

Day4 Energy Inc.

Consolidated Financial Statements
December 31, 2008 and 2007

Auditors' Report

To the Shareholders of Day4 Energy Inc.

We have audited the consolidated balance sheets of **Day4 Energy Inc.** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
March 16, 2009

Day4 Energy Inc.
Consolidated Balance Sheets
As at December 31, 2008 and 2007

	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	14,730,294	53,093,136
Restricted cash (note 4)	11,085,230	1,322,140
Short-term investments (note 5)	-	40,232,996
Accounts receivable	3,320,849	3,559,391
Investment tax credits receivable (note 6)	600,000	1,165,000
Other receivables (note 7)	1,511,301	2,486,811
Inventory (note 8)	35,018,558	15,168,541
Prepaid expenses	379,429	547,444
Equipment held for sale (note 22)	2,704,913	-
	<u>69,350,574</u>	<u>117,575,459</u>
Intangible assets (note 9)	-	828,969
Property, plant and equipment (note 10)	28,254,320	7,078,998
	<u>97,604,894</u>	<u>125,483,426</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	12,504,078	10,438,525
Income taxes payable (note 14(d))	830,000	830,000
Short-term debt (note 12)	142,940	821,213
Deferred revenue - current (note 4)	168,012	89,442
Derivative Instruments (note 20(c))	2,157,218	-
	<u>15,802,248</u>	<u>12,179,180</u>
Long-term debt (note 12)	1,143,521	-
Deferred revenue (note 4)	-	102,186
Deferred lease inducement	-	11,245
	<u>16,945,769</u>	<u>12,292,611</u>
Non-controlling interest (note 2)	26,410	-
Shareholders' Equity (note 14)		
Share capital		
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued and outstanding		
36,679,366 (2007 - 36,373,116) common shares	130,952,257	129,935,370
Contributed surplus	2,091,952	1,439,491
Warrants	2,279,890	2,633,987
Deficit	(54,691,384)	(20,818,033)
	<u>80,632,715</u>	<u>113,190,815</u>
	<u>97,604,894</u>	<u>125,483,426</u>
Nature of operations and going concern (note 1)		
Commitments (note 17)		
Subsequent events (note 22)		

Approved by the Board of Directors

(signed) John S. MacDonald Director

(signed) Anil Wirasekara Director

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

Day4 Energy Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
Revenue		
Sales	76,836,546	20,955,792
Cost of goods sold	84,075,455	25,333,450
Gross loss	7,238,909	4,377,658
Expenses		
General and administrative	14,910,590	3,232,635
Research and development	2,256,373	1,815,343
Less: Investment tax credits and government assistance (note 6)	(195,302)	(650,000)
Selling and marketing	3,568,579	1,914,956
Depreciation	524,420	304,077
Amortization	284,218	23,685
	21,348,878	6,640,696
Loss before undernoted	28,587,787	11,018,354
Foreign exchange gain	4,176,771	40,355
Unrealized loss on derivative instruments	(2,157,218)	-
Interest and other income	2,132,336	415,246
Interest expense	(87,507)	(518,197)
Royalty premium expense (note 12)	(476,467)	-
Financing issuance cost	-	(1,049,268)
Loss on disposition of property, plant and equipment	(39,973)	-
Impairment of intangible assets (note 9)	(541,141)	-
Impairment of property, plant and equipment (note 10)	(8,153,256)	-
Accretion expense on convertible debentures	-	(1,351,348)
Accretion expense on IRAP-TPC Loan	(144,088)	(131,643)
Adjustment on IRAP-TPC Loan	-	67,799
Fair value loss on warrants	-	(344,785)
	(5,290,543)	(2,871,841)
Loss before non-controlling interest	33,878,330	13,890,195
Non-controlling interest (note 2)	(4,979)	-
Loss and comprehensive loss for the year	33,873,351	13,890,195
Deficit - Beginning of year	20,818,033	7,123,404
Adjustment on IRAP-TPC loan (note 2)	-	(195,566)
Deficit - End of year	54,691,384	20,818,033
Net loss per share - basic and diluted	0.92	0.70
Weighted average number of shares outstanding - basic and diluted	36,651,193	19,934,029

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

Day4 Energy Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
Cash flows from operating activities		
Loss and comprehensive loss for the year	(33,873,351)	(13,890,195)
Items not affecting cash		
Stock-based compensation	742,751	1,029,616
Accretion expense on convertible debentures	-	1,351,348
Accretion and royalty premium on IRAP-TPC loan	608,188	131,643
Adjustment on IRAP-TPC loan	-	(67,799)
Fair value loss on warrants	-	344,785
Depreciation and amortization	2,095,104	782,622
Loss on disposal of property, plant and equipment	39,973	-
Impairment of intangible assets	541,141	-
Impairment of property, plant and equipment	8,153,256	-
Unrealized foreign exchange (gain) loss	1,530,165	(524,800)
Unrealized loss on derivative instruments	2,157,218	-
Deferred lease inducement	(11,245)	(22,494)
Non-controlling interest	(4,979)	-
Changes in non-cash working capital items		
Accounts receivable	(2,183,441)	(1,009,768)
Investment tax credits receivable	565,000	(650,000)
Other receivables	1,208,506	(2,212,146)
Inventory	(19,850,017)	(9,629,659)
Prepaid expenses	168,015	(190,871)
Accounts payable and accrued liabilities	5,259,453	5,328,535
Deferred revenue	(23,616)	(600,275)
Taxes payable	-	830,000
	<u>(32,877,879)</u>	<u>(18,999,458)</u>
Cash flows from investing activities		
Purchase of short-term investments	(8,000,000)	(40,000,000)
Proceeds from sale of short-term investments	48,000,000	-
Restricted cash	(9,763,090)	(1,322,140)
Purchase of property, plant and equipment	(33,939,145)	(5,181,831)
Proceeds from disposal of property, plant and equipment	54,795	-
Business acquisition - net of cash acquired (note 3)	-	(2,396,921)
Proceeds from non-controlling interest	31,389	-
	<u>(3,616,051)</u>	<u>(48,900,892)</u>
Cash flows from financing activities		
(Repayment of) proceeds from shareholder loan	-	(203,440)
(Repayment of) proceeds from IRAP loan	(142,940)	556,034
Proceeds from convertible debentures	-	16,827,000
Proceeds from issuance of common shares	-	102,992,370
Proceeds from exercise of warrants	492,498	218,750
Proceeds from exercise of options	80,000	351,727
	<u>429,558</u>	<u>120,742,441</u>
Impact of foreign exchange on cash and cash equivalents	<u>(2,298,470)</u>	<u>17,272</u>
Increase in cash and cash equivalents	<u>(38,362,842)</u>	<u>52,859,363</u>
Cash and cash equivalents - Beginning of year	<u>53,093,136</u>	<u>233,773</u>
Cash and cash equivalents - End of year	<u>14,730,294</u>	<u>53,093,136</u>
Supplemental cash flow information		
Cash paid for interest	13,472	452
Cash received for interest	1,937,448	100,191
Non-cash transactions		
Conversion of convertible debenture to common shares	-	16,241,566
Issuance of shares for equipment	-	300,000

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

Day4 Energy Inc.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

1 Nature of operations and going concern

The company

Day4 Energy Inc. (the company) is a federally incorporated company under the laws of Canada. The company's business is to design, develop, manufacture and market advanced photovoltaic (PV) energy products. In August 2006, the company commenced commercial production and sales. The company's products are sold primarily to customers in Germany, Canada and the United States of America. The company maintains an active research and development component within its commercial operations.

Going concern

While the accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the company will be able to continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of operations, there are material uncertainties related to conditions that cast substantial doubt about the company's ability to continue as a going concern.

The company has not yet realized profitable operations, has generated negative cash flows from operating activities and has an accumulated deficit of \$54,691,384 at December 31, 2008.

The company has relied upon external sources of debt and equity to fund operations to date.

The company is exposed to a number of risks and uncertainties that may affect its future financial condition, operations results and cash flows. These material uncertainties that may cast doubt about the company's ability to continue as a going concern are described below.

The company has recently completed a significant expansion of production capacity. As disclosed in note 22, the company is in the process of transferring a significant portion of that production capacity to a third party under an outsourcing agreement as part of its business plan. Should the third party production commitments not match the required volumes for sales in a timely manner, additional costs or losses may be incurred by the company.

While the company has achieved significant sales growth over the year, the company needs to increase sales volume at sustainable prices relative to its cost of production. As disclosed in note 18, two customers account for approximately 27% of our sales and the majority of our sales are to customers in Germany. Under current economic, market and competitive conditions, it is reasonably possible that the company's revenues will experience material fluctuations or declines. Our sales may be affected by acceptance of solar energy products, user demand for our products, over supply of similar products in the industry, pricing pressures, reductions or elimination of government grants to end-users and foreign exchange volatility.

The company has committed to purchasing significant volumes of PV cells at fixed prices, subject to future market price adjustments from time to time, with its suppliers. It is reasonably possible that committed volumes of these raw materials may exceed the company's requirements if sales volumes decline. Additionally, should module sales prices decline the company may not be able to renegotiate lower PV cell prices under its commitments with suppliers to establish profitable margins.

Day4 Energy Inc.

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Until the company achieves higher revenue levels and lower costs of production, the company's operating results and cash flows are expected to be negatively impacted. The company may need to seek additional forms of debt or equity financing, but cannot provide assurance that it will be successful in doing so.

These financial statements do not include adjustments or disclosures that may result from the company's inability to continue as a going concern. If the going concern assumption is not appropriate for these financial statements, then adjustments may be necessary in the carrying value of assets and liabilities, and the reported net losses and balance sheet classifications used. Such adjustments could be material.

2 Significant accounting policies

Generally accepted accounting principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP); all amounts are stated in Canadian dollars unless otherwise noted.

Basis of consolidation

The consolidated financial statements include the accounts of the company and the consolidated assets, liabilities and results of operations of Day4 Systems GmbH (Systems) of Rottweil, Germany, acquired November 30, 2007, which include the assets, liabilities, and results of operations of its 60% owned subsidiary, Solar-Farm Hüfingen GmbH of Rottweil, Germany, incorporated November 24, 2008, and the assets, liabilities and results of operations of its wholly owned subsidiaries, Day4 Italia S.r.l. (Italia) of Milan, Italy, incorporated June 22, 2007.

The consolidated financial statements include the activities of Italia from incorporation on June 22, 2007 to the period ended December 31, 2007, the activities of Systems from November 30, 2007 to the period ended December 31, 2007, and the activities of Solar-Farm Hüfingen GmbH from incorporation on November 24, 2008, to the period ending December 31, 2008.

All material intercompany balances and transactions are eliminated upon consolidation.

Non-controlling interest

Non-controlling interest exists with respect to a less than wholly owned subsidiary of the company and represents the outside interest's share of the carrying values of the subsidiary. For the year ended December 31, 2008, non-controlling interest represents the 40% interest of the non-controlling shareholders in Solar-Farm Hüfingen GmbH.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the company's management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

Day4 Energy Inc.

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statements and the reported amounts of other income and expenses during the reporting period. Actual results could differ materially from those estimates in the current known conditions. Significant areas requiring the use of estimates and assumptions include the determination of the fair values of assets and liabilities acquired in a business combination, allowance for doubtful accounts on accounts receivable, net realizable value of inventories in an environment of continuing changes in costs and selling prices, the assessment of impairments relating to property, plant and equipment and intangible assets, the determination of future income taxes and the calculation of fair value for stock-based transactions.

Foreign currency transactions and translation

The company's functional currency is the Canadian dollar. Transactions in other currencies are recorded at exchange rates prevailing at the date of the transaction. The carrying value of monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Translation gains and losses are included in the statement of operations.

The company's subsidiaries are considered to be integrated operations. For integrated foreign operations, monetary items are translated at the exchange rates prevailing at the balance sheet date; non-monetary items are translated at the historical exchange rate; and revenue and expenses are translated using the average rates for the period, except for depreciation and amortization which is translated at the historical exchange rates. Translation gains and losses are included in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with original maturity at the date of purchase of three months or less. Cash and cash equivalents are measured at fair value with changes in fair value included in interest income in the statement of operations.

Short-term investments

Short-term investments consist of investments with maturities between three months and one year at the date of purchase. Short-term investment securities held by the company have consisted of guaranteed investment certificates, t-bills and money market funds held with a Canadian financial institution. All short-term investments have been classified as held for trading and are carried at fair value with gains or losses recorded in the statement of operations. Transaction costs are expensed as incurred.

Government assistance

Government assistance towards research and development expenditures is received from the National Research Council Canada (NRC) under Industrial Research Assistance Program Technology Partnerships Canada (IRAP – TPC). Some of this assistance is repayable by way of royalties only if revenues are generated from specific product sales.

The company credits government assistance directly to the costs of related programs or to the cost of acquired assets for which the assistance was provided when there is reasonable assurance that the credit will be realized.

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Investment tax credits

The company is entitled to certain federal and provincial investment tax credits in respect of qualifying scientific research and development expenditures. These investment tax credits are accounted for as a reduction of the related expenditure for items of a current expense nature and a reduction of the related assets for items of a long-term nature when there is reasonable assurance that the credit will be realized.

The amounts recorded as investment tax credits receivable reflect management's best estimate of the recoverable amounts in light of Canada Revenue Agency's (CRA) current practices.

Inventory

Effective January 1, 2008, the company adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, Inventories, without restatement, which has replaced Section 3030 with the same title. The adoption of this section had no impact on the company's results. This revision converges Canadian GAAP with International Financial Reporting Standards (IFRS). The company recognizes raw materials at the lower of cost or net realizable value. The cost of raw materials is determined on an average cost basis. Work-in-progress and finished goods are valued at the lower of cost and net realizable value; the cost includes raw material, labour costs and benefits, and applicable overheads and depreciation. The company applies the weighted average method in determining the cost of work-in-progress and finished goods inventory.

Intangible assets

Intangible assets are recorded at cost, which, for business acquisitions, represents the fair value at the date of acquisition.

Customer contracts and customer relationships are amortized over three years.

Property, plant and equipment

Property, plant and equipment are stated at historical cost net of accumulated depreciation. Depreciation is provided beginning on the date that the asset is available for use using the straight-line method over the following estimated useful economic lives of the assets:

Computer hardware and software	1 to 3 years
Machinery and equipment	2 to 10 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the lease
Investment in PV systems	20 years

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Notes to Consolidated Financial Statements December 31, 2008 and 2007

Impairment of long-lived assets

The company reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of the undiscounted estimated future operating cash flows anticipated to be generated during the remaining life to the net carrying value of the asset. If any impairment exists, the carrying value is written down to the fair value of the asset.

Lease inducements

The benefit associated with lease inducements is recognized as a reduction in rent expense on a straight-line basis over the term of the lease.

Research and development

Research and development costs consist of materials, labour costs and benefits, contractors, travel and legal fees for the protection of intellectual property less government grants received. Research costs are expensed as incurred; development costs that meet the criteria for deferral are capitalized and amortized; to date no such costs have been deferred.

Income taxes

The company accounts for income taxes using the liability method. Under this method, future income taxes are measured using the rates that are expected to apply for taxable income in the periods in which the future income tax liability or asset is expected to be settled or realized. Future income tax assets and liabilities are recognized based on the difference between the tax and accounting value of assets and liabilities and are calculated using the tax rates for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized.

Transaction costs on convertible debentures and warrant liabilities

The company recognizes all transaction costs related to convertible debentures and warrant liabilities in the statement of operations.

Stock-based compensation

The company accounts for employee share options and share options granted to non-employees using the fair value based method. Under the fair value based method, employee compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. For options granted to non-employees, the fair value is measured when performance is complete, a performance commitment is made or the options are fully vested and non-forfeitable, whichever is earliest, and the expense is recognized over the period in which the goods or services from the non-employees are received. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus. The effects of forfeitures are accounted for as they occur.

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Revenue recognition

The company's revenues to date have been generated from the sale of completed PV solar panels.

The company recognizes revenue on the sale of PV solar panels when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, title and risk of loss has passed to the customer, collectability of the resulting receivable is reasonably assured and the rights and risks of ownership have passed to the customer. In the case where there are significant post-shipment obligations with any of its customers that could have an impact on revenue recognition, the revenues are reduced by the obligated amounts with the obligations recorded as deferred revenue.

Loss per share

Basic loss per share is computed by dividing the loss by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the effect of all potentially dilutive common shares resulting from stock-based compensation awards, warrants and convertible debentures, unless the conversion or exercise of such shares would be anti-dilutive.

Warranty

The company's warranty related costs are not significant for the years ended December 31, 2008 and 2007.

Comprehensive income and financial instruments

The company adopted CICA Handbook Sections 3855, Financial Instruments - Recognition and Measurement; Section 1530, Comprehensive Income, Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3251, Equity, effective January 1, 2007 on a retroactive basis, without restatement of prior periods. Among other things, these sections specify when a financial instrument is to be recognized on the balance sheet, require financial instruments to be measured at fair value or using cost-based measures, and establish how gains and losses are to be recognized and presented, including the introduction of comprehensive income.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities.

As a result of the adoption of these policies, the company has classified its financial instruments at January 1, 2007 as follows: cash and cash equivalents and short-term investments as financial assets held-for-trading; accounts receivable, including trade and miscellaneous receivables, and other receivables as loans and receivables financial assets; accounts payable including trade payables and accrued liabilities, and long-term debt including government loans as other financial liabilities. The implementation of this standard resulted in an adjustment in the IRAP - TPC loan payable from a face value of \$666,831 to an amortized cost of \$471,265

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Notes to Consolidated Financial Statements

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as of January 1, 2007. The resulting adjustment of \$195,566 has been recorded against the beginning deficit balance.

Subsequent to adoption, the following methods and assumptions are used to estimate the fair value of the company's financial instruments as at December 31, 2008:

- a) Cash and cash equivalents, restricted cash and short-term investments: The amounts reported on the balance sheet are measured at fair value with any resulting gains or losses recognized in net loss.
- b) Accounts receivable and other receivables: The amounts reported on the balance sheet are carried at amortized cost using the effective interest rate method, which is an approximation of fair value. Subsequent measurement of trade receivables is at amortized cost less an allowance for doubtful accounts as determined on a customer specific basis.
- c) Derivative instruments: The amounts represent the fair value of forward foreign exchange contracts. These amounts are measured at fair value with any resulting gains or losses recognized in net loss.
- d) Accounts payable and accrued liabilities: The amounts reported on the balance sheet are carried at amortized cost using the effective interest rate method, which is an approximation of fair value.
- e) Long-term debt: The amount is carried at amortized cost using the effective interest rate method.

Financial Instrument Disclosures

Effective January 1, 2008, the company adopted the new CICA Handbook Sections 3862, Financial Instruments - Disclosures, Section 3863, Financial instruments - Presentation, which replace Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. These standards have been applied prospectively from the date of adoption. Refer to Note 20 for additional disclosures related to financial instruments.

Capital Disclosures

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. These new standards relate only to disclosure and presentation and have no impact on the company's results. Refer to Note 21 for additional disclosures related to capital management.

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Recent Canadian GAAP announcement

a) Deferral of Costs and Internally Developed Intangibles

In November 2007, the Accounting Standards Board (AcSB) approved Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. These recommendations are effective for the company's interim and annual reporting periods beginning October 1, 2008. The company has not yet evaluated the impact of this standard on its consolidated financial statements.

b) CICA Handbook Sections 1582, Business Combinations; 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests

In January 2008, the CICA issued Handbook Sections 1582, Business Combinations; 1601, Consolidated Financial Statements and 1602, Non-Controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements.

CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

Management is currently in the process of determining the impact of these standards on the Company's consolidated financial statements.

3 Acquisition of Day4 Systems GmbH

On November 30, 2007, the company acquired all of the outstanding shares of Systems, a company incorporated in Rottweil, Germany. Prior to the acquisition of Systems on November 30, 2007, Systems was an exclusive reseller of the company's PV products. As consideration, the company paid \$218,285 (€150,000) in cash.

As the company had a pre-existing relationship with Systems, the company has accounted for the effective settlement of the pre-existing relationship as a result of the business combination. A business combination where an acquirer and acquiree have a pre-existing relationship is considered to be a multiple-element transaction, with one element being the business combination, and the other element being the effective settlement of the pre-existing relationship.

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The company had a pre-existing relationship with Systems that when compared to market prices of PV panels sold resulted in a loss of \$218,285 on the effective settlement of the pre-existing relationship. This amount has been recorded in selling and marketing expenses on the statements of operations. As the full amount of the consideration paid to the vendors was allocated to the settlement of the pre-existing relationship, \$nil was allocated as consideration for the business combination of Systems.

The intangible assets acquired consist primarily of customer lists, relationships and contracts for the company's products.

The company used the purchase method to account for the acquisition of Systems. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	\$
Cash and cash equivalents	1,450,322
Accounts receivable	2,558,753
Loan receivable	294,000
Inventory	938,873
Intangible assets - customer contracts and relationships	852,654
Accounts payable and accrued liabilities	(5,393,818)
Deferred revenue	(700,784)
	<hr/>
Net identifiable assets and liabilities acquired	<hr/> -

At the date of the acquisition, the company had trade accounts receivable owing from Systems of \$3,847,243 which net of cash acquired of \$1,450,322 has been reflected on the statements of cash flows.

The results of Systems' operations have been included in the consolidated financial results of the company since the date of acquisition.

4 Restricted cash

During 2008, the company is required to maintain deposits of cash or liquid securities of \$11,085,230 (2007 - \$1,322,140), comprised of \$11,000,000 (2007 - \$1,250,000) at a Canadian bank, and \$85,230 (€50,000) (2007 - \$72,140 (€50,000)) with a German bank.

The \$11,000,000 cash deposit is held as collateral to secure the company's foreign currency contractual facility for the purposes of hedging the company's exposure to foreign exchange fluctuations. The company has not adopted hedge accounting but does actively manage its foreign exchange risk exposure.

The \$85,230 cash deposit is collateral to secure the company's obligations under a \$137,420 (€100,000) letter of credit for a performance guarantee on the company's PV energy products sold to a German customer. Restricted cash is released as the letter of credit is drawn upon or expires. The letter of credit expires on November 30, 2009. The performance guarantee amount of \$137,420 is recorded as deferred revenue at a fair value of \$124,605.

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5 Short-term investments

At December 31, 2007, the company's short-term investments consisted of guaranteed investment certificates or bankers acceptances held with Canadian financial institutions, carried at a fair value of \$40,232,996. The company held no short-term investments as at December 31, 2008.

6 Investment tax credits receivable

The company has investment tax credits receivable at December 31, 2008 of \$600,000 (2007 - \$1,165,000). The amount consists of Scientific Research & Experimental Development (SR&ED) activities. The SR&ED claim for 2007 is subject to review and audit by CRA. Although the company has used its best estimates, judgment and understanding of the related income tax legislation in determining the balance, it is possible the amount could increase or decrease materially in the near term depending on the review and audit by CRA.

Effective December 6, 2007, as a publicly listed company, the company is no longer qualified for the refundable tax credits relating to CRA's SR&ED tax incentive program, however, the company may deduct tax credits from income taxes otherwise payable.

7 Other receivables

	2008 \$	2007 \$
GST receivable	488,719	1,635,490
Escrow receivable (note 14)	901,711	830,000
IRAP-TPC grant receivable	-	7,024
Other	120,871	14,297
	<u>1,511,301</u>	<u>2,486,811</u>

8 Inventory

	2008 \$	2007 \$
Raw materials	12,368,895	10,696,312
Work-in-progress	63,022	1,135,796
Finished goods	22,586,641	3,336,433
	<u>35,018,558</u>	<u>15,168,541</u>

During the year ended December 31, 2008, the company recorded write-downs of inventory of \$5,222,615 (2007 - \$1,116,798) to reduce the carrying value of the inventories to net realizable value.

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9 Intangible assets

The intangible assets consisted of customer contracts and customer relationships resulting from the acquisition of Systems and were being amortized on a straight-line basis over a three-year period. For the year ended December 31, 2008, \$284,218 (2007 - \$23,685) of amortization was recorded.

During 2008, the company reviewed the carrying amount of its long-lived assets for impairment and as a result of this assessment, management has recorded an impairment charge of \$541,141 for intangible assets for the year ended December 31, 2008. The intangible assets were included in an asset group based on the company as a whole and the fair value of the asset group was determined based on the quoted market value of the company adjusted for a control premium. The events and conditions which led to this impairment are a combination of declining selling prices in the company's primary market as well as the company's continued experience of negative gross margins and losses from operations.

10 Property, plant and equipment

	2008		
	Cost	Accumulated depreciation and impairment	Net
	\$	\$	\$
Computer hardware and software	974,984	522,357	452,627
Machinery and equipment (note 17)	31,640,375	3,838,682	27,801,693
Office furniture and equipment	336,065	336,065	-
Leasehold improvements	1,717,696	1,717,696	-
Investment in PV systems	4,818,717	4,818,717	-
	39,487,837	11,233,517	28,254,320
	2007		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Computer hardware and software	149,255	67,050	82,205
Machinery and equipment (note 17)	7,819,625	1,134,387	6,685,238
Office furniture and equipment	42,026	22,914	19,112
Leasehold improvements	509,184	216,741	292,443
	8,520,090	1,441,092	7,078,998

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For the year ended December 31, 2008, depreciation of property, plant and equipment was \$1,810,886 (2007 - \$758,937).

During 2008, the company reviewed the carrying amount of property, plant and equipment for impairment, and as a result of this assessment, management has recorded an impairment charge of \$8,153,256 for property, plant and equipment for the year ended December 31, 2008. . The property plant and equipment was tested as an asset group based on the company as whole and the fair value of the asset group was determined based on the quoted market value of the company adjusted for a control premium, except certain of company's software system and machinery and equipment which was based on comparable prices for similar equipment. The events and conditions which led to this impairment are a combination of declining selling prices in the company's primary market as well as the company's continued experience of negative gross margins and losses from operations. The fair value of the property, plant and equipment as at December 31, 2008 was determined using a combination of market prices, where available, and estimated replacement costs.

11 Workforce reduction

On December 16, 2008, the company's directors approved an overall workforce reduction effective after December 25, 2008. The detailed plan for implementing this course of action was finalized in December 2008; consequently, the costs associated with this workforce reduction of \$587,290 have been charged to general and administrative expenses and were included in accrued liabilities as at December 31, 2008. The circumstances leading to the severances are the same as those noted in note 10 for the impairment of plant and equipment. The severances are expected to be completed by February 2009. No amounts were paid by the end of the year.

12 Short-term and long-term debt

	2008	2007
	\$	\$
Short-term debt		
IRAP - TPC loans	142,940	821,213
Long-term debt		
IRAP - TPC loans	1,143,521	-
	<u>1,286,461</u>	<u>821,213</u>

RAP - TPC loans

The company has received \$952,934 in non-interest bearing loans from the IRAP - TPC. At the time of the adoption of CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement", an imputed rate of 20% was used in the calculation of the fair value of the term loan as this was estimated by management to represent the company's cost of capital at that time. The company was required to commence repayments on a quarterly basis on October 1, 2008 for an amount equivalent to 3.7% of the company's gross quarterly revenues, calculated and payable in arrears from July 1, 2008. If at any time during the life of the loan

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agreement, the total amount repaid to NRC equals or exceeds 150% of the contribution to the project by the company, the company shall cease to have any obligations to repay the remaining amounts owed to NRC. As at December 31, 2008, the company generated revenues sufficient to meet the 150% contribution requirement and the full amount owing of \$1,429,401, representing the principal of \$952,934 plus the excess royalty premium of \$476,467.

During 2008, the company renegotiated the repayment terms for the full amount owing of \$1,429,401 such that 10% or \$142,940 plus accrued interest from the original November 29 due date of first payment, was repaid on December 30, 2008, another 10% or \$142,940 plus accrued interest will be repaid on December 30, 2009 with accrued interest, and the remaining 80% or \$1,143,521 plus accrued interest will be repaid on December 30, 2010. The interest is compounded monthly and is based on the Government of Canada proscribed rate of interest owing from vendors (bank prime plus 3%) which fluctuates on a monthly basis.

13 Convertible debentures

On September 6, 2007, the company issued, by private placement, 16,827 units at a price of \$1,000 per unit for gross proceeds of \$16,827,000. Each unit consisted of a \$1,000 principal amount 12% (payable monthly) convertible unsecured subordinated debenture due September 6, 2009 and one warrant unit to acquire common shares of the company. The final number of warrants was equal to \$250 divided by the exercise price of each warrant unit determined at 110% of the Initial Public Offering (IPO) price. The principal amount was convertible to common shares automatically upon the occurrence of an IPO at a 25% discount of the IPO price. The company incurred costs of \$1,049,268 resulting in net proceeds of \$15,777,732. In accordance with the company's accounting policy on financing costs, these costs were expensed.

At inception, the convertible debentures were determined to be a financial liability containing an embedded derivative. The embedded derivative related to the automatic conversion feature which results in a variable number of shares being issuable based on a fixed amount at certain times before maturity. The debt liability related to the potential future contractual cash payments if the debenture is not converted prior to maturity. The warrants were determined to be a derivative as the number of shares entitled to be purchased by the holder of each warrant is based on the price per share to be set by the IPO.

The gross cash proceeds were allocated to the three liability components as follows:

- a) the warrants were recorded at an estimated fair value of \$1.9 million which was estimated using the Black-Scholes option pricing model. Assumptions used in the pricing model include: risk-free interest rate of 4.3%; expected volatility of 78%; an estimated life of 3 years; and an expected dividend yield of 0%;
- b) the conversion feature was recorded at an estimated fair value of \$5.5 million by discounting the incremental value available to investors based on the 25% discount. Assumptions used in determining the fair value include the risk adjusted interest rate of 12.9% and an estimated life of 3 months;

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- c) the debt liability was recorded at the residual value of \$9.8 million; and
- d) the fair value of the take-over protection clause was assessed to be \$nil as the probability of this occurring was remote.

As the debt liability, conversion feature and warrants could be settled by a variable number of shares, these amounts were presented as liabilities on the balance sheet. The warrants and conversion feature were accounted for using fair values. The debt liability was accounted for using the amortized cost method with an effective rate of 49.7% based on the contractual terms of the debt component. Prior to the convertible debenture conversion at December 6, 2007, accretion expense related to the convertible debentures amounted to \$1,360,400. A cash interest payment of \$502,498 was made during the year ended December 31, 2007.

The company completed an IPO on December 6, 2007 at which time all of the convertible debentures were automatically converted into common shares at \$5.44, representing a discount of 25% to the \$7.25 IPO price.

Upon the conversion of the convertible debentures, the 16,827 warrant units were converted to 527,492 warrants that expire on December 6, 2010. The warrants have an exercise price of \$7.97 reflecting the convertible debenture issue terms of 110% of the IPO price of \$7.25. The company has the right to require the holders to exercise the warrants if, at any time after 12 months following a liquidity event, the trading price of the common shares is above 135% of the exercise price for 20 consecutive trading days.

As a result of the warrant conversion on the IPO, the warrants have been revalued at the conversion date to \$2,279,890 using the Black-Scholes option pricing model. Assumptions used in the pricing model include: risk-free interest rate of 4.3%; expected volatility of 95%; an estimated life of 3 years; and an expected dividend yield of 0%.

The warrants have been reclassified to equity as at December 31, 2008 as there is no longer a variable feature.

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14 Capital stock, contributed surplus and warrants

a) Capital stock

Authorized

Unlimited number of common shares without par value

Common shares

The holders of common shares are entitled to one vote per share.

	Common shares	
	Number	Amount
		\$
Balance - December 31, 2006	14,950,500	9,175,744
Issuance of common shares for cash (net of share issuance costs)	3,725,500	10,341,281
Exercise of 875,000 Series B warrants into common shares for cash	437,500	544,513
Issuance of common shares for equipment	100,000	300,000
Issuance of common shares for cash (net of share issuance costs)	13,800,000	92,651,089
Issuance of common shares from exercise of stock options	265,000	681,177
Conversion of convertible debentures (note 13)	3,094,616	16,241,566
Balance - December 31, 2007	36,373,116	129,935,370
Exercise of 246,250 Series D warrants into common shares	246,250	846,597
Issuance of common shares from exercise of stock options	60,000	170,290
Balance - December 31, 2008	36,679,366	130,952,257

b) Contributed surplus

A summary of the company's contributed surplus balance at December 31, 2008 and the changes since December 31, 2006 is presented below:

	\$
Balance - December 31, 2006	731,879
Expiry of unexercised Series B warrants	7,446
Stock-based compensation expense	1,029,616
Less: fair value of stock options exercised	(329,450)
Balance - December 31, 2007	1,439,491
Stock-based compensation expense	742,751
Less: fair value of stock options exercised	(90,290)
Balance - December 31, 2008	2,091,952

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Notes to Consolidated Financial Statements December 31, 2008 and 2007

c) Warrants

A summary of the company's share purchase warrants at December 31, 2008 and the changes since December 31, 2006 is presented below:

	Number of warrants	Amount \$
Series B share purchase warrants		
Balance - December 31, 2006	895,000	333,209
Exercise of share purchase warrants	(875,000)	(325,763)
Expired	(20,000)	(7,446)
	<hr/>	<hr/>
Balance - December 31, 2007 and 2008	-	-
Series D share purchase warrants		
Balance - December 31, 2006 and 2007	246,250	354,097
Exercise of share purchase warrants	(246,250)	(354,097)
	<hr/>	<hr/>
Balance - December 31, 2008	-	-
Convertible debenture share purchase warrants		
Balance - December 31, 2006	-	-
Share purchase warrants granted with convertible debentures	527,492	2,279,890
	<hr/>	<hr/>
Balance - December 31, 2007 and 2008 (note 13)	527,492	2,279,890
	<hr/>	<hr/>
Total warrants	527,492	2,279,890

d) Common shares exchange

Pursuant to a shareholder agreement signed in 2005, a certain shareholder holding 750,000 shares of the issued and outstanding common shares at December 6, 2007, immediately prior to the company's IPO, executed a share exchange transaction for the benefit of that shareholder. As part of the agreement to execute the share exchange transaction, the shareholder agreed to indemnify the company against any liabilities it may incur through the execution of this transaction. The shareholder has provided the company with access to escrowed funds held by an escrow agent totalling \$1,100,000 which will be available to the company via a claims basis until January 29, 2015. As at December 31, 2008, the company accrued \$901,711 (2007 - \$830,000) representing the estimated withholding taxes payable, including accrued interest of \$71,711 in accrued liabilities, as a result of the share exchange which was executed on December 6, 2007 and has been recorded as a charge to share capital. The company has also recorded a corresponding receivable representing the indemnity provided by the shareholder, which has been recorded as a credit to share capital.

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15 Employee stock options

The company has two stock option plans: the 2002 Stock Option Plan created as at December 31, 2002 with 2,800,000 total options available for grant, and the 2007 Stock Option Plan created in 2007 with 2,400,000 total options available for grant. Options, and the related exercise prices, are granted at the discretion of the company's board of directors. The maximum term of an option is 10 years after the date of grant.

The options granted have a variety of vesting schedules based upon service conditions.

		2008		2007
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding - Beginning of year	2,525,000	1.16	1,920,000	0.72
Granted	1,650,000	1.76	880,000	2.26
Exercised	(60,000)	1.33	(265,000)	1.33
Forfeited	(835,000)	1.99	(10,000)	3.00
Outstanding - End of year	<u>3,280,000</u>	<u>1.25</u>	<u>2,525,000</u>	<u>1.16</u>

On December 19, 2008, the company modified 700,000 previously issued options by increasing the exercise price from a weighted average of \$2.04 to \$2.79 with the concurrence of the employees involved. There is no change in the life or vesting period for the affected options and the effect of the modification reduced the fair value of the options; therefore, no incremental stock compensation expense has been recognized.

The following table summarizes the information about the stock options outstanding and exercisable at December 31, 2008:

	<u>Options outstanding</u>			<u>Options exercisable</u>		
	Weighted average exercise price \$	Number outstanding at December 31, 2008	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2008	Weighted average exercise price \$	Weighted average remaining contractual life (years)
	0.25	1,070,000	2.0	945,554	0.25	2.0
	1.00	950,000	9.9	198,000	1.00	9.9
	1.25	335,000	5.2	315,000	1.25	5.2
	1.50	210,000	7.1	146,000	1.50	7.1
	3.00	715,000	8.5	263,000	3.00	8.5
	<u>1.25</u>	<u>3,280,000</u>	<u>6.4</u>	<u>1,867,554</u>	<u>0.98</u>	<u>4.7</u>

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The fair value of the company's stock options granted was estimated using the Black-Scholes option pricing model assuming no dividend yield and the following weighted average assumptions:

	2008	2007
Expected volatility	95.6%	79.2%
Risk-free interest rate	2.08%	4.90%
Expected life (in years)	5.0	8.9
Dividend yield	-	-

The weighted average fair value of options granted during the year ended December 31, 2008 was \$0.38 per stock option (2007 - \$2.50 per stock option). The company recorded stock-based compensation expense of \$742,751, during the year ended December 31, 2008 (2007 - \$1,029,616).

16 Income taxes

The net deferred tax assets comprise the following:

	2008 \$	2007 \$
Deferred tax assets		
Non-capital loss carry-forwards	8,913,404	4,600,602
Property, plant and equipment and intangible assets	3,380,637	481,678
Scientific research and development expenses	1,257,513	793,558
Financing costs	1,883,956	2,201,177
	<hr/>	<hr/>
	15,435,510	8,077,015
Valuation allowance	(15,435,510)	(8,077,015)
	<hr/>	<hr/>
Net deferred tax assets	-	-

The company believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets such that a full valuation allowance is required. The company continues to evaluate and examine the valuation allowance yearly, and at such time that future uncertainties are resolved, the valuation allowance may be reduced.

The company has recorded a valuation allowance of \$224,080 related to net deferred tax assets acquired through the acquisition of Systems. These deferred tax assets relate to losses for tax purposes and other deductible temporary differences which are available to reduce taxable income in future periods. Any reversal of the valuation allowance related to these assets will be first applied to reduce the carrying value of intangible assets acquired in the Systems business combination and any excess thereafter will be recognized in the statement of operations.

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The differences between the effective tax rate in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	2008	2007
	%	%
Corporate statutory income tax rate	30.50	19.73
	\$	\$
Net loss per financial statements	(33,873,351)	(13,890,195)
Income tax recovery based on statutory rate	(10,331,372)	(2,740,249)
Change due to differences in tax rates	1,701,228	(2,043,970)
Change in valuation allowance	7,358,494	4,311,654
Permanent differences:		
Stock-based compensation	226,539	203,122
Foreign exchange translation	395,581	-
Unrealized loss on derivatives	657,951	-
Accretions	43,947	266,572
Others	(30,698)	3,196
Other items	(21,670)	(325)
	<u>-</u>	<u>-</u>

The company has non-capital losses for income tax purposes of \$32,795,246, which are available for carry-forward to reduce future years' taxable income. These income tax losses expire as follows:

	\$
Year ending December 31	
2009	233,380
2012	98,083
2013	634,074
2014	855,526
2025	2,254,922
2026	889,998
2027	8,755,825
2028	18,984,417
Indefinitely	89,021
	<u>32,795,246</u>

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As at December 31, 2008, the company has SR&ED expenses of \$3,690,084 (2007 - \$1,840,343), which are available to be carried forward indefinitely and can be deducted against future taxable income otherwise calculated. As at December 31, 2008, the company also has investment tax credits of approximately \$605,028 (2007 - \$149,155) available to offset future Canadian federal and provincial income taxes payable. These investment tax credits expire as follows:

	\$
2014	15,235
2015	49,044
2016	35,848
2017	5,584
2018	43,444
2019	455,873

17 Commitments

On August 6, 2008, the company entered into a sublease for office premises to December 30, 2011. Under the terms of the sublease, the company is also required to pay a share of operating costs, including property taxes and maintenance. The company incurred leasehold improvement costs of \$101,319 in respect of these facilities during the year ended December 31, 2008.

On April 2, 2008, the company entered into a ten-year lease agreement for new production premises. The lease is renewable for a further five years. Under the terms of the lease, the company is also required to pay a share of operating costs, including property taxes and maintenance. The company incurred leasehold improvement costs of \$876,650 in respect of these facilities during the year ended December 31, 2008.

In February 2008, the company executed a lease for an additional space to be used for production and administration offices. The terms of the lease provide for a five-year term commencing March 1, 2008, and is renewable for a further five years. The company incurred leasehold improvement costs of \$135,537 in respect of these facilities during the year ended December 31, 2008.

In February 2006, the company entered into a six-year lease agreement for new premises. The lease is renewable for a further five years. Under the terms of the lease, the company is also required to pay a share of operating costs, including property taxes and maintenance. The company incurred leasehold improvement costs of \$95,006 in respect of these facilities during the year ended December 31, 2008 (2007 - \$19,821).

For the year ended December 31, 2008, the company incurred a rental expense of \$1,033,029 (2007 - \$481,607).

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The minimum annual rental payments required in future fiscal years are:

	Equipment leases \$	Premises gross \$
2009	74,468	1,964,733
2010	53,248	1,937,957
2011	22,379	1,937,957
2012	14,348	1,283,747
2013	732	1,050,688
Thereafter	-	4,899,073
	<u>165,175</u>	<u>13,074,155</u>

The company has entered into supply agreements for certain raw materials until December 31, 2011 to meet expected supply requirements. Under these agreements, the company is committed to purchase minimum annual quantities at fixed prices, subject to future market price adjustments from time to time, for the term of the arrangements, with options to acquire additional quantities. Subsequent to December 31, 2008, the company was able to renegotiate agreement terms with a supplier as described in Note 22.

	\$ (in millions) Minimum	\$ (in millions) Options	\$ (in millions) Total
2009	248.8	95.5	344.3
2010	182.0	287.0	469.0
2011	118.4	13.2	131.6
	<u>(US\$450.9) 549.2</u>	<u>(US\$324.9) 395.7</u>	<u>(US\$775.8) 944.9</u>

At December 31, 2008, the company has \$12,830,658 (2007 - \$1,978,141) of deposits placed with suppliers to secure orders for additional manufacturing equipment valued at \$20,359,706 (2007 - \$4,805,477), of which \$3,680,278 (2007 - nil) of deposits for equipment valued at \$8,086,683 (2007 - nil) is included in the Asset Purchase Agreement for equipment sold subsequent to year end as described in Note 22. The remaining equipment is expected to be delivered by June 30, 2009.

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18 Segmented information

The company has one operating segment – photovoltaic energy products. The following is a breakdown of revenue by geographic areas based on the customer's locations:

	2008 \$	2007 \$
Canada	281,284	578,080
United States	5,381,457	6,526,170
Germany	57,670,289	13,486,638
Italy	12,262,503	107,753
Other	1,241,013	257,151
Total	<u>76,836,546</u>	<u>20,955,792</u>

The company has the following significant customers representing sales revenue greater than 10% of total sales:

	2008 \$	2007 \$
Customer A	11,795,448	-
Customer B	9,109,256	-
Customer C	-	9,878,350
Customer D	1,322,496	5,696,274

As at December 31, 2008, the company's property, plant and equipment was located in the following countries:

	2008 \$	2007 \$
Canada	24,444,838	7,077,318
Germany	3,120,991	-
Other	688,491	1,680
Total	<u>28,254,320</u>	<u>7,078,998</u>

19 Related party transactions

A director who holds a senior management position in the company is also a principal shareholder and a consultant of a supplier company that provided proprietary and certain other manufacturing equipment. During the year ended December 31, 2008, the company purchased manufacturing equipment with a total cost of \$11,876,438 (2007 - \$744,258) from the supplier, and as at December 31, 2008 has \$7,146,073 (2007 - \$1,978,141) of deposits placed with the supplier to secure orders for additional manufacturing equipment valued at \$8,906,662 (2007 - \$4,861,426). The director was paid \$190,040 (€121,601) during the year ended

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December 31, 2008 for reimbursement of expenses and for consulting services provided during the period. The supplier company has been paid \$40,615 (€25,972) in fees for assistance by the supplier company's employees regarding logistics during the year ended December 31, 2008. The supplier company paid the company \$10,888 (€6,971) for administrative assistance by the company during the year ended December 31, 2008. The supplier company purchased computer hardware from the company for proceeds and a net gain of \$3,610 (€2,500) during the year ended December 31, 2008.

20 Financial instruments

The company, through its financial assets and liabilities identified in Note 2, is exposed to various risks. The following analysis provides descriptions and measurement of the significant risks as at December 31, 2008:

a) Credit risk exposure

Financial instruments that potentially subject the company to a significant concentration of credit risk consist primarily of cash and cash equivalents, deposits on machinery and equipment on order and accounts receivable. The company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality (credit rating of A+ or better) financial institutions. The company limits its exposure to deposits on machinery by contracting with suppliers where the company has an established and on-going relationship. The company's accounts receivable are primarily from photovoltaic system integrators located within Germany. Concentration of credit risk with respect to accounts receivable is considered to be limited as, where possible, credit evaluations of customers are performed and the majority of revenues are from recurring customers. As at December 31, 2008, three customers each accounted for 10% or more of total trade accounts receivable. Recent changes in the stability of broader financial markets have increased the company's credit risk exposure significantly. The company has responded by tightening its credit policies during the fourth quarter. The maximum amount of credit risk exposure is limited to carrying amounts of these balances in the consolidated financial statements.

The following table provides information regarding the aging of financial assets that are past due but which are not impaired.

	Neither past due nor impaired	31 – 60 days	61 – 90 days	91 days +	Carrying value on balance sheet
Trade accounts receivable, net	1,439,908	667,203	24,975	1,188,763	3,320,849

The definition of items that are past due is based on credit terms agreed with each customer. None of the amounts above have been challenged by the respective customer(s).

The company reviews financial assets, including past due accounts, on an ongoing basis with the objective of identifying potential events or circumstance which could delay or prevent the collection of funds on a

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timely basis. As at December 31, 2008, the company has a provision of \$6,256,195 against accounts receivable, the collection of which are considered doubtful.

Reconciliation of changes in allowance for doubtful accounts:

	2008	2007
Balance - Beginning of year	-	-
Increase in allowance for doubtful accounts	6,256,195	-
Balance -End of year	6,256,195	-

b) Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company is exposed to interest rate risk on its restricted cash holdings at December 31, 2008, for which the interest rates earned fluctuate based on the bank prime rate. The only financial instruments that expose the company to interest rate risk are its cash and cash equivalents and the IRAP - TPC loan payable. The company's objectives of managing its cash and cash equivalents are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts which are considered in excess of day-to-day requirements on short-term deposit with the company's banks so that they earn interest. When placing amounts of cash and cash equivalents on short-term deposit, the company only uses high quality commercial banks and ensures that access to the amounts placed can be obtained on short notice.

The total balance of the company's assets held at floating rates and subject to interest rate risk exposure is in restricted cash held at floating rates as at December 31, 2008 of \$11,000,000 at prime minus 2.25%. If the interest rate on the restricted cash balances had been 100-basis points higher (lower), related to the restricted cash outstanding during the year ended December 31, 2008, loss and comprehensive loss would have been \$88,904 lesser (greater).

The company is also exposed to interest rate risk on the IRAP - TPC loan as described in Note 12 for which the interest rates charged fluctuate on the bank prime rate. The total balance of the IRAP - TPC loan held at floating rates as at December 31, 2008 was \$1,286,461 at prime plus 3%. If the interest rate had been 100-basis points higher (lower), related to the loan balance outstanding during the year ended December 31, 2008, loss and comprehensive loss would have been \$1,128 greater (lesser).

c) Currency risk

Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates. The company is exposed to foreign exchange risk on its cash and cash equivalents, short-term investments, accounts receivable balances, accounts payable and derivative instruments as described in Note 2.

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The company's raw material purchases are predominantly in US dollars or Euros, and converted to Canadian dollars at the time of purchase. Similarly, most of the company's sales are in US dollars or Euros and are converted to Canadian dollars at the time of revenue recognition. The company's current time lag between raw materials purchase and finished product revenue recognition further exposes it to additional currency risk. The company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash and cash equivalents held or by entering into foreign exchange forward contracts with Canadian chartered banks as hedges against the sales and purchases denominated in foreign currencies. The company has not adopted hedge accounting. The company also has the ability to reduce currency risk by providing natural hedges by operating within a single currency within the geographic markets in which it operates. This objective is being pursued through the company's strategy to outsource the costs of future production within the same currency jurisdiction to the company's primary markets.

The company does not have a formal policy to mitigate the risks arising from changes in foreign currency rates. Foreign exchange contracts are only entered into for purposes of managing foreign exchange risk and not for speculative purposes. Balances in foreign currencies at December 31, 2008 are as follows:

	US Dollars	Euros
Cash and cash equivalents	1,500,077	5,312,041
Restricted cash	-	50,000
Accounts receivable	238,132	1,767,262
Accounts payable	(3,262,706)	(2,459,909)
Face value of derivative instruments	-	(21,600,000)
Net identifiable assets and liabilities	(1,524,497)	(16,930,606)

As described in Note 2, the derivative instruments are forward foreign exchange contracts whereby the company is contracted to buy or sell foreign currencies in exchange for Canadian dollars. At December 31, 2008, the company was contracted to sell 21,600,000 Euros through separate contracts between January 2, 2009 to March 31, 2009 at rates between 1.5032 to 1.6847. These instruments are secured by \$11,000,000 of cash deposits as described in Note 4.

Fluctuations in the Euro and US dollar exchange rate could have a potentially significant impact on the company's results from operations. If the Euro to Canadian dollar exchange rate were to increase (decrease) by 10% relative to the rate for the year ended December 31, 2008, loss and comprehensive loss for the year would be \$2,885,991 greater (lesser). If the U.S. dollar to Canadian dollar exchange rate were to increase (decrease) by 10% relative to the rate for the year ended December 31, 2008, loss and comprehensive loss for the year would be \$185,684 greater (lesser).

d) Liquidity risk

The company manages its liquidity needs through the regular assessment of its short-term requirements through cash management procedures and near term requirements through weekly cash flow forecasts for the next two quarters. A longer term multi-year forecast model is maintained to project operating results and financing requirements. This model is regularly updated for changes in the operating environment and

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planned initiatives that may change forecast results from time to time. Management reviews and assesses these monitoring and forecast tools, and the results thereof, to plan the timing of future financing initiatives and suitability of various financing options and operating initiatives available to the company. The company will need additional financing to meet its future growth plan objectives and maintain sufficient capital to meet its liquidity requirements. The company's ability to obtain additional financing and the nature of the financing, including equity financing, will depend on its ability to meet the demands of financial markets in effect.

The following table provides the due date information for the company's significant financial liabilities:

	Due within a year	2 to 3 years	4 to 5 years	After 5 years
Accounts payable and accrued liabilities	12,504,078	-	-	-
IRAP - TPC Loan	142,940	1,143,521	-	-
Equipment leases	74,468	75,627	15,080	-
Premises leases	1,964,733	3,875,914	2,334,435	4,899,073
<u>Purchase obligations – minimum</u>	<u>248,808,168</u>	<u>300,402,648</u>	<u>-</u>	<u>-</u>
Total contractual obligations	263,494,387	305,497,710	2,349,515	4,899,073

Refer to Note 1 for further information regarding liquidity risk.

e) Fair values

The carrying value of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of the IRAP – TPC loan is an approximation of the fair value as the company had paid all accrued interest up to the balance sheet date and the remaining balance represents the principal portion only.

21 Capital disclosures

The company's objectives when managing capital are:

- i) to maintain its ability to continue as a going concern in order to provide long-term returns for shareholders and benefits for other stakeholders;
- ii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- iii) to manage capital in a manner which balances the interests of equity and debt holders.

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In the management of capital, the company includes shareholders' equity, long-term debt, cash and short term investments in the definition of capital.

	2008	2007
	\$	\$
Shareholders' equity	80,632,715	113,190,815
Cash and cash equivalents, restricted cash and short-term investments	25,815,524	94,648,272
Long term debt	1,143,521	-

The company monitors its capital structure and may make adjustments to it in light of changes in the company's operating performance, changes in economic conditions and the risk characteristics of the underlying assets. When adjustments to the capital structure are considered appropriate, such changes may include the issuance of new shares, issuance of new debt, or re-purchasing of shares for cancellation. Refer to Note 1 regarding the going concern assumption for additional details.

The company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2008.

22 Subsequent events

On January 5, 2009, the company announced plans to reduce its overall workforce primarily at the Burnaby production facility. The costs associated with the workforce reduction of \$587,290 have been included in accrued liabilities as at December 31, 2008. Refer to note 11 for further details.

On December 22, 2008, the company entered into an Asset Purchase Agreement, with a closing date of January 26, 2009, whereby the company agreed to sell certain specified production equipment which the company had acquired and accounted for as capital assets during 2008 at prices equal to the original purchase price of the equipment. The total book value at December 31, 2008 of the equipment sold is \$8,150,482, of which \$2,704,913 relates to completed equipment held by the company as at December 31, 2008 and the remaining \$5,445,569 relates to the book value of equipment still under construction by the suppliers.

On February 20, 2009, the company reached an agreement with a supplier to reduce pricing on contractual commitments as disclosed in Notes 17 and 20. The result on total contractual obligations with suppliers based on the new pricing agreement is shown in the table below:

	\$ (in millions) Minimum	\$ (in millions) Options	\$ (in millions) Total
2009	235.1	94.0	329.1
2010	158.1	284.4	442.5
2011	84.2	9.4	93.6
	(US\$391.9) 477.4	(US\$318.3) 387.8	(US\$710.2) 865.2