etrion

Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

UNAUDITED

9.3 MW Mito-site 4 solar power park in Japan

At a Glance

Etrion Corporation

Etrion Corporation is a renewable 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.

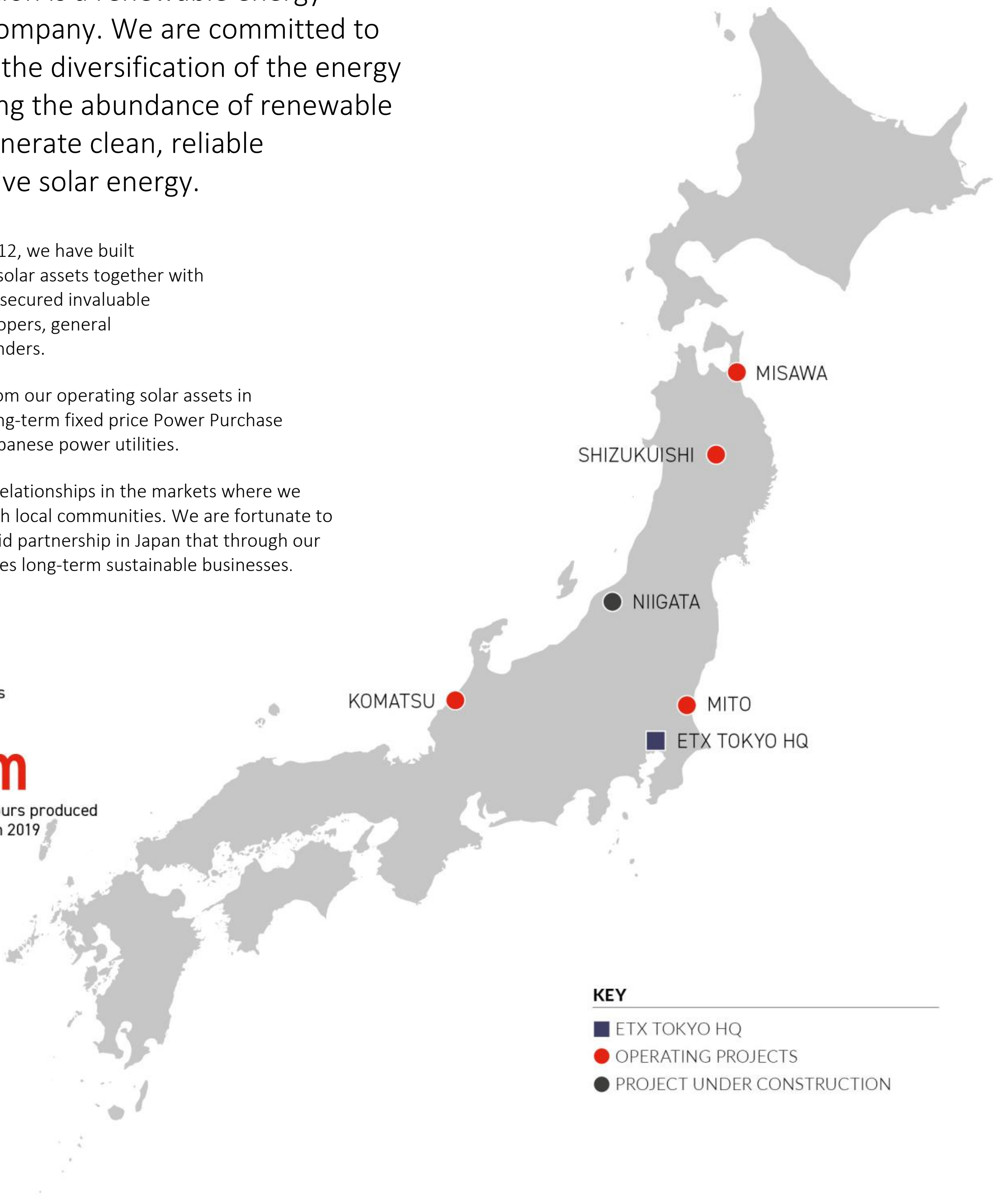
Active in Japan since 2012, we have built a best in class family of solar assets together with a strong local team and secured invaluable partnerships with developers, general contractors and local lenders.

The revenue streams from our operating solar assets in Japan are secured by long-term fixed price Power Purchase Agreements with the 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
Kilowatt-hours 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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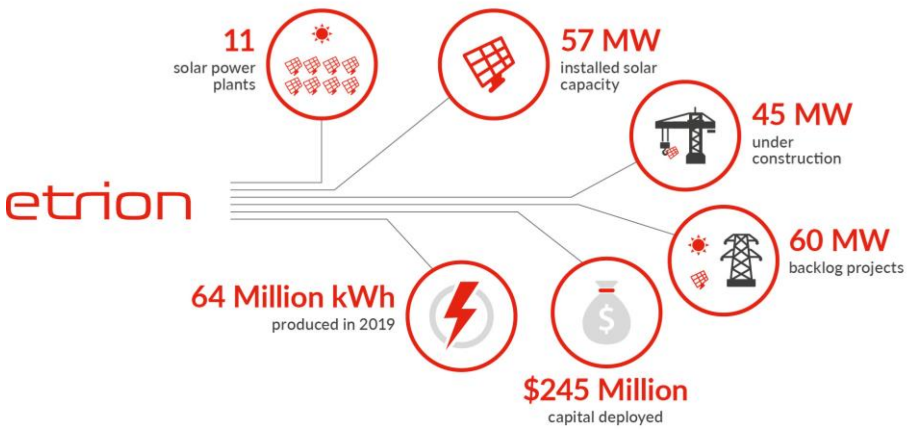

FINANCIAL STATEMENTS

Condensed consolidated interim statement of net income (loss) and comprehensive net income (loss)

For the three and six months ended June 30, 2020 and 2019
UNAUDITED
Expressed in US$'000

		Three months ended		Six months ended	
	Note	Q2-20	Q2-19	Q2-20	Q2-19
Revenue	5	7,130	7,705	11,426	11,921
Operating expenses	6	(3,458)	(3,578)	(6,803)	(7,153)
Gross profit		**3,672**	**4,127**	**4,623**	**4,768**
General and administrative expenses	7	(2,064)	(1,154)	(3,412)	(2,109)
Gain on disposal of non-core investment	8	3,318	-	3,318	-
Other (expense) income	9	(1,008)	907	(1,458)	662
Operating profit		**3,918**	**3,880**	**3,071**	**3,321**
Finance income	10	3	-	4	296
Finance costs	10	(2,252)	(2,503)	(3,868)	(3,968)
Net finance costs		**(2,249)**	**(2,503)**	**(3,864)**	**(3,672)**
Income (loss) before income tax		**1,669**	**1,377**	**(793)**	**(351)**
Income tax expense	11	(58)	(830)	(174)	(1,330)
Net income (loss) for the period		**1,611**	**547**	**(967)**	**(1,681)**
Other comprehensive income (loss)					
Items that may be reclassified to profit and loss:					
(Loss) gain on currency translation		(218)	827	309	769
Gain (loss) on cash flow hedges, net of tax		461	(382)	(49)	(925)
Total other comprehensive income (loss)		**243**	**445**	**260**	**(156)**
Total comprehensive net income (loss) for the period		**1,854**	**992**	**(707)**	**(1,837)**
Income (loss) attributable to:					
Owners of the parent		1,611	165	(967)	(1,806)
Non-controlling interests	13	-	382	-	125
Total		**1,611**	**547**	**(967)**	**(1,681)**
Total comprehensive income (loss) attributable to:					
Owners of the parent		1,854	660	(707)	(1,814)
Non-controlling interests	13	-	332	-	(23)
Total		**1,854**	**992**	**(707)**	**(1,837)**
Basic and diluted earnings (loss) per share for the period	12	**$0.005**	**$0.000**	**$(0.003)**	**$(0.005)**

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

Condensed consolidated interim balance sheet

As at June 30, 2020
UNAUDITED
Expressed in US$'000

	Note	June 30 2020	December 31 2019
Assets			
Non-current assets			
Property, plant and equipment	14	213,743	191,796
Intangible assets	15	14,222	14,755
Deferred income tax assets		2,670	2,839
Trade and other receivables		6,601	3,949
Total non-current assets		237,236	213,339
Current assets			
Trade and other receivables		11,710	10,240
Cash and cash equivalents (including restricted cash)	16	86,593	123,382
Total current assets		98,303	133,622
Total assets		335,539	346,961
Equity			
Attributable to common shareholders			
Share capital	17	111,304	111,304
Contributed surplus		13,537	13,443
Other reserves		(12,539)	(12,799)
Accumulated losses		(116,015)	(115,048)
Total attributable to common shareholders		(3,713)	(3,100)
Total equity		(3,713)	(3,100)
Liabilities			
Non-current liabilities			
Borrowings	19	262,337	301,464
Derivative financial instruments	20	9,050	8,782
Provisions	21	15,859	15,848
Total non-current liabilities		287,246	326,094
Current liabilities			
Trade and other payables	21	4,769	12,917
Current tax liabilities	11	93	1,676
Borrowings	19	45,424	7,585
Derivative financial instruments	20	1,384	1,429
Provisions	21	336	319
Other liabilities		-	41
Total current liabilities		52,006	23,967
Total liabilities		339,252	350,061
Total equity and liabilities		335,539	346,961

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

Condensed consolidated interim statement of changes in equity

For the six months ended June 30, 2020 and 2019
UNAUDITED
Expressed in US$'000

	Attributable to owners of the parent						
	Share capital	Contributed surplus	Other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at January 1, 2019	111,304	13,281	(12,940)	(109,848)	1,797	1,132	2,929
Comprehensive (loss) income:							
(Loss) income for the period	-	-	-	(1,806)	(1,806)	125	(1,681)
Other comprehensive (loss) income:							
Cash flow hedges (net of tax)	-	-	(748)	-	(748)	(177)	(925)
Currency translation	-	-	740	-	740	29	769
Total comprehensive loss	-	-	(8)	(1,806)	(1,814)	(23)	(1,837)
Transactions with owners in their capacity as owners:							
Share-based payments	-	53	-	-	53	-	53
Balance at June 30, 2019	111,304	13,334	(12,948)	(111,654)	36	1,109	1,145
Balance at January 1, 2020	111,304	13,443	(12,799)	(115,048)	(3,100)	-	(3,100)
Comprehensive loss:							
Loss for the period	-	-	-	(967)	(967)	-	(967)
Other comprehensive (loss) income:							
Cash flow hedges (net of tax)	-	-	(49)	-	(49)	-	(49)
Currency translation	-	-	309	-	309	-	309
Total comprehensive income (loss)	-	-	260	(967)	(707)	-	(707)
Transactions with owners in their capacity as owners:							
Share-based payments	-	94	-	-	94	-	94
Balance at June 30, 2020	111,304	13,537	(12,539)	(116,015)	(3,713)	-	(3,713)

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

Condensed consolidated interim statement of cash flow

For the three and six months ended June 30, 2020 and 2019
UNAUDITED
Expressed in US$'000

		Three months ended		Six months ended	
	Note	Q2-20	Q2-19	Q2-20	Q2-19
Operating activities:					
Net income (loss) for the period		**1,611**	**547**	**(967)**	**(1,681)**
Adjustments for the following non-cash items:					
Depreciation and amortization	6/7	2,355	2,261	4,679	4,554
Current income tax expense (recovery)	11	42	663	(46)	832
Deferred income tax expense	11	16	167	220	498
Gain on disposal of non-core investment	8	(3,318)	-	(3,318)	-
Share-based payment expense	7/18	46	65	94	89
Interest expense	10	1,407	1,647	2,759	2,943
Interest expense relating to interest rate swap contracts	10	360	359	712	735
Amortization of transaction costs	10	171	111	284	218
Foreign exchange loss (gain)	10	246	386	-	(296)
Fair value changes on derivative financial instruments	10	-	-	45	72
Other expense (income)		283	(244)	733	1
Sub-total		**3,219**	**5,962**	**5,195**	**7,965**
Changes in working capital:					
Trade and other receivables		1,747	(1,566)	(4,122)	115
Trade and other payables		(11,662)	(973)	(4,470)	(3,097)
Reimbursement from developer		-	911	-	911
Income tax paid		(72)	(77)	(1,666)	(855)
Total cash flow (used in) generated from operating activities		**(6,768)**	**4,257**	**(5,063)**	**5,039**
Investing activities:					
Purchases of property, plant and equipment	14	(12,786)	(285)	(27,925)	(371)
Purchases of intangible assets	15	106	-	(285)	(1,657)
Cash proceeds from disposal of non-core investment	8	3,318	-	3,318	-
Total cash flow used in investing activities		**(9,362)**	**(285)**	**(24,892)**	**(2,028)**
Financing activities:					
Interest paid		(3,066)	(2,258)	(3,066)	(2,258)
Interest relating to interest rate swap contracts		(716)	(751)	(716)	(751)
Proceeds from borrowings	19	-	147,222	-	147,222
Repayment of borrowings		(3,914)	(3,668)	(3,914)	(3,668)
Principal element of lease payments		(22)	(148)	(157)	(148)
Total cash flow (used in) generated from financing activities		**(7,718)**	**140,397**	**(7,853)**	**140,397**
Net (decrease) increase in cash and cash equivalents		**(23,848)**	**144,369**	**(37,808)**	**143,408**
Effect of exchange rate changes on cash and cash equivalents		1,660	852	1,019	317
Cash and cash equivalents at the beginning of the period		**108,781**	**23,231**	**123,382**	**24,727**
Cash and cash equivalents at the end of the period	16	**86,593**	**168,452**	**86,593**	**168,452**

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020 and 2019
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 Stock 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 and 45 MW of project under construction (the "Niigata Project").

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 August 5, 2020.

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, 2019. 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, 2019.

(b) Going concern

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2020, 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 June 30, 2020, the Group had cash and cash equivalents of $86.6 million, $7.6 million of which was unrestricted and held at the parent level (December 31, 2019: $123.4 million and $10.6 million, respectively) and working capital of $46.3 million (December 31, 2019: $109.7 million). During the six months ended June 30, 2020, the Group recognized a net loss of $1.0 million (2019: net loss of $1.6 million). The Company's management is confident that the Group will be able to fund its working capital requirements for at least 12 months from the date of these consolidated financial statements. However, internally generated cash flows will not be sufficient to repay the outstanding corporate bond of $37.8 million (€33.7 million) due in May 2021. Accordingly, the Group will need to refinance the corporate bond or raise additional funds. Although the Company is confident that it will be able to refinance the corporate bond or raise additional funds, there can be no assurance that these initiatives will be successful. As the Group does not have a secured source of funding to repay the corporate bond upon maturity, the resulting shortfall in cash flows would indicate the potential existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern. The Company's interim consolidated financial statements for the three and six months ended June 30, 2020, 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, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. 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 and six months ended June 30, 2020, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2019.

4. Segment reporting

In reviewing and monitoring the performance of the Group, the Board of Directors considers reportable segments from a geographical perspective and measures performance based on EBITDA. While the Company's management has determined that the Company 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. 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 as below:

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
TEPCO	1,280	1,271	2,237	2,254
HOKURIKU	1,439	1,478	2,244	2,271
TOHOKU	4,411	4,956	6,945	7,396
TOTAL	**7,130**	**7,705**	**11,426**	**11,921**

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

	Three months ended					
	Q2-20			Q2-19		
	Solar Japan	Corporate	Total	Solar Japan	Corporate	Total
Revenue	**7,130**	**-**	**7,130**	**7,705**	**-**	**7,705**
Operating expenses	(1,137)	-	(1,137)	(1,354)	-	(1,354)
General and administrative expenses	(62)	(1,968)	(2,030)	(140)	(977)	(1,117)
Gain on disposal of non-core investment	-	3,318	3,318	-	-	-
Other income (expense)	17	(1,025)	(1,008)	1	906	907
EBITDA	**5,948**	**325**	**6,273**	**6,212**	**(71)**	**6,141**
Depreciation and amortization	(2,321)	(34)	(2,355)	(2,223)	(38)	(2,261)
Finance income	3	-	3	-	-	-
Finance costs	(1,131)	(1,121)	(2,252)	(1,359)	(1,144)	(2,503)
Income (loss) before income tax	**2,499**	**(830)**	**1,669**	**2,630**	**(1,253)**	**1,377**
Income tax expense	(18)	(40)	(58)	(343)	(487)	(830)
Net income (loss) for the period	**2,481**	**(870)**	**1,611**	**2,287**	**(1,740)**	**547**

	Six months ended					
	Q2-20			Q2-19		
	Solar Japan	Corporate	Total	Solar Japan	Corporate	Total
Revenue	**11,426**	**-**	**11,426**	**11,921**	**-**	**11,921**
Operating expenses	(2,192)	-	(2,192)	(2,668)	-	(2,668)
General and administrative expenses	(158)	(3,186)	(3,344)	(212)	(1,828)	(2,040)
Gain on disposal of non-core investment	-	3,318	3,318	-	-	-
Other income (expense)	25	(1,483)	(1,458)	(259)	921	662
EBITDA	**9,101**	**(1,351)**	**7,750**	**8,782**	**(907)**	**7,875**
Depreciation and amortization	(4,611)	(68)	(4,679)	(4,484)	(70)	(4,554)
Finance income	4	-	4	-	296	296
Finance costs	(2,225)	(1,643)	(3,868)	(2,405)	(1,563)	(3,968)
Income (loss) before income tax	**2,269**	**(3,062)**	**(793)**	**1,893**	**(2,244)**	**(351)**
Income tax (expense) recovery	(226)	52	(174)	(710)	(620)	(1,330)
Net income (loss) for the period	**2,043**	**(3,010)**	**(967)**	**1,183**	**(2,864)**	**(1,681)**

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020 and 2019
UNAUDITED
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The Group's assets and liabilities can be presented as follows:

	June 30, 2020			December 31, 2019		
	Solar Japan	Corporate	Total	Solar Japan	Corporate	Total
Property, plant and equipment	213,701	42	213,743	191,744	52	191,796
Intangible assets	12,047	2,175	14,222	12,493	2,262	14,755
Cash and cash equivalents	79,019	7,574	86,593	112,786	10,596	123,382
Other assets	13,154	7,827	20,981	9,326	7,702	17,028
Total assets	**317,921**	**17,618**	**335,539**	**326,349**	**20,612**	**346,961**
Borrowings	270,049	37,712	307,761	271,504	37,545	309,049
Trade and other payables	3,382	1,387	4,769	9,626	3,291	12,917
Other liabilities	25,646	1,076	26,722	25,550	2,545	28,095
Total liabilities	**299,077**	**40,175**	**339,252**	**306,680**	**43,381**	**350,061**

5. Revenue

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Feed-in-tariff ("FiT")	7,130	7,705	11,426	11,921
Total revenue	**7,130**	**7,705**	**11,426**	**11,921**

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

6. Operating expenses

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Operating and maintenance ("O&M")	324	339	618	694
Personnel costs	140	296	279	591
Depreciation and amortization ("D&A")	2,321	2,224	4,611	4,485
Property tax	349	394	694	779
Insurance	100	99	199	197
Other operating expenses	224	226	402	407
Total operating expenses	**3,458**	**3,578**	**6,803**	**7,153**

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		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Salaries and benefits	771	232	1,354	538
Board of Directors' fees	38	68	106	136
Share-based payments	46	65	94	89
Professional fees	974	496	1,342	776
Listing and marketing	74	87	119	147
D&A	34	38	68	70
Office lease	76	72	150	144
Office, travel and other	51	96	179	209
Total general and administrative expenses	**2,064**	**1,154**	**3,412**	**2,109**

During the three months ended June 30, 2020, the Company reclassified from development costs to professional fees and salaries, all accumulated costs to date of $0.7 million associated with the litigation on the Brownfield TK-3 project.

8. Gain on disposal of non-core investment

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Disposal of shares in PV Salvador SpA	2,977	-	2,977	-
AMS termination fee received	341	-	341	-
Total gain on disposal of non-core investment	**3,318**	**-**	**3,318**	**-**

After deconsolidation in 2017, Etrion's 70% economic interest in PV Salvador was accounted for as an equity investment and recorded at a fair value of nil. On May 14, 2020, Etrion disposed of its retained investment in PV Salvador in exchange for cash proceeds of $3.0 million resulting in a net gain on disposal of $3.0 million. Concurrent with this transaction, Etrion received a termination fee of $0.3 million as compensation for the early termination of the asset's management service contract with PV Salvador.

9. Other (expense) income

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Unrecoverable withholding taxes	(1,008)	-	(1,008)	-
Municipality tax reassessment from disposed assets	-	-	(382)	-
Other	-	907	(68)	662
Total other (expense) income	**(1,008)**	**907**	**(1,458)**	**662**

During the three months ended June 30, 2020, the Company recognized approximately $1.0 million of unrecoverable withholding taxes triggered by an investment contribution to one of its Japanese subsidiaries. In addition, during the first quarter of 2020, the Company recognized $0.4 million of tax expense relating to tax reassessments received from the Italian municipalities where two of its previously owned solar parks operated. Under the terms of the original sale and purchase agreement, the seller was responsible for certain specific potential claims not confirmed at the date of sale in December 2016.

Notes to the condensed consolidated interim financial statements

For the three and six months ended June 30, 2020 and 2019
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10. Net finance costs

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Finance income:				
Foreign exchange gain	-	-	-	296
Other finance income	3	-	4	-
Total finance income	**3**	**-**	**4**	**296**
Finance costs:				
Credit facilities and non-recourse loans	918	567	1,808	1,041
Interest rate swap contracts	360	359	712	735
Corporate bond	713	666	1,378	1,371
Credit facility with non-controlling interest	-	61	-	118
Amortization of transaction costs	239	123	419	230
Interest expense on land lease liabilities	178	-	358	-
Ineffective portion of cash flow hedges	-	-	45	72
Foreign exchange loss	314	386	68	-
Other finance costs	53	436	109	496
Total finance costs before deducting amounts capitalized	**2,775**	**2,598**	**4,897**	**4,063**
Amounts capitalized on qualifying assets	(523)	(95)	(1,029)	(95)
Total finance costs	**2,252**	**2,503**	**3,868**	**3,968**
Net finance costs	**2,249**	**2,503**	**3,864**	**3,672**

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 20 and Note 19 for further details on the Group's credit facilities and derivative financial instruments. In addition, the Group has a fixed rate project bond outstanding associated with its project under construction. Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment.

11. Income taxes

(a) Income tax expense

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Current income tax expense:				
Corporate income tax expense (recovery)	42	663	(46)	832
Deferred income tax	16	167	220	498
Total income tax expense	**58**	**830**	**174**	**1,330**

During the three and six months ended June 30, 2020, the Group recognized an income tax expense of $42 thousand and a tax recovery of $46 thousand, respectively, (2019: $0.7 million and $0.8 million) associated with its solar power projects in Japan and management services subsidiaries. In addition, the Group recognized a deferred income tax expense of $16 thousand and $0.2 million, respectively, (2019: $0.2 million and $0.5 million) primarily 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

	June 30 2020	December 31 2019
Corporate income tax	93	1,676
Total current income tax liabilities	**93**	**1,676**

12. Earnings (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		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Total income (loss) attributable to common shareholders	1,611	165	(967)	(1,806)
Weighted average number of thousand shares outstanding	334,094	334,094	334,094	334,094
Total basic and diluted earnings (loss) per share	**$0.005**	**$0.000**	**$(0.003)**	**$(0.005)**

Diluted earnings (loss) per share equals basic earnings (loss) per share, as there is no dilutive effect from the existing RSUs, since the impact of including them would be to dilute an income (loss).

13. Non-controlling interests

On December 25, 2019, the Group acquired the total non-controlling interest ("NCI") in Shizukuishi Solar GK ("Shizukuishi"), Etrion Energy 1 GK ("Mito"), Etrion Energy 4 GK ("Komatsu") and Etrion Energy 5 GK ("Misawa"), all together the "Japanese project companies", and became owner of 100% of the issued and outstanding shares. 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. As a result of the acquisition of the NCIs on December 25, 2019, the Group no longer presents information associated with the financial position for each subsidiary that had NCIs that were material to the Group.
The summarized income statement for the Japanese project companies including the portion allocated to non-controlling interests for the three and six months ended June 30, 2020, is as follows:

	Three months ended					
	Q2-20			Q2-19		
	Income for the period	Comprehensive income for the period	Comprehensive income allocated to NCI	(Loss) Income for the period	Comprehensive (loss) income for the period	Comprehensive (loss) income allocated to NCI
Shizukuishi	-	-	-	961	809	100
Mito	-	-	-	320	346	44
Misawa	-	-	-	423	399	159
Komatsu	-	-	-	290	193	29
Total	**-**	**-**	**-**	**1,994**	**1,747**	**332**

	Six months ended					
	Q2-20			Q2-19		
	Income for the period	Comprehensive income for the period	Comprehensive income allocated to NCI	(Loss) Income for the period	Comprehensive (loss) income for the period	Comprehensive (loss) income allocated to NCI
Shizukuishi	-	-	-	2	(354)	(54)
Mito	-	-	-	485	440	55
Misawa	-	-	-	170	59	25
Komatsu	-	-	-	(47)	(324)	(49)
Total	**-**	**-**	**-**	**610**	**(179)**	**(23)**

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14. Property, plant and equipment

	Land	Solar power projects	Assets under construction	Right of use	Other PPE	Total
Cost:						
At December 31, 2019	**8,137**	**151,061**	**40,782**	**10,559**	**5,435**	**215,974**
Additions	-	-	24,011	-	-	24,011
Exchange differences	89	1,716	620	333	54	2,812
At June 30, 2020	**8,226**	**152,777**	**65,413**	**10,892**	**5,489**	**242,797**
Accumulated depreciation:						
At December 31, 2019	**-**	**22,645**	**-**	**650**	**883**	**24,178**
Depreciation	-	3,856	-	298	134	4,288
Exchange differences	-	392	-	181	15	588
At June 30, 2020	**-**	**26,893**	**-**	**1,129**	**1,032**	**29,054**
Net book value:						
At December 31, 2019	8,137	128,416	40,782	9,909	4,552	191,796
At June 30, 2020	**8,226**	**125,884**	**65,413**	**9,763**	**4,457**	**213,743**

During the six months ended June 30, 2020, the Group capitalized as assets under construction $23 million (2019: $17 million) of incurred capital expenditures associated with the Niigata Project. In addition, during the six months ended June 30, 2020, the Group capitalized $1.0 million (2019: $0.1 million) of borrowing costs associated with credit facilities obtained to finance the construction of the Niigata Project.

15. Intangible assets

	Licenses and permits	Internally generated development costs and other	Total
Cost:			
At December 31, 2019	**15,684**	**3,886**	**19,570**
Additions	-	707	707
Reclassification to general and administrative expenses	-	(705)	(705)
Exchange differences	165	3	168
At June 30, 2020	**15,849**	**3,891**	**19,740**
Accumulated amortization:			
At December 31, 2019	**3,161**	**1,654**	**4,815**
Amortization	604	56	660
Exchange differences	38	5	43
At June 30, 2020	**3,803**	**1,715**	**5,518**
Net book value:			
At December 31, 2019	12,523	2,232	14,755
At June 30, 2020	**12,046**	**2,176**	**14,222**

During the six months ended June 30, 2020, general and administrative expenses of $0.7 million (2019: $3.8 million) representing internally-generated costs of $0.1 million (2019: $0.9 million) and third-party costs of $0.6 million (2019: $2.9 million) were capitalized during the period within intangible assets as they directly related to the Group's development activities in Japan. In addition, during the three months ended June 30, 2020, the Company reclassified from development costs to professional fees and salaries, all accumulated costs to date of $0.7 million associated with the litigation on the Brownfield TK-3 project.

16. Cash and cash equivalents

The Group's cash and cash equivalents (including restricted cash) are held in banks in Canada, Luxembourg, Switzerland, the 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 owing due to short maturities.

	June 30 2020	December 31 2019
Unrestricted cash at parent level	7,574	10,596
Restricted cash at project level	79,019	112,786
Total	**86,593**	**123,382**

Restricted cash relates to cash and cash equivalents held at the project level that are restricted by the lending banks for future payment 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. As of June 30, 2020, restricted cash included $66 million associated with funds secured in 2019 for the construction of the Niigata Project. Note 19

17. Share capital

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,094,324 shares are issued and outstanding at June 30, 2020 (December 31, 2019: 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 six months ended June 30, 2020 and 2019.

18. Share-based payments

The Company maintains a Restricted Share Unit (RSU) award plan for employees, consultants, Directors and officers. Outstanding RSUs have a contractual term of six years and have market-based performance and vesting conditions. During the three and six months ended June 30, 2020, the Group recognized share-based payment expenses of $46 thousand and $94 thousand, respectively, (2019: $65 thousand and $89 thousand) related to its RSUs scheme. Note 7

During the three and six months ended June 30, 2020, there were no changes in the Company's outstanding RSUs totalling 11,666,667.
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.

19. Borrowings

	Corporate bond	Project bond	Project loans	Total
At December 31, 2019	**37,545**	**140,642**	**130,862**	**309,049**
Proceeds from loans	-	-	2,730	2,730
Transaction costs on acquired debt	-	-	(2,730)	(2,730)
Repayment of loans and interest	(1,383)	(869)	(4,728)	(6,980)
Accrued interest	1,378	999	809	3,186
Amortization of transaction costs	161	135	123	419
Exchange differences	11	1,830	246	2,087
At June 30, 2020	**37,712**	**142,737**	**127,312**	**307,761**
- Current portion	**37,712**	**-**	**7,712**	**45,424**
- Non-current portion	**-**	**142,737**	**119,600**	**262,337**

At June 30, 2020 and December 31, 2019, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans. On March 13, 2020, the Company's subsidiary, Mito, entered into an amendment of the senior loan credit facility with the original lender bank, Sumitomo Mitsui Trust Bank ("SMTB"), to increase the size of the non-recourse Mito project loan by $2.8 million (¥295 million), with existing tenor and slightly lower interest rate. As at June 30, the corporate bond of $37.8 million (€33.7 million) has been classified as short term debt as it is due to be repaid in May 2021.

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20. Derivative financial instruments

	June 30 2020	December 31 2019
Derivative financial liabilities:		
Interest rate swap contracts		
- Current portion	1,384	1,429
- Non-current portion	9,050	8,782
Total derivative financial liabilities	**10,434**	**10,211**

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 June 30, 2020, and December 31, 2019, 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.

21. Trade and other payables and provisions

	June 30 2020	December 31 2019
Trade and other payables		
Trade payables	397	493
Accrued expenses	3,848	10,933
Other payables	524	1,491
Total trade and other payables	**4,769**	**12,917**

As at June 30, 2020, the Group's accrued expenses of $3.8 million (2019: $10.9 million) includes $2.1 million (2019: $7.3 million) associated with unbilled construction costs of the Niigata Project.

	June 30 2020	December 31 2019
Provisions		
Leased land liability	9,940	9,992
Site restoration provision	5,269	5,206
Pension plan	986	969
Total provisions	**16,195**	**16,167**
- Current portion	**336**	**319**
- Non-current portion	**15,859**	**15,848**

22. 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, 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 (2019: 36%). 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 and six months ended June 30, 2020, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
General and administrative expenses:				
Lundin Energy AB	6	7	6	14
Lundin SA	-	30	30	60
Finance costs:	**6**	**37**	**36**	**74**
Lundin family:				
- Interest expense	-	59	-	122
- Transaction costs	-	7	-	13
Total transactions with related parties	**6**	**103**	**36**	**209**

Amounts outstanding to related parties at June 30, 2020 and December 31, 2019 are as follows:

	June 30 2020	December 31 2019
Current liabilities:		
Lundin SA	30	-
Total current financial liabilities	**30**	**-**
Total transactions with related parties	**30**	**-**

There were no amounts outstanding from related parties at June 30, 2020 and December 31, 2019.

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23. Financial assets and liabilities

	June 30, 2020			December 31, 2019		
	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 receivables	3,378	-	**3,378**	1,272	-	**1,272**
Cash and cash equivalents	86,593	-	**86,593**	123,382	-	**123,382**
Total financial assets	**89,971**	**-**	**89,971**	**124,654**	**-**	**124,654**

	June 30, 2020			December 31, 2019		
	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	262,337	-	**262,337**	301,464	-	**301,464**
Derivative financial instruments	-	9,050	**9,050**	-	8,782	**8,782**
Total non-current	**262,337**	**9,050**	**271,387**	**301,464**	**8,782**	**310,246**
Current						
Trade payables	397	-	**397**	493	-	**493**
Borrowings	45,424	-	**45,424**	7,585	-	**7,585**
Derivative financial instruments	-	1,384	**1,384**	-	1,429	**1,429**
Total current	**45,821**	**1,384**	**47,205**	**8,078**	**1,429**	**9,507**
Total financial liabilities	**308,158**	**10,434**	**318,592**	**309,542**	**10,211**	**319,753**

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

Level 1: includes fair value measurements derived from quoted prices in active markets for identical assets or liabilities. The fair values of financial instruments traded in the active market are based on quoted market prices at the balance sheet date. At June 30, 2020 and December 31, 2019, the Group's cash and cash equivalents were classified as Level 1.

Level 2: includes fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques that maximize the use of observable market data, where it is available, and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At June 30, 2020 and December 31, 2019, the Group's interest rate swap contracts were classified as Level 2 and the fair value of such instruments was calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable TIBOR forward interest rate curves and an appropriate discount factor. The fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

Level 3: includes fair value measurements derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data. At June 30, 2020 and December 31, 2019, the Group had no financial instruments classified as Level 3.

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

	June 30 2020	December 31 2019
Financial assets		
Level 1: Cash and cash equivalents (including restricted cash)	86,593	123,382
Total financial assets	**86,593**	**123,382**
Financial liabilities:		
Level 2: Borrowings	307,761	309,049
Level 2: Interest rate swaps	10,434	10,211
Total financial liabilities	**318,195**	**319,260**

24. 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.

25. Commitments

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of June 30, 2020, the Group had a contractual obligation payable over a period of over one year to acquire construction services in the amount of $48.5 million related to the construction of the 45 MW Niigata solar power project in Japan. This contractual obligation will be funded from existing cash available at the project company level.

26. Coronavirus (COVID-19)

The magnitude of any potential disruption of the Company's business operations due to the coronavirus outbreak will depend on certain developments, including the duration, spread and severity of the COVID-19 outbreak in Japan. The Company is actively monitoring and implementing specific precautionary measures to mitigate any potential disruptions. As of the date hereof, none of the Company's operating or development projects has been adversely affected. However, the duration and extent of the COVID-19 outbreak and the potential financial impact on the Company's operations and development activities cannot be reasonably predicted at this time and it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition including, without limitation, the possible temporary suspension of construction activities at the Niigata Project.