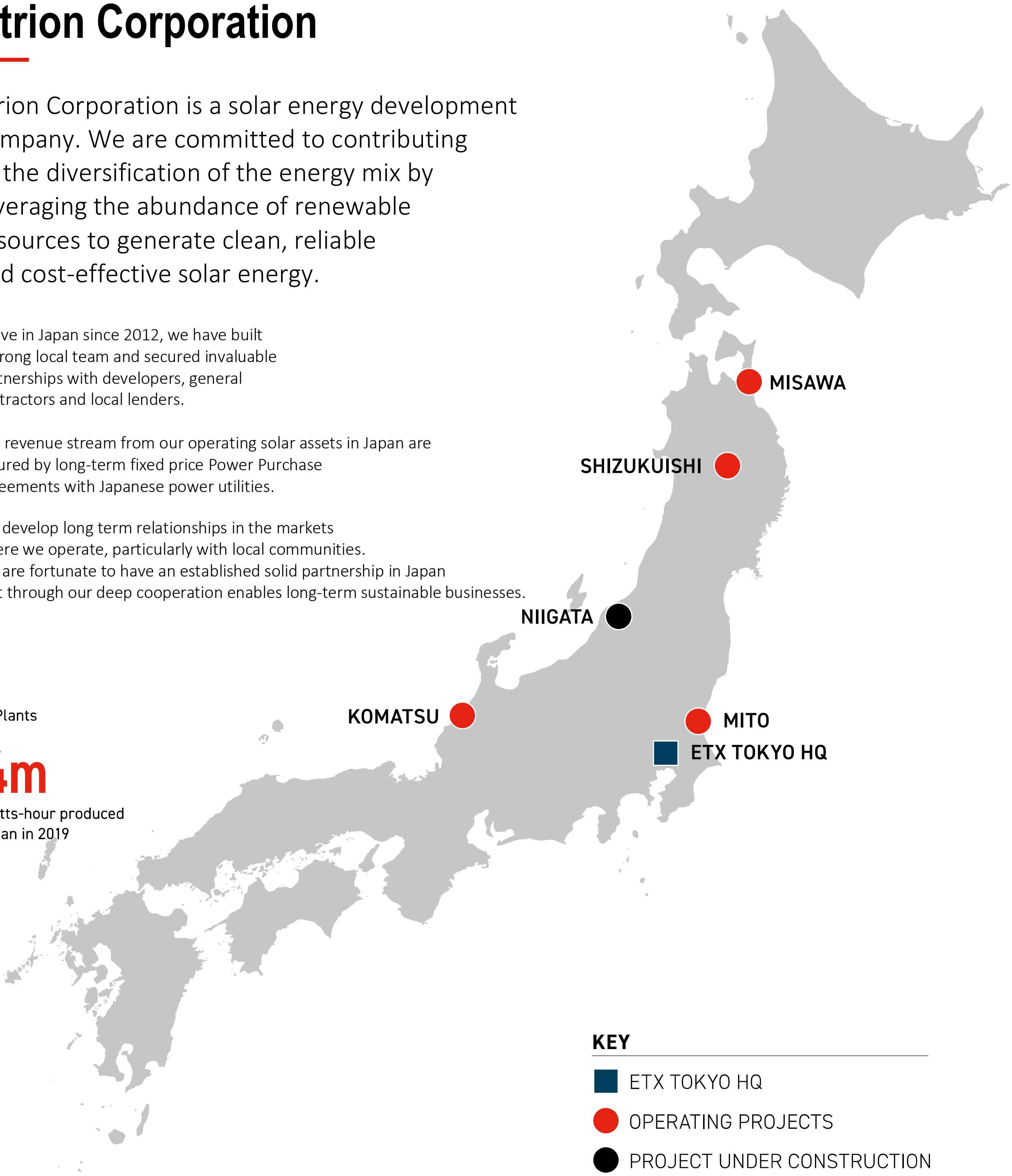
Etrion Corporation

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 and secured invaluable partnerships with developers, general contractors and local lenders.

The revenue stream from our operating solar assets in Japan are secured by long-term fixed price Power Purchase Agreements with Japanese power utilities.

We develop long term relationships in the markets where we operate, particularly with local communities. We are fortunate to have an established solid partnership in Japan that through our deep cooperation enables long-term sustainable businesses.



11
Solar Plants

64m
Kilowatts-hour produced for Japan in 2019

For more information about our Company, take a look on our website at: **www.etrion.com**

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Management's discussion and analysis

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 9, 2020, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2019. Financial information is reported in both United States dollars ("$" or "USD") and in Euros ("€") because the Company's outstanding corporate bonds are denominated in the latter currency. In addition, 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, 2019	122.20	109.15	1.123
Closing rate at December 31, 2018	126.46	112.65	1.199
Average rate 2019	122.07	109.01	1.119
Average rate 2018	130.41	112.16	1.129

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 20). 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 for both EBITDA and Adjusted EBITDA 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 (the most comparable IFRS measure is cash flow used in operations as reconciled on page 22). 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 34.

2019 HIGHLIGHTS

2019 highlights

Operational highlights

- Etrion produced 63.6 million kilowatt-hours ("kWh") of electricity from the Company's 57-megawatt ("MW") portfolio comprising 11 solar power plant sites in Japan.
- Construction of the 45 MW Niigata solar project in central Japan is approximately 36% complete with estimated connection to the electricity grid in the fourth quarter of 2021.
- Etrion continues to advance in the litigation over a backlog solar power project under development in Japan with an estimated gross capacity of 60 MW.
- The Company continues to evaluate several other early stage projects, defined as pipeline.

Financial highlights

- Consolidated revenues of $21.9 million were 12% higher relative to 2018.
- Solar segment EBITDA of $16.5 million was 13% higher relative to 2018.
- Etrion closed 2019 with a cash balance of $123.4 million, $10.6 million of which was unrestricted and held at the corporate level, and working capital of $109.7 million.
- On December 25, 2019, Etrion closed a multi-step transaction resulting in significant value creation across its Japanese operating solar portfolio. Etrion acquired for $4.3 million the minority equity interests of Hitachi High Technologies ("Hitachi High-Tech" or "HHT") and Tamagawa Holdings ("Tamagawa"), optimized the related Japanese corporate structure and renegotiated the operations and maintenance ("O&M") contracts for Etrion's 57 MW solar portfolio in Japan.
- In June 2019, the Group secured long term financing of approximately ¥16.0 billion ($147.0 million) for the construction of the 45 MW Niigata solar power project. The arranger of the Etrion Green Project Bond was Goldman Sachs Japan Co., LTD ("Goldman Sachs").
- On July 1, 2019, Etrion charged the Niigata project with a net development fee of approximately ¥600 million ($5.6 million) and anticipated land lease for ¥459 million ($4.2 million).
- During 2019, the Group collected ¥300 million ($2.8 million) associated with the sale of rights of the 45 MW Kumamoto solar power project.
- During 2019 the Company received a VAT reimbursement of ¥300 million ($2.8 million) associated with the Komatsu project and repaid the outstanding amount of the VAT credit facility for the same amount.

2019 highlights

Continued

	Three months ended		Twelve months ended	
USD thousands (unless otherwise stated)	**Q4-19**	**Q4-18**	**2019**	**2018**
Electricity production (MWh)[1]	**10,396**	**12,190**	**63,631**	**56,786**
Financial results				
Revenues	3,599	4,048	21,876	19,500
Gross profit	41	645	7,389	6,587
EBITDA	99	510	14,196	7,553
Adjusted EBITDA	(111)	(22)	10,990	8,036
Net loss	(6,249)	(2,566)	(4,688)	(8,618)
Adjusted net (loss) income	(4,092)	(456)	1,656	1,019
Cash flow				
Project cash distributions	-	-	2,030	2,135
Cash flow from operations	2,955	2,171	15,920	8,795
Adjusted operating cash flow	168	1,360	14,421	7,958

	December 31 2019	December 31 2018
Balance sheet		
Total assets	346,961	203,226
Operational assets	140,939	138,842
Unrestricted cash at parent level	10,596	9,328
Restricted cash at project level	112,786	15,399
Working capital	109,655	22,835
Consolidated net debt on a cash basis	193,143	151,918
Corporate net debt	27,201	29,476

[1]MWh=Megawatt-hour

BUSINESS REVIEW

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 57 MW of installed solar capacity and 45 MW of solar projects under construction, all in Japan. The Company has eleven operational projects (consolidated into four Special Purpose Companies ("SPCs")). All operational projects benefit from revenues generated from 20-year feed-in tariff ("FiT") power purchase agreements ('PPAs') that are fixed price contracts with local utilities for all the electricity generated.

Etrion plans to remain focused exclusively on developing projects and grow its installed capacity and to operate renewable power generation 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) a low cost of debt, and (7) an attractive liquid market for future divesture.

The Company's common shares are listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Frankfurt Stock Exchange Open Market and also on the Oslo Stock Exchange in Norway. Etrion is based in Geneva, Switzerland and Tokyo, Japan. As of the date of this MD&A, the Company has a total of 17 employees.

On December 25, 2019, Etrion purchased HHT's minority ownership in all four of its solar projects, as well as Tamagawa's share in the Misawa 9.5 MW project, for a total of $4.3 million. As a result, Etrion's net solar capacity increased from 47.0 MW to 56.8 MW. In addition, the O&M contracts originally provided by HHT were re-negotiated on better terms and transferred to other companies within the Hitachi group. Etrion has taken over two asset management contracts from HHT as of January 2020 in order to provide asset management services to all of Etrion's four solar projects. Finally, the entire Etrion solar portfolio was transferred into a so-called "TK-GK" structure, which is currently the Japanese market standard that results in enhanced cash flow distributions and other benefits. As part of the transaction, the project non-recourse debt in the Mito 9.3 MW project was increased by ¥295 million ($2.7 million) and will be drawn in 2020 to pay for the transaction costs and fees, and will be reimbursed to the lender bank with the remainder of the existing loan within the original tenor.

Business review

The development of a solar power plant can be described as having 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 and 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 the potential legal structure of the special purpose vehicle that will function as the local operating subsidiary. This phase ends when the project secures the financing and is ready to begin construction.

- 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 lifetime of 35 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 O&M services based on fixed price contracts.

Business process – solar energy

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

Business Review

Continued

Operations review
Three months ended December 31

USD thousands (unless otherwise stated)	JAPAN Q4-19	JAPAN Q4-18
Operational data (1)		
Electricity production (MWh)	10,396	12,190
Operational performance (1)		
Electricity revenue		
Feed-in-Tariff (2)	3,599	4,048
Total revenues	3,599	4,048
EBITDA (3)	2,443	2,946
EBITDA margin (%)	68%	73%
Net (loss) income	(668)	47

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 22

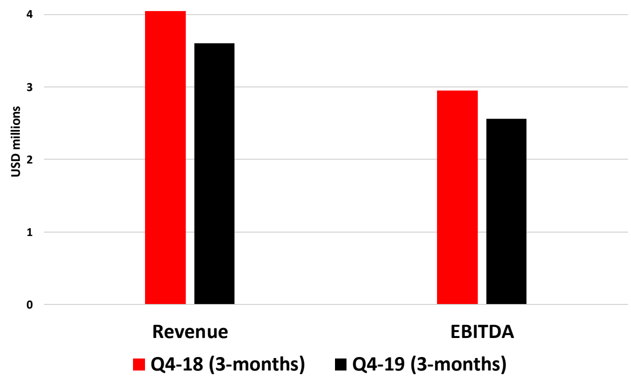
Operating performance in Japan (3 Months)

During Q4-19, the Group produced 15% less electricity in Japan compared to the same period in 2018, due to lower than expected irradiation and also due to the Mito business interruption. Mito experienced thefts of cables during the summer which resulted in service interruption until November 2019. Replacement cost and service interruption were covered by insurance.

During Q4-19, Mito received a service interruption insurance compensation of $0.2 million and the solar park was fully back online by November 2019. The Company took additional measures to reduce future theft risks including installation of cameras and 24-hour site surveillance monitoring.

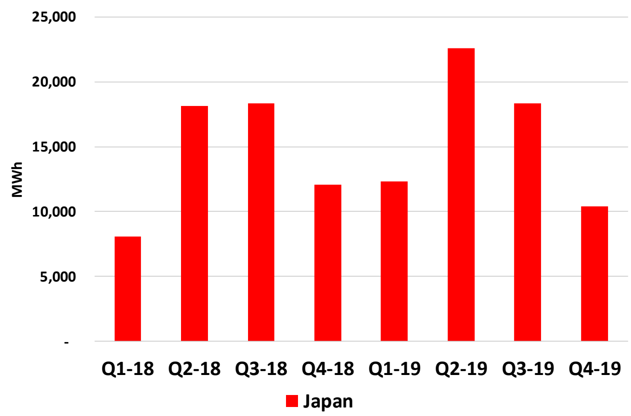
The Group receives revenues denominated in Japanese yen from its operating solar projects. Revenues come from the FiT system, whereby, through 20-year PPA contracts with three Japanese public utilities, for each kWh of electricity produced a premium fixed price is received from, Tokyo Electric Power Company ("TEPCO"), Hokuriku Electric Power Co., Inc ("HOKURIKU") or Tohoku Electric Power Co., Inc. ("TOHOKU"), as applicable, depending on the location of the solar project. During Q4-19, the Group received the FiT of ¥40 per kWh applicable to the Mito and Shizukuishi solar park sites, the FiT of ¥36 per kWh applicable to the solar park sites of the Misawa project and the FiT of ¥32 per kWh applicable to the solar park site of the Komatsu project.

During Q4-19, the Group's revenue and project-level EBITDA decreased by approximately 11% and 17%, respectively, compared with the same period in 2018, primarily due to the lower performance of the solar power plants driven by adverse weather conditions and owing also to the Mito business interruption.



Historical production

Solar-related production is subject to seasonality 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, reflecting the impact of seasonality.



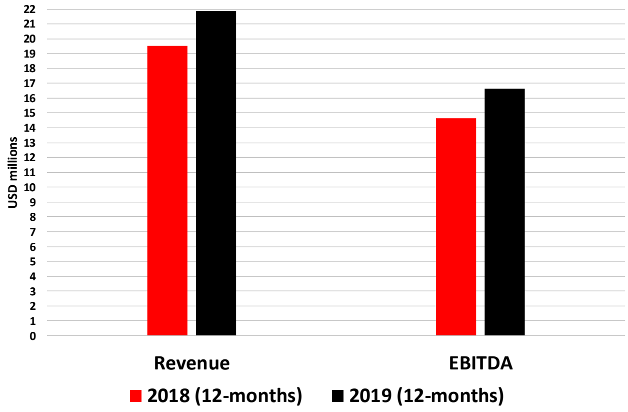
Business review

Continued

Twelve months ended December 31

	JAPAN	
USD thousands (unless otherwise stated)	2019	2018
Operational data [4]		
Electricity production (MWh)	63,631	56,786
Operational performance [4]		
Electricity revenue		
Feed-in-Tariff [5]	21,876	19,500
Total revenues	21,876	19,500
EBITDA [6]	16,504	14,647
EBITDA margin (%)	75%	75%
Net income	2,132	2,517

4. Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries.
5. FiT scheme under PPA with utilities.
6. Refers to segment EBITDA as reconciled in the segment information section on page 22



Operating performance in Japan (12 Months)

During 2019, the Group produced 12% more electricity in Japan compared with the same period in 2018, primarily due to the incremental production from the Komatsu solar power project that started operations in May 2018 and the higher performance of the solar power plants, partially affected by the Mito business interruption during the summer.

During 2019, the Group's revenue and project-level EBITDA increased by 12% and 13%, respectively, compared with the same period in 2018.

Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency $ using the corresponding implied 2019 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 $.

Business review

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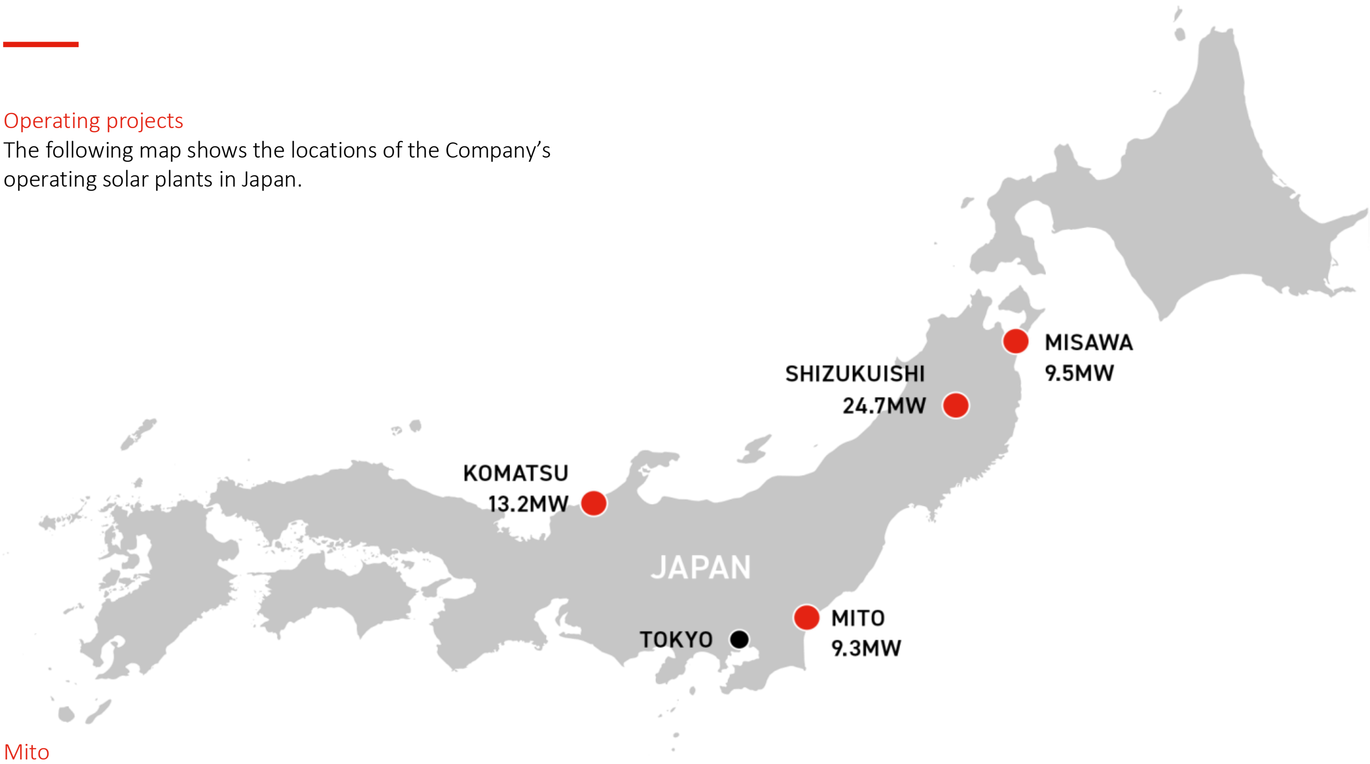
Operating projects

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 15 years. Details of the Group's 100%-owned operating solar power project in Japan are shown below:

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

Mito's solar power sites in Japan are capable of producing more than 10.3 million kWh of electricity on an annual basis. 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 Sumitomo Mitsui Trust Bank ("SMTB") with the remaining approximately 20% equity portion already funded by the Group. 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 17 years. Details of the Group's 87%-owned operating solar power project in Japan are shown below:

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

Shizukuishi' s solar power plant in Japan is capable of producing approximately 26.1 million kWh of electricity per year. 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 TOHOKU. The project entered into a 20-year PPA with TOHOKU to receive ¥40 per kWh produced

Business review

Continued

(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 SMTB, with the remaining approximately 20% equity portion already funded by the Group. 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

As of the date of this MD&A, the remaining PPA contract life of Misawa is approximately 17 years. Details of the Group's 100%-owned operating solar power project are 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
Total		**4**	**9.5**		

Misawa's solar power sites are capable of producing approximately 10.7 million kWh of solar electricity per year. Misawa's solar power sites are capable of producing 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 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 connected to TOHOKU. Each project site entered into a 20-year PPA with TOHOKU 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 SMTB with the remaining approximately 15% equity portion already funded by the Group. 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).

Komatsu

As of the date of this MD&A, the remaining PPA contract life of Komatsu is approximately 18 years. Details of the Group's 85%-owned operating solar power project are shown below:

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

Komatsu's solar power plant is capable of producing approximately 14.2 million kWh of solar electricity per year. Komatsu's solar power plant is capable of producing approximately 14.2 million kWh of solar electricity per year. Komatsu is a 13.2 MW utility-scale solar photovoltaic power plant, located in the Ishikawa prefecture of the Honsu region in Japan. Pre-construction-related works began in February 2017 and the project was connected to the electricity grid in May 2018. The solar power plant was built on 30.5 hectares of leased land and the facilities will connect through HOKURIKU. The project company entered into a 20-year PPA with HOKURIKU to receive ¥32 per kWh produced (approximately $0.27 per kWh). The total project cost of approximately ¥4,285 billion (approximately $38 million) was financed 83% with non-recourse project debt from SMTB with the remaining approximately 17% equity portion already funded by the Group. Komatsu has entered into a long-term fixed price O&M agreement with HHT. Etrion has charged the Komatsu project with a net development fee of approximately ¥239 million ($2.0 million).

Business review

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Development activities

Projects under construction

Niigata 45MW (previously disclosed as Greenfield Tk-2).

Project	Region	Sites	Gross MW	Technology	Expected connection date
Niigata	Niigata	1	45.0	Fixed-tilt	Oct-2021
Total		**1**	**45.0**		

Niigata is a 45 MW ground-mounted fixed-tilt solar photovoltaic power project to be built on one site in the Niigata prefecture of Japan. Construction-related work started in the summer 2019, and the solar project is expected to be fully operational by the fourth quarter of 2021. The solar power plant is being built on 75.7 hectares of land owned by Etrion and will connect to TOHOKU utility. The project company entered into an effective twenty-year PPA with TOHOKU and will receive ¥36 per kWh of electricity produced (approximately US$0.33 per kWh). Once operational, Niigata is expected to produce approximately 47 gigawatt-hours ("GWh") of solar electricity per year, enough to supply more than 13,000 Japanese households. Etrion owns 100% of the Niigata project. The total project cost is expected to be approximately ¥16.7 billion (US$ 154.2 million) including VAT and has been financed 95% through a non-recourse loan. The remaining 5% of total project cost has been fully funded by Etrion during the development period. On July 1, 2019, Etrion charged the Niigata project with a net development fee of approximately ¥600 million ($5.6 million) and anticipated land lease for ¥459 million ($4.2 million).

Projects under development

Etrion continues to advance several projects that are at different stages of development and /or negotiation with third parties. Etrion also continues to actively work towards reaching Notice to Proceed ("NTP") for the Japanese backlog project. Management generally refers to NTP status when a project has obtained all permits and authorizations, secured land and secured the interconnection agreement, selected an EPC contractor and secured the financing. 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 backlog projects as Brownfield or Greenfield. Brownfield projects are those originally developed by a third party and still in the development stage, with respect to which the Company has secured certain rights. Greenfield projects are those originally developed by the Company. The following table gives details of the current backlog project.

Project	Prefecture	Sites	MW Gross	Target NTP
Brownfield Tk-3	Mie	1	60	H1-20
Total pipeline			**60**	

Japanese backlog

Brownfield Tk-3. This project, located in the Mie prefecture, is currently designed as a 60 MW facility. 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. The project has secured the environmental impact assessment and recently obtained its forest development permit. The Company entered into a development service agreement ("DSA") with a local developer in 2015, which outlines all its development responsibilities and deliverables. The Company believes that the developer is in breach of the DSA and filed in December 2018 a lawsuit against the local developer to enforce full compliance with the DSA. The Company remains optimistic the court will issue a decision favourable to the Company compelling the developer to comply with all its obligations. Etrion remains cautiously hopeful of taking control of this project during the first half of 2020.

Business Review

Continued

As of December 31, 2019, the Company has incurred approximately $6.8 million of project advances and development costs associated with the Japanese backlog as follows:

Project	Advance to third parties	Development costs	TOTAL
Brownfield Tk-3	5.6	1.2	6.8
Total USD million	**5.6**	**1.2**	**6.8**

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

Project	Project costs	Project Debt	Equity (1)
Brownfield Tk-3	154	147	7
Total USD million	**154**	**147**	**7**

1. Based on 100% ownership

Early stage Japanese pipeline

METI reported as of June 2018 total solar projects in Japan with valid FiT agreements but not yet under construction in the aggregate capacity of about gigawatts ("20 GW"). Many of these projects are still in different stages of development and seeking development partners and investors to carry these projects to completion.

Given the early stage nature of these projects the Company is not able to provide any guidance as to the anticipated timing of further development.

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 photovoltaic ("PV") cells and energy generated from solar collectors (i.e., thermal energy or heat).

Japanese market

Japan 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. As of December 2018, solar represented about 5.7% of the total energy generated in Japan. METI forecasts that it will represent over 7% by 2030, which will translate into an incremental annual growth of 4-5 GW in terms of new capacity between 2020 and 2027.

On January 22, 2015, 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.

Business Review

Continued

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 Q1-18 (i.e. by 31 March 2020); this will likely result in reduced FiT payment periods after such three-year period,
- to allow such projects to change their solar 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 was changed from the "30-day per annum rule" to an hourly basis per annum. Uncompensated curtailment up to 30 days, annually based on one-day units, was 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.

On October 15, 2018, METI held a meeting of its Significant Development of Renewable Energy and Next Generation Electric Grid Network Committee (Saisei Kanou Enerugi Tairyou Dounyu /Jisedai Denryoku Network Sho Iinkai). According to METI, more than 20 GW of solar power projects which have FiTs of ¥40, ¥36 and ¥32/kWh had not reached commercial operation and were unreasonably taking up grid capacity, preventing new players from developing alternative renewable energy projects in the affected grid areas. The new measures proposed by METI would apply to the holders of projects with FiT of ¥40, ¥36 and, ¥32/kWh which obtained their grid connection agreements by July 31, 2016, and so are not subject to the 3-year rule ("Early High FiT Holders").

On December 5, 2018, METI announced the details of the measures concerning procurement of electricity from renewable energy sources by electricity utilities (the "FiT Amendment Act Ordinance"). The FiT Amendment Act Ordinance sets out new rules to address solar projects under development that hold FiT of ¥40, ¥36 and ¥32/kWh.

More specifically, the new rules include (a) exceptions for projects already close to construction, (b) new grid connection work application submission and acceptance deadlines, (c) requirements for land rights and specific permits to be obtained before a grid connection work application can be submitted, (d) FiT rate reduction penalties if grid connection work applications are submitted without the required land rights and permits, (e) new scheduled grid connection deadlines to be set by the utility (although there will now be no FiT rate reduction if such deadlines are not met), (f) new commercial operation deadlines (which if not met, will result in the power purchase agreement period shortening on a month by month basis but not in an FiT rate reduction), and (g) relaxation of the module change rules for projects that are subject to the new measures.

Etrion's management considers that the new solar rules announced in Japan are less stringent than expected. For Etrion's backlog, the Brownfield Tk-3, (60 MW) project located in the Mie prefecture is likely to be minimally affected with potential loss of six to twelve months of the 20-year PPA, depending on when the project is connected to the grid, since most of the permits have already been obtained.

In general, the new METI rules have created opportunities for Etrion in Japan. Many developers will need help to accelerate their solar projects in order to avoid potential FiT reductions under the new rules. Etrion is actively screening the market to identify affected projects that can benefit from Etrion's market position and local expertise.

FINANCIAL REVIEW

Financial review

Financial results

Selected financial information

During 2019, the Group's performance and results were positively impacted by the incremental installed capacity resulting in higher electricity production in Japan. Revenue, gross profit and EBITDA on a consolidated basis increased in comparison with the same period in 2018, due to the good performance of the existing solar parks and the addition of the Komatsu project in May 2018. However, the Group's performance was partially affected by the business interruption at the Mito project during the summer 2019. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

	Three months ended		Twelve months ended		
USD thousands (except per share data)	Q4-19	Q4-18	2019	2018	2017
Revenue	**3,599**	**4,048**	**21,876**	**19,500**	**21,848**
Japan	3,599	4,048	21,876	19,500	15,323
Chile	-	-	-	-	6,525
Gross profit	**41**	**645**	**7,389**	**6,587**	**2,392**
Net loss attributable to owners of Etrion	(6,051)	(2,510)	(4,883)	(8,878)	19,551
Basic and diluted (loss) earnings per share:	**$(0.02)**	**$(0.01)**	**$(0.01)**	**$(0.03)**	**$0.06**
Net (loss) income	**(6,249)**	**(2,566)**	**(4,688)**	**(8,618)**	**16,507**
Adjustments to net (loss) income for:					
Net income tax expense	(172)	22	2,343	1,212	1,125
Share of net profit on deconsolidation of subsidiary	-	-	-	-	(41,015)
Depreciation and amortization	2,343	2,108	9,298	7,912	10,277
Impairment	-	-	-	-	225
Share-based payment expense	69	184	225	761	566
Net finance costs	4,177	1,724	7,243	7,054	16,504
Other expense (income)	-	(112)	-	(363)	(534)
Income tax paid	(319)	(272)	(1,251)	(1,032)	(1,036)
Additional termination fee paid	-	-	-	(1,294)	-
Changes in working capital	3,106	1,083	2,750	3,163	(3,971)
Operating cash flow	**2,955**	**2,171**	**15,920**	**8,795**	**(1,352)**

Financial review

Continued

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

USD thousands	December 31 2019	December 31 2018	December 31 2017
Non-current assets	213,339	163,576	153,751
Current assets	133,622	39,650	58,384
Total assets	**346,961**	**203,226**	**212,135**
Non-current liabilities	326,094	183,482	187,515
Current liabilities	23,967	16,815	14,773
Total liabilities	**350,061**	**200,297**	**202,288**
Net (Liabilities) assets	**(3,100)**	**2,929**	**9,847**
Working capital	109,655	22,835	43,611
Dividends declared	-	-	-

Segment information

In reviewing and monitoring performance of the Group, management considers reportable segments from a geographical perspective and measures performance based on EBITDA. The Company has identified one reportable segment which is solar energy Japan. While the Company has determined it has only one reportable segment, the Company has decided to disclose additional information about its corporate activities as it believes that this information is useful for readers of the consolidated financial statements.

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:

	Three months ended					
USD thousands	Q4-19			Q4-18		
	Solar Japan	Corporate	Total	Solar Japan	Corporate	Total
Revenue	3,599	-	3,599	4,048	-	4,048
Operating expenses	(1,251)	-	(1,251)	(1,334)	-	(1,334)
General and administrative	(108)	(2,375)	(2,483)	(92)	(2,337)	(2,429)
Other income (expenses)[2]	203	31	234	324	(99)	225
EBITDA	**2,443**	**(2,344)**	**99**	**2,946**	**(2,436)**	**510**
Depreciation and amortization	(2,307)	(36)	(2,343)	(2,069)	(39)	(2,108)
Finance income	45	-	45	68	731	799
Finance costs	(1,162)	(3,060)	(4,222)	(997)	(748)	(1,745)
Income (loss) before income tax	**(981)**	**(5,440)**	**(6,421)**	**(52)**	**(2,492)**	**(2,544)**
Income tax expense	313	(141)	172	99	(121)	(22)
Net income (loss) for the period	**(668)**	**(5,581)**	**(6,249)**	**47**	**(2,613)**	**(2,566)**

Solar Japan: During Q4-19, the Group's Japanese solar segment generated revenues of $3.6 million and EBITDA of $2.4 million, representing a decrease of 11% and 17%, respectively, in comparison with the same period in 2018. Revenue and EBITDA decreased due

[2] During Q4-19, the Group collected ($0.2 million) associated with the Mito business interruption insurance.

Financial review

Continued

to lower performance of the existing solar power plants and the Mito business interruption. As a result, the Group's Japanese segment generated a net loss of $0.7 million, in comparison with net income of $0.1 million for the same period in 2018.

Corporate: During Q4-19, the Group's corporate segment generated negative EBITDA of $2.3 million and a net loss of $5.6 million, compared to negative EBITDA of $2.4 million and a net loss of $2.6 million, respectively, in the same period in 2018. Net finance costs at corporate level increased in comparison with the same period in 2018 due to the recognition of foreign exchange movements.

Segment information twelve months ended December 31

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

USD thousands	Twelve months ended 2019 Solar Japan	2019 Corporate	2019 Total	2018 Solar Japan	2018 Corporate	2018 Total
Revenue	**21,876**	**-**	**21,876**	**19,500**	**-**	**19,500**
Operating expenses	(5,331)	-	(5,331)	(5,159)	-	(5,159)
General and administrative	(366)	(5,099)	(5,465)	(296)	(5,674)	(5,970)
Additional termination fee	-	-	-	-	(1,294)	(1,294)
Other income (expenses)	325	2,791	3,116	602	(126)	476
EBITDA	**16,504**	**(2,308)**	**14,196**	**14,647**	**(7,094)**	**7,553**
Depreciation and amortization	(9,156)	(142)	(9,298)	(7,754)	(158)	(7,912)
Finance income	45	611	656	73	1,217	1,290
Finance costs	(4,776)	(3,123)	(7,899)	(3,827)	(4,510)	(8,337)
Income (loss) before income tax	**2,617**	**(4,962)**	**(2,345)**	**3,139**	**(10,545)**	**(7,406)**
Income tax expense	(485)	(1,858)	(2,343)	(622)	(590)	(1,212)
Net income (loss) for the period	**2,132**	**(6,820)**	**(4,688)**	**2,517**	**(11,135)**	**(8,618)**

Solar Japan: During 2019, the Group's Japanese solar segment generated revenues of $21.9 million and EBITDA of $16.5 million, representing an increase of 12% and 13%, respectively, in comparison with the same period in 2018. Revenue and EBITDA increased driven by the additional production from the Komatsu project and higher performance of the existing solar power plants. However, as a result of higher charges for depreciation and amortization and higher finance costs, the Group's Japanese segment generated a net income of only $2.1 million, in comparison with net income of $2.5 million for the same period in 2018.

Corporate: During 2019, the Group's corporate segment generated negative EBITDA of $2.3 million and a net loss of $6.8 million. The improvement in EBITDA and net results in comparison with the same period in 2018, reflects the recognition in other income of the Kumamoto project settlement of $2.8 million collected in cash in 2019. Finance costs at corporate level decreased in comparison with the same period in 2018 due to the recognition of foreign exchange gains during the period and a reduction of interest expense following the corporate bond refinancing transaction completed in June 2018.

Financial review

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Non-GAAP performance measures

Reconciliation of adjusted net (loss) income to net loss	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Net loss	(6,249)	(2,566)	(4,688)	(8,618)
Adjustments for non-recurring and non-cash items:				
Depreciation and amortization	2,343	2,108	9,298	7,912
Fair value movements (derivative financial instruments)	(45)	(68)	27	63
Share-based payment expense	69	184	225	761
Additional termination fee	-	-	-	1,294
Insurance reimbursement	(210)	(323)	(445)	(602)
Gain on sale of subsidiary (solar project rights)	-	(209)	(2,761)	(209)
Adjusted net (loss) income	(4,092)	(456)	1,656	1,019

Reconciliation of adjusted operating cash flows to operating cash flows	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Operating cash flow	2,955	2,171	15,920	8,795
- Changes in working capital	(3,106)	(1,083)	(2,750)	(3,163)
- Additional termination fee paid	-	-	-	1,294
- Income tax paid	319	272	1,251	1,032
Adjusted operating cash flow	168	1,360	14,421	7,958

Non-GAAP performance measures

Reconciliation of Solar segments Adjusted EBITDA to EBITDA	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Net income	(6,249)	(2,566)	(4,688)	(8,618)
Adjustments for:				
Net income tax expense	(172)	22	2,343	1,212
Net finance costs	4,177	946	7,243	7,047
Depreciation and amortization	2,343	2,108	9,298	7,912
EBITDA	99	510	14,196	7,553
Adjustment for non-recurring items:				
Additional termination fee	-	-	-	1,294
Insurance reimbursement	(210)	(323)	(445)	(602)
Gain on sale of subsidiary (solar project rights)	-	(209)	(2,761)	(209)
Adjusted EBITDA	(111)	(22)	10,990	8,036
Plus: Corporate G&A expenses	2,554	2,968	5,514	6,611
Solar Japan Adjusted EBITDA	2,443	2,946	16,504	14,647

Financial review

Continued

Quarterly selected financial information

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

USD thousands (except per share data)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Revenue	**3,599**	**6,356**	**7,705**	**4,216**	**4,048**	**6,185**	**6,357**	**2,910**
Japan	3,599	6,356	7,705	4,216	4,048	6,185	6,357	2,910
Net income (loss)	**(6,249)**	**6,356**	**7,705**	**(2,227)**	**(2,566)**	**(1,453)**	**(746)**	**(3,853)**
Net income (loss) from continuing operations attributable to owners of Etrion	(6,249)	2,973	164	(1,910)	(2,510)	(1,677)	(1,029)	(3,663)
Net income (loss) attributable to owners of Etrion	(6,249)	2,973	164	(1,910)	(2,510)	(1,677)	(1,029)	(3,663)
Basic and diluted earnings (loss)per share:								
From continuing operations attributable to owners of Etrion	$(0.02)	$0.00	$0.00	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$(0.01)
From total results attributable to owners of Etrion	$(0.02)	$0.00	$0.00	$(0.01)	$(0.01)	$(0.01)	$(0.01)	$(0.01)

Solar-related production and revenues experience seasonality 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.

Financial review

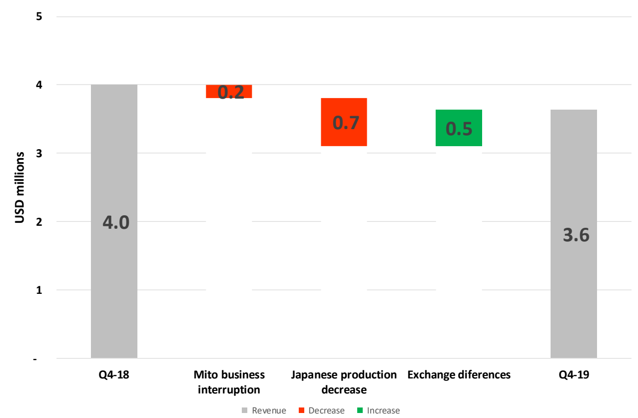
Continued

Revenue

	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
FiT	3,599	4,048	21,876	19,500
Total revenue	**3,599**	**4,048**	**21,876**	**19,500**

During 2019, consolidated revenues increased by $2.4 million (12%), compared to the same period of 2018.The 13.2 MW Komatsu solar project connected in May 2018 contributed significantly to the revenue increase in 2019.

During Q4-19 the Group's revenue from its Japanese subsidiaries decreased by $0.4 million (11%) compared to the same period of 2018, due to lower than expected irradiation and also due to the Mito business interruption. Mito experienced thefts of cables during the summer which resulted in service interruption until November 2019. Replacement cost and service interruption were covered by insurances, which is recognised separately as other income. The reconciliation of total revenue in Q4-19 versus Q4-18 is as follows:



Adjusted Consolidated EBITDA

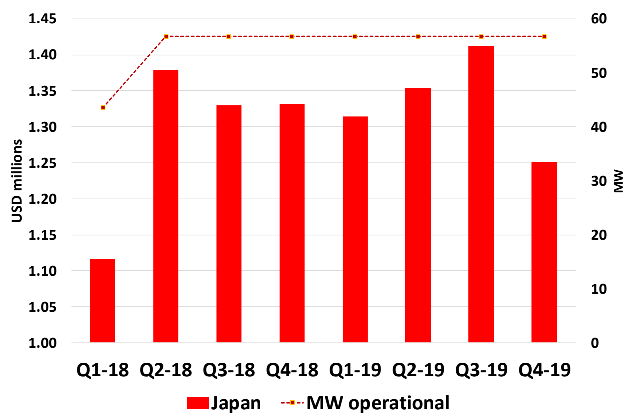
During the twelve months ended December 31, 2019, adjusted consolidated EBITDA increased by $3.1 million compared with the same period of 2018, mainly as a result of the increased EBITDA contributed by the Group's Japanese solar segment and the proceeds from the sale of rights of the Kumamoto project.

Operating expenses

	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
O&M costs	281	258	1,381	1,068
Personnel costs	299	270	1,193	989
D&A	2,307	2,069	9,156	7,754
Property tax	394	294	1,572	1,203
Insurance	101	97	399	303
Land lease	-	248	-	980
Other expenses	177	167	787	616
Total operating expenses	**3,558**	**3,402**	**14,487**	**12,913**

During the three and twelve months ended December 31, 2019, operating expenses increased by $0.2 million (5%) and $1.6 million (12%), respectively, compared with the same period in 2018. Operating expenses increased due to additional O&M and other operating costs associated with the Komatsu solar project. For lease accounting, the Group applied IFRS 16 from its mandatory adoption date of January 1, 2019, used the simplified transition approach and has not restated comparative amounts.

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.



Financial review

Continued

General and administrative expenses

	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Salaries and benefits	1,402	1,356	2,237	2,890
Pension costs	84	98	87	98
Board of directors' fees	67	68	271	272
Share-based payments	69	184	225	761
Professional fees	477	352	1,487	831
Listing and marketing	42	57	246	289
D&A	36	39	142	158
Office lease	74	77	293	305
Office, travel and other	261	237	619	524
Total general and administrative	**2,512**	**2,468**	**5,607**	**6,128**

During the three months ended December 31, 2019, general and administrative expenses increased by $44 thousand (2%) compared with the same period in 2018, primarily due to an increase professional fees and other office and travel expenses. During 2019, general and administrative expenses decreased by $0.5 million (9%) compared with the same period in 2018, primarily due to an increase in the proportion of expenses allocated to solar projects.

Net finance costs

	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Project loans	979	953	3,869	3,859
Corporate bonds	745	732	2,958	3,508
Fair value movements	(45)	(68)	27	63
Foreign exchange (gain) loss	2,244	(729)	(611)	(1,215)
Other finance costs	254	58	1,000	832
Net finance cost	**4,177**	**946**	**7,243**	**7,047**

During the three and twelve months ended December 31 2019, net finance costs increased by $3.2 million and $0.2 million, respectively, compared to the same period in 2018, mainly due foreign exchange movements. In addition, during the three and six months ended December 31, 2019, the Group capitalized $0.7 million and $1.1 million (2018: nil and $0.2 million) of borrowing costs associated with the credit facilities obtained to finance the construction of the Niigata solar power project.

Income tax expense

	Three months ended		Twelve months ended	
USD thousands	Q4-19	Q4-18	2019	2018
Corporate income tax	64	46	2,136	1,248
Deferred tax expense	(236)	(24)	207	(36)
Income tax expense	**(172)**	**22**	**2,343**	**1,212**

During the three and twelve months ended December 31, 2019, the Group recognized corporate income tax expense of $0.1 million and $2.1 million, respectively (2018: $46 thousand and $1.2 million) associated with its solar power projects in Japan and its management services subsidiaries. The increase in corporate income taxes was driven by taxes at the Japanese corporate level, where the Company increased its taxable income as a result of the Kumamoto collections and net development fee invoiced to the Niigata project. In addition, during the three and twelve months ended December 31, 2019, the Group recognized a deferred income tax income of $0.2 million and a deferred income tax expense $0.2 million, respectively (2018: $24 thousand and $36 thousand) primarily 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 2019	December 31 2018
Unrestricted at parent level	10,596	9,328
Restricted at project level	112,786	15,399
Total cash and cash equivalents	**123,382**	**24,727**

Unrestricted cash analysis

The Group's cash and cash equivalents at December 31, 2019, included unrestricted cash of $10.6 million (December 31, 2018: $9.3 million) held at the corporate level. Unrestricted cash increased by $1.3 million mainly as a result of the Niigata development fee and the Niigata upfront land lease collection in 2019, partially offset by corporate general and administrative and development costs incurred. The Group expects to generate sufficient operating cash flows in 2020 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

Financial review

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corporate equity, assets sales or debt financing and non-recourse project loans, as required.

Restricted cash analysis

USD thousands	December 31 2019	December 31 2018
Japan	112,786	15,399
Total restricted cash	112,786	15,399

The Group's cash and cash equivalents at December 31, 2019, included restricted cash held at the project level in Japan that is restricted by the lending banks for future payment of interest and repayment of principal and for 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. Restricted cash increased by $97.4 million mainly due to funds secured in for the construction of the Niigata solar power project and also due to operating cash flow from the Japanese solar power projects.

Working capital

At December 31, 2019, the Group had working capital of $109.7 million (December 31, 2018: $22.8 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 which are not expected to be settled in cash in the next twelve 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 $111.1 million. (December 31, 2018: $24.3 million). At December 31, 2019, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2020	2021	2022	2023	2024	After five years	Total
EPC	36,785	28,692	736	-	-	-	66,213
Project loans	10,984	10,580	27,986	17,518	18,598	227,803	313,469
Corporate bond	2,790	39,010	-	-	-	-	41,800
O&M contracts	713	694	625	785	1,234	9,459	13,510
Operating leases	1,322	1,025	1,025	1,025	1,025	12,148	17,569
Trade payables	12,917	-	-	-	-	-	12,917
Total	**64,383**	**80,002**	**30,732**	**19,328**	**20,587**	**249,409**	**464,350**

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 2019, total equity attributable to owners of the Company decreased by $4.9 million from a net asset position of $1.8 million at December 31, 2018, to a net liability position of $3.1 at December 31, 2019. This change was primarily due to the recognition of $4.8 million of net loss during the period, the cumulative foreign exchange translation adjustment, and 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, 2019, was negatively impacted by the cumulative fair value losses of $12.4 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses from the calculation, the total equity attributable to owners of the Company at December 31, 2019, would have resulted in a net asset position of $9.3 million.

In addition, on December 25, 2019, the Group acquired the total non-controlling interest ("NCIs) in Shizukuishi, Mito, Komatsu and Misawa, all together the "Japanese project companies", and became owner of 100% of the issued and outstanding shares. The Group purchased HHT's NCIs in all four of its solar projects, as well as Tamagawa's share in the Misawa 9.5 MW project, for a total of ¥472 million (approximately $4.3 million), of which ¥286 million (approximately $2.6 million) represented the fair value of the outstanding shareholder loans from NCIs and ¥185 million (approximately $1.7 million) was paid for the NCIs shares in the share capital of the Japanese project companies. Immediately prior to the NCIs purchase transaction, the carrying amount of the existing NCIs in the Japanese project companies was ¥149 million (approximately $1.4 million). The excess of the consideration paid over the carrying value of the NCIs acquired of ¥34 million (approximately US$0.3 million) was recognized as a decrease in equity attributable to owners of Etrion. The effect on the equity attributable to the owners of Etrion during 2019 is summarised as follows:

	2019
Carrying amount of NCIs acquired	1,324
Consideration paid to NCIs	1,702
Excess of consideration paid recognised in the transactions with NCIs reserve within equity	378

Financial review

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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 2019	December 31 2018
Shizukuishi	25	December 30, 2034	56,050	57,708
Mito	9	June 30, 2034	20,217	21,250
Misawa	10	June 30, 2036	24,592	25,635
Komatsu	13	December 30, 2036	30,003	33,872
Niigata	45	June 30, 2038	140,642	-
Total			**271,504**	**138,465**

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 Tokyo Interbank Offered Rate ("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 rates ranging from 1.72% to 3.13% all-in. At December 31, 2019, 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, 2019, and December 31, 2018.

In June 2019, the Group secured long-term financing for the construction of the 45 MW Niigata solar project located in the Niigata prefecture in central Japan. The arranger of the Etrion Green Project Bond, rated BBB, was Goldman Sachs. The total project cost is expected to be approximately JPY 16.7 billion ($ 154.2 million) including VAT and has been financed 95% through a non-recourse loan with a tenor of construction period plus 16.8 years. The all-in non-recourse project loan interest rate is 1.2%. The lender to the Niigata project is a Green Project Bond Trust ("The Trust"), which issued asset-backed securities and loans, fully underwritten by the arranger Goldman Sachs and sold to other investors. Proceeds from the project bond are presented net of transaction costs of $5.2 million. During the three months ended December 31,2019, the Company fully repaid the outstanding balance of the VAT credit facility associated with the Komatsu project for a total of ¥308 million (approximately $3.0 million).

At December 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.

Corporate borrowings

At December 31, 2019, the Group had €33.7 million (net of the Company's holdings of €6.3 million) of corporate bonds outstanding. The bonds were issued by the Company in June 2018 at 7.25% annual interest with a 3-year maturity. The carrying amount of bonds as at December 31, 2019, including accrued interest net of transaction costs, was $37.5 million (December 31, 2018: $38.1 million).

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 2019	December 31 2018
Total borrowings as per IFRS	**309,049**	**176,607**
VAT facilities	-	(2,804)
Accrued interest	(125)	(120)
Transaction costs	7,601	2,961
Adjusted borrowings	**316,525**	**176,645**
Cash and cash equivalents	(123,382)	(24,727)
Adjusted consolidated net debt	**193,143**	**151,918**
Adjusted corporate net debt	**27,201**	**29,476**

The Group's consolidated net debt increased during 2019, in comparison with December 31, 2018, mainly due to the net debt increase from the project bond issued in 2019.

Outstanding share data

At the date of this MD&A, the Company had 334,094,324 common shares (March 1, 2019: 334,094,324). The Company maintains the 2014 Restricted Share Unit Plan (the "Plan") pursuant to which employees, consultants, Directors and officers of the Group may be awarded restricted share units ("RSUs"). Subject to regulatory approval of certain amendments to the Plan, the outstanding RSUs have a contractual term of six years, are subject to certain market performance-based vesting conditions. At the date of this MD&A, the Company had 11,666,667 RSUs outstanding.

Off-balance sheet arrangements

The Group had no off-balance sheet arrangements at December 31, 2019, and December 31, 2018.

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

Financial review

Continued

project until the second quarter of 2020. The equity needed to build the Japanese backlog project is likely to be contributed throughout the construction period, rather than at the 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.

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 has been vigorously defending 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.

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.

IFRS 16, Leases: This standard addresses the measurement and recognition of leases and 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 affects 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 $18.3 million. Of these commitments, approximately $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 $10.4 million on January 1, 2019, based on discounted cash flows under the lease agreements (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). The lease payments are discounted using 7.25
%, being the interest rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Overall net current assets were approximately $0.3 million lower due to the presentation of a portion of the liability as a current liability. Net results after tax decreased by approximately $0.3 million in 2019 because of adopting the new rules. Adjusted EBITDA used to measure segment results increased 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 increased and financing cash flows to decreased by approximately $0.3 million as repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities.

The Group applied IFRS 16 from its mandatory adoption date of January 1, 2019. The Group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. Right-of-use assets were 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.

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, 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 trusts approximately 36% of the Company's common shares. All related party transactions are made on terms equivalent to those made on an arm's length basis. The related party transactions disclosed in the notes to the Company's consolidated financial statements for the twelve months ended December 31, 2019, are summarized below.

Related party transactions

Lundin Petroleum AB and subsidiaries

The Group receives professional services from Lundin Petroleum AB and from Lundin Petroleum Services BV, a wholly-owned

Financial review

Continued

subsidiary of Lundin Petroleum AB for market and investor relation activities in Sweden and general and administrative expenses, respectively. During 2019, the Group incurred general and administrative expenses of $22 thousand (2018: $27 thousand), from Lundin Petroleum AB and its subsidiary. At December 31, 2019, the Group had $nil (December 31, 2018: $nil) outstanding in relation to these expenses.

Lundin family

Investment companies associated with the Lundin family subscribed for €3 million ($3.5 million) of the corporate bond issue completed in June 2018. During 2019, all corporate bonds held by the Lundin family or by entities controlled by the Lundin family were sold.

Lundin SA

During 2019, the Group recognized expense of $0.1 million (2018: $0.1 million) under the 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.

Asset management services

During 2019, the Group invoiced asset management services of $0.8 million (2018: $0.8 million) to the Chilean subsidiary PV Salvador, associated with operating and engineering services of the 70 MW solar power project in Chile. These asset management services are not eliminated on consolidation since September 30, 2017, the date when PV Salvador was deconsolidated and are presented as a reduction of corporate general and administrative.

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 2019, the Group recognized $1.4 million (2018: $1.7 million), within general and administrative expenses associated with the remuneration of key management personnel, including salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At December 31, 2019, the Group had $nil outstanding to key management personnel (December 31, 2018: $0.3 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 any future 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, 2019, 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 2019	December 31 2018
Derivative financial liabilities:		
Interest rate swap contracts		
Current portion	1,429	1,452
Non-current portion	8,782	8,706
Total derivative financial instruments	**10,210**	**10,158**

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 December 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 finance income/costs.

RISKS AND UNCERTAINTIES

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, 2019, which has been filed on SEDAR and is available under Etrion's profile at www.sedar.com. Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

Financial risks

Debt and equity financing

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

Capital requirements and liquidity

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

Market risks

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

Cost uncertainty

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

Non-Financial Risks

Licenses and permits

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

Governmental regulation

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

Risks and Uncertainties

Continued

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.

OTHER DISCLOSURES

Other disclosures

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 2020 is in the following ranges:

2020 Guidance USD million otherwise stated	Low end	High end
Energy generation (MWh)	59,900	66,200
Revenue	20.6	22.8
Project-level EBITDA	14.9	16.5

Revenue, project-level EBITDA and production forecast for the Japanese business, incorporated in the above consolidated guidance, are based on Etrion's ownership of the 57 MW operational Japanese portfolio comprising the Mito, Shizukuishi, Misawa and Komatsu solar parks, located in central and northern Japan 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).

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 then ending. 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, 2019 and 2018, including the impact of IFRS 16 effective January 1, 2019. 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 of the solar park 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 2019 average of ¥/US$ 1: 109.15

Previous forecasts

On March 13, 2019, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2019. Actual results in comparison with the revised guidance with primary focus on the Japanese assets are shown in the table below:

2019 Guidance results USD million otherwise stated	Low end	Actual results	High end
Energy generation (MWh)	46,800	52,600	51,800
Revenue	15.9	18.1	17.6
Project-level EBITDA	12.0	13.4	13.3

Japanese production, revenue and project-level EBITDA in 2019 exceeded the high end of the guidance provided on March 13, 2019. The performance of the operating solar assets in Japan during 2019 was positive and this was reflected in production and revenue being above the high end of the guidance. EBITDA in 2019 was well above the high end due to the combination of higher than expected production, earlier connection of the Komatsu plant and optimization of the contingency budgets.

Disclosure controls and internal control over financial reporting

In accordance with National Instrument 52-109 Certification of Disclosures in Issuers' Annual and 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 and cos of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of the Niigata solar project and other future solar power plants in Japan); expectations relating to future solar energy production, the

Other disclosures

Continued

revenue and earnings to be generated therefrom 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; and expectations with respect to the outcome of its litigation against the developer of the Brownfield Tk-3 project. 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; 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 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; the risk that the outcome of the Company's litigation against the developer of the Brownfield Tk-3 project will not be as expected; 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 under the heading "Risk and Uncertainties" above and in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or, if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

Additional information

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