



DAY4 ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2008
March 16, 2009



The following is a discussion of the consolidated financial condition and results of operations of Day4 Energy Inc. (“Day4” or the “Company”) for the years ended December 31, 2008 and 2007 and should be read in conjunction with Day4’s audited consolidated financial statements, and the notes thereof. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the “Caution Regarding Forward-looking Statements” below.

Day4’s consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements and Management’s Discussion and Analysis (“MD&A”) were reviewed by Day4’s Audit Committee and approved by Day4’s Board of Directors. All amounts are in Canadian dollars unless otherwise noted. This MD&A is prepared as of March 16, 2009.

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Caution Regarding Forward Looking Statements

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to”, “should” or the negative of these terms, or other similar expressions intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

These forward-looking statements include, among other things, statements relating to our expectations regarding:

- our revenues, expenses, cash flows and future profitability;
- our goal of achieving positive cash flow in 2009;
- our expectation that gross margins will improve and that we will achieve positive gross margins in 2009;
- our expectation that we can execute on our business strategy without raising additional equity through capital markets;
- our expectation as to our manufacturing capacity and our ability to increase manufacturing volumes to that capacity in a short time frame;
- our intention to expand credit facilities to facilitate operating activities;
- our expectation that a natural hedge will be in place concurrent with the ramp up of production from Jabil; and
- our statements under the headings “Overview: History, Vision and Strategy, and Core Business”; “Results of Operations – PV cell costs and silicon supply” and “Outlook”.

The forward-looking statements contained in this MD&A are based on assumptions, which include, but are not limited to:

- our successful implementation of outsource manufacturing with Jabil;
- our ability to obtain an adequate spread between our module average selling price (“ASP”) and cost of raw materials, including PV cells;
- achieving increased PV cell and PV module efficiencies;
- expanding our existing product line;
- building the Day4 brand, attracting customers, and developing and maintaining customer and supplier relationships;
- continuing our strong relationships with our suppliers;
- effectively managing foreign exchange risks;
- effectively managing credit risks of customers and other counterparties;
- protecting our intellectual property rights and to not infringing on the intellectual property rights of third parties;
- timely processing by certification agencies for new products;
- complying with applicable governmental regulations and standards.

Such forward-looking statements are subject to risks, uncertainties and other factors, including those listed or incorporated by reference under “Risks & Uncertainties”, many of which are beyond our control



and each of which contributes to the possibility that our forward-looking statements will not occur or that actual results, performance or achievements may differ materially from those expressed or implied by such statements. These risks, uncertainties and other factors include, but are not limited to:

- the impact of general economic, market or business conditions;
- risks related to the implementation of outsource manufacturing with Jabil;
- our limited operating history;
- risks relating to the protection of our intellectual property and intellectual property infringement claims by third parties;
- our dependence on a limited number of PV cell suppliers;
- government subsidies and economic incentives for PV power could be reduced or eliminated;
- our ability to achieve higher PV module efficiencies;
- our dependence on a limited number of customers and our lack of long-term purchase contracts;
- demand for PV modules;
- technological changes in the PV power industry could render our products uncompetitive or obsolete;
- unexpected warranty expenses;
- fluctuations in exchange rates;
- insolvency or failure of key suppliers or customers;
- product liability claims;
- compliance with environmental regulations; and
- other factors, many of which are beyond our control.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these risks, uncertainties and factors are interdependent and management's future course of action depends upon our assessment of all information available at that time.

The forward-looking statements made in this MD&A relate only to events or information as of the date indicated above. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

You should read this MD&A and the documents to which we refer in this MD&A completely and with the understanding that our actual future results may be materially different from what we expect.



1. Overview: History, Vision and Strategy, and Core Business

Day4 Energy is a solar energy company focused on the research, development and commercialization of products leading to improvements in the technologies used to generate photovoltaic (“PV”) electric power from the sun. Our ultimate goal is to become a leading provider of premium PV products and services within our industry, and ultimately have our products achieve cost parity with grid sourced electricity in our prime market areas. We focus our business on two key core competencies, those areas in which we expect to be able to add significant value, namely research and development, and sales and marketing.

History

Our company commenced operations in 2002 in Vancouver, British Columbia. From 2002 through 2005 the company’s main activity was the research and development of our patented Day4 Electrode photovoltaic technology and preparations for commercial module production, including creating new processes surrounding the Day 4 Electrode. In 2006, the company moved into larger facilities to begin commercial production of its first Day4 modules and signed a contract with our first supplier of PV cells. In August 2006, Day4’s initial PV product, a 48 cell multi-crystalline grid-tie module was shipped to our first customers. Since that time the company has improved upon its initial production machinery designs, and has broadened and diversified its raw material suppliers. Throughout 2007, the company focused on building its sales channel strategy; increasing its production and general and administration base; and continuing its research and development activities. The company completed three financings in 2007, including an IPO which closed on December 6, 2007, to fund future growth and development of the company. In 2007, Day4 had its initial public offering on the TSX, and in its prospectus listed several key milestone objectives. During the course of 2008, we made significant progress on those objectives. At the end of the year, we implemented our outsourcing strategy for production, a key component of our strategic plan, originally described in the initial public offering prospectus and the Annual Information Form filed March 2008.

Business Strategy

Our business strategy was designed to take advantage of the market dynamics as they exist today with the flexibility to adapt to the changes that we could see on the horizon. When we incorporated the company, the solar market demand for modules clearly outstripped the supply. Without the traditional barriers to entry that new businesses typically face in other sectors, we saw the opportunity to introduce our technology, build our brand and develop sales channels or relationships with the customers (or economic buyers of solar electricity) by producing and selling higher efficiency modules. We established in-house production facilities to test, refine and improve our technology and ensure that industrial scale up would be feasible. Our strategy involves contracting with third parties for aspects of the business in which we do not expect to create additional value by keeping them in house. We have always contracted with leading manufacturers for our PV cell supply, and now we are outsourcing the majority of our module manufacturing. The outsourced mass production reduces the overall capital intensity of the business and leverages existing industry infrastructure to achieve maximum capital utilization efficiency and economies of scale. We will now concentrate on the development and commercialization of our

proprietary technologies that define the cost and performance of the PV power generation solution. We believe our technology has the potential for much broader application and, as such, can be described as a platform for enabling technology for solar products. We will maximize our market advantage through a combination of sales of premium branded products and potential platform technology licensing.

This business strategy objective is outlined in the following figure:



Industry Outlook

The popular media is filled with references regarding the need for alternate energy sources and the various benefits of ‘green’ technologies are well described. For the past several years, the solar sector has enjoyed a period of growth with compound annual growth rates exceeding 40%. Up until recently the PV sector was characterized as a sellers’ market primarily through the restricted supply and high cost of solar silicon. Led by the new Obama administration in the US, there has been an increase in political will to encourage growth in the renewable energy sector. In Canada, in March 2009 the Province of Ontario has confirmed a leading feed-in tariff program that should have a positive effect on demand in that region, and set a standard for other jurisdictions to follow. Management believes that these factors lead to a positive long-term outlook for the solar industry however in the near-term the solar industry is undergoing a period of significant change. In recent months the solar sector has underperformed all major stock indices. While it was evident that the supply-demand dynamic the sector enjoyed prior to the end of 2008 was not likely sustainable, a number of factors, including turmoil in the credit markets, and contraction of economic activity, appear to have accelerated this dynamic to one of current oversupply and significant change in pricing at all levels of the value chain.

In the short term the contraction in the solar market is expected to have continued widespread impact on average selling prices and a resultant compression of gross margins. Management does not expect to escape this effect and in the short term the impact will be seen in inventory write-downs, slower demand and lowered production levels. Over the longer term, however, with this fundamental shift in the dynamics, the key solar sector metrics may change as well. Historically, the sector has been very manufacturing-centric with a focus on megawatt (“MW” or a million watts) capacity and volume. This resulted in exponential expansion of crystalline silicon cell and module makers all producing similar products. As the supply and demand equation shifts and this becomes a normal competitive market it will



be difficult for companies producing undifferentiated products to compete. Management expects these metrics will become more similar to other sectors with a focus on flexible cost structures and efficient use of capital. Among other things there will be the traditional barriers to entry and management expects value will be ascribed to differentiated products and technological advantages. Furthermore, overall cost reduction in the PV industry will advance solar power generation products closer to grid parity.

Core Business

We design, manufacture and sell solar electric, PV power generation modules. PV modules are devices that generate electrical power when exposed to sunlight. Our PV modules are based on our patented and unique Day4 Electrode technology built using high performance PV cells that are manufactured for our exclusive use by third parties in accordance with our proprietary design. Our technology allows our products to reach what we believe is the highest level of performance among commercially available multi-crystalline PV modules.

Day4's technology is a platform that takes advantage of all of the industry progress. We expect, with the future inclusion of our second generation ("Generation II") cell designs in Day4 modules, that we may achieve performance improvements of up to 25% over conventional modules without an increase in costs. As a result, our business advantage is not limited to what we can invent in-house; it is a platform for the next generation of PV products with broad application across a variety of modules and materials ranging from conventional crystalline silicon to upgraded metallurgical grade silicon ("UMg") through thin film products.

Having a strong, diversified downstream market position is another core competency and key business advantage that we are pursuing. In 2008 the company continued to build on its established customer base adding new territories and channel partners throughout the year, including the growing market in Italy, and other countries such as Korea, Japan and Australia.

We believe that what we are creating at Day4 Energy is a new industry standard. The changing industry landscape involves a rapid increase in technology focus, with differentiation, non-capital intensive structures and the strategic importance of R&D being the new key competencies. We believe that our technology platform, essentially the Day4 Electrode, by reducing the limitations placed upon PV cell designs by the requirements of soldering and tabbing methodology traditionally used crystalline silicon photovoltaic sector, is the key to unlocking substantial cost reduction value in existing manufacturing infrastructure and paves the way for commercialization of the next generation of PV products and technologies. We further believe that the changing industry landscape may create numerous opportunities to capitalize on these unique advantages of our technology.

As at December 31, 2008, Day4 had approximately 270 employees worldwide. Our wholly owned subsidiaries, Day4 Systems GmbH ("Day4 Systems") and Day4 Energy Italia S.r.l. ("Day4 Italia") based in Germany and Italy, respectively, provide sales and support services to our European customer base. Our North American and other global sales are served from our Burnaby, British Columbia headquarters and production facilities, near Vancouver. Until the end of the first quarter 2009 we will have produced all of our photovoltaic modules and conducted our primary research and development activities at our Burnaby, BC facilities. By that time we expect the production of modules to commence from Jabil Circuit Inc. ("Jabil") at their facilities in Poland for European distribution by Day4 Systems and Day4 Italia. See *Jabil Manufacturing Services Agreement* filed on www.sedar.com. As outlined above our core business



going forward will focus on the technology, R&D development and marketing, sales and distribution of our products. As a result of the implementation of our outsourced manufacturing strategy and the recent slowdown in demand, we reduced our Burnaby based workforce by approximately 95 people at the beginning of January 2009. Our current employee count is approximately 175 employees worldwide.

In addition, in order to manage our inventories and cash flow and align production with expected demand we took a further opportunity during this seasonal slowdown to reduce production at our Burnaby facilities and consolidate our business into a single manufacturing location. Based on the continued evidence of weak demand we have maintained production at minimal levels in the Burnaby based facility. We expect that the Jabil facility will be fully operational by the end of the second quarter to coincide with what we expect to be a return to more normalized demand levels.

2. Non-GAAP Financial Measures

The company discloses EBITDA, a non-GAAP financial measure, as a supplemental indicator of operating performance. Day4 defines EBITDA as earnings before interest, income taxes, depreciation and amortization, impairment of long-lived assets, royalty premium expense, loss on disposition of property, plant and equipment, accretion expense, fair value adjustments, financing costs and foreign exchange gain or loss. Our EBITDA can also be described and calculated by adding back depreciation and amortization, including depreciation on production machinery included in cost of goods sold and ending inventory, to Loss before undernoted on our consolidated statement of operations, comprehensive loss and deficit in our audited financial statements. The company discloses EBITDA to give readers additional comparative information regarding operating results.

EBITDA does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned not to view this non-GAAP financial measure as an alternative to financial measures calculated in accordance with GAAP.

3. Overall Performance

During 2008 we experienced a four-fold growth in product revenue to \$77 million from \$21 million in 2007 from increased production from our facilities as a result of full year use of existing capacity and the capital investment in production machinery initiated in late 2007 and received in 2008. During the year we ramped up production as new machinery arrived and was installed for production. For the first eleven months of the year our deliveries to customers were limited by our ability to produce product for sale, with a significant decline in deliveries in December 2008 due to snowfall in our most important market, Germany.

We were unsuccessful in maintaining modest, positive gross margins during the first half of 2008 because of increased raw materials costs due to foreign exchange fluctuations and additional inventory write-downs reflecting the decline of ASPs experienced in the sector during the fourth quarter. Overall our gross loss was reduced from 21% in 2007 to 9% in 2008.



Table 1: Gross Margin Analysis

(Unaudited, \$000's)	For the quarter ended				Annual	Annual	Annual
	2008 Dec 31	Sep 30	Jun 30	Mar 31	2008 Dec 31	2007 Dec 31	2006 Dec 31
Total Revenues	16,613	31,692	15,038	13,494	76,837	20,956	1,891
Cost of Goods Sold excluding inventory Write-down	(18,821)	(32,148)	(14,660)	(13,224)	(78,853)	(24,217)	(2,255)
Inventory Write-down	(5,223)	-	-	-	(5,223)	(1,117)	(814)
Total Cost of Goods Sold	(24,044)	(32,148)	(14,660)	(13,224)	(84,075)	(25,334)	(3,069)
Gross Margin	(7,431)	(456)	378	270	(7,239)	(4,378)	(1,178)
Gross Margin %	-45%	-1%	3%	2%	-9%	-21%	-62%
Gross Margin excluding inventory write-down	(2,208)	(456)	378	270	(2,016)	(3,261)	(364)
Gross Margin excluding inventory write-down %	-13%	-1%	3%	2%	-3%	-16%	-19%

Table 2: 2008 Quarterly Foreign Exchange rates and factors

Weighted Average ¹ Foreign Exchange Rate	For the quarter ended			
	2008 Dec 31	Sep 30	Jun 30	Mar 31
US Dollar	1.1877	1.0126	1.0139	1.0045
Euro	1.5417	1.5367	1.5794	1.5057

Weighted Average Foreign Exchange Rate Expressed as a percentage of Q1 (March 31) FX Rates	For the quarter ended			
	2008 Dec 31	Sep 30	Jun 30	Mar 31
US Dollar	118%	101%	101%	100%
Euro	102%	102%	105%	100%

Tables 1 and 2 reflect the key environmental factors to gross margins during the year, foreign exchange rates, and the effects on inventory write-downs from a drop in ASPs at year end. With both key factors, changes in the fourth quarter significantly impacted our final year end results, and were driving factors the company considered in advancing our strategy of outsourcing within our largest market to obtain the objectives of lowering costs through leveraging the lower cost structure of this large electronics manufacturing service provider, working capital requirements by eliminating long trans-continental

¹ Weighted average of company monthly currency volumes incurred during the quarter.



shipping times, and to provide a natural hedge against foreign exchange risk by operating within the same currency as our primary sales market, Europe.

Inventory write-downs have occurred in each year since we started operations in 2006. We commenced commercial operations with low volume high cost production as we initiated and developed our manufacturing process and we increased volumes as new equipment became available. In the fourth quarter of 2008 both economic and weather factors contributed to a rapid decline in ASPs which required us to write-down inventories to net realizable value. A significant increase in the value of the US dollar against the Canadian dollar made a significant impact on our cost of goods sold. With most of our raw materials, primarily PV cells, denominated in US dollars the 17% rise from the third quarter cut into our margins.

Table 3: EBITDA Analysis

	For the quarter ended				Annual 2008 Dec 31	Annual 2007 Dec 31	Annual 2006 Dec 31
	2008 Dec 31	Sep 30	Jun 30	Mar 31			
(Unaudited, \$000's)							
EBITDA	(18,664)	(3,555)	(2,411)	(1,862)	(26,492)	(10,236)	(3,388)
EBITDA as % of total revenues	-112%	-11%	-16%	-14%	-34%	-49%	-179%
Add back non-recurring expenses:							
Allowance for doubtful accounts	6,256	-	-	-	6,256	-	-
Inventory write-down	5,223	-	-	-	5,223	1,117	814
Workforce reduction plan	587	-	-	-	587	-	-
Financing related costs (travel)	-	-	-	-	-	434	-
EBITDA before non-recurring expenses	(6,598)	(3,555)	(2,411)	(1,862)	(14,426)	(8,685)	(2,575)
% of total revenues	-40%	-11%	-16%	-14%	-19%	-41%	-136%

In terms of EBITDA, some factors in operating costs during 2008 that affected our results also included a series of charges in the fourth quarter stemming from economic and weather related issues, such as uncertainty as to the collection of accounts receivable. We determined our allowance for doubtful accounts to be \$6.3 million with one customer representing 90% of our total allowance. A drop in ASPs at year end necessitated an inventory write-down to net realizable value totalling \$5.2 million. As a result of our completion of an outsourcing agreement as well as a slowdown in demand for our product late in the fourth quarter we reduced our production workforce in our Burnaby facilities and recognized \$0.6 million restructuring charges for 95 employees. -

Due to conditions present at year end where our market capitalization determined by financial markets was significantly below our book value of net assets, we determined that certain fixed assets and



intangibles worth \$8.7 million were impaired (*See Impairment of Long-Lived Assets in 5. Results of Operations*).

Net losses for 2008 were \$34 million (\$0.92 loss per share) compared to \$14 million (\$0.70 loss per share) in 2007 which reflected both general increases related to our expanded public company operations in 2008 and additional losses related to the significant decline of activity and prices within our industry that occurred in the fourth quarter of 2008.

General Performance in 2008

In general we increased overheads from important additions to our administration and operations resources required to manage our newly public and growing operations. We also increased corporate activities, sales and marketing initiatives, and research and development efforts. Offsetting these costs were realized net gains from holding foreign exchange and increased interest from short term investments carried forward from the proceeds of our IPO in late 2007.

We identified a number of key financial and operational milestones for 2008 including:

1. Completing production expansion to 47MW by the end of the second quarter
2. Completing production expansion to 97MW by the end of the fourth quarter
3. Achieving break-even EBITDA during the fourth quarter

By the end of the year we had accomplished the first two objectives in a manner that we expect will offer ongoing benefit to the business.

As noted above the solar industry changed significantly during the latter half of 2008. The key factor in a dynamic environment is management's ability to anticipate the potential changes and to proactively plan and position the company to be successful in the new market. We had substantially completed the purchase of equipment required to expand capacity to 97MW at year end. During the second half of 2008 we made significant progress on executing our outsourced manufacturing strategy and made a decision to transfer that equipment to our outsource partner. In doing so we could accelerate the ramp up of our outsource production and take advantage of the cost efficiencies sooner than if we built our production capacity in Burnaby to 97MW. This strategy made sense given the typical seasonal slowdown through the winter months and has been beneficial to us in light of the decreased demand and ASP pressure seen in recent months.

By year end we had completed an outsourcing agreement with Jabil and we were able to begin transferring our productive capacity focus to Europe through a workforce reduction which we completed in the first week of the new year.

Despite management's best efforts, the company was unable to achieve our third objective of fourth quarter positive EBITDA. In the fourth quarter our EBITDA loss was \$18.7 million of which \$7.4 million was gross loss on sales during the period. (*See discussion following Tables 1, 2 and 3*)

Other key achievements for the year included advancements in R&D with new patents granted; progress on the Generation II Day4 Electrode; and key Sales and Marketing initiatives, including entering new



markets and establishing a foothold in the investor funded solar markets. In addition, we achieved many other milestones as listed below:

January 17, 2008 - Day4 Energy Inc. announced the completion of the first two months of operation of the 1 megawatt (MW) solar energy project with EnBW, one of Germany's largest energy suppliers.

February 28, 2008 - Day4 Energy supplied high performance solar modules for Portland Habilitation Center.

March 27, 2008 - Day4Energy increased contracted sales for 2008 to nearly 32 MW, an addition of 2.9MW in contracts since completion of the IPO in December 2007.

April 15, 2008 - International third party testing ranks Day4 Energy solar modules for highest power density.

April 29, 2008 - Day4 Energy was selected for a Japanese Study of Large-Scale Solar Power Projects, and this module sale marks Day4 Energy's expansion into the Asian market.

June 18, 2008 - Day4 Energy Inc. received two British Columbia Technology Industries Association's (BCTIA) 2008 Technology Impact Awards which recognized Day4's innovation and excellence in British Columbia's technology community.

June 24, 2008 - Day4 Energy Inc. announced the completion of 16 solar energy systems at the Habitat for Humanity Jimmy Carter Work Project in San Pedro, California.

July 8, 2008 - Day4 Energy granted U.S., India, Mexico patent approval for proprietary photovoltaic technology

July 30, 2008 - Day4 Energy's solar technology breakthrough moves towards 25% reduction in solar electricity costs .

August 7, 2008 - Day4 Energy's proprietary module technology paves the way for metallurgical silicon solar cells

August 21, 2008 - Day4 Energy gains Chinese patent approval for proprietary solar technology



September 4, 2008 - Day4 Energy enters investor-funded projects market with a 2.5 MW turnkey solar electric system in Italy

October 9, 2008 - Day4 Energy and Arian Solar complete Mexico's largest PV installation



4. Selected Annual Information

Day4's reporting currency is the Canadian dollar. All audited financial information is prepared in accordance with Canadian generally accepted accounting principles. The following is selected information derived from the company's audited consolidated financial statements from the past three fiscal years:

(\$000's)	Fiscal Year		
	2008	2007	2006
Consolidated Results of Operations			
Revenue	76,837	20,956	1,891
Gross loss	(7,239)	(4,378)	(1,178)
Gross loss %	(9%)	(21%)	(62%)
Loss before other income and expenses	(28,588)	(11,018)	(3,840)
Net loss	(33,873)	(13,890)	(3,917)
Loss per share	(0.92)	(0.70)	(0.27)
Consolidated Financial Position at December 31			
Total assets	97,605	125,483	8,587
Total long-term liabilities	1,144	113	904
Shareholder's equity	80,633	113,191	3,472

Over the past three years our revenue increased from successive production volume increases with relatively stable product pricing. In August of 2006, we commenced commercial production with our initial generation production machinery. In 2007, we installed progressive designs in new machinery and reached nameplate capacity of our existing equipment in the third quarter. In 2008, we continued at our full 12MW capacity until the beginning of the third quarter when the first of the machinery purchased from the latter two financings of 2007 were put into production. Our production continued to ramp up until December 2008 when we scaled back production to mitigate further inventory build-up from delays in customer deliveries due to deteriorating market conditions in Europe.

Over the past three years our costs of production successively decreased with the increased volumes and more efficient application of overheads, as well as from progressive refinements to our production processes, diversification of raw material suppliers, and experience and knowledge gained from our early years of production. On top of these cost improvements, there have been foreign exchange variations of both the Euro and US dollar in relation to the Canadian dollar, which have also varied our gross loss from period to period as described previously.

Our net loss has progressively increased over the past three years; however the significant loss in 2008 was due in large part to factors occurring in the fourth quarter. Fourth quarter losses included write-downs of finished goods inventory as a result of industry-wide declines in ASP near the end of this quarter resulting from oversupply due to, among other things, greater than expected seasonality and macroeconomic factors affecting demand in the sector as described above. The operating cost growth over the three year period reflected the increase in the company's management resources and staffing to



operate as a public company; and expanding production and sales activity. In the fourth quarter of 2008 we also experienced a large increase in general and administrative costs due to non-operating charges and costs relating to our restructuring of production to accommodate our outsource production arrangement with Jabil. Our research and development activities have also steadily increased in these three years as we retain research and development of new technologies and products as a core strategy to our business plan.

Total asset and shareholder equity growth from 2006 through 2008 reflected the three financings totalling approximately \$128 million, after giving effects to our annual net losses in each of those years. The change in total long-term liabilities reflected the status of Canadian federal government IRAP-TPC interest free bearing loans that we received in 2006 and 2007. The 2008 long-term liabilities reflected the renegotiation and delay of the re-payment of the majority of these amounts for another two years to 2010.

The company did not declare any dividends in the years 2006 through 2008 and does not expect to do so in the foreseeable future.

5. Results of Operations

Overview

- During the fiscal year of 2008 we sold a total of \$77 million worth of products to our customers globally compared to \$21 million for 2007. 2008 revenue from PV module sales was about four times that of 2007 and forty times that of 2006.
- Year over year gross loss was reduced from 21% in 2007 to 9% for 2008, our second full year of internal module manufacturing.
- During 2008 we reduced our gross losses primarily through efficiencies gained from increased product volume of approximately forty times and four times compared to 2006 and 2007 respectively, and the continuous improvements to production process efficiencies year over year. Reductions in fixed overheads allocated on a per unit basis were a prominent factor in 2007 and 2008 cost reductions. Off-setting operating cost increases were caused through inefficiencies during ramp-up periods. Fourth quarter write-downs of inventory and the effect of increased US denominated raw material costs through the dramatic increase the US dollar against the Canadian dollar, and reduced volumes in the latter part of the quarter were the most significant factors in increasing gross losses for the year. (See Tables 1 and 2)
- Our net losses for the year reflected both increases in general operations activity, and also significant charges incurred in the fourth quarter reflecting the economic turndown in our sector and the economy in general. Although increasing our product volumes and improved our gross margins in the first half of the year, unfavourable conditions in the third and fourth quarters created larger gross losses for the year. An increase in departmental operations costs for general and administration, sales and marketing and research and development reflected full year public company operations, increased product volumes, and our continued commitment to technology improvements, respectively. Increases in depreciation reflected full year production and additional fixed asset purchases during the year. During 2008 we incurred a number of non-cash expenses and expenses not in the ordinary course of business that are included in our net loss for



the year. Included in the non-cash expenses is a loss of \$2.2 million to account for the fair value of the company's forward contract financial instruments. Expenses expected to be non-recurring included \$0.6 million of production staff severance and restructuring costs that occurred as a result of our strategy to shift production closer to our primary market in Europe by utilizing our outsourcing arrangement with Jabil. Corporate legal and consulting costs were higher in 2008, but are expected to decrease going forward. In addition, specifically reflecting deteriorating economic conditions in the fourth quarter, the company has written-down \$5.2 million of inventory to net realizable value, recorded long-lived asset impairment charges of \$8.7, provided an allowance for doubtful accounts of \$6.3 million as at December 31, 2008.

- Day4 operates in a single market segment – PV modules. Geographically, our market segments include Europe, the United States, Canada, and other.

The following table provides segmented and total revenues and gross profit for the reported years:

Revenues by geographic area (\$000's)	For the years ended December 31,			
	2008	% Total Revenue	2007	% Total Revenue
Canada	281	-	578	3%
United States	5,382	7%	6,526	31%
Other	13	-	234	1%
Total North America	5,676	7%	7,338	35%
Germany	57,671	75%	13,487	64%
Italy	12,263	16%	108	1%
Other	26	-	8	-
Total Europe	69,960	91%	13,603	65%
Other	1,201	2%	15	-
Total Revenue	76,837	100%	20,956	100%
Cost of goods sold	84,075	109%	25,333	121%
Gross loss	(7,239)	(9%)	(4,378)	(21%)

Revenues

Total recognized revenue for fiscal 2008 was \$77 million compared to \$21 million for the prior year. Revenue from PV module sales increased by about four times 2007 sales revenues, reflecting our increased production and shipments in response to contracted sales during the year. The majority of our revenues are denominated in euros.

We increased our production capacity during the year from 12MW in 2007 to 47MW, starting in the third quarter of 2008. With our outsourcing partner Jabil, our total capacity utilization in 2009 could reach 97MW with a five day work week, and up to 130MW with both facilities working a seven day work week. Day4's total module production for 2008 was 23.2MW compared to 5.4MW in 2007.



PV module pricing and the effect on our revenues

Most of our sales in 2008 were under contracted pricing, and therefore, we benefited from stability in pricing for the first three quarters. During the last quarter of 2008 the market for PV modules shifted dramatically from being a seller's market to that of a buyer's market at the wholesale level. We believe among other things two significant factors, the broader financial crisis which led to general uncertainty in the world economy, and early and persistent snowfall in northern Europe contributed to a sudden drop in demand for modules, and an acute oversupply of modules from manufacturers. Some competitors, particularly from module manufacturers without technological differentiation in their products, sought to liquidate inventories causing significant drops in the wholesale spot price of PV modules. As a result, it has proved challenging to negotiate and finalize selling prices for 2009 contracts. We have concluded pricing discussions for approximately 41% (or 22.4MW) of our previously announced 55MW order book that is subject to reaching agreements on price with customers. We expect to continue our discussions on pricing for the remainder of our contracts and while the amount that has been finalized to date represents more on a volume basis than our total shipments of 2008, we are taking a conservative outlook in this dynamic environment and management does not anticipate providing guidance until we have greater visibility on demand and ASP in our primary market.

Pricing within each geographic market is determined by a number of factors, including the availability and type of incentives. The solar resource available at specific locales also determines the total energy generated, and therefore total financial return to the end customer. In 2008, Day4 increased its market presence in Europe, expanding delivered volumes and developing new customers in the attractive developing market in Italy.

Going forward, we expect the North American market has the potential to be the most significant source of growth in the future as there are a number of political initiatives from the United States Obama administration. We continue to monitor for opportunities in smaller markets, such as the province of Ontario, within Canada who confirmed significant long term feed-in tariff based incentives in March 2009. In the meantime, Day4 is continuing to market and sell to specific North American customers or projects which can provide us with marketing and brand building benefits.

During 2009 our brand image was enhanced by the increasing third-party evidence collected through installations to date. Independent third party testing demonstrated that the technology embedded in our PV modules provides more energy per rated watt, and hence more value per watt peak purchased.

Cost of Goods Sold

During the first half of 2008 we benefited from the efficiencies of our existing production line as it was brought to its capacity of 12MW through to the end of the second quarter. These efficiencies were gained through both favourable foreign exchange rates keeping our raw material costs stable, and through developing an experienced production workforce with which we reduced labour costs per module. Early in the third quarter, with our plant expansion to 47MW of capacity, our production efficiency was burdened with additional costs during the ramp-up period. This period was characterized by increased staff costs, higher fixed overheads, higher materials wastage and lower production as the new machines were fine-tuned and new production staff were trained. Also during the third quarter, foreign exchange rates began to move against the Canadian dollar, and raw material price increases contributed to higher production costs. In the fourth quarter we continued to increase our production closer to 47MW full



capacity until weather conditions in Europe signalled a prompt drop in customer shipments. During December we took the opportunity to wind down production activity including a two week shut down over the holiday period. In this time we brought work in process inventories down significantly to minimize our inventories for year end. Since the end of 2008, due to continued slowdown in demand, we have continued to operate our Burnaby facility at minimal production levels.

Our cost of goods sold consists primarily of materials costs, including PV cells. During 2008 we increased staff and expanded resources of our supply chain management team and progressed in sourcing alternative supplier options, better pricing and payment arrangements as our volumes increased throughout the year. Our ability to control these costs is also limited by total industry demand for materials, and in some cases can cause shortages of supply which can affect our ability to maintain production at our current rates of production should we not be able to find alternate supply. In 2008, the majority of our materials costs were denominated in US dollars. In 2009, through our outsourcing agreement with Jabil we will shift production closer to our main European market, providing us with a natural hedge on currency requirements, as well as other benefits of direct cost reduction, reduced working capital requirements, and general lowering of capital requirements for future expansion.

Write-down of Inventories

At December 31, 2008 the write-down in inventory to net realizable value was \$5.2 million compared to \$1.1 million in 2007. Of the \$5.2 million, \$1.3 million relates to raw materials and the balance to finished goods and was incurred as a result of falling costs for raw materials and falling ASPs at year end of which both factors were due, among other things, to the over-supply situation that appeared at that time. All write-downs were expensed to cost of goods sold in the periods incurred.

During the fourth quarter the PV industry experienced the beginning of a dramatic decline in PV module ASP and a concurrent drop in upstream silicon, wafer and PV cell raw material costs. As this occurred in the last few weeks of the year, our cost of production during the year did not benefit from these cost reductions; however, some raw materials received late in the year reflected the lower costs available at the time.

Our write-down of inventory at December 31, 2008 reflects the net realizable value we expect to receive upon sale, however, we cannot be certain that continuing declines in prices and worsening economic conditions may or may not impact the net realizable value of our inventories.

Warranty Provision

Since we commenced commercial sales in mid 2006, we have not provided a provision for warranty expense. We perform rigorous testing on all panels produced and classify off-specification production to separate product inventory. In 2008 the quality control function in our manufacturing process was significantly enhanced which not only provided for a continuation of insignificant warranty claims, but has also provided significant reduction of off-specification modules coming off our production lines. Off-specification production is either sold at discount without warranty, or retained by us. To date, an insignificant amount of warranty claims have been expensed to cost of goods sold. Based on greater volumes of our product being installed and used we expect that warranty claims will increase with that volume. Should our experience change, we will re-assess the need to provide for a warranty provision.



PV cell costs and silicon supply

The single largest component of our raw material costs are PV cells, comprising approximately 70% of our total production costs. We rely on our PV cell suppliers for sourcing adequate supply of silicon wafers for cell production, and we rely on diversification of our supply options to mitigate the risk of supply shortages.

In 2008 we utilized supply from all three of our PV cell suppliers. During the fourth quarter a significant softening in demand for PV cells from module manufacturers started a reduction in PV cell pricing which has continued into 2009. This price volatility has delayed negotiation and final pricing from our PV cell suppliers. For 2009 we believe that the market for PV cells may continue to be fluid through the balance of the year. (*See Off-Balance Sheet Arrangements and Contractual Obligations in Section 8*)

Non-PV cell production costs

These costs are otherwise known as “encapsulation” costs, being the encapsulation of PV cells into PV modules. These costs include other raw materials of the module, direct labour, freight in, non-inventoried supplies, premises and production department overheads, and depreciation of production machinery. In 2008 we began to realize greater efficiencies of increased production, reducing overheads per unit. We also experienced direct labour savings through efficiencies gained from a more experienced labour force and through improvements to production procedures. These labour and procedural efficiencies were tempered during the ramp up period in the third quarter when we transitioned from an annual run rate of 12MW to 47MW during the fourth quarter. With the exception of other module raw materials, in 2008, the majority of these costs are denominated in Canadian dollars.

In December we signed a manufacturing service agreement with Jabil which should provide us with significant encapsulation cost savings when expected production begins in the second quarter of 2009.

Effect of Foreign Exchange on Gross Margins

A key component of the company’s strategy to outsource production to Jabil to serve our European customer base was to mitigate foreign exchange risk through the natural hedge of operating in one currency. We expect this natural hedge to be in place concurrent with the ramp up of production from Jabil in the second quarter of 2009.

Gross Margins

Year over year gross losses were reduced from a loss of 21% in 2007 to a loss of 9% for the fiscal year of 2008. We improved our average unit costs throughout the year as we increased production volumes, diversified our supplier base and refined production processes. In the fourth quarter a 17% change in the US foreign exchange rate impacted our predominantly US dollar denominated raw materials costs. (*See Tables 1 and 2*), creating an overall negative impact on gross margins.

Production capacity

During 2008 Day4 completed its plan to purchase additional production machinery in two phases. Early in third quarter of 2008, we increased our internal production capacity from 12MW to 47MW per annum.



With the signing of a long-term contract with Jabil, (*See Jabil Manufacturing Services Agreement filed on www.sedar.com*) we have transferred the second phase of an additional 50 MW annual capacity of machinery to one of their European production facilities in Poland. This capacity will be brought into production in the second quarter of 2009. The company expects to have a combined manufacturing capacity of 97MW in 2009 with the ability to increase to an estimated 130MW capacity in a short lead time by utilizing a seven day week shift schedule instead of five. Our first priority will be to increase production at Jabil with its lower cost, more efficient and geographic proximity manufacturing to our primary markets. This flexibility of output is important for meeting the seasonal increase in demand during the summer months without the need for building up large inventories in advance. While demand is expected to be slow in the first half of 2009 we do expect to benefit from having the benefit of this production capacity later.

Sales and Marketing

Sales and marketing expenses were \$3.6 million, or 5% of revenue for 2008, compared to \$1.9 million, or 9% of revenue for the prior year. 2007 was the first year of significant sales and marketing activity as we expanded our staff and resources to execute our business plan and strategy. In 2008, we continued to expand our activities, initiatives and staff resources compared to the prior period, including customer relations and sales channel development initiatives with our key customers. During 2008 staff levels increased from twelve to fifteen.

Research and Development

The gross R&D expenditures, offsetting government funding and the resulting net R&D expenditures for the relevant periods, were as follows:

Research and development expense (\$000's)	For the years ended December 31,	
	2008	2007
R&D Expenses	2,256	1,815
Investment tax credits and Government assistance	(195)	(650)
Net R&D Expense	2,061	1,165

A 24% increase in R&D expenses in 2008 compared to the prior year reflects our continuing commitment to develop the photovoltaic efficiencies and opportunities provided by the Day4 Electrode and new products. During the year staff assigned to R&D increased from eight to fourteen. The increase in costs also reflected the engagement of a number of outside institutions and companies to develop specific aspects related to the application of our proprietary and patented technologies. Our patent protection costs are increasing based on both the number of patents filed and the progressive maintenance costs of our registered and pending patents.

While absolute costs have increased, gross research and development expenses as a percentage of revenues have declined from 9% of sales in 2007 to 3% of sales for 2008.

Investment tax credits and government assistance in 2008 and 2007 of \$195,302 and \$650,000 respectively relates to the refundable tax credits from Canada Revenue Agency's ("CRA") Scientific Research and Experimental Development ("SR&ED") tax incentive program. The investment tax credits and government assistance in 2008 relates to 2006 and 2007 refundable tax credits that were previously



under and over accrued respectively. Effective December 6, 2007, as a publicly listed company, we are no longer qualified for the refundable tax credits relating to CRA's SR&ED tax incentive program, and as such we have not accrued government assistance on on-going research and development activities. However, our current research and development activities qualify for non-refundable tax credits that can be used to reduce any future taxes payable. These non-refundable tax credits are at the lower public company rate of 20% (federal tax credit only, excluding provincial credit rate) on qualified expenditures, versus 35% previously available to Day4.

General and Administrative

G&A expenses were \$14.9 million for fiscal 2008, an increase of 366% from \$3.2 million for the prior year. Two significant factors contributed to this increase and can roughly be divided into operating and non-operating expenses as outlined the table below.

	For the quarter ended				Annual 2008 Dec 31	Annual 2007 Dec 31	Annual 2006 Dec 31
	2008 Dec 31	Sep 30	Jun 30	Mar 31			
Regular G&A expenses	3,566	1,956	1,387	1,159	8,068	2,799	1,036
Expenses not expected to recur:							
Allowance for doubtful accounts	6,256	-	-	-	6,256	-	-
Workforce reduction plan	587	-	-	-	587	-	-
Financing related costs (travel)	-	-	-	-	-	434	-
Total G&A expense	10,409	1,956	1,387	1,159	14,911	3,233	1,036

Operational activities during our first year as a public company expanded significantly, particularly in the areas of financial reporting and governance, facilities, human resource administration, supply chain management and other administrative areas. As a result, in 2008 we increased our staffing levels from thirteen to forty-one. Specific charges in 2008 fourth quarter included a \$6.3 million provision for allowance for doubtful accounts, and \$0.6 million of workforce reduction restructuring costs. Equivalent non-operating costs included in 2007 were \$0.4 million related to financing related costs.

Stock-based compensation

Stock-based compensation expense was \$0.7 million for fiscal 2008, a decrease of 30% from \$1.0 million for the prior year. The amount expensed is recorded in accordance to GAAP and is a non-cash transaction. The decline in expense during 2008 reflected a reduction in attributed fair value of stock options granted in the year.

Depreciation and Amortization

Depreciation and amortization was \$2.1 million for fiscal 2008 compared to \$0.8 million for the prior year. The increase in depreciation was due to our production expansion in 2008, when new equipment



was put into use in the third quarter. Our 50MW of new production equipment held at year end for transfer, including that portion for sale, was not depreciated in 2008.

Interest Expense and Income

Interest expense in 2008 of \$87,507 was primarily attributed to a tax provision relating to estimated withholding taxes payable of \$830,000 as a result of a share exchange which was executed on December 6, 2007 for an early shareholder of the company. Estimated interest relating to the share exchange has been recorded as a charge to share capital. In 2007, interest expense of \$518,197 was substantially attributed to a \$16.8 million convertible debenture placed on September 6, 2007 and converted upon the completion of the IPO on December 6, 2007. During the fourth quarter the company re-negotiated the terms of our IRAP-TPC interest free debt which became payable in the quarter. The new re-payment arrangement incurs interest expense on the outstanding principal. This cash interest expense totalled \$5,841 for 2008 and is included in interest expense. Other than these items, the company has no interest bearing debts or credit facilities.

Interest income in 2008 of \$2,132,336 and 2007 of \$415,246 was derived from interest earned from the excess of cash proceeds of the December 6, 2007 IPO, and from other financing proceeds during the years, respectively. We expect interest income to decline in 2009 from lower excess cash levels and dramatically lower risk-free interest rates.

Financing Costs

There were no significant financing costs incurred in 2008. In 2007, Day4 incurred issuing costs for a \$16.8 million convertible debenture which were expensed. The costs of this financing were approximately \$1.1 million. Other financing costs for a private placement of funds in January 2007, and our IPO were recorded as an offset to gross proceeds in share capital and totalled \$0.8 million and \$7.4 million respectively.

Impairment of Long-lived assets

During the fourth quarter changing financial conditions and a significant decline in our market value at year end resulted in our reassessment of the fair values of our long-lived assets. We have recorded total impairment charges of \$8.7 million including the value of intangible assets on the purchase of Day4 Systems acquired in November 2007 for \$0.5 million, property, plant and equipment representing initial designs of production machinery, investment in PV systems and non-core administrative and research and development assets valued at \$8.2 million.

Net Loss

The net loss for fiscal 2008 was \$33.9 million (\$0.92 per share) compared to \$13.9 million (\$0.70 per share) for the prior year. The increase in the net loss for the year was a result of fourth quarter impairment charges on long-lived assets, inventory write-downs, and allowance for doubtful accounts resulting primarily from the sudden drop in activity in the PV sector in this quarter. Our loss also increased due to higher operating costs relating to increased production and activity related to being a public company, costs associated with putting our outsourcing arrangement in place, our costs to downsize our workforce in preparation for our new outsourcing arrangement, increased overheads reflecting our growth in staff



and operational resources, corporation initiatives, and non-cash unrealized foreign exchange loss incurred in the year.

Capital Expenditures

Capital expenditures for fiscal 2008 were \$33.9 million compared to \$5.2 million for the prior year. Included in the 2008 capital expenditures was \$8.2 million related to purchases and deposits on production equipment held for sale. Substantially all of the capital expenditures for the year were incurred for production machinery and equipment. (See next section for details)

Results of Use of Proceeds Previously Disclosed

We disclosed our expectations regarding the use of the net proceeds of our IPO in our prospectus dated November 26, 2007. Net cash proceeds from the IPO was \$92.7 million. As at December 31, 2008, we used \$33.9 million of the amounts allocated to capital expenditures contemplated in the IPO.

Of the funds ear-marked for capital expenditures in our IPO prospectus, \$27.3 million remain available for the uses as described below. The following table sets out the use of proceeds:

Use of Proceeds \$ millions	IPO December 6, 2007	Actual to December 31, 2008	Committed ² December 31, 2008	Sold to Jabil January 23, 2009	Net Use of Proceeds	Under/ (Over) Budget
Production capacity and facilities	36.6	27.2	1.8	(8.2)	20.8	15.8
Research and Development	9.1	5.3 ³	-	-	5.3	3.8
Management, and General and Administration support systems	9.1	1.4	-	-	1.4	7.7
Subtotal of Capital Expenditures before General and Working Capital Uses	54.8	33.9	1.8	(8.2)	27.5	27.3
General and Working Capital	37.9	32.8	-	-	-	-
Total per IPO	92.7					

Our 2008 first phase production capacity and facilities expansion was completed within budget and within two weeks of target completion. In July of 2008 we completed a 35MW upgrade to 47MW of production capacity at our plant in Burnaby. The second phase of the production expansion included 50MW of production equipment which was incorporated into the Jabil outsourcing agreement by year end. During 2008 we accelerated our strategy of outsourcing and began to seek a manufacturing partner. Our pending

² Represents outstanding amounts committed by purchase order, but not yet invoiced by the suppliers of production machinery at December 31, 2008.

³ Includes \$4.8 million of modules transferred to capital assets as investment in PV systems



delivery of additional equipment provided an attractive opportunity for a manufacturing partner, eliminating the long lead times for sourcing such new equipment. In December we signed a manufacturing services contract with Jabil. Part of that agreement was the sale of a portion of the equipment for proceeds of \$8.2 million. At the completion of the production capacity and facilities expansion, we have 97MW of capacity available to us for future production based on a 5 day work week. This capacity is effectively increased to an estimated 130MW by utilizing a 7 day work week. No significant capital expenditures for production capacity expansion are contemplated at the time of this report for 2009.

Total Research and development capital expenditures in 2008 were \$5.3 million of which \$4.8 million relates to investment in PV systems. Our 2008 research and development expenditures were held back based on a change in strategy in achieving our objectives.

In 2008 we upgraded premises for our operations and commenced a management information upgrade project. Our management information upgrade is expected to be completed in the first half of 2009. In 2008, net cash consumed by working capital was \$15 million, of which \$20 million relates to increase in inventory. Total cash flows from operating activities consumed \$33 million in cash.

6. Summary of Quarterly Results

(Unaudited, \$000's except loss per share data)	For the quarter ended							
	2008				2007			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total Revenues	16,613	31,692	15,038	13,494	6,894	10,655	3,061	347 ⁴
Net Loss	(28,982)	(1,692)	(2,467)	(732)	(7,002) ⁵	(4,829) ²	(1,338) ²	(721) ²
Net Loss per share	(0.79)	(0.05)	(0.07)	(0.02)	(0.29)	(0.26)	(0.07)	(0.04)
Average shares outstanding ⁶	36,679	36,679	36,640	36,606	24,011	18,900	18,676	18,062

(See Tables 1, 2 and 3 for additional 2008 quarterly information)

There are general trends that govern our business. Since the first quarter of 2007 our sales revenues have grown and have been bound by our utilizable production capacity. Despite the underlying growth in our

⁴ Adjusted for rounding.

⁵ Total deferred lease inducement of \$22,394 and Investment tax credits of \$650,000 for 2007 previously disclosed in the fourth quarter of 2007 is now allocated accordingly to each of the quarters of the year.

⁶ Average share outstanding means the weighted average number of common shares outstanding used in basic and diluted loss per share



production, our business is also subject to seasonal variations, particularly those in our core market of Germany. Typically, the fourth and first quarters of each year experience lower demands.

Until the completion of the 47MW capacity expansion early in the third quarter 2008, we had been operating close to our 12MW production capacity through the end of second quarter 2008. With that expansion completed in mid July 2008, our production volume increased steadily as we hired and trained our production workforce and ramped up production volumes. At the end of the third quarter 2008, our production volume was 82% of total installed capacity of 47MW. During the first three quarters our production was shipped as soon as it was produced to meet backlogs that continued until the fourth quarter. In late November of 2008, snowfall in Germany halted our customers' operations and deliveries to customers ceased in those areas affected.

For 2008, our planned production was substantially pre-sold. Through the first half of the year, a strong Euro and weak US Dollar had provided us with some foreign exchange advantages. At the same time our increased production volumes enabled fixed overhead savings and reductions in per unit costs. In the second half of 2008 increasing volatility in foreign exchange rates negatively impacted margins, primarily from increases in US dollar denominated raw materials. As previously outlined, in the last quarter of 2008 we experienced significant losses through provisions for impairments, write-downs of inventory, and allowance for doubtful accounts.

7. Results of the Fourth Quarter ended December 31, 2008

Total revenues for the quarter ended December 31, 2008 were \$16.6 million, an increase of 141% from \$6.9 million for the same period in 2007 but a drop of 48% from \$31.7 million of the previous quarter. The quarter over quarter decrease reflects, among other things, the convergence of greater than expected seasonality and an industry-wide slowdown in demand due, among other things, to deteriorating economic conditions.

In response to these conditions we decreased our production, allowing us to provide time for restructuring and maintenance of our Burnaby production facilities, including reorganizing of our inventories for future processing efficiencies.

While we were able to redirect some of our production to meet a greater proportion of shipments to North American customers during the fourth quarter this brought down the average sales price per unit than otherwise possible with a higher portion of European sales. We continue to believe in the strategic importance of the North American market; however, product sales in North America are expected to account for a much smaller portion of our 2009 revenues compared to 2008.

During the second half of 2008 we made significant progress on executing our outsourced manufacturing strategy and made a decision to transfer that equipment to our outsource partner. In doing so we could accelerate the ramp up of our outsourced production and take advantage of the cost efficiencies sooner than if we built our production capacity in Burnaby to 97MW. Our additional 50MW of capacity was redirected to our outsource contract manufacturer, Jabil, under an agreement signed in December 2008. This change was an acceleration of our strategy to outsource our productive capacity to more effectively use capital, and to realize benefits in activities where we could not provide value as a company. This new contract production should provide us with a number of advantages, including production cost savings,



significant working capital expense reduction and a natural hedge to foreign exchange by geographically aligning our production with our key sales locations. In addition, we expect to reduce freight costs and shipping times between outsourcing plant and our European suppliers and customers.

Our net operating losses for the fourth quarter reflected continuing gross losses from product sales, increased departmental operations costs for general and administration, sales and marketing and research and development, and full depreciation from fully operational fixed assets purchased earlier in the year. We recorded \$0.1 million of non-cash stock compensation expense in the quarter.

Included in the fourth quarter results were non-cash expenses of \$4.5 million relating to unrealized foreign exchange loss, long-lived asset impairment charges of \$8.7 million, allowance for doubtful accounts provision for \$6.3 million and \$0.6 million relating to non-recurring expense on production staff severance.

Net loss for the quarter ended December 31, 2008 was \$29 million or \$ 0.79 loss per share compared to \$7 million or \$0.29 loss per share in the same period 2007.

Our results showed a gross loss of 45% as a percent of revenue for the fourth quarter compared to a 26% gross loss for the same quarter in 2007. The change in the quarter was primarily from a \$5.2 million write down of modules and raw materials resulting from lower ASPs at year end. Adjusted for this write down, fourth quarter gross loss was 13%. Also during this quarter our US denominated raw materials were impacted by an approximate 17% foreign exchange rate increase from the previous quarter.

8. Liquidity and Capital Resources

The world-wide financial crisis has severely impacted the company's ability to raise additional capital at the date of this report. We may not be able to raise additional financing through equity markets or debt markets in the near future.

In 2008 we made significant capital investments in production capacity, enabled a flexible outsourcing arrangement with a leader in this field, and retain working capital of approximately \$53.5 million at December 31, 2008. Management expects that it will have to work within the constraints of our cash and working capital to meet our objectives for 2009 and that financing is unlikely to be available. In 2009, we will access and pursue options for financing growth beyond 2009 as they become available to us, if at all.

Our new outsourcing arrangement with Jabil will contribute to a reduced reliance on foreign exchange hedging facilities to reduce our foreign exchange risk in 2009. This new arrangement will provide a natural hedge to the majority of our production and sales activities located in Europe, as well as the associated benefits that should provide us with higher margins than otherwise can be obtained from producing in Canada for European customers. We will wind-down the general level of foreign exchange hedging activity positions and derivatives held at the end of 2008.

We have contracted for the supply of PV cells with a minimum 2009 commitment of \$235 million. While we continue to negotiate with our PV cell suppliers, and other suppliers, in the current environment of falling ASPs and raw material costs, there is no certainty that we will be able match the volume of supply with our production requirements, or that we will be successful at obtaining prices from our suppliers that



will enable sufficient gross margins to create positive cash flows. In addition, should prices and costs continue to fall during the time lag from purchase of raw materials to the time we sell our products there may be additional write-downs and impairments in expected gross margins. *See section 15, Risks and Uncertainties*

With deteriorating financial conditions for some of our customers, we have provided allowances for a portion of our receivables as at December 31, 2008 and continue to monitor the condition of our customers. At the date of this report we have been notified of the failure of one small customer we provided for at December 31, 2008. We have drawn in our payment terms with customers generally, and are maintaining fluid negotiations with our suppliers in order to respond to future changes in the economic conditions surrounding our industry as part of our plans to manage working capital in 2009.

In 2009 we anticipate significantly lower capital expenditures as we are expect no further investment in capacity this coming year.

The company has minimal debt of approximately \$1.3 million with a federal government prescribed interest rate from the renegotiation of debt repayments of former IRAP-TPC assistance received.

Financial Position

('000)	As at December 31, 2008	As at December 31, 2007
Cash and cash equivalents	14,730	53,093
Restricted cash and short-term investments	11,085	41,555
Inventory	35,019	15,169
Other current assets	5,812	7,758
Equipment held for sale	2,705	-
Intangible asset	-	829
Property, plant and equipment	28,254	7,079
	97,605	125,483
Current liabilities	15,803	12,179
Long-term liabilities	1,144	113
Non-controlling interest	26	-
Shareholder's equity	80,632	113,191
	97,605	125,483

Cash and cash equivalents including restricted cash, were \$25.8 million at December 31, 2008, a decrease of \$27.3 million from \$53.1 million at December 31, 2007. This decrease in cash and cash equivalents during the year reflected the utilization of funds to finance operations and capital expenditure requirements to expand annual production capacity. The \$25.8 million does not include an additional \$8.2 million in proceeds received in January from Jabil from the sale of equipment as part of the outsource agreement. *See section 16. Subsequent Events* Restricted cash and short-term investments have decreased from December 31, 2007 due to reductions in short-term investments held with terms greater than 90 days, primarily offset by an increase in restricted cash deposits during 2008 in the amount of \$11.0



million at a Canadian bank to secure the company's margin supporting forward foreign exchange contracts the company utilizes for the purposes of hedging the company's exposure to foreign exchange fluctuations.

The company's cash, restricted cash and short-term investments are held primarily between two Canadian Schedule I banks in cash on deposit or securities guaranteed by those banks. Less than 10% of cash resources were held outside these banks at December 31, 2008. Due to the current global financial crisis the company continues to monitor developments to ensure that its cash resources remain accessible and protected.

Due to the magnitude of capacity change from December 31, 2007 in connection with the completion of our expansion in the third quarter of 2008, production volumes increased almost four times with increased production rates in the third and fourth quarters. Under periods of stable operating volumes our objective is to minimize raw material inventories on hand. During 2008 we held higher levels of raw materials, including PV cells, in order to protect from shortages during periods where we ramped-up production. Our finished goods inventories climbed during the fourth quarter due to significantly reduced demand in our major market, Germany. At December 31, 2008, 65% of inventory relates to PV modules. The global financial crisis, coupled by the severe weather, lead to an abrupt halt to new sales and back-ordered deliveries in the fourth quarter of 2008, as system integrators slowed or suspended business operations to cut costs in face of financial uncertainty in the economy.

Other current assets have decreased slightly from December 31, 2007 primarily due to decrease in net accounts receivable after allowance for doubtful accounts.

Property, plant and equipment have increased from December 31, 2007 primarily due to the purchases and deposits for production equipment for Day4's capacity expansion projects.

Current liabilities have increased from December 31, 2007 primarily due to an increase in accounts payable relating to the timing and payment status of raw materials purchases at the period end.



Cash Flows

('000)	For the year ended December 31,	
	2008	2007
Cash flow from operating activities	(32,878)	(18,999)
Cash flow from investing activities	(3,616)	(48,901)
Cash flow from financing activities	430	120,742
Effects of foreign exchange on cash and cash equivalents	(2,298)	17
(Decrease) increase in cash	(38,362)	52,859

Cash used by operations for the year ended December 31, 2008 was \$32.9 million, compared to \$19.0 million for the prior year. The increase in cash used by operations for the year was driven by non-cash working capital increases relating to inventory and accounts receivable, a direct result of increased production and sales activities.

Cash used by investing activities for the year ended December 31, 2008 was \$3.6 million, compared to \$48.9 million in the prior year. The decrease in cash provided by investing activities for the year primarily related to the placement of short-term investments following receipt of IPO proceeds in 2007 and the subsequent selling of these short-term investments in 2008. Investment in capital expenditures, primarily in production machinery, was the next largest use of cash at \$33.9 million, an increase of \$28.7 million from \$5.2 million expended on capital expenditures, primarily on production equipment, in 2007.

Cash provided by financing activities was \$0.4 million for the year ended December 31, 2008, compared to a net cash inflow of approximately \$120 million (\$128 million gross proceeds) for the prior year. The cash inflow in 2008 resulted mainly from conversions of warrants and share options. In 2007, the sources of cash inflow are from three financings: our IPO that closed on December 6, 2007; a convertible debenture offering that closed on September 6, 2007; and a private placement of common shares on January 15, 2007.

Capital Resources

Since incorporation, we have financed our operations through the issuance of equity and funding received from government research and development financing programs and tax credits. At December 31, 2008 cash and short term investments were \$25.8 million, compared to \$94.6 million at December 31, 2007. Included in cash and short term investments at December 31, 2008 was \$11 million of restricted cash to support our foreign exchange hedging facility.

With the financial crisis developing in the last half of 2008 and evaporating sources of financing, the company acted to re-negotiate a November 2008 repayment deadline of previously received government funding. The repayment of \$1.4 million was deferred with an initial 10% down payment on an interest bearing loan for the remaining principal, 10% due at the end of 2009 and the remaining 80% balance due at the end of 2010.



For 2009, we believe we have sufficient working capital and available production capacity to meet our objectives for the year; however, we do not believe that current economic conditions will allow us to raise additional financing through the current equity or debt markets until such time as we are able to demonstrate profitability and stable cash flow. Even with that milestone achieved, sources of capital may be limited through the general malaise of the economy.

In 2009 we will access and pursue options for financing growth beyond 2009 as they become available to us.

Credit Facilities

A credit facility to support foreign exchange forward contract trading, as part of our strategy to mitigate foreign exchange risk, was established in March 2008. The facility offered by a Canadian bank is secured by \$11 million of restricted cash. With our new outsourcing arrangements providing a natural foreign exchange hedge for the majority of our activities in 2009, we believe that we will utilize a smaller portion of this facility than in 2008.

The company intends to expand other operating credit facilities as options become available to us.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no material off-balance sheet arrangements other than those disclosed in this section.

In 2008 we began to use forward foreign exchange contracts to manage our foreign exchange risk. As at December 31, 2008, there were €21.6 million forward contracts to sell Euros, our main currency for product sales, expiring by March 31, 2009. We expect future use of foreign exchange contracts to be much lower due to the natural hedge characteristics of our outsourcing arrangements in Europe negotiated at the end of 2008.

The following table lists our contractual obligations at December 31, 2008. We expect to fund these expenditures out of our cash reserves, current accounts receivables and future progress payments not yet invoiced related to orders in backlog:

(Unaudited \$000's)	Payments due by Period				
	Total	In the next year (2009)	2-3 years	4-5 years	After 5 years
Premises leases	13,074	1,965	3,876	2,334	4,899
Operating leases	165	74	76	15	-
Purchase obligations – minimum	549,211	248,808	300,403	-	-
Purchase obligations – optional	395,675	95,501	300,174	-	-
Total contractual obligations	958,125	346,348	604,529	2,349	4,899

Our primary purchase obligations relate to our PV cell supplier contracts.



The most significant effect on our industry since financial markets and general economic conditions deteriorated in the fall of 2008 was a dramatic change from a seller's market to a buyer's market. A key change in this environment has been the upstream price destruction for silicon wafers and PV cells as other module makers cancel orders and turn down their manufacturing operations. Our approach during these volatile markets has been to remain in fluid negotiations with our key suppliers, our PV cell providers.

Subsequent to year end, we have negotiated reduced PV cell prices with one of our suppliers. The table below reflects our PV cell commitments as at the date of this report:

	\$ (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

Over the next three years to the end of 2011 we currently have contracted volumes, valued at contracted prices in effect at the date of this report and the December 31, 2008 foreign exchange rate, of \$865 million. \$477 million of these commitments are minimum purchase obligations and the balance at our option. For 2009, this represents \$235 million of minimum purchase obligations.

While the numbers above reflect the current obligations from negotiated agreements at the date of this report, we continue negotiations with each supplier in the face of extraordinary and volatile market conditions in the solar PV industry. However, we may be unsuccessful at renegotiating a reduction of price that provides us with positive gross margins and/or, reduce the minimum volume of our commitments under these supply agreements if our sales volumes drop below the minimum volume. See section 15, *Risks and Uncertainties*.

9. Global Market and Economic Conditions

Through the second half of 2008 market and economic conditions faced unprecedented challenges with tighter credit conditions and severe market declines. Into the first couple of months of 2009 continued concerns about the systemic impact of these difficult economic times, geopolitical issues, the availability and cost of credit, and declining real estate markets have contributed to increased market volatility and diminished expectations for global economies. These conditions combined with declining business and consumer confidence and increased unemployment are contributing to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been, and will likely continue to be, adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets in general and the strength of counterparties specifically has lead many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our commercial licensees or customers to



access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.

10. Transactions with Related Parties

A director who holds a senior management position in the company is also a principal shareholder and an officer of a supplier company that provided proprietary and certain other manufacturing equipment. During 2008 the company purchased manufacturing equipment with a total cost of \$11.8 million (2007 - \$0.7 million) from the supplier, and as at December 31, 2008 has \$7.1 million (2007 - \$1.9 million) of deposits placed with the supplier to secure orders for additional manufacturing equipment valued at \$8.9 million (2007 - \$4.8 million). The director was also paid \$190,040 (€121,601) during the year ended December 31, 2008 for reimbursement of expenses and for consulting services provided during the period. The supplier company has also 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 also paid the company \$10,888 (€6,971) for administrative assistance by the company during the year ended December 31, 2008. The supplier company also purchased computer hardware from the company for proceeds and a net gain of \$3,610 (€2,500) during the year ended December 31, 2008. The business purpose surrounding this group of related party transactions is to provide the company with management talent that is well informed of the PV industry sector within the region that this individual operates in. In addition we feel our manufacturing supply agreement with this party, which precedes the time it became a related party transaction, allows for better protection of the proprietary technology of the company contained in the machinery provided.

11. Critical Accounting Policies and Estimates

The significant accounting policies that we believe to be most critical in fully understanding and evaluating our financial results are intangible assets, stock-based compensation, inventory valuation and warranty provisions. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time that these estimates and assumptions are made. Actual results may differ from our estimates. Our critical accounting estimates affect our net loss calculation and the balance sheet value of our assets and liabilities.

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 decline in costs and selling prices, the assessing impairment for property and equipment and intangible asset, the determination of future income taxes, and the calculation of fair value for stock-based transactions.

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.

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.

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.

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.

Warranty

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

In 2008 the quality control function in our manufacturing process was significantly enhanced which not only provided for a continuation of insignificant warranty claims, but has also provided significant reduction of off-specification modules coming off our production lines. Off-specification production is either sold at discount without warranty, or retained by us. To date, the insignificant amount of warranty claims have been expensed to cost of goods sold. Should our experience change, we will re-assess the need to provide for a warranty provision.



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

12. Changes in Accounting Policies Including Initial Adoption

Comprehensive income and financial instruments

The company adopted Canadian Institute of Chartered Accountants (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 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.

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.

Recent Canadian GAAP announcements

- 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 the company's 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.

International Financial Reporting Standards (IFRS) changeover plan

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. At this time, the impact on the company's future financial position and results of operations is not reasonably determinable or estimable.

The company engaged a third party consultant in 2008 who completed a high-level preliminary assessment that prioritized how each IFRS standard will impact our financial statements, systems and business activities. The company's technical implementation team is currently focusing their efforts on the higher impact areas and has continued with ongoing professional development sessions provided by the Institutes of Chartered Accountants. The company is currently assessing the impact of the conversion on our business activities, including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls.

The company's new Enterprise Resource Planning (ERP) system installation has a target completion date in the second quarter of 2009. We are still evaluating the impact of the conversion on our new ERP system. Based on the differences identified to date, we believe our new ERP systems can accommodate the required changes.

We anticipate that there will be changes in accounting policies and these changes may materially impact our financial statements.

Financial Instruments and Other Instruments

Effective January 1, 2008 the company adopted the new CICA Handbook Sections 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial instruments – Presentation*, which replaces 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. This standard has been applied prospectively from the date of adoption.



The company, through its financial assets and liabilities, 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 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 due to the fact that where possible credit evaluations of customers are performed and that the majority of our 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 our 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	1,188,783	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 timely basis. As at December 31, 2008, the company has a provision of \$6.3 million against accounts receivable, the collection of which is 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	<u>6,256,195</u>	<u>-</u>

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 its 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 Bank of Canada 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.

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 us 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 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:

	U.S. 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)
	<hr/>	<hr/>
Net identifiable assets and liabilities	(1,524,497)	(16,930,606)

Fluctuations in the Euro and U.S. 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 period would be \$185,684 greater (lesser).

The outsourcing agreement, which brings the majority of our production costs into the same currency (Euro) as our major market, should provide a natural hedge to the majority of our operating activities.

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 is regularly updated for changes in our operating environment and 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 currently in effect.

The following table provides the due date information for the companies 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
Purchase obligations – minimum	248,808,168	300,402,648	-	-
Total contractual obligations	263,494,387	305,497,710	2,349,515	4,899,073

e) Fair values

The carrying value of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and other receivables and accounts payable 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 therefore the remaining balance represents the principal portion only.



Capital Disclosure

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.

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

	December 31, 2008	December 31, 2007
Shareholders' equity	80,632,715	113,190,815
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.

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.



13. Outstanding Share Data

Common Shares Outstanding

The following table provides balances, issuance and weighted average number of common shares outstanding for the relevant year ends and balance as at March 16, 2009:

Common Shares	Number	Amount \$
Balance - December 31, 2006	14,950,500	9,175,744
Issuance of common shares for cash at \$3.00 - net of share issuance costs	3,725,500	10,341,281
2 for 1 conversion of 875,000 Series B warrants into common shares for cash of \$0.50	437,500	544,513
Issuance of common shares for equipment purchase option at \$3.00	100,000	300,000
Issuance of common shares for cash at \$7.25 – net of share issuance costs	13,800,000	92,651,089
Issuance of common shares for stock-based awards at \$0.25-\$3.00	265,000	681,177
Conversion of convertible debentures at \$5.44	3,094,616	16,241,566
Balance - December 31, 2007	36,373,116	129,935,370
Conversion of 246,250 Series D warrants into common shares for cash of \$2.00	246,250	846,597
Issuance of common shares from stock-based awards at \$1.25 - \$1.50	60,000	170,290
Balance – December 31, 2008 and at March 16, 2009	36,679,366	130,952,257

Stock Options and Warrants Outstanding

As at December 31, 2008 there were 3,280,000 stock options outstanding of which 1,867,554, or approximately 57% were exercisable at exercise prices ranging from \$0.25 to \$3.00. These outstanding stock options represent 9% of total shares outstanding at December 31, 2008. Of exercisable options, the weighted average exercise price at December 31, 2008 was \$1.25. The company's shareholders have approved stock option plans that reserve up to 5,200,000 common shares to be granted as stock options. During 2008, we issued employee stock options to acquire 950,000 common shares at exercise price of \$1.00 with expiry date of December 1, 2018.

As at December 31, 2008 there were 527,492 warrants outstanding, as part of the of the September 2007 debenture units converted at our IPO in December. These warrants have an exercise price of \$7.98 each and expire December 6, 2010. After December 6, 2008 the company has the right to accelerate the expiry



of these warrants if the trading price of the company's common shares exceeds 135% of the exercise price for 20 consecutive trading days.

14. Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's management has established and maintained disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined by Canadian securities regulatory authorities under Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("MI 52-109")

DC&P have been designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified by regulations, and ICFR has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and that information is accumulated and communicated to the Company's Disclosure Committee, which includes the Chief Executive Officer ("CEO"), the President, and Vice President of Finance and Administration ("VPF&A") as appropriate, to allow timely decisions regarding public disclosure.

An evaluation and testing of the effectiveness of the Company's DC&P and ICFR as of the end of the period covered by this MD&A was performed under the supervision of the Disclosure Committee. Based on the evaluation and testing, the CEO, President and the VPF&A have concluded that the design and operation of the Company's system of DC&P and ICFR was effective as of the end of the period covered by this MD&A.

There have been no significant changes in our internal control over financial reporting in fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

15. Risks & Uncertainties

The Company is subject to a number of risks and uncertainties that can significantly affect its financial condition and future financial performance. There is a comprehensive planning process in place to identify and mitigate risk, wherever possible. Key risks are outlined below. In addition, a detailed explanation of the risk factors which we face is provided in our Annual Information Form for the year ended December 31, 2008 under the section entitled "Risk Factors", which is incorporated by reference herein. The Annual Information Form is available at www.sedar.com.



We experience risks related to our outsource manufacturing

We are currently transferring a majority of our module manufacturing to Jabil under a long-term manufacturing supply agreement whereby Jabil will manufacture and supply our PV modules using our proprietary electrode technology. We plan to complete the transfer by the second half of 2009. Transferring our manufacturing process to a third party takes many months and involves moving large equipment and training employees. Due to the time and expenses involved, and the inability to easily move manufacturing to another party, we will rely heavily on Jabil to manufacture our products. If Jabil cannot meet our product demand or specifications, our results of operations would be harmed. If Jabil cannot implement product changes in a timely manner, we would not be able to fulfill customer orders and our results of operations would be harmed. When we complete the transfer of manufacturing to Jabil, Jabil will be our sole source manufacturer other than our remaining in-house manufacturing capability. Jabil's inability to successfully manufacture our PV modules would harm our results of operations. Upon completion of the transfer of manufacturing, we may be unsuccessful in reducing our infrastructure costs or achieving manufacturing economies of scale which would lead to higher operating costs. Transferring our manufacturing to a third party may also weaken our protection of our intellectual property.

If our projected sales volumes do not materialize, or cannot be priced profitably, and we can not renegotiate committed volumes and prices from our key suppliers we may become insolvent.

In the past few years, a shortage of PV silicon supply, in particular, encouraged most PV module manufacturers to have firm multi-year PV cell supply commitments to match projected growth in module sales. In the fourth quarter of 2008 the industry moved from a seller's market to a buyer's market through the double barreled effect of adverse weather in Northern Europe halting product deliveries, combined with significant worldwide financial instability in markets eroding PV markets elsewhere. As such, if we are unable to renegotiate our supply contracts with fixed price and volume commitments in the face of declines in our ASP or declines in projected volumes, suppliers enforcing their contracts with us could cause a significant financial obligation that we are unable to meet. Without the ability to raise additional financing, such as we face at the time of this report, we may become insolvent.

Our inability to price our purchase order contracts may cause significant fluctuations or declines in our revenue.

We currently sell a substantial portion of our PV modules to customers that are mainly PV system integrators and PV system operators. To date, sales to our customers are typically made through non-exclusive contracts that cover a time period of at least one year and automatically renew for an additional one year period unless terminated by either party to the contract. Our prices under these contracts are determined annually and have to be agreed upon to the full satisfaction of both parties in order for the contract to continue. With the recent financial market crisis our industry has experienced a dramatic reduction in prices, and with continued price volatility we are not likely to have any long term pricing arrangements with existing or future customers. We cannot be certain that our existing customers will generate significant revenue for us in the future or that these customer relationships will continue beyond the time frames specified in the existing contracts. Consequently, any one of the following events may cause material fluctuations or declines in our revenue: reduction, delay or cancellation of orders from one or more of our significant customers' adjustment of previously agreed upon prices and/or volumes in response to unforeseen market fluctuations; our customers choosing to terminate their contractual obligations after each contract year; our inability to negotiate a mutually acceptable pricing for deliveries scheduled to take place in 2009 and 2010, which may result in contract termination by either ourselves or



our customers; loss of one or more of our significant customers and our failure to identify additional or replacement customers; failure of any of our significant customers to make timely payment for our products or a deterioration of a major customer's creditworthiness may require us to increase our allowance for doubtful accounts.

Evaluating our business, operations and prospects may be difficult because of our limited history.

There is limited historical information available about us upon which you can base your evaluation of our business, operations and prospects. We began business operations in 2002 and shipped our first PV module products in our third quarter 2006. We had no commercial sales or manufacturing operations prior to our third quarter 2006. You should consider our business, operations and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture products in a growing market.

We have no history of profit and no foreseeable earnings.

We have no history of profit. We incurred net losses in each the financial years ended December 31, 2005, 2006, 2007 and 2008. We expect to continue to incur losses in the near future, and there can be no assurance that we will be profitable. Our ability to reach and sustain profitability depends on a number of factors, including the growth rate of the PV industry, the market acceptance of PV modules, the competitiveness of our PV products and our ability to increase production volumes. Overall prices of PV modules, including our own products, are beginning to decline due to increased supplies and reduced manufacturing costs. This reduction is accompanied by a similar trend in the pricing of PV cells, which account for the single largest portion of PV module manufacturing costs, but we cannot guarantee that this will continue or decline in a manner sufficient to maintain sufficient gross margins for profitability.

We may fail to protect or obtain protection of our intellectual property. In addition, we may be exposed to infringement, misappropriation or other claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

If we develop and bring to market new technologies and products, we may need to increase our expenses to protect our intellectual property. Our failure to protect our intellectual property rights may undermine our competitive position. We currently use patents, trademarks, contractual arrangements with employees and suppliers including outsourcers, and trade secret protections to protect our intellectual property. Our existing and future patents could be challenged, invalidated, circumvented, or rendered unenforceable. Our pending patent applications may not result in issued patents, or if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technology. Patents offer only limited protection, and the actions we take to protect our intellectual property rights may not be adequate.

Our dependence on a limited number of PV cell suppliers could prevent us from timely delivery of our products to our customers in the required quantities, which could result in purchase order cancellations and decreased revenue.

We purchase PV cells from a limited number of third-party suppliers. These suppliers may not be able to meet the specified minimum levels set forth in the supply agreements. If we fail to develop or maintain our relationships with these suppliers, we may not be able to secure a supply of PV cells at cost-effective



prices, or at all. If that were to occur, we may be unable to manufacture our products in a timely manner or our products may be manufactured only at a higher cost, and we could be prevented from delivering our products to our customers in the required quantities and at prices that are profitable to us. Problems of this kind could cause us to experience order cancellations, loss of market share and harm our reputation. The failure of a supplier to supply PV cells that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs, particularly if we are unable to obtain these PV cells from alternative sources on a timely basis or on commercially reasonable terms.

The reduction or elimination of government subsidies and economic incentives for PV power could cause demand for our products and our revenues and margins to decline.

We believe that the near-term growth of the PV power generation market, particularly for on-grid applications, depends in large part on the availability, quantity and type of government subsidies and economic incentives. Many of these government incentives may expire, phase out over time, exhaust their allocated funding, or require renewal by applicable authorities. Because a substantial portion of our sales is made to consumers serving the on-grid market, the reduction, elimination or expiration of government subsidies and economic incentives may adversely hinder the growth of the PV power generation market or result in increased price competition, which could cause our revenue to decline.

We may be unable to achieve higher PV module efficiencies or replicate laboratory results in a commercially available product.

Our ability to achieve higher PV module efficiencies is primarily a function of transferring technology that we have demonstrated in the laboratory into high throughput PV mono-crystalline cell production and arranging for suppliers to design a production line to produce those cells and have a supply of mono-crystalline silicon feedstock. If we cannot arrange with suppliers for a new design for the production line, or the suppliers do not have a supply of mono-crystalline silicon feedstock, we may not be able to produce modules with a higher efficiency.

Existing regulations and policies and changes to these regulations and policies may present technical, regulatory and economic barriers to the purchase and use of PV products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In a number of countries, these regulations and policies have been modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including PV power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for PV power systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our PV modules and make them less desirable, thereby harming our business, prospects, results of operations, and financial condition. In addition, pricing regulations and policies may place limits on our ability to increase the price of our PV module products in response to increases in our PV cell.



Because the markets in which we compete are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share.

We compete with a large number of competitors in the PV module market, and we may face increasing competition in the future. The greater name recognition of some of our competitors may make it difficult for us to compete if and when this transition occurs. Our competitors may develop and produce products based on new PV technologies that may have competitive advantages over our products, including greater conversion efficiency or lower production costs. We may also face competition from semiconductor manufacturers and semiconductor equipment manufacturers, or their customers, several of which have already announced their intention to start production of PV products. While the historical scarcity of silicon feedstock, supply chain management and access to financing were the main entry barriers, with the recent silicon feedstock capacity increases and reduction in demand, these barriers may no longer exist and many new competitors may enter into the industry, resulting in rapid industry fragmentation and loss of our market share.

The PV power industry competes with other sources of renewable and non-renewable power generation.

The PV power industry in general competes with other sources of renewable energy and conventional power generation. If we are unable to bring our prices closer to parity for these sources of power generation, prices for conventional and other renewable energy resources decline, or if these resources enjoy greater policy support than PV power in the future, the PV power market could suffer.

We may not be able to manage our expansion of operations effectively.

We expect to continue to significantly expand our business to meet the growth in demand for our products, as well as to capture new market opportunities. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures. To manage the potential growth of our operations, we will be required to improve our operational and financial systems and procedures and controls. Our growth to date has strained our resources and made it difficult to maintain and update our internal procedures and controls as necessary to meet the expansion of our overall business. We are in the process of increasing production output with new third party suppliers, and expanding and managing the geographical markets to which we sell into. Our management will also be required to maintain and expand our relationships with customers, suppliers and third parties, as well as attract new customers and suppliers. We expect that our sales and marketing costs will increase as we grow our product lines and as we increase our sales efforts in new and existing markets. We have conducted very limited advertising in the past and cannot assure you that we will be able to make that transition successfully.

There is no assurance that our current and planned operations, personnel, systems, and internal procedures and controls will be adequate to support our future growth. Our ability to increase our productive capacity has been constrained by the timely availability of qualified labour and sufficient production equipment and raw materials. We expect that our general and administrative costs will increase as our operations grow to meet exiting sales orders for our products and for future growth as we increase our sales efforts in new and existing markets.



Our business may be harmed if we do not continue to penetrate markets and continue to grow.

If we fail to further penetrate our core markets and existing geographic markets, or to successfully expand our business into new markets, including seasonal diversity of markets which match to our ability to adjust production levels, or through the right sales channels, the growth in sales of our products, along with our operating results, could be negatively impacted. Some of our competitors are larger and better capitalized than we are and as a result they may be better able to expand more quickly and through more sales channels. Some of our competitors provide end-to-end solutions. We cannot be assured that our efforts to increase market penetration in our core markets and existing geographic markets will be successful. Our failure to do so could have an adverse effect on our business, financial condition and results or operations.

If PV power technology is not suitable for widespread adoption, or if sufficient demand for PV modules does not develop or takes longer to develop than we anticipate, our revenues may not continue to increase or may even decline, and we may be unable to become profitable.

The PV power market is at a relatively early stage of development, and the extent of acceptance of PV module products is uncertain. If PV power technology proves unsuitable for widespread adoption or if demand for PV module products fails to develop sufficiently, we may not be able to grow our business or generate sufficient revenues to sustain our profitability. In addition, demand for PV module products in our targeted markets, including Germany, the United States, and Canada, may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of PV power technology and demand for PV module products, including: cost-effectiveness, performance and reliability of PV power products compared to conventional and other renewable energy sources and products; availability of government subsidies and incentives to support the development of the PV power industry; success of other alternative energy generation technologies, such as fuel cells, wind power, hydroelectric power and biomass; fluctuations in economic and market conditions that affect the viability of renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels; and deregulation of the electric power industry and broader energy industry.

Technological changes in the PV power industry could render our products uncompetitive or obsolete, which could reduce our market share and cause our revenues and profit to decline.

Our failure to further refine our technology, and develop and introduce new PV modules, could cause our products to become uncompetitive or obsolete. We believe we will need to invest significant financial resources in research and development to maintain our market position, keep pace with technological advances in the PV module industry and effectively compete in the future. In addition, if we are unable to manage product transitions, our business and results of operations would be adversely affected. Research and development activities are inherently uncertain, and we could encounter practical difficulties in commercializing our research results. Our significant expenditures on research and development may not produce corresponding benefits. Other companies are developing a variety of competing PV technologies that could produce PV modules that prove more cost-effective or have better performance than our PV modules. As a result, our PV modules may be rendered obsolete by the technological advances of others, which could reduce our revenues and market share.



Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services. In addition, if we are unable to attract, train and retain technical personnel our business may be materially and adversely affected.

Our future success depends substantially on the continued services of our executive officers, especially Dr. John MacDonald, our Chairman and Chief Executive Officer, George Rubin, our President, Neil Lang, our Chief Operating Officer, Leonid Rubin, our Vice President and Chief Technical Officer, John Stonier, our Vice President Finance and Administration and Jacob Brown, our Vice President Business Development and Marketing. If one or more of our executive officers are unable or unwilling to continue being employed by us, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers, in particular those with a significant mix of international PV power industry experience as many of our current officers have. In addition, if any of our executives joins a competitor or forms a competing company, whether in violation of their agreements with us or otherwise, we may lose some of our customers. This situation may further result in loss of intellectual property (such as know-how) as well as unauthorized disclosure of confidential proprietary information that may hinder our technological advantage and, ultimately, ability to compete.

Recruiting and retaining capable personnel, particularly those with technical expertise in the PV power industry are vital to our success. There is substantial competition for qualified technical personnel, and there can be no assurance that we will be able to attract or retain technical personnel. If we are unable to retain and attract qualified employees, our business may be materially and adversely affected

We face risks associated with the marketing, distribution and sale of our PV modules internationally. If we are unable to effectively manage these risks they could impair our ability to expand our business abroad.

A significant portion of our product shipments are to customers located outside of Canada. The marketing, distribution and sale of our PV modules in the international markets expose us to a number of risks, including: difficulties in enforcing agreements in foreign jurisdictions; fluctuations in the currency exchange rates of the euro, the US dollar and the Canadian dollar; difficulty in engaging and retaining distributors who are knowledgeable about and, can function effectively in, overseas markets; increased costs associated with maintaining marketing efforts in various countries; difficulty and cost relating to compliance with the different commercial and legal requirements of the overseas markets in which we offer our products; cultural, language and logistical barriers to working with customers in different countries; and trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries.

Problems with product quality or product performance, including defects in our products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share.

Our products are warranted and designed to last over long periods of time, exceeding 25 years. They may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. These defects could cause us to incur significant costs, including but not limited to product replacement under the terms of our product warranties, divert the attention of our personnel from product development efforts and significantly affect our customer relations and business



reputation. If we deliver PV modules with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our PV module products could be harmed. If defects are discovered in our products, we cannot guarantee that the corrective actions and procedures we take will be adequate to prevent further incidents of the same problem or to protect against future errors or defects.

In addition, because we obtain the PV cells that we use in our products from third parties, we have limited control over the quality of the PV cells we incorporate into our PV modules. Unlike PV modules, which are subject to certain uniform international standards, PV cells generally do not have uniform international standards, and it is often difficult to determine whether PV module defects are a result of the PV cells or other components or reasons. We also rely on third party suppliers for other components that we use in our products, such as glass, frame and backing for our PV modules. Furthermore, the PV cells and other components that we purchase from third party suppliers are typically sold to us without any, or with only limited, warranty. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our revenues to decline.

Since we cannot test our products for the duration of our standard warranty periods, we may be subject to unexpected warranty expense.

Our standard PV modules are typically sold with a five year warranty for defects in materials and workmanship and 10 and 25 year warranties against declines of more than 10% and 20%, respectively, of the designated minimum power generation capacity. We believe our warranty periods are consistent with industry practice. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped our products and recognized revenue. Although we conduct quality testing and inspection of our PV modules and believe that they are free of defects, our PV modules have not been exposed to real-world conditioning for a sufficient time to allow us to draw conclusions regarding their ability to fulfil our warranty obligations in an environment. As a result, we may be subject to unanticipated warranty expense and associated harm to our financial results as long as 25 years after the sale of our products. No warranty costs have been incurred to date, and we have not received notice of any defect in our products from our customers. As a result we do not have any accrued warranty reserves. If in the future our experience changes, we will need to take a warranty reserve.

Fluctuations in exchange rates could adversely affect our business.

Historically, a major portion of our sales were denominated in euros, with the remainder in US dollars. The major portion of our costs and expenses are denominated in US dollars or euros. We also incur a portion of our costs and expenses in Canadian dollars, primarily related to Canadian based labour and overheads. Therefore, fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations. Fluctuations in exchange rates, particularly among the US dollar, the euro, and the Canadian dollar affect our gross and net profit margins and could result in fluctuations in foreign exchange and operating gains and losses. We cannot predict the impact of future exchange rate fluctuations on our results of operations and we may incur net foreign currency losses in the future. Our exposure to currency gains or losses resulting from timing differences between signing of the purchase contracts and settling of these contracts creates additional foreign exchange risk.

Our quarterly operating results may fluctuate from period to period.



Our quarterly operating results may fluctuate from period to period based on the seasonality of consumer spending and industry demand for PV products. In addition, purchases of products tends to decrease during the winter months in our key markets, such as Germany, due to adverse weather conditions that can complicate the installation of PV systems. As a result, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycle for our products.

The customers for our PV modules, whether direct or indirect, typically invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to purchase our PV modules. Typically, the larger the potential sale, the more time, money and other resources will be invested. As a result, it may take months after our first contact with at customer before a sale can actually be completed. We may invest significant sales and other resources in a potential customer that may not generate revenue for a substantial period of time, if at all. The time required for implementation of our PV modules varies among our customers and may last several months, depending on our customers' needs, the resources they apply to a project, and the quantity of PV modules deployed.

During these long sales and implementation cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled. For example: purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty; we or our competitors may announce or introduce new products; or the customer's own budget and purchasing priorities may change.

If these events were to occur, sales of our PV modules may be cancelled or delayed, which would reduce our revenue.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

As with other PV module manufacturers, we are exposed to risks associated with product liability claims if the use of our PV modules results in injury or property damage. Since our products generate electricity, it is possible that users could be injured or killed by our products as a result of product malfunctions, defects, improper installation or other causes. Because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. Although we carry what we believe to be adequate product liability insurance, we may not have adequate resources to satisfy a judgment if a successful claim is brought against us. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Even if the product liability claims against us are determined in our favour, we may suffer significant damage to our reputation and incur substantial legal costs.

Compliance with environmental regulations can be expensive, and non-compliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines and suspensions of our business operations.

We are required to comply with all national and local regulations regarding protection of the environment in the jurisdictions in which we sell our PV modules. Such environmental laws and regulations include



those governing discharge of pollutants into the air and water, the use, management and disposal of hazardous materials and wastes, the cleanup of contaminated sites and occupational health and safety. We have incurred and will continue to incur costs and capital expenditures in complying with these laws and regulations. We believe that our manufacturing processes do not generate any material levels of noise, waste water, gaseous wastes or other industrial wastes and that we are in full compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business as it is presently conducted. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease manufacturing operations. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines, suspensions of our business operations or criminal proceedings.

We may be subject to challenges by taxing authorities that may adversely affect our business.

Although we are of the view that all expenses and tax credits claimed by us, including Canadian research and development expense and related tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the taxation authorities will agree. If the taxation authorities successfully challenge such expense or the correctness of such income tax credits claims, our operating results could be adversely affected. In Canada, if the taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, our operating results will be adversely affected.

We do not currently intend to pay any cash dividends on our common shares in the foreseeable future and therefore our shareholders may not be able to receive a return on their shares unless they sell them.

Our current policy is to retain earnings to finance the development of new lines of products and to otherwise reinvest in our business. Therefore, we do not anticipate paying cash dividends in the foreseeable future. Our dividend policy will be reviewed from time to time by the Board of Directors in the context of our earnings, financial condition and other relevant factors. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on our common shares unless they sell them.

We may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us.

If we are not able to achieve profitability, we may require additional equity or debt financing. There can be no assurances that we will be able to obtain additional financial resources on favourable commercial terms or at all. Failure to obtain such financial resources could affect our plans for growth, or result in us being unable to satisfy our obligations as they become due, either of which could have a material adverse effect on our business and our financial condition.

The impact of geopolitical and other global or local events may have a significant effect on our operations.

Various events, including natural disasters, extreme weather conditions, labour disputes, civil unrest, war, political instability, terrorism, and contagious illness outbreaks, or the perceived threat of these events, may cause a disruption of our normal operations and may disrupt the domestic and international travel of our sales and other personnel. Any disruption in the ability of our personnel to travel could have a material adverse effect on our business, results of operations and financial condition. In addition, these events or the perceived threat of these events may require us to reorganize our day-to-day operations to minimize the associated risk. Any expense related to the reorganization of our day-to-day operations, even on a short-term basis, could also have a material adverse effect on our business, results of operations and financial condition.

16. Subsequent Events

On January 5, 2009, the company announced the implementation of an overall headcount reduction of approximately 95 staff at the Burnaby production facility. This workforce reduction plan was approved by the company's directors prior to year-end. The costs associated with the workforce reduction of \$0.6 million have been included in accrued liabilities as at December 31, 2008.

As part of our outsourcing arrangement with Jabil, on January 26, 2009, the company closed an Asset Purchase Agreement 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 in the original acquisition currency. These assets have been reclassified to current assets as at December 31, 2008. The total value of the equipment sold is \$8.2 million, of which \$2.7 million relates to completed equipment held by the company as at December 31, 2008 and the remaining \$5.5 million relates to deposits paid by the company on equipment still under construction by the supplier.

On February 20, 2009, the company reached an agreement with a supplier to reduce pricing on contractual commitments as disclosed in *Section 8, Liquidity and Capital Resources, Off-Balance Sheet Arrangement and Contractual Obligations*. 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.	94.0	329.1
2010	158.	284.4	442.5
2011	84.	9.4	93.6
	(US\$391.9) 477.	(US\$318.3) 387.8	(US\$710.2) 865.2

17. Outlook

The underlying instability in the economy and an extended weather delay in our primary market of Germany well into the first quarter of 2009 are expected to impact our results for early part of the year. The primary market for the solar industry combined with the broader economic credit issues have continued a downward trend to the date of this report. Expectations are being lowered across the board due to tight credit markets, a slowing end-demand, near term industry oversupply, ASP pressure and volatile foreign exchange. Balance sheet and operational strengths such as a sound strategic business plan and differentiated product offerings are expected to help long term viability in this sector.

We believe that our low capital expense requirements, differentiated technology and focus on core competencies allows us a position among the better solar providers and we hope to gain market share from our competitors over the next year or two.

The primary objectives for our business in 2009 will include:

1. Successfully integrate our new outsourcing partner, Jabil, into our sales and distribution plans.
2. Manage our PV cell supply agreements to ensure we can meet satisfactory gross margins to meet our objective of positive cash flow in 2009.
3. Building a strong “Day4” brand based on high quality products and new product lines that have exceptional long term performance characteristics, and provide the highest return on investment to our customers;
4. Continuing the research and development of our intellectual property into new commercial products and pursue technological improvements surrounding photovoltaic systems in general;
5. Continuing to manage our finances prudently balancing the need for growth and expansion with the necessary financial discipline required to navigate the current macro-economic and sector specific realities with a goal to achieving positive cash flow in 2009.

18. Additional Information

Additional information relating to Day4, including Day4’s Annual Information Form, is available on SEDAR at www.sedar.com.