



etrion

Management's Discussion and Analysis
Three and Six Months Ended June 30, 2020

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 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.

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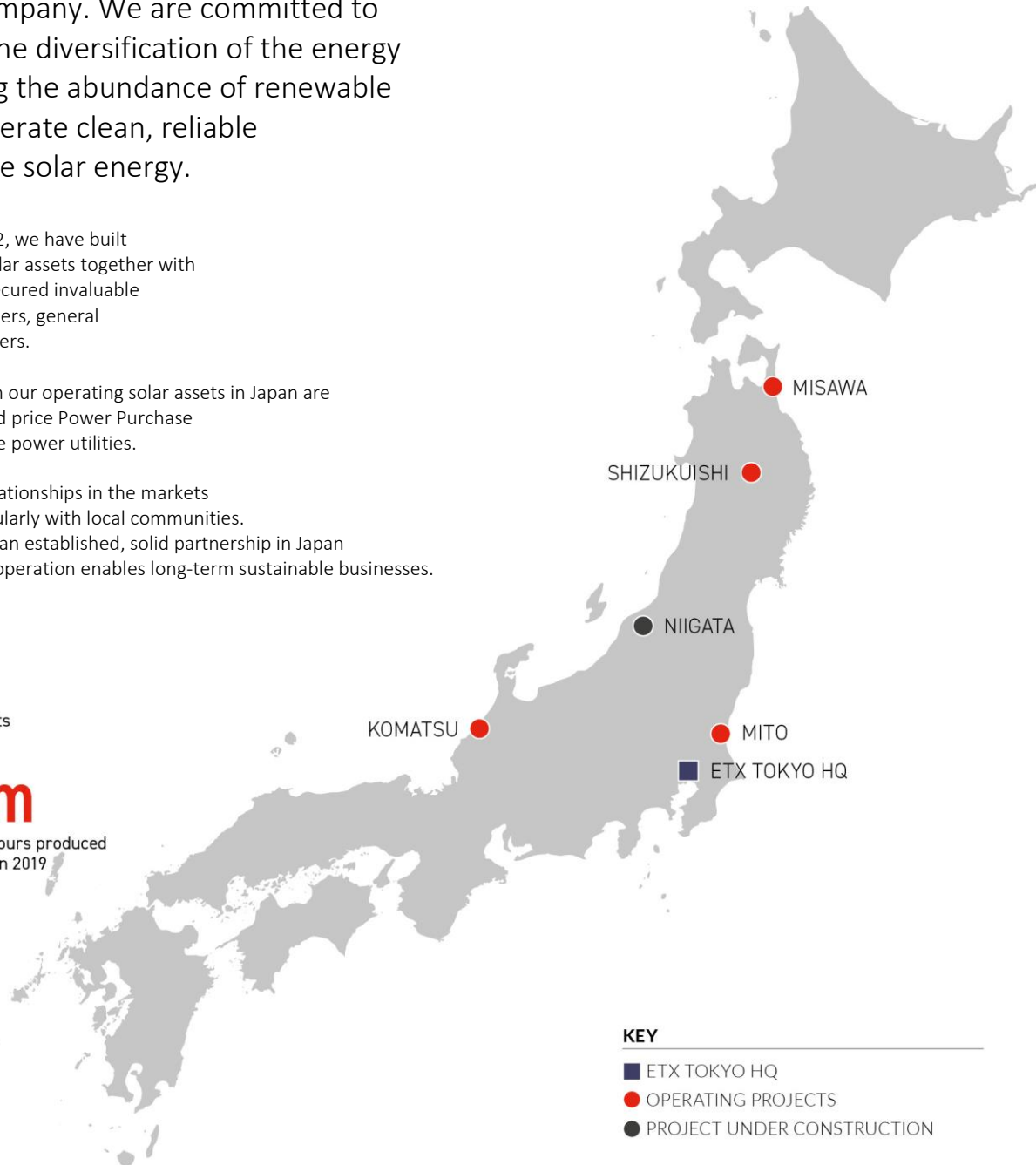
Solar plants

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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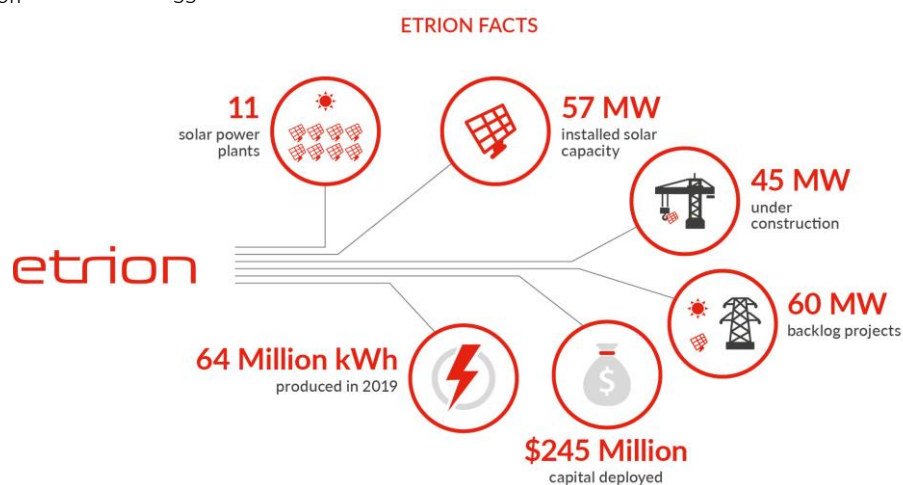
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Management's discussion and analysis

Management's discussion and analysis

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" or, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and a description of current and future business opportunities. This MD&A, prepared as of August 5, 2020, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2020. Financial information is reported in both United States dollars (" \$" or "USD") and in Euros ("€") because the Company's outstanding corporate bond is 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 June 30, 2020	120.91	107.73	1.12
Closing rate at June 30, 2019	122.58	107.64	1.14
Six months average rate 2020	119.30	108.25	1.10
Six months average rate 2019	124.31	110.00	1.13

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 20). 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 20). This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information contained herein. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary statement regarding forward-looking information" on page 33.

SECOND QUARTER 2020 HIGHLIGHTS

Operational highlights
Financial highlights

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Second quarter 2020 highlights

Operational highlights

- Etrion produced 33 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 project in central Japan is approximately 50% 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. Etrion remains optimistic a settlement will be reached before year-end.
- As of the date of this report, the Company has not been adversely affected by COVID-19. The Company has implemented very rigorous guidelines to ensure the wellbeing of its employees while at the same time maintaining minimal business disruptions.

Financial highlights

- Consolidated revenues of \$7.1 million were 7.5% lower relative to Q2-19.
- Solar segment EBITDA of \$5.9 million was 4.2% lower relative to Q2-19.
- On May 14, 2020 Etrion disposed of its 70% economic interest in PV Salvador (non-core investment) resulting in a net total gain on disposal of \$3.3 million.
- Etrion closed the second quarter of 2020 with a cash balance of \$86.6 million, of which \$7.6 million was unrestricted and held at corporate level, and working capital of \$46.3 million.

Second quarter 2020 highlights

Continued

USD thousands (unless otherwise stated)	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Electricity production (MWh)¹	20,540	22,575	33,003	34,876
Financial results				
Revenues	7,130	7,705	11,426	11,921
Gross profit	3,672	4,127	4,623	4,768
EBITDA	6,273	6,141	7,750	7,875
Adjusted EBITDA ²	4,246	6,141	6,106	7,875
Net income (loss)	1,611	547	(967)	(1,681)
Adjusted net income ²	1,985	2,873	2,207	3,034
Cash flow				
Project cash distribution	2,322	1,850	2,322	1,850
Cash flow from operations	(6,768)	4,257	(5,063)	5,039
Adjusted operating cash flow	3,219	5,962	5,195	7,965
			June 30 2020	December 31 2019
Balance sheet				
Total assets			335,539	346,961
Operational assets			137,930	140,939
Unrestricted cash at parent level			7,574	10,596
Restricted cash at project level			79,019	112,786
Working capital			46,297	109,655
Consolidated net debt on a cash basis			231,784	193,143
Corporate net debt			30,359	27,201

¹MWh = Megawatt-hour²Refers to adjusted EBITDA and adjusted net income as reconciled on

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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 11 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 growing its installed capacity and on operating 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 divestiture.

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 18 employees.

Business process – solar energy



PPA = power purchase agreement

SPV = special purpose vehicle (operational subsidiary)

EPC = engineering, procurement and construction

FiT = feed-in-tariff

Business review

Continued

Operations review Three months ended June 30

	Japan	
USD thousands (unless otherwise stated)	Q2-20	Q2-19
Operational data		
Electricity production (MWh)	20,540	22,575
Operational performance		
Electricity revenue		
Feed-in-tariff ⁽¹⁾	7,130	7,705
Total revenues	7,130	7,705
EBITDA ⁽²⁾	5,948	6,212
EBITDA margin (%)	83%	80%
Net income	2,481	2,287

1. FIT scheme under PPA with utilities.

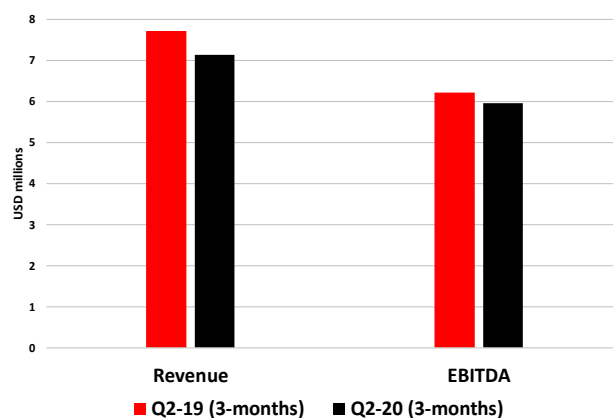
2. Refers to segment EBITDA as reconciled in the segment information section on page 20.

Operating performance in Japan (3 months)

During Q2-20, the Group produced 9.0% less electricity in Japan than in the same period in 2019, due to lower solar irradiation as a result of unfavourable weather conditions.

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"), depending on the location of the solar project. During Q2-20, the Group received the FIT of ¥40 per kWh applicable to the Mito and Shizuikuishi 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.

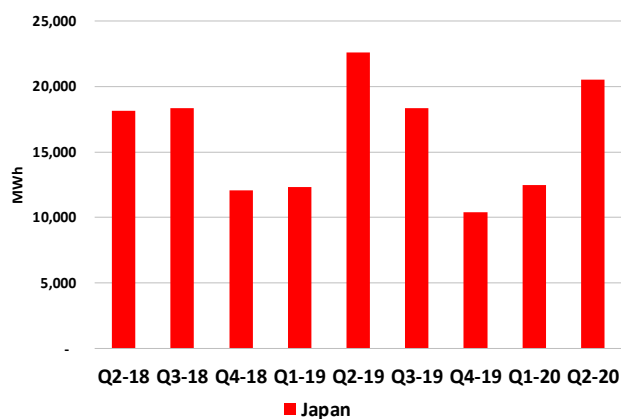
During Q2-20, the Group's revenue and project-level EBITDA decreased by approximately 7.5% and 4.2%, respectively, compared with the same period in 2019, primarily due to lower solar irradiation conditions partially offset by the reduction in operations and maintenance ("O&M") fees and operating personnel costs, following the renegotiation of the Japanese O&M contracts completed in December 2019.



Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency \$ using the corresponding implied Q2-20 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 \$.

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

Six months ended June 30

USD thousands (unless otherwise stated)	Japan	
	Q2-20	Q2-19
Operational data		
Electricity production (MWh)	33,003	34,876
Operational performance		
Electricity revenue		
Feed-in-tariff ⁽³⁾	11,426	11,921
Total revenues	11,426	11,921
EBITDA ⁽⁴⁾	9,101	8,782
EBITDA margin (%)	80%	74%
Net income	2,043	1,183

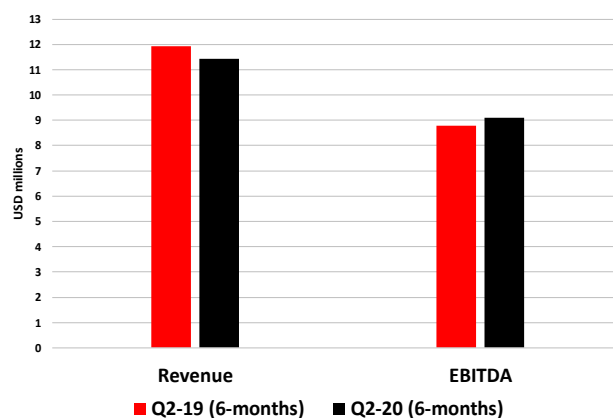
3. FIT scheme under PPA with utilities.

4. Refers to segment EBITDA as reconciled in the segment information section on page 20.

Operating Performance in Japan (6 Months)

During the first half of 2020, the Group produced 5.4% less electricity in Japan compared to the same period in 2019, due to lower solar irradiation as a result of unfavourable weather conditions.

During the first half of 2020, the Group's revenue decreased by 4.1% and project-level EBITDA increased by 3.6%, respectively, compared to the same period in 2019. EBITDA increased mainly due to the reduction in O&M fees and operating personnel costs, following the restructuring of the Japanese O&M contracts completed in December 2019.



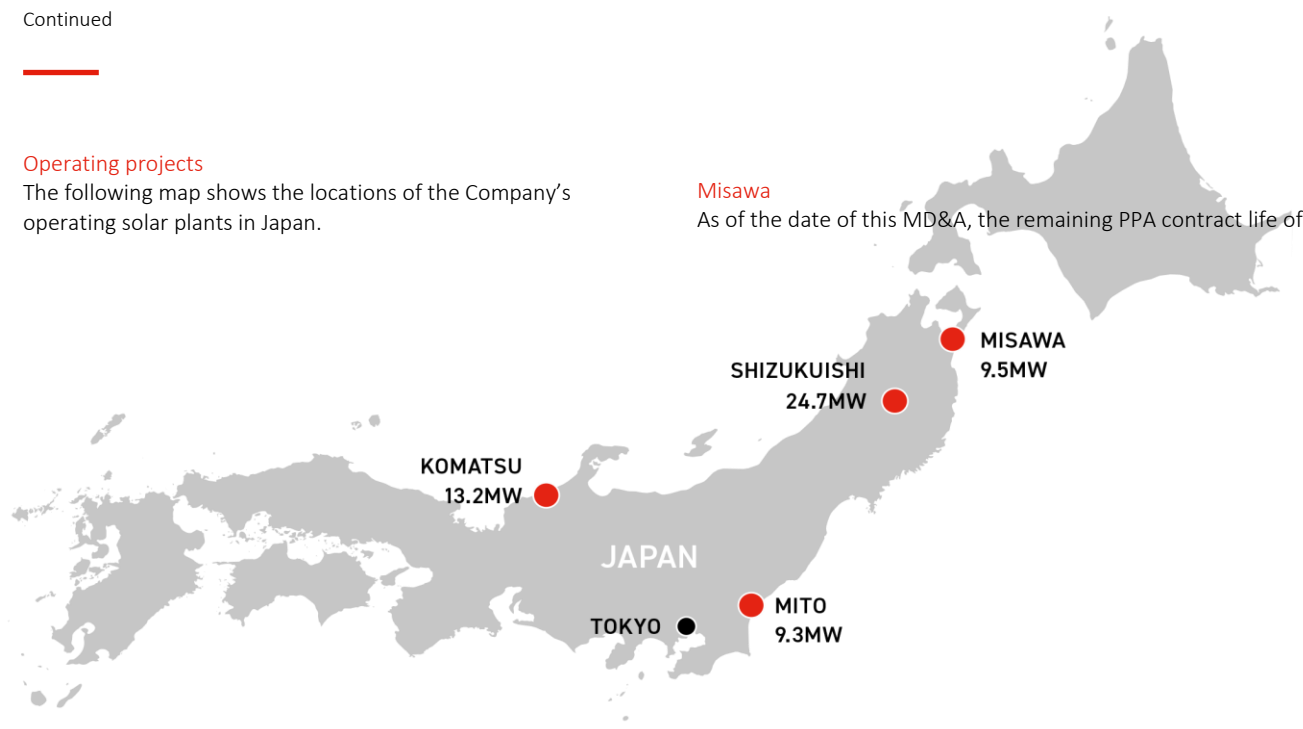
Revenues from Japan are received in Japanese yen and have been translated to the Group's presentation currency \$ using the corresponding implied Q2-20 average rates. Accordingly, changes in the ¥/\$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group's reported figures in \$.

Business review

Continued

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	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.

Shizukuishi

As of the date of this MD&A, the remaining PPA contract life of Shizukuishi is approximately 16 years. Details of the Group's 100%-owned operating solar power project in Japan are shown below:

Project	Region	Sites	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.

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	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.

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 100%-owned operating solar power project are shown below:

Project	Region	Sites	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.

Business review

Continued

Development activities Projects under construction Niigata 45MW



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 of 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 the TOHOKU utility. The project company entered into an effective 20-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 few projects that are at different stages of development as well as continuing to evaluate brown field projects in the market. 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 section gives details of the current backlog project.

Japanese backlog

Brownfield Tk-3. This project, located in the Mie prefecture, is currently designed as a 60 MW solar facility. The project has secured a 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 its environmental impact assessment and obtained its forest development permit; it has also made progress in the land preparation works. 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 in December 2018 filed 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 optimistic that it will be able to take control of this project in 2020.

Business review

Continued

As of June 30, 2020, the Company has incurred approximately \$7.5 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 "Gross equity" contribution shown in the last column of the table below, upon financial close.

Project	Project costs	Gross debt	Gross equity ⁽¹⁾
Brownfield Tk-3	154	147	7
Total USD million	154	147	7

1. Based on 100% ownership.

Solar market overview

The market for renewable energy sources, including solar, biomass, wind, hydro and biofuels, 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. The Japanese Ministry of Economy, Trade and Industry ("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 the 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 April 1, 2018 (i.e. by March 31, 2020); this will likely result in reduced FiT payment periods after such three-year period;
- to allow such projects to change their modules without triggering changes in the FiT rate; and
- to allow such projects to also reduce their project size by more than 20% without triggering a FiT rate reduction.

In Japan, the new curtailment system 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 Tairyō Dounyu /Jisedai Denryoku Network Sho linkai). According to METI, more than 20 GW of solar power projects which have FiTs of ¥40, ¥36 and ¥32/kWh have not reached commercial operations and are unreasonably taking up grid capacity, preventing new players from developing alternate 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 that obtained their grid connection agreements by July 31, 2016, and so are not subject to the three-year rule ("Early High FiT Holders").

On December 5, 2018, METI announced 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 most recent 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 latest 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 changes 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.

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Financial review

Financial results

Selected financial information

During the first half of 2020, the Group's performance and results were adversely impacted by the lower production of electricity in Japan. Revenue and gross profit on a consolidated basis decreased in comparison with the same period in 2019, due to the performance of the existing solar parks. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

	Three months ended		Six months ended	
USD thousands (except per share data)	Q2-20	Q2-19	Q2-20	Q2-19
Revenue	7,130	7,705	11,426	11,921
Gross profit	3,672	4,127	4,623	4,768
Net income (loss) attributable to owners of Etrion	1,611	165	(967)	(1,806)
Basic and diluted earnings (loss) per share:	\$0.005	\$0.000	\$(0.003)	\$(0.005)
Net income (loss)	1,611	547	(967)	(1,681)
Adjustments to net income (loss) for:				
Net income tax expense	58	830	174	1,330
Depreciation and amortization	2,355	2,261	4,679	4,554
Gain on disposal of non-core investment	(3,318)	-	(3,318)	-
Share-based payment expense	46	65	94	89
Net finance costs	2,184	2,503	3,800	3,672
Other expense (income)	283	(244)	733	1
Income tax paid	(72)	(77)	(1,666)	(855)
Changes in working capital	(9,915)	(1,627)	(8,592)	(2,070)
Operating cash flow	(6,768)	4,257	(5,063)	5,039

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

USD thousands	June 30 2020	December 31 2019
Non-current assets	237,236	213,339
Current assets	98,303	133,622
Total assets	335,539	346,961
Non-current liabilities	287,246	326,094
Current liabilities	52,006	23,967
Total liabilities	339,252	350,061
Net assets	(3,713)	(3,100)
Working capital	46,297	109,655
Dividends declared	-	-

Financial review

Continued

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 condensed consolidated interim financial statements.

Segment information three months ended June 30

Segment consolidated financial information for the three months ended June 30, prepared in accordance with IFRS, is as follows:

USD thousands	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

Solar Japan: During Q2-20, the Group's Japanese solar segment generated revenues of \$7.1 million and EBITDA of \$5.9 million, representing decreases of 7.5% and 4.2%, respectively, in comparison with the same period in 2019. Revenue and EBITDA decreased primarily due to lower solar irradiation, partially offset by a reduction in O&M fees and operating personnel costs following the restructuring of the Japanese operating projects completed in December 2019. As a result, the Group's Japanese segment generated a net income of \$2.5 million, in comparison with a net income of \$2.3 million for the same period in 2019. The second quarter of every year is positively impacted by the spring summer season in the northern hemisphere.

Corporate: During Q2-20, the Group's corporate segment generated positive EBITDA of \$0.3 million and a net loss of \$0.9 million, compared to negative EBITDA of \$71 thousand and a net loss of \$1.7 million, respectively, in the same period in 2019. EBITDA and net results were positively impacted by gain on the disposal Etrion's 70% economic interest in PV Salvador partially offset by the recognition of \$1.0 million of tax expense related to unrecoverable withholding taxes triggered by an investment contribution to a Japanese subsidiary. 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.

Financial review

Continued

Segment information six months ended June 30

Segment consolidated financial information for the six months ended June 30, prepared in accordance with IFRS, is as follows:

USD thousands	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	(226)	52	(174)	(710)	(620)	(1,330)
Net income (loss) for the period	2,043	(3,010)	(967)	1,183	(2,864)	(1,681)

Solar Japan: During the first half of 2020, the Group's Japanese solar segment generated revenues of \$11.4 million and EBITDA of \$9.1 million, representing a decrease of 4.1% and an increase by 3.6%, respectively, in comparison with the same period in 2019. Revenue decreased primarily due to lower solar irradiation and EBITDA increased due to a reduction in O&M fees and operating personnel costs, following the restructuring of the Japanese operating projects completed in December 2019. In addition, the Group's Japanese segment generated a net income of \$2.0 million, in comparison with net income of \$1.2 million for the same period in 2019.

Corporate: During the first half of 2020, the Group's corporate segment generated negative EBITDA of \$1.3 million and a net loss of \$3.0 million, compared to negative EBITDA of \$0.9 million and a net loss of \$2.9 million, respectively, in the same period in 2019. The decrease in EBITDA compared to prior period reflects the decrease in recharges to the projects in the pipeline, following the development completion of the Niigata project, the recognition of other expenses of \$0.4 million on tax reassessments received from the Italian municipalities where two of Etrion's previously owned solar parks operated. In addition, the recognition by the Company of \$1.0 million of other expenses related to unrecoverable withholding taxes triggered by an investment contribution to a Japanese subsidiary adversely impacted the corporate EBITDA. However, corporate EBITDA was positively impacted by the gain on the disposal of Etrion's 70% economic interest in PV Salvador. Net finance costs at corporate level increased in comparison with the same period in 2019 due to lower foreign exchange gains which impacted the net loss for the year. 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.

Financial review

Continued

Non-GAAP performance measures

Reconciliation of adjusted net income to net income (loss) USD thousands	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Net income (loss)	1,611	547	(967)	(1,681)
Adjustments for non-recurring and non-cash items:				
Professional fees and salaries	283	-	283	-
Tax reassessment from Italian municipalities	-	-	383	-
Depreciation and amortization	2,355	2,261	4,679	4,554
Fair value movements (derivative financial instruments)	-	-	45	72
Share-based payment expense	46	65	94	89
Unrecoverable withholding taxes	1,008	-	1,008	-
Gain on disposal of non-core investment	(3,318)	-	(3,318)	-
Adjusted net income	1,985	2,873	2,207	3,034

Reconciliation of adjusted operating cash flows to operating cash flows USD thousands	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Operating cash flow	(6,768)	4,257	(5,063)	5,039
- Changes in working capital	9,915	2,539	8,592	2,982
- Reimbursement from developer	-	(911)	-	(911)
- Income tax paid	72	77	1,666	855
Adjusted operating cash flow	3,219	5,962	5,195	7,965

Reconciliation of solar segment Adjusted EBITDA to EBITDA USD thousands	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
Net income (loss)	1,611	547	(967)	(1,681)
Adjustments for:				
Net income tax expense	58	830	174	1,330
Net finance costs	2,249	2,503	3,864	3,672
Depreciation and amortization	2,355	2,261	4,679	4,554
EBITDA	6,273	6,141	7,750	7,875
Adjustment for non-recurring items:				
Professional fees and salaries	283	-	283	-
Tax reassessment from Italian municipalities	-	-	383	-
Unrecoverable withholding taxes	1,008	-	1,008	-
Gain on disposal of non-core investment	(3,318)	-	(3,318)	-
Adjusted EBITDA	4,246	6,141	6,106	7,875
Plus: Corporate G&A expenses	1,702	71	2,995	907
Solar Japan Adjusted EBITDA	5,948	6,212	9,101	8,782

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)	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Revenue	7,130	4,296	3,599	6,356	7,705	4,216	4,048	6,185
Japan	7,130	4,296	3,599	6,356	7,705	4,216	4,048	6,185
Net income (loss)	1,611	(2,578)	(6,249)	3,242	547	(2,227)	(2,566)	(1,453)
Net income (loss) from continuing operations attributable to owners of Etrion	1,611	(2,578)	(6,110)	2,973	164	(1,910)	(2,510)	(1,677)
Net income (loss) attributable to owners of Etrion	1,611	(2,578)	(6,110)	2,973	164	(1,910)	(2,510)	(1,677)
Basic and diluted earnings (loss) per share:								
From continuing operations attributable to owners of Etrion	\$0.005	\$(0.01)	\$(0.02)	\$0.01	\$0.00	\$(0.01)	\$(0.01)	\$(0.01)
From continuing operations attributable to owners of Etrion	\$0.005	\$(0.01)	\$(0.02)	\$0.01	\$0.00	\$(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 condensed consolidated interim financial statements are presented in \$, which is the Group's presentation currency. The Company's functional currency is the ¥. The condensed consolidated interim financial statements have been prepared in accordance with IFRS.

Financial review

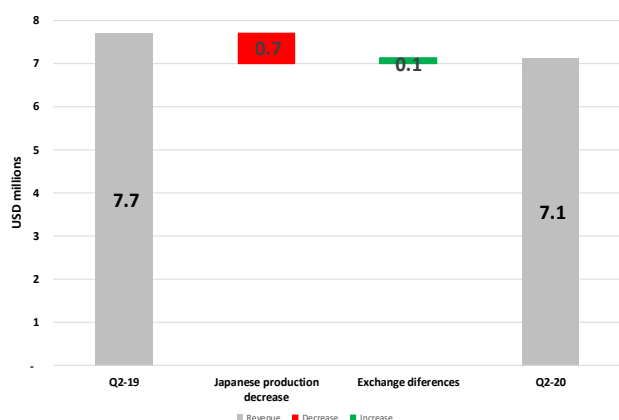
Continued

Revenue

USD thousands	Three months ended		Six months ended	
	Q2-20	Q2-19	Q2-20	Q2-19
FIT	7,130	7,705	11,426	11,921
Total revenue	7,130	7,705	11,426	11,921

During the three and six months ended June 30, 2020, consolidated revenues decreased by \$0.6 million (7.5%) and \$0.5 million (4.1%), respectively, compared to the same period of 2019, due to lower performance and unfavorable weather conditions.

The reconciliation of total revenue in Q2-20 versus Q2-19 is as follows:



Adjusted consolidated EBITDA

During the three months ended June 30, 2020, adjusted consolidated EBITDA decreased by \$1.9 million (30.9%) compared with the same period of 2019, mainly due to a decrease in project-level EBITDA and also due to a reduction in overhead recharges to the solar pipeline.

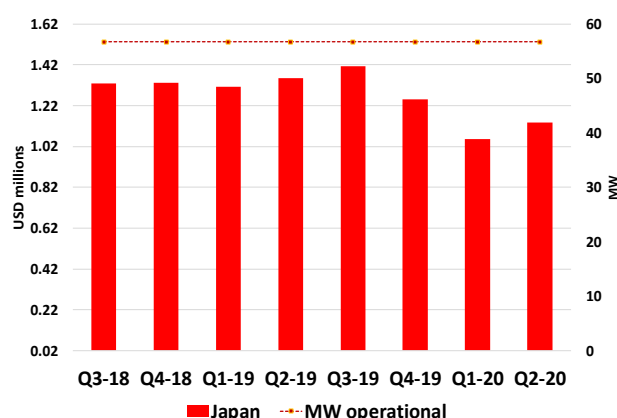
During the six months ended June 30, 2020, adjusted consolidated EBITDA decreased by \$1.8 million (22.5%), compared with the same period of 2019, mainly as a result from a reduction in overhead recharges to the solar pipeline.

Operating expenses

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

During the three and six months ended June 30, 2020, operating expenses decreased by \$0.1 million (3.3%) and \$0.3 million (4.9%), respectively, compared with the same period in 2019, mainly due to lower O&M fees and operating personnel costs as a result of the restructuring of the Japanese operating projects completed in December 2019.

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



Financial review

Continued

General and administrative expenses

	Three months ended		Six months ended	
USD thousands	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 G&A	2,064	1,154	3,412	2,109

During the three and six months ended June 30, 2020, general and administrative expenses increased by \$0.9 million (78.9%) and \$1.3 million (61.8%), respectively, compared with the same period in 2019, reflecting a decrease in recharges to the projects in the pipeline, following the development completion of the Niigata project. 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.

Net finance costs

	Three months ended		Six months ended	
USD thousands	Q2-20	Q2-19	Q2-20	Q2-19
Project loans	994	954	1,910	1,911
Corporate bonds	713	727	1,378	1,489
Fair value movements	-	-	45	72
Foreign exchange loss (gain)	314	386	68	(296)
Other finance costs	228	436	463	496
Net finance cost	2,249	2,503	3,864	3,672

During the three and six months ended June 30, 2020, net finance costs decreased by \$0.2 million and increased \$0.2 million, respectively, compared to the same period in 2019, mainly due to a decrease in foreign exchange movements and other finance costs. In addition, during the three and six months ended June 30, 2020, the Group capitalized \$1.0 million (2019: 0.1 million) of borrowing costs associated with the credit facilities obtained to finance the construction of the Niigata solar power project.

Gain on disposal of non-core investment

After deconsolidation in 2017, Etrion's 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 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.

Income tax expense

	Three months ended		Six months ended	
USD thousands	Q2-20	Q2-19	Q2-20	Q2-19
Corporate income tax	42	663	(46)	832
Deferred tax expense	16	167	220	498
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 income of \$16 thousand and \$0.2 million, respectively, (2019: \$0.2 million and \$0.5 million) primarily due to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

Financial review

Continued

Financial position

Liquidity and financing

Cash position

USD thousands	June 30 2020	December 31 2019
Cash and cash equivalents:		
Unrestricted at parent level	7,574	10,596
Restricted at project level	79,019	112,786
Total cash and cash equivalents	86,593	123,382

Unrestricted cash analysis

The Group's cash and cash equivalents at June 30, 2020, included unrestricted cash of \$7.6 million (December 31, 2019: \$10.6 million) held at the corporate level. Unrestricted cash decreased by \$3.1 million mainly as a result of corporate G&A 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 corporate equity, asset sales or debt financing and non-recourse project loans, as required.

Restricted cash analysis

USD thousands	June 30 2020	December 31 2019
Japan	79,019	112,786
Total restricted cash	79,019	112,786

The Group's cash and cash equivalents at June 30, 2020, 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 decreased by \$33.8 million mainly due to funds used in the construction of the Niigata solar power project, partially offset by operating cash flow from the Japanese solar power projects.

Working capital

At June 30, 2020, the Group had working capital of \$46.3 million (December 31, 2019: \$109.7 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 that are

not expected to be settled in cash in the next 12 months without replacement. Excluding these derivative financial liabilities that are not expected to be settled in the near term, the Group's working capital would have been \$47.7 million (December 31, 2019: \$111.1 million).

At June 30, 2020, 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	18,635	29,070	745	-	-	-	48,450
Project loans	10,891	11,245	28,374	17,609	18,308	231,174	317,601
Corporate bond	2,782	38,885	-	-	-	-	41,666
O&M contracts	403	704	633	795	1,250	9,583	13,368
Operating leases	566	1,038	1,038	1,038	1,038	12,308	17,027
Trade payables	4,769	-	-	-	-	-	4,769
Total	38,045	80,942	30,791	19,443	20,597	253,065	442,882

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 the six months ended June 30, 2020, total equity attributable to owners of the Company decreased by \$0.6 million from a net liability position of \$3.1 million at December 31, 2019, to a net liability position of \$3.7 million at June 30, 2020. This change was primarily due to the recognition of \$1.0 million of net loss during the period, unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments and the cumulative foreign exchange translation adjustment. Total equity attributable to owners of the Company at June 30, 2020, was negatively impacted by the cumulative fair value losses of \$12.5 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses, the total equity attributable to owners of the Company at June 30, 2020, would have resulted in a net asset position of \$8.8 million.

Financial review

Continued

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	June 30 2020	December 31 2019
Shizukuishi	25	December 30, 2034	52,938	56,050
Mito	9	June 30, 2034	21,948	20,217
Misawa	10	June 30, 2036	23,459	24,592
Komatsu	13	December 30, 2036	28,797	30,003
Niigata	45	June 30, 2038	142,907	140,642
Total			270,049	271,504

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 interest rates ranging from 1.72% to 3.13% all-in. At June 30, 2020, 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 June 30, 2020, and December 31, 2019.

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 ¥295 million, with existing tenor and slightly lower interest rate.

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.

Corporate borrowings

At June 30, 2020, 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 three-year maturity. The carrying amount of bonds as at June 30, 2020, including accrued interest net of transaction costs, was \$37.7 million (December 31, 2019: \$37.5 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	June 30 2020	December 31 2019
Total borrowings as per IFRS	307,761	309,049
Accrued interest	(119)	(125)
Transaction costs	10,735	7,601
Adjusted borrowings	318,376	316,525
Cash and cash equivalents	(86,593)	(123,382)
Adjusted consolidated net debt	231,784	193,143
Adjusted corporate net debt	30,359	27,201

The Group's consolidated net debt increased during the three months ended June 30, 2020, in comparison with December 31, 2019, mainly due to the decrease in restricted cash and foreign exchange movements.

Outstanding share data

At the date of this MD&A, the Company had 334,094,324 common shares (August 5, 2019: 334,094,324). The Company maintains the Restricted Share Unit Plan (the "Plan") pursuant to which employees, consultants, Directors and officers of the Group may be awarded restricted share units ("RSUs"). The outstanding RSUs have a contractual term of six years and 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 June 30, 2020, and December 31, 2019.

Capital investments

The Group plans to prioritize the Japanese market in allocating its unrestricted cash. Based on the current status, the Company does not anticipate beginning construction of its Japanese backlog project until 2021. The need for equity to build the Japanese backlog project is likely to arise throughout the construction period, rather than at start of construction.

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

Financial review

Continued

Critical accounting policies and estimates

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 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.

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 consolidated financial statements for the year ended December 31, 2019.

There are no issued IFRS or interpretations that are due to become effective in the future and that would be expected to have a material impact on the Group.

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 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.

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.

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 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 condensed consolidated interim financial statements for the six months ended June 30, 2020, are summarized below.

Related party transactions

Lundin Energy AB and subsidiaries

The Group receives professional services from Lundin Energy AB and from Lundin Services BV, a wholly owned subsidiary of Lundin Energy AB, for market and investor relation activities in Sweden and general and administrative expenses, respectively. During the three and six months ended June 30, 2020, the Group incurred general and administrative expenses of \$6 thousand and \$6 thousand, respectively (2019: \$7.0 thousand and \$14.0 thousand) from Lundin Energy AB and its subsidiary. At June 30, 2020, the Group owed no (December 31, 2019: nil) outstanding amount in relation to these expenses.

Lundin SA

During the three and six months ended June 30, 2020 the Group recognized expenses of nil and \$30 thousand, respectively (2019: \$30 thousand and \$60 thousand) 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.

Financial review

Continued

Asset management services

During the three and six months ended June 30, 2020, the Group invoiced asset management services ("AMS") of \$0.2 million and \$0.3 million of AMS termination fee, respectively (2019: \$0.1 million and \$0.2 million) to PV Salvador, associated with operating and engineering services for a 70 MW solar power project in Chile. These asset management services have been presented as a reduction of corporate general and administrative expenses since September 30, 2017, the date when PV Salvador was deconsolidated.

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 include members of the Board of Directors, the Chief Executive Officer, Marco A. Northland, and the Chief Financial Officer, Christian Lacueva.

During the three and six months ended June 30, 2020, the Group recognized within general and administrative expenses, \$0.3 million and \$0.6 million, respectively (2019: \$0.3 million and \$0.6 million) associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At June 30, 2020, the Group had no outstanding liabilities to key management personnel (December 31, 2019: \$nil).

Financial review

Continued

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, so that some operating costs will be impacted by any inflation.

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	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 instruments	10,434	10,211

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.

RISKS AND UNCERTAINTIES

Financial risks	30
Non-financial risks	30

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 ability of the Group to repay its outstanding corporate bonds due in May 2021 and 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 be unable to continue as a going concern, 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.

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.

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Other disclosures

Etrion outlook and guidance

On March 10, 2020, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2020. The Group has reviewed the previously released guidance in light of the performance for the first half of 2020 and has concluded that at this stage there is no basis to modify the guidance for the full year. The Group will continue to reassess its guidance and will make any adjustments and disclosures as may be warranted.

Disclosure controls and internal control over financial reporting

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

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

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

Cautionary statement regarding forward-looking information

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan); expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to repay the outstanding corporate bonds due in May 2021, 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 potential impact of the current COVID-19 pandemic on the Company's operations; 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 or obtain sufficient external funding 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 or equity financing on economic terms and/or in accordance with its expectations; the assumption that COVID-19 will not adversely affect the Company's 2020 financial results; 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