CARMANAH TECHNOLOGIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012

MAY 14, 2012

Caution regarding forward-looking statements

Certain statements in this Management Discussion & Analysis ("MD&A") are forward-looking statements that involve risks and uncertainties. Forward statements are often, but not always, identified by words such as "may", "would", "could", "will", "intend", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" and similar expressions. Forward-looking statements in this MD&A include, but are not limited to, statements relating to the expected growth opportunities and commercial acceptance and demand for on-grid and off-grid LED lighting systems, continued government subsidies for solar grid-tie projects, and the successful development of new products to help penetrate new geographic markets.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual results or events to differ materially from those anticipated in such forward looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, prospective investors cannot be assured that actual results will be consistent with these forward-looking statements. In evaluating these statements, readers should specifically consider various factors, including the risks discussed under the heading "Risk Factors" in our annual information form dated March 14, 2012. Additionally, factors that could cause or contribute to such differences include, but are not limited to, the following:

- actions of competitors, including competitors with greater name recognition and financial resources;
- our ability to keep pace with rapid changes in lighting technology and evolving industry standards;
- competition with other energy sources;
- slower than anticipated adoption of off-grid LED lighting technology;
- our ability to manage expansion effectively;
- fluctuation in foreign currency exchange rates;
- our reliance on third party manufacturers;
- our reliance on sales agents and third parties with whom we have developed strategic relationships to sell our products, particularly in niche markets and developing and emerging economies;
- our reliance on key employees;
- intellectual property risks;
- environmental and regulatory compliance;
- our reliance on government contracts and subsidies, such as the Ontario, Canada Feed-in Tariff ("FIT") program;
- problems with product quality or reliability;
- downturns in general economic and market conditions;
- our ability to maintain adequate liquidity or raise additional capital when needed; and
- geopolitical or other global or local events.

Readers should not place undue reliance on forward-looking statements. The forward-looking statements in this MD&A are made as of the date hereof. We do not assume any obligation to update the forward-looking information contained in this MD&A other than as required by applicable laws (including without limitation Section 5.8(2) of National Instrument 51-102 Continuous Disclosure Obligations).

Management's discussion and analysis

This MD&A discusses the consolidated financial condition and operating performance for our Company and should be read together with our condensed consolidated interim financial statements for the three months ended March 31, 2012. These documents, along with additional information about our Company, including the Annual Report and Annual Information Form, are available at www.carmanah.com and www.sedar.com. This document contains forward-looking information qualified by reference to and should be read together with, the forward-looking statements above.

Unless otherwise indicated, all financial information presented in this MD&A is in our functional and presentation currency, United States of America ("US") dollars, and has been prepared in accordance with Internal Financial Reporting Standards ("IFRS").

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Carmanah Solar Power Corporation (a Canadian incorporated company), Carmanah Technologies Corporation (a US incorporated company), and Carmanah Lightech 2010 Ltd (an Israel incorporated company).

Preparation of the MD&A

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to our senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. Our management determines whether or not information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated. The MD&A and the condensed consolidated interim financial statements were reviewed by our Audit Committee and approved by our Board of Directors. This MD&A is prepared as of May 14, 2012.

Our management has issued guidance on and reports on certain non-IFRS measures to evaluate performance. As non-IFRS measures generally do not have a standardized meaning, securities regulations require non-IFRS measures to be clearly defined, qualified and reconciled with their nearest IFRS measure. Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") used in this document means Standardized EBITDA as defined by the Canadian Performance Reporting Board of the Canadian Institute of Chartered Accountants ("CICA"). The term Adjusted EBITDA used in this document deducts from Standardized EBITDA, items of an unusual nature that do not reflect our ongoing operations. See Section 8 for the definition, calculation and reconciliation of Adjusted EBITDA.

Table of contents:

Section		Contents
1	Financial Highlights	A summary of our consolidated results for the fourth quarter and year ended December 31, 2011
2	Our Business	An overview of our business and the markets we operate in.
3	Operational Highlights	A discussion regarding key operating activities during the period
4	Financial Results	A discussion of our financial performance for the period
5	Liquidity, Capital Resources and Other Disclosures	A discussion of our operating cash flows, investments and financing activities, as well as liquidity, credit facilities and other disclosures
6	Liquidity and Capital Resources	A discussion of our operating cash flows, investments and financing activities, as well as liquidity, credit facilities and other disclosures
7	Critical Accounting Estimates and Accounting Policy Developments	Accounting estimates that are critical to determining financial results, and changes to accounting policies
8	Risks and Risk Management	Updates on certain risks and uncertainties facing us
9	Definitions and Reconciliations	Definitions of operating, liquidity and capital resource measures, including calculation and reconciliation of certain non-IFRS measures used by our management

1. FINANCIAL HIGHLIGHTS

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

Financial Highlights for the Three Month Period Ended March 31, 2012 and 2011

(US$ thousands, unless noted otherwise)	**Three months ended March 31**		
	2012	2011	Change
Consolidated statements of income			
Revenue	5,357	9,552	(43.9)%
Gross margin %	37.2%	32.4%	14.8%
Operating expenditures	(2,939)	(2,808)	4.7%
Other income (expenses)	35	(27)	(229.6)%
Net income (loss)	(911)	158	(676.6)%
Consolidated statements of cash flows			
Cash provided/(used) in operating activities	(499)	168	(397.0)%
Cash used in investing activities	(71)	(54)	31.5%
Cash provided in financing activities	-	-	-
Other measures			
Adjusted EBITDA *	(573)	693	(182.7)%

**Adjusted EBITDA is a Non-IFRS measure – see section 8 for discussion*

The following is an overview of our results comparing the first quarter of 2012 to the first quarter of 2011:

- Consolidated revenue decreased by $4.2 million or 43.9% for the three months ended March 31, 2012 compared to the same period in 2011. Approximately 60% of this decrease is the result of significantly lower Grid-tie revenues due to a delay in contract awards. The delays relate to uncertainties in Ontario's Feed In Tariff ("FIT") program which have now been resolved. Grid-tie revenues are expected to pick up in the balance of 2012. The remainder of the decrease is primarily due to the longer than expected timing of closing sales in our Outdoor Lighting and Aviation markets as well as the first quarter of 2012 not having a number of larger project based sales compared to the same period in 2011.
- Gross Margin % increased by 4.8% for the three months ended March 31, 2012 compared to the same period in 2011. This increase is primarily due to a change in sales mix, with substantially greater percentage of sales coming from our higher margin lighting and mobile businesses.
- Operating expenditures increased by $0.1 million for the three months ended March 31, 2012 compared to the same period in 2010. This increase is primarily due to an increase in our employee base as we hired a number of individuals to expand our sales and marketing departments in an effort to build future revenue growth.
- Other expenses for the three months ended March 31, 2012 were $0.03 million and primarily related to foreign exchange gains recognized on the revaluation of foreign denominated working capital. In the comparable period in 2011, we recorded other expenses of $0.03 million. This primarily consisted of $0.06 of investment tax credits recognized and $0.1 million of legal costs surrounding the termination of our unsuccessful merger with Lightech Electronics Ltd ("Lightech").
- Net loss for the three months ended March 31, 2012 was $0.9 million down from a net income of $0.2 million in the same period in 2011. This decrease was primarily driven by to the lower revenues in the first quarter of 2012.
- Adjusted EBITDA for the three months ended March 31, 2012 was negative $0.6 million, down from positive $0.7 million in the same period in 2011.
- Liquidity and capital resources highlights, with a comparison between March 31, 2012 and December 31, 2011:
  - We have a committed $Cdn10.0 million credit facility at March 31, 2012, similar to the prior year. We are currently not drawing on this credit facility.
  - During the three months ended March 31, 2012, our overall cash balance declined by $0.6 million. This decrease was largely the result of the net loss during the period.
    - Cash used in operating activities, for the three months ended March 31, 2012 was $0.5 million, compared to cash provided of $0.2 million in the same period in 2011.
    - Cash used in investing activities, for the three months ended March 31, 2012 was $0.1 million, which is comparable to the same period in the prior year.

2. OUR BUSINESS

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

From our headquarters in Victoria, British Columbia, Canada, we design, develop and distribute renewable and energy-efficient technologies. Our business is divided into two operating segments, the "Lighting" division and the "Solar Power Systems" division. Our Lighting division includes two market lines: (1) solar-powered beacons for marine, aviation, obstruction, and traffic applications (referred to as our "Signals" or "Signaling" market sector), and (2) solar-powered outdoor area lighting (referred to as our "Outdoor Lighting" market sector). Our Solar Power Systems division includes grid-tie solar power systems for industrial applications (our "Grid-tie" market sector) and mobile power systems (our "Mobile" market sector). These businesses are described in our 2011 annual MD&A. Any significant changes that have occurred in 2012 related to these businesses are outlined in the operational highlights section below.

3. OPERATIONAL AND BUSINESS HIGHLIGHTS

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

Our operational & business highlights to date in 2012 include:

- Successfully negotiated and signed two long term exclusive cooperation agreements to enhance our portfolio and strengthen our network of strategic partnerships with the following companies:
  - Sabik Oy ("Sabik"), our marine signaling partner based in Finland which we have worked with over the past few years. The five year agreement expands on our previous two year sales and marketing collaborations and to include a deeper integration of joint product development.
  - Laser Guidance Inc., a US based pioneer in the aviation precision guidance systems. The agreement provides us with a five year exclusive world-wide marketing license for a portfolio of Laser Guidance aviation navigation aids.
- Embarked on major development efforts for our signaling products which will see a variety of new products launched this year, most significantly a new state of the art Marine signal lantern to replace our 700 series lights and a new Traffic signaling device that improves crosswalk safety.
- Launched a number of new and innovative products in our Aviation, Outdoor lighting and mobile segments. Details of these product releases are outlined in the next section under the relevant segment update.

- Expanded our focus on revenue growth with the hiring of an additional five sales employees to complement our new vertical orientated sales structure. Under this new structure, each market vertical has its own leadership and supporting team and is directly responsible for driving the planning, development and execution within the market.

The following sections highlight significant events within our specific divisions and various market segments.

3.1. Lighting Division

Signals market segment

In our Aviation and obstruction market segments, we have focused heavily on strengthening our strategic partnerships and on the launching of several exciting new products. We:

- Negotiated and signed a five year exclusive cooperation agreement with Laser Guidance Inc. ("LG"). This agreement, which was signed in early April 2012, provides us with the exclusive world-wide marketing license for a portfolio of LG aviation navigation aids which includes versions of the Precision Approach Path Indicators ("PAPIs"), Helicopter Approach Path Indicators ("HAPIs") and Medium Intensity Approach Light System with Runway Alignment Indicator Light ("MALSR"). Under the agreement, both of our companies will cooperate on a wide range of strategic development and manufacturing efforts, as well as marketing campaigns. This agreement also allows us to provide a comprehensive aviation solution that now includes the entire range of products needed for complex aviation operations, increasing safety of flight in almost all weather conditions and breaking down barriers to important new markets for our solar lights. Financial terms of the agreement include fixed payments to LG totalling $0.45 million over a 12 month period, plus variable compensation of 2% of airfield revenues that include LG products during the term.
- Launched a number of new products. In the aviation market we launched the A704-H and the A703. The A704-H, already deployed by the US Marine Corps, sets an important new standard for solar LED lighting intensity in the aviation market, meeting the FAA standards for medium intensity runway lighting ("MIRL"), and high intensity runway lighting ("HIRL") up to 500 candela (in white). This breakthrough development in high-intensity solar lighting signifies a major advancement in the marketplace. This light is capable of being powered using either AC (cable) power or solar energy. The A703, which was immediately adopted by the Japanese Military as a cost effective emergency airfield light, is a low cost version of the A704-H with reduced functionality. In the obstruction market, we launched an upgraded version of our obstruction light (A704-I) and began selling a number of Sabik lights, including the LED 110, 155 and 350 lights. These lights are ICAO and FAA certified, come in hard-wired and self-contained solar variants, and have important new communications capabilities such as Global System for Mobile Communications ("GSM") for remote monitoring of tower and structure lighting.

We anticipate future sales growth as a result of this new strategic partnership and product launches with momentum building over the near term

In our Marine segment we continued to strengthen our relationship with Sabik with the signing of a five year exclusive cooperation agreement. This agreement with Sabik builds upon the successful two year history of marketing and sales collaboration and includes reciprocal access to technology and includes joint product development. The combined resources of the two companies will continue to ensure a leadership position in the marine signaling market is maintained based upon leading edge technologies

Other highlights within our Marine market segment include:

- Developing a GPS-synchronized flash enabled M650 and announcement of its launch in early April 2012. The M650GPS is based on our industry-proven and highly successful M650 lantern, and provides up to 3 nautical miles of visibility and produces up to 44 candela of light output (green). This lantern will be targeted at the Oil and Gas sector as well as more traditional markets as well.
- Concluding a reciprocal distribution agreement within the USA Oil and Gas market with EESI Corp of Lafayette, Louisiana, USA. EESI is integral in our growth plans for the North American continent.
- Launching a new marine product development program that will see some of our current product line replaced by innovative new technology in the near future.

In our Traffic segment, we completed our review of the opportunity and determined there is a strong case for investment in this market. As a result, we have hired a new managing director and have begun development of a new signal approved by US Federal Highways Administration for improving crosswalk safety. The rectangular rapid flashing beacon ("RRFB") provides unprecedented vehicle yielding behaviour and is a cost-effective and popular solution for cities undertaking pedestrian improvements. The industry is moving towards 'Complete Streets' policies which are a shift towards accommodating pedestrians and cyclists. Funding priorities are subsequently re-aligning towards products such as RRFBs. We expect some revenue growth in the segment over the coming quarters' following the RRFB launch which is planned for in the second quarter of 2012.

Outdoor Lighting market segment

In our Outdoor Lighting market segment, we continued to build our sales channels outside North America, completed the planned expansions of our low cost EG series and continued to help drive new industry standards through our support of the new Consortium for Solar Lighting (the "Consortium"). During the quarter, we:

- Continued our focus on markets outside of North America. We are working with local partners to build relationships and to obtain relevant certifications as necessary. A bright spot has been our success in the Mexican market, which over the past two quarters has accounted for approximately 20% of total outdoor lighting sales. Near term sales growth outside North America will continue to be lumpy as we develop sales channels in each market and work through the timing of negotiating and closing these infrastructure style projects.
- Launched the new EG 500 and completed the development on the new EG 145 which was officially released in early May 2012. The EG 500 is our most powerful solar-powered outdoor light to date and is capable of providing over 11,000 lumens for multi-lane highway applications. The new EG 145, at just under 3,000 lumens, is an ideal solution for outdoor path, area and small roadway applications in cost-sensitive markets. With these products, the planned line of value-engineered high performance EG products comprises a portfolio ranging from small area/pathway lights to full highway/freeway applications
- Advanced our progress in the Lighting Consortium. As previously noted in our Annual MD&A, we are one of the founding members of this organization whose purpose is to establish an industry-wide cooperative aimed at developing standards and guidelines for outdoor solar lighting that represents quality, reliability and performance. The Consortium has recently been incorporated in the US and a third party manager has been hired to manage operations. With this, the Consortium is now able to actively recruit members and seek funding assistance.

3.2. Solar Power Division

Grid-tie market segment

The anticipated two year review of the Ontario's FIT program commenced in October 2011, following the provincial elections. After considerable consultation with community groups, municipalities, the energy industry and associations, Aboriginal communities and organizations, environmental groups, consumer advocacy groups, as well as interested individuals the results were released in the first quarter of 2012. The objective of the review was to ensure the long-term sustainability of the program and to strike a balance between the interests of the rate payers and the need to continue building a viable renewable energy industry in the province of Ontario. The updated FIT program focussed on six strategic areas:

- Continued commitment to clean energy
- Streamline processes and create jobs.
- Encourage greater community and Aboriginal participation.
- Improve municipal engagement.
- Reduce price to reflect lower costs.
- Grow Ontario's clean energy economy

Overall we feel that the changes as noted above are positive to help support the objectives of the review and continue to see growth opportunities in Ontario.

During the first quarter of 2012, we saw a significant decrease in our revenues over the same period in 2011, as contract awards industry wide were delayed until the review of the FIT program was completed. Consequently, we focused on a smaller number of larger potential contract bids with the goal of building up our pipeline of work for the remainder of the year. Subsequent to quarter end, we announced a $1.3 million project with PowerStream at the Mt Joy Community Center. We have also recently announced two other projects totalling $1.1 million in Markham at the Milliken Mills and RJ Clatworthy Community Centers. We continue to maintain our position as a market leader for engineer-procure-construct ("EPC") services for commercial rooftop grid-tie systems.

Mobile market segment

Our Mobile market sector, during the first quarter of 2012, was mainly focused on the Canadian Recreational Vehicle ("RV") market with the most successful annual booking program in recent years. We are encouraged by the sales activity and the size of the revenue opportunities and feel there is some renewed momentum in the marketplace. The Go Power! brand was further strengthened by the introduction of a new series of automotive power supply chargers which allows further expansion into new markets. Our objective is to maintain our position as the market leader in the North American RV after-market and the work truck "power solutions".

4. FINANCIAL RESULTS

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

As previously noted, the information presented in the sections below have been derived from, and should be read in conjunction with our condensed interim consolidated financial statements for the period ended March 31, 2012.

4.1. Quarterly trend

(US$ thousands, except EPS amounts)	**2012**			**2011**			2010	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	5,357	7,124	8,503	10,725	9,552	9,311	8,566	7,956
Gross margin	1,993	1,961	2,924	3,281	3,096	2,422	3,006	2,694
Gross margin %	37.2%	27.5%	34.4%	30.6%	32.4%	26.0%	35.1%	33.9%
Operating costs	(2,939)	(2,904)	(2,670)	(3,157)	(2,808)	(3,622)	(2,927)	(3,567)
Other income (expense)	35	(3,958)	165	(244)	(27)	(4,109)	17	(145)
Income tax recovery (expense)	-	(3,987)	(68)	(54)	(103)	1,206	(42)	300
Net income/(loss)	(911)	(8,888)	351	(174)	158	(4,103)	54	(718)
EPS – Basic	(0.02)	(0.21)	0.01	0.00	0.00	(0.10)	0.00	(0.02)
EPS– Diluted	-	-	0.01	-	0.00	-	0.00	-
Adjusted EBITDA[1]	(573)	(423)	426	633	693	(262)	1,010	(599)

[1] *Adjusted EBITDA is a non-IFRS measure defined in section 8*

Quarterly revenues have fluctuated over the past couple of years. This is primarily due to the lumpy nature of our revenues within our product lines. In addition, a large portion of our revenues are derived from infrastructure projects that often have longer tender processes as well as negotiation and closing timelines. This is most pronounced within our Grid-tie, Aviation/Obstruction, and Outdoor Lighting market segments, and to a lesser extent within our Marine and Traffic markets. The Mobile market segment, on the other hand, is more seasonal in nature with higher revenues in the first two quarters as our distributors gear up for the busier spring and summer periods. Grid-tie sales are also typically lower in the fourth quarter due to limited construction in the winter months as a result of the in climate weather. From a quantitative perspective, a significant portion of the revenue growth between the fourth quarter of 2010 and the second quarter of 2011 was due to an increase in the number and size of grid-tie projects, which has seen strong demand as a result of the Ontario FIT program. However, Grid-tie sales fell overall in the third and fourth quarters of 2011 and in the first quarter of 2012 due a slowing in the Ontario Grid-tie market place as a result of uncertainty surrounding the FIT program resulting from the Ontario provincial election followed by the schedule review of the FIT program. This created industry wide delays in contract awards.
Our gross margin varies on a quarterly basis and is reflective of the product revenue mix and any inventory adjustments/write-offs that are tied to changes in component pricing, technology, and product offering/design. Historically, we see lower margins in the fourth quarters of each year as revisions are made to operational and product plans that often impact the recoverability of inventory.

Our operating costs and in particular compensation costs have been reduced since the fourth quarter of 2010 as a result of our restructuring initiatives. Offsetting some of these savings was the expensing of research and development costs related to new product design starting in the third quarter of 2010.

Our other income (expense) has fluctuated significantly over the quarters. Other income (expense) includes various non-operating items such as foreign exchange gains and losses, major asset write offs, acquisition costs, and other items. The major spike in other expenses in fourth quarter of 2010 was due to a write off of development intangibles and costs incurred in the terminated Lightech acquisition. An additional spike in other expenses occurred in the fourth quarter of 2011, due to our decision to write-off of our Investment Tax Credits, as we concluded that the probability of utilizing the credits in the near term was in question due to our current and anticipated revenue stream, our historical net income results, and our early stage of development in key markets. Other fluctuations have mainly related to foreign exchange gains and losses, and additional costs surrounding the terminated Lightech acquisition lawsuit.

4.2. Three month periods ended March 31, 2012 and 2011

Revenue and gross margin

(US$ thousands, unless noted otherwise)	Three months ended March 31		
	2012	**2011**	**Change**
Revenues			
Signals	2,934	3,875	(24.3)%
Outdoor lighting	776	1,521	(49.0)%
Total Lighting	**3,710**	**5,396**	**(31.2)%**
Grid-tie	54	2,485	(97.8)%
Mobile	1,593	1,671	(4.7)%
Total Solar Power Systems	**1,647**	**4,156**	**(60.4)%**
Total revenue	**5,357**	**9,552**	**(43.9)%**
Gross margin %			
Signals	40.9%	44.3%	(3.3)%
Outdoor lighting	28.5%	31.2%	(2.8)%
Total Lighting	**38.3%**	**40.6%**	**(2.3)%**
Grid-tie	(7.4)%	15.5%	(22.9)%
Mobile	36.1%	31.1%	5.0%
Total Solar Power Systems	**34.7%**	**21.8%**	**12.9%**
Total Gross margin %	**37.2%**	**32.4%**	**4.8%**

Revenues for the three months ended March 31, 2012 were $5.4 million, down $4.2 million from the comparable period in 2011. Approximately 60% of this decrease is the result of significantly lower Grid-tie revenues due a delay in contract awards as a result of the uncertainty relating to the future of the Ontario, Canada FIT program. With the resolution of these uncertainties, grid-tie revenues are expected to pick up in the balance of 2012. The remainder of the decrease is primarily due to the longer than expected timing of closing sales in our Outdoor Lighting and Aviation markets as well as the first quarter of 2011 having a number of larger project based sales compared to the same period in 2012.

Lighting

Revenues from our Lighting division for the three months ended March 31, 2012 were $3.7 million, down $1.7 million from the comparable period in 2011.

Within Lighting, our Signals revenues for the three months ended March 31, 2012 were $2.9 million, down $0.9 million from the comparable period in 2011. Our:

- Aviation/Obstruction revenues were $0.9 million, down $0.5 million over 2011, primarily due to approximately $0.6 million in major project sales being recognized in the first quarter of 2011 with no similar material sales being closed on in the first quarter of 2012. Ignoring the timing of these material onetime project sales, our regular run rate revenue in this vertical is up year over year.
- Marine revenues were $1.5 million, down $0.1 million, essentially comparable to the same period in 2011.
- Traffic revenues were $0.6 million, down $0.3 million from 2011, due to a reduced focus on this market in 2011. As previously mentioned in the operational highlights section, during the first quarter of 2012 we undertook and completed our review of the market opportunity and determined there is a strong case for investment in this vertical. As a result, we have hired a new leader for the traffic vertical and have also initiated some product development efforts. We expect revenue growth in the segment in the near term as new products are launched.

Outdoor lighting revenues for the three months ended March 31, 2012 were $0.8 million, down $0.7 million from the comparable period in 2011. The decrease is primarily due to the longer than expected timing of closing infrastructure project sales from emerging countries as well as the fact that during the first quarter of 2011, a $0.6 million sale was recognized with no comparable significant sale in the same period of 2012. This highlights the continued lumpiness of our revenues in this segment. If we exclude the $0.6 million sale in the first quarter of 2011, our general run-rate business is actually up year over year.

The Lighting division gross margin percentage during the first quarter of 2012 was 38.3%, down from 40.6% in the first quarter of 2011, due to recoveries recognized in 2011 relating to previously impaired inventory components.

Solar Power Systems
Solar Power Systems revenues for the three months ended March 31, 2012 were $1.7 million, down from $4.2 million in the comparable period in 2011. This decrease is primarily due to lower grid-tie sales which $0.1 million, compared to $2.5 million in 2011. This decrease in grid-tie revenues was a result of a delay in contract awards as a result of the uncertainty relating to the future of the Ontario's FIT program. With resolution in the uncertainty of the FIT program, grid-tie revenues are expected to pick up in the remainder of 2012. Mobile sales were $1.6 million, down slightly from $1.7 million from 2011.

The gross margin percentage during the first quarter of 2012 for our Solar Power Systems division was 34.7%, up from 21.8% in the same period in 2011. This increase is mainly due to the sales mix between Mobile and Grid-tie, with significant less low margin grid-tie sales compared to higher margin mobile sales recognized in the first quarter of 2012 compared to the same period in 2011

Sales by geographic region
All of our international revenues have been generated by our Lighting division, as our Grid-tie business is currently solely focused on the Canadian market and our Mobile generated from the Canadian and US RV markets.

During the three months ended March 31, 2012, approximately 18.9% of our revenues were from outside North America. This is down from 20.2% in the same period of 2010.

We are focused on increasing our international revenues by modifying and developing products to serve the rapidly growing markets outside North America, and fostering new and existing partnerships within strategic markets.

Operating expenses

(US$ thousands, unless noted otherwise)	**Three months ended March 31**		
	2012	**2011**	**Change**
Sales and marketing	999	722	38.4%
Research and development	359	522	(31.2)%
General and administration	1,581	1,564	1.1%
Total operating expenditures	**2,939**	**2,808**	**4.7%**
Operating expenses (excluding restructuring) as % of sales*	54.9%	29.4%	25.5%
Non-cash items:			
Amortization	*277*	*275*	*0.7%*
Stock-based payments	*61*	*57*	*7.0%*

** A Non-IFRS measure*

Our total operating expenses for the three months ended March 31, 2012 were $2.9 million, up $0.1 million from the comparable period in 2011, primarily due to an increase in head count as we hired a number of sales and marketing related staff to support our market verticals in our effort to build future revenue growth. Operating costs as a percentage of sales has increased to 54.9% from 29.4%, primarily due to lower revenues.

Sales and marketing
Our sales and marketing expenses for the three months ended March 31, 2012 were $1.0 million, up from $0.7 million in the comparable period in 2011. This increase was due to higher salaries and travel costs as we hired and transferred a number of staff into sales and marketing roles in an effort to focus on increasing revenues.

Research and development
Our research and development ("R&D") expenses for the three months ended March 31, 2012 were $0.4 million, down from $0.5 million in the comparable period in 2011, primarily due to reduced salaries as a number of support positions were realigned as sales support and are now classified under sales and marketing.

General and administration
Our general and administration ("G&A") expenses for the three months ended March 31, 2012 were $1.6 million, unchanged from the comparable period in 2011. Overall, there were some small increases in rent, insurance, and legal costs, but these were offset by lower salaries and IT cost.

Other income (expense)

Our other income (expense) relate mainly to interest, foreign exchange gains or losses and various miscellaneous non-operating items. During the three months ended March 31, 2012, we recorded other income of $0.03 million, primarily related to foreign exchange gains recognized on the revaluation of foreign denominated working capital. In the comparable period in 2011, we recorded other expenses of $0.03 million as $0.06 of investment tax credits was recognized and $0.1 million of legal costs surrounding the termination of our unsuccessful merger with Lightech Electronics Ltd ("Lightech") were incurred.

Income taxes

During the three months ended March 31, 2012, we recorded no income tax expense or benefit as, effective this year, we are no longer recognizing the benefit of tax losses and other temporary differences. In the comparable period, we had recognized an expense of $0.1 million related to future income tax.

5. LIQUIDITY, CAPITAL RESOURCES AND OTHER DISCLOSURES

The discussion in this section is qualified by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

5.1. Summary of consolidated statement of cash flows

Three months ended March 31 *(US$ thousands, unless noted otherwise)*	2012	2011	Change
Cash provided/(used) in operating activities	(499)	168	(397.0)%
Cash used in investing activities	(71)	(54)	31.5%
Effects of exchange rate changes on cash	(34)	(27)	25.9%
Total change in cash	**(604)**	**87**	**(794.3)%**

Cash used in operating activities

During the three months ended March 31, 2012, cash used by our operating activities, excluding changes in working capital, was $0.5 million compared to $0.6 million cash used in the same period last year. Changes in working capital were slightly negative in 2012 and negative $0.4 million in the same period in 2011. The swing in working capital in 2011 was primarily due to an increase in receivables and a decrease in payables due to ongoing grid-tie projects at that time. We actively manage our working capital by monitoring inventory turnover data, collection of accounts receivable, and taking advantage of trade discounts and/or extended payment terms granted by suppliers.

Cash used by investing activities

During the three months ended March 31, 2012, cash used for investing activities was $0.1 million, a comparable amount to the same period in 2011. In both years, the additions mainly related to minor investment in IT hardware and software.

5.2. Liquidity and capital resource measures

We continue to have no debt and have the financial resources necessary to fund our operating and capital requirements and to execute on our organic growth strategies. Our total cash balance has decreased by $0.6 million since December 31, 2011. This decrease was largely the result of substantially lower revenues.

Of the $4.3 million total cash balance at March 31, 2012, $0.5 million (December 31, 2011 - $0.7 million) was externally restricted by our bank due to outstanding performance letters of credits on specific grid tie projects, and to secure credit associated with our corporate credit cards and foreign exchange hedging products.
Our overall working capital decreased to $7.1 million at March 31, 2012 compared to $7.8 million at December 31, 2011.

5.3. Credit facilities

We currently have a credit facility with the Bank of Montreal ("BMO"), which could provide us with access to a committed operating facility of up to $Cdn10.0 million until July 2012. This credit facility carries certain covenants such as earnings thresholds that limit the amount available to us. We are currently not drawing on this credit facility.

Overall, we anticipate that our cash and cash equivalents and cash flow from operations will be sufficient to fund future operations and capital expenditures. Our current strategy is to continue to finance our planned organic growth through internally generated funds.

5.4. Contractual obligations and commitments

We have a manufacturing services agreement with Flextronics Industrial Ltd. ("Flextronics"), a contract manufacturer, to build and supply a large portion of our manufactured products. Under this agreement, we are required to provide demand forecasts to Flextronics for our expected sales. Flextronics utilizes these forecasts to acquire raw materials and inventory to support that demand. If our sales are below the demand forecasts, we are then required to purchase the excess inventory. The value of the Flextronics inventory held at March 31, 2012 was $1.1 million (December 31, 2011 - $1.2 million), and the value of planned purchase orders to support our expected future demand was $2.4 million (December 31, 2011 - $2.3 million).

As noted in section 3.1, under the financial terms of the exclusive cooperation agreement with LG, we are committed to pay fixed payments to LG totalling $0.45 million over a 12 month period, plus variable compensation of 2% of airfield revenues that include LG products during the five year term of the agreement.

There have been no other substantial changes in contractual obligations since those reported in the 2011 annual MD&A.

5.5. Claims and lawsuits

None

5.6. Contingent liability

We previously disclosed that we had a potential contingent liability associated with an international trade dispute currently being examined by the US Department of Commerce ("DOC"). This action was filed by certain US solar manufacturers and alleges that Chinese solar manufacturers receive unfair subsidies in the production of solar cells. After additional research and validation, it appears none of the solar panels utilized in our businesses would be subject to this action.

5.7. Off balance sheet arrangements

We have not entered into any off balance sheet arrangements other than standard office/facility lease agreements.

5.8. Related party transactions

None

5.9. Outstanding share data

Our common shares trade on the Toronto Stock Exchange ("TSX") (TSX: CMH), and as at March 31, 2012 we had 43,327,716 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options and other outstanding stock units stated in Cdn$.

	As at				
	May 14, 2012	March 31, 2012	Dec 31, 2011	Sept 30, 2011	June 30, 2011
Share price – closing (Cdn $)	0.48	0.46	0.45	0.50	0.52
Market capitalization (Cdn $ in thousands)	20,807	19,931	19,383	21,412	22,194
Outstanding					
Shares	43,348,547	43,327,716	43,074,027	42,824,027	42,681,608
Options	2,085,656	2,094,156	2,094,156	1,352,406	1,458,406
Restricted share units	273,320	294,151	404,737	404,737	500,576
Performance share units	242,865	243,865	323,633	323,633	330,213

6. Critical Accounting Estimates and accounting policy developments

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

6.1. Critical accounting estimates

Our financial statements are prepared in accordance with IFRS. The application of IFRS requires that we make estimates that affect our reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates.

The significant accounting policies and estimates are discussed below:

- **Warranty reserve** – A provision for future potential product warranty costs is included in cost of goods sold based primarily on prior warranty experience regarding cost of claims and expected product returns. These future product warranty costs include costs associated with repair or replacement of products returned under warranty. Actual future costs in support of these claims may differ from those estimates. We review the provision quarterly and adjust it prospectively. The total provision as at March 31, 2012 was $0.6 million, down from $0.7 million at December 31, 2011. The warranty provision was decreased after we continued to see reduced warranty costs over the past few quarters.
- **Valuation of inventory** - We evaluate inventory balances at each balance sheet date and record a provision as necessary for slow moving or obsolete inventory. In performing this review we consider such factors as forecasted sales, demand requirements, product lifecycle and product development plans, quality issues, and current inventory levels. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes occur, we may be required to record write-downs which would negatively affect gross margins in the period when the write-downs are recorded and our operating results and financial position could be adversely affected. At March 31, 2012 our inventory provision was approximately $0.7 million, essentially unchanged from December 31, 2011.
- **Allowance for doubtful accounts** - We record an allowance for doubtful accounts related to trade accounts receivable. This allowance is based on our knowledge of the financial condition of our customers, the aging of the receivables, the current business environment and historical experience. A change in one or more of these factors could impact the estimated allowance and provision for bad debts recorded. At March 31, 2012, our allowance for doubtful accounts was $0.1 million, essentially unchanged from December 31, 2011.
- **Forfeiture rates associated with share-based payments** – In determining share-based payments expense, we make estimates related to forfeiture rates for each specific grant. Forfeiture rates are used to estimate the number of awards that are expected to vest considering employee turnover rates. The changes in estimates are recognized in the statement of income (loss) and total comprehensive income (loss) in the year that they occur. Current forfeiture rates applied to grants range from 5% to 16% and vary depending upon the employee make-up of the associated grants.

6.2. Accounting policy developments

There have been no changes to our accounting policies from those disclosed in the consolidated financial statements for the years ended December 31, 2011 and 2010. IFRS 7 Financial instruments: disclosures which became effective in 2012 had no significant impact.

6.3. Future changes in accounting policies

Unless stated otherwise, the following standards are required to be applied for periods beginning on or after January 1, 2013 and based upon our current facts and circumstances, we do not expect to be materially affected by the application of the following standards:

- IFRS 9, Financial Instruments, is required to be applied for periods on or after January 1, 2013 although there is a current proposal which may push back the effective date to January 1, 2015.
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- IAS 1, Presentation of Financial Statements (amended), is required to be applied for periods beginning on or after July 1, 2012.
- IAS 12, Income Taxes (amended), is required to be applied for periods beginning on or after January 1, 2012.
- IAS 27, Separate Financial Statements (amended)
- IAS 28, Investments in Associates (amended)

Other than for the disclosure requirements therein, the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended 2011) and IAS 28 (amended 2011) must be initially applied concurrently.

6.4. Disclosure controls and internal controls over financial reporting

Disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting. Pursuant to Multilateral Instrument 52-109, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), collectively referred to as Officers, are responsible for overseeing the establishment and maintenance of disclosure controls and procedures as well as internal controls over financial reporting.

There were no changes in internal control over financial reporting that occurred during our most recent interim period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

7. Risks and Risk Management

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

In the course of our operations, we are exposed to various business risks and uncertainties that can affect our financial condition. While some financial exposures are reduced through insurance, hedging and other risk management measures we have in place, there are certain cases where the market and operating risks are driven by external factors beyond our influence and control. A discussion of certain risks that may affect us is included below.

Competitive Environment
The off-grid LED lighting industry is highly competitive. Our competition includes companies who manufacture, sell and install off-grid lighting devices. We compete on the basis of product performance, product features, price, quality and post-installation product support. Our ability to compete successfully depends on factors within and beyond our control, including successful and timely development of new products, product performance and quality, product availability, intellectual property protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends. In particular, we anticipate that certain competitors may transition to off-grid lighting in the future. If and when this transition occurs, the greater name recognition and financial resources of these competitors may make it difficult for us to compete.

To be successful, the we will need to keep pace with rapid changes in lighting technology, changing customer requirements, new product introductions by competitors and evolving industry standards, any of which could render the our existing products obsolete if it fails to respond in a timely manner. Development of new products incorporating advanced technology is a complex process subject to numerous uncertainties. We have in the past experienced, and could in the future experience, delays in introduction of new products. If effective new sources of light are discovered, our current products and technologies could become less competitive or obsolete. If others develop superior innovative proprietary lighting technology, or if we fail to accurately anticipate technology and market trends, respond on a timely basis with our own development of new products and enhancements to existing products, and achieve broad market acceptance of these products and enhancements, our competitive position may be harmed and it may not achieve sufficient growth in revenue to attain, or sustain, profitability.

Competition with Other Energy Sources
Off-grid LED lighting products compete with products powered by conventional energy and other sources of renewable energy. There is a risk that similar products with alternative power sources will enjoy greater policy support or provide a more cost-effective alternative to conventional lighting than our products.

Technological Changes
Our products rely on us keeping pace with technological changes. Failure to keep pace with state-of-the-art technologies and methodologies may have a materially adverse effect on our results. Evolving industry standards and/or customer needs may have an effect on demand for our products. Our products may be rendered obsolete or less marketable due to technological advances made by competitors. In order to maintain our current market share, we may have to make substantial investments in product innovation and development.

Anticipated Adoption Rates for Off-Grid LED Lighting
While we have invested heavily in the development of off-grid LED lighting products, off-grid LED lighting is still in its early stages. If the rate of off-grid LED lighting adoption is slower than the anticipated commercial trends and we are unable to meet the forecasted sales volumes, we may not generate sufficient revenues to sustain profitability. In addition, demand for off-grid LED lighting products in our targeted markets may not develop or may develop to a lesser extent than anticipated.

Ability to Manage Expansion Effectively

We expect to expand our business in the future to meet the anticipated growth in demand for off-grid LED lighting products. If we are unable to manage growth effectively, we may not be able to take advantage of market opportunities, execute our business strategy or respond to competitive pressures. To manage the potential growth of our operations, we may be required to improve operational systems and procedures and expand our relationships with suppliers, manufacturers, distributors and customers. There can be no assurance that the current and planned operations, personnel, systems and internal procedures will be adequate to support future growth.

Foreign Exchange

Although we utilize the US Dollar as our functional currency, we are still exposed to fluctuations in the exchange rates between the US and Canadian dollar as a portion of our sales are denominated in currencies other than US dollars. Our exposure to Canadian dollar/US dollar fluctuations is reduced as we purchase a portion of inventory and other cost of sales items in Canadian dollars. If the US dollar rises relative to the Canadian dollar, our operating results may be negatively impacted.

Additionally, we enter into foreign exchange contracts to manage foreign exchange risk as required. We do not use contracts or any other financial instruments, for speculative purposes. As at December 31, 2011, we had no forward exchange contracts outstanding.

Reliance on Third Party Manufacturers

We rely on third party manufacturers and suppliers to provide certain products used in our components. While we maintain good relationships with suppliers, increased product demand can lead to increased demand on these providers, which they may not be able to meet. The failure of a supplier to meet product demands and/or specifications could result in significant production delays, which could harm our operations. Should a manufacturer or supplier suffer financial difficulties or any other disruption in manufacturing capacity, we may not be able to secure adequate substitute manufacturing sources for our products in a timely manner. While we believe we have sufficient access to manufacturing capacity to meet current and expected future requirements, it is possible that future capacity needs will not be available. Additionally, as we rely on third party manufacturers, we are subject to risks associated with limited control over delivery schedules, reductions in capacity, the possibility of defects, the possibility of increased products costs and variable product quality.

Reliance on Outside Agents and Distributors

We utilize a mixture of a direct sales force, strategic relationships and distribution agency arrangements to access our target markets. As a consequence, we rely to a significant extent upon our ability to develop strategic alliances with distributors, particularly in niche markets and in developing and emerging economies. Furthermore, market penetration of our products heavily depends on the success levels of our distributors and sales agents. There can be no assurances that we will successfully develop and maintain such alliances or that the sales efforts of our distributors and sales agents will be successful.

Reliance on Key Employees

Our success depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. To a significant extent, our success will depend on our senior management team. Competition for these individuals is intense and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. In particular, we may encounter difficulties in recruiting and retaining a sufficient number of qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers. The inability to attract and retain necessary technical, managerial, manufacturing, administrative and sales and marketing personnel could harm our ability to obtain new customers and develop new products and could adversely affect our business and operating results.

Intellectual Property Risks

We consider our technology and processes proprietary. If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors may utilize our proprietary technology and our operations could be harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies. Competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of Canada. As a result, we may not be able to protect our proprietary rights adequately in Canada or abroad.

Because our patent position involves complex legal, scientific, and factual questions, the issuance, scope, validity and enforceability of our patents cannot be predicted with certainty. Our issued patents may be invalidated or their enforceability challenged, they may be designed around, and they may not provide us with competitive advantages against others with similar products and technology. Furthermore, others may independently develop similar products or technology or duplicate or design around any technologies that we have developed.

We may receive notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend

against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on acceptable terms, if at all. We also may have to indemnify certain customers if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, and the diversion of management resources, regardless of whether the claim is valid, could be significant and could materially harm our business, financial condition and results of operations.

Environmental and Regulatory Compliance
We are subject to a variety of environmental laws, rules and regulations, with which we believe we are in compliance. In certain cases, the cost of compliance with regulations can be substantial. Failure to comply with present or future regulations could result in legal claims, fines, operation suspensions or cessation of operations. Compliance often requires incurring costs and capital expenditures. We face few, if any, of these issues directly as we rely on third party manufacturers.

Government Contracts and Subsidies
A significant portion of our revenues are derived from government and military agencies. Consequently, any disruption in government funding or in the relationship with those agencies could adversely affect our business.

Additionally, there are many government subsidies and economic incentives for solar energy related businesses, including the FIT Program established by the Government of Ontario. There is no guarantee that these incentives and subsidies will remain in place or that other countries, states, provinces or municipalities will adopt similar programs. The elimination of such subsidies and incentives, or the failure of additional countries, states, provinces or municipalities to adopt similar programs, may have an adverse impact on the solar market, and may result in rapid changes in demand and pricing. Such changes may have an adverse impact on our business and financial condition.

Product Quality & Reliability, Warranty Liability and indemnification Risks
Problems with product quality and/or performance, including defects in products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share. We cannot test for all defects, and occasionally defects may be detected after products have been shipped or installed. These defects could cause us to incur significant costs, including product replacement, and may adversely affect our customer relations and business reputation. Additionally, because we source many of our components from third party manufacturers, our ability to control product quality is limited.

Our grid tie business strategy is to focus on securing EPC contracts. By their nature, these contracts include construction industry agreement terms including, amongst others, liquidated damages and indemnification obligations. We try to use our commercial best efforts to minimize our liability on such exposure. If negative factors occur that are beyond our control or if disputes arise and are not settled favorably, they may have an adverse impact on our business, financial condition and results of operations.

Downturn in Economic and Market Conditions
The lighting industry is susceptible to downturns related to declines in general economic conditions. 2011 continued to be challenging for the solar lighting industry, as demand for solar lighting products and components was adversely impacted by the global financial crisis and corresponding decreases in or postponement of infrastructure spending budgets.

We may continue to be adversely impacted by downturns in general economic and market conditions, both nationally and internationally. Economic downturns generally, or in our markets specifically, would have a material adverse effect on our, cash flows, financial condition and results of operations. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders. As we sell to governments who continue to suffer from deficit spending and may need to cut spending further, we may experience a softening demand for our products.

Continued economic adversity coupled with a decline in our revenue could adversely affect our ability to meet capital requirements, support working capital requirements and growth objectives, or otherwise adversely affect our business, financial condition and results of operations.

Liquidity and Capital Requirements
We face significant challenges in order to achieve profitability. There can be no assurance that we will be able to maintain adequate liquidity or achieve long-term viability. Our ability to meet our obligations in the ordinary course of business is dependent upon our ability to establish profitable operations or raise capital, as needed, through public or private debt or equity financing, or other sources of financing to fund operations. We are currently partially restricted from borrowing all funds under our credit facility with BMO Financial Group, as we do not currently satisfy all earnings thresholds contained in the credit facility.

The disruption of the capital markets and the continued decline in economic conditions, amongst other factors, could negatively impact our ability to achieve profitability or raise additional capital when needed. In order to optimize the growth of

the business, we may need to seek to raise additional debt or equity financing. There can be no assurance that we will be able to identify a source of such financing, or that such financing will be available on terms acceptable to it, if at all. Moreover, should the opportunity to raise additional capital arise, any additional debt or equity financing could result in significant dilution of the existing holders of our common shares.

Litigation Risk
We may in the future become involved in disputes, litigation or arbitration proceedings. The results of these proceedings cannot be predicted with certainty. If we are unable to resolve these disputes favorably, it may have an adverse impact on our business, financial condition and results of operations.

Acquisitions or other Business Transactions
We may, when and if the opportunity arises, acquire other products, technologies or businesses involved in activities, or having product lines, that are complementary to our business. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies and products of the acquired companies, the diversion of management's attention from other business concerns, risks associated with entering new markets or conducting operations in industry segments in which we have no or limited experience and the potential loss of key employees of the acquired company. Moreover, there can be no assurances that any anticipated benefits of an acquisition will be realized. Future acquisitions by us could result in potentially dilutive issuances of equity securities, the use of cash, the incurrence of debt and contingent liabilities, and write-off of acquired research and development costs, all of which could materially adversely affect our financial condition, results of operations and cash flows.

Potential Reorganization of Operations or Product Offerings
We routinely review our operations for additional efficiency opportunities or to reduce costs. That analysis may lead to the determination to close, eliminate, rationalize or reduce operations and divisions and/or alter the sales, manufacturing or distribution structure. Should we decide to pursue any such changes, it may incur additional charges and losses in connections with such changes in the future, and such charges and losses may be material. In addition, we could experience difficulties, disruptions or delays in the implementation of any such changes and there can be no assurance that we will be able to implement these programs successfully or on a timely basis.

Geopolitical and other Global or Local Events
We currently distribute our products in a number of markets. Accordingly, 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 distributors and sales agents.

8. Definitions and reconciliations

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

Adjusted EBITDA

For the three month periods ended March 31, 2012 and March 31, 2011, we are disclosing adjusted EBITDA, a non-IFRS financial measure, as a supplementary indicator of operating performance. We define adjusted EBITDA as net loss before interest, income taxes, amortization, non-cash stock-based compensation, and terminated Lightech agreement costs. We are presenting the non-IFRS financial measure in our filings because we use it internally to make strategic decisions, forecast future results and to evaluate our performance. We are also presenting this measure because we believe that our current and potential investors and many analysts use it to assess our current and future operating results and to make investment decisions. Adjusted EBITDA is not intended as a substitute for IFRS measures.

Adjusted EBITDA reconciliation	Three months ended March 31	
(US$ in thousands)	**2012**	**2011**
Net Income (loss)	(911)	158
Add/(deduct):		
Interest	-	4
Income tax expense	-	103
Amortization	277	275
EBITDA*	(634)	540
Terminated Lightech agreement costs	-	96
Non-cash stock based compensation	61	57
Adjusted EBITDA*	(573)	693

* A Non-IFRS measure