

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF
SKYPOWER CORPORATION**

**REPORT OF KPMG INC.
IN ITS CAPACITY AS PROPOSED MONITOR
AUGUST 12, 2009**

INTRODUCTION

1. KPMG Inc. ("KPMG" or the "Proposed Monitor") has been informed that SkyPower Corporation ("SkyPower" or the "Company") intends to make an application under the *Companies' Creditors Arrangement Act* (the "CCAA Proceedings"). It is proposed that KPMG would be appointed as monitor in the CCAA Proceedings. KPMG has consented to act in such capacity. This report ("Report") has been prepared by KPMG in its capacity as Proposed Monitor.

PURPOSE OF REPORT

2. The purpose of this report is to provide this Honourable Court with the Proposed Monitor's preliminary comments in respect of:
 - (a) SkyPower's efforts to secure debtor-in-possession financing ("DIP Financing") given its current financial position and post-filing cash flow forecast; and
 - (b) The charge being sought by SkyPower in favour of its directors and officers in the amount of \$1,250,000 (the "D & O Charge").

TERMS OF REFERENCE AND SCOPE LIMITATION

3. In preparing this report, KPMG has relied upon unaudited financial information of SkyPower, SkyPower's books and records, certain financial information prepared by SkyPower and limited discussions with SkyPower's Management. KPMG has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of this information. Accordingly, KPMG expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation.
4. Cash flow forecasts and financial projections developed by SkyPower Management have been subject to only a limited review by the proposed Monitor in the preparation of this report. Such information is based on Management's assumptions regarding future events. SkyPower's actual results and cash flow will vary from the future oriented financial information contained in any such forecasts and readers are cautioned that such variation may be material.
5. The Proposed Monitor received the Company's sixteen (16) week cash flow forecast in the early hours of August 12, 2009. The Proposed Monitor has had one extensive discussion with SkyPower Management on August 11, 2009 regarding the components of such forecast and matters related thereto.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
7. This report should be read in conjunction with the affidavit of Kerry Adler, Chief Executive Officer of SkyPower sworn August 12, 2009, and filed in support of the CCAA application (the "Adler Affidavit").

POST-FILING CASH FLOW AND DIP FINANCING EFFORTS

8. The Company's cash flow forecast for the 16 week period ending November 29, 2009 (the "Forecast") is attached hereto as Appendix A. The Forecast indicates that

the Company has less than \$550,000 of cash available at present and that SkyPower will not have sufficient liquidity to fund its operations and the costs associated with its restructuring efforts absent interim financing.

9. As more fully outlined in the Adler Affidavit, it is the nature of the Company's business that significant development costs are incurred up front before revenue can be generated from the Company's wind and solar projects. Cash receipts forecast in the near term are limited to refundable commodity taxes (e.g. GST), refund of security deposits and the proceeds from the sale of a non-core asset of the Company. Accordingly, the Forecast is composed primarily of forecast disbursements that include salaries and wages, corporate overheads, storage and maintenance costs and ongoing capital or development costs relating to certain wind and solar power projects. The Forecast also includes anticipated professional fees and debtor in possession ("DIP") financing costs should a CCAA Order be granted by this Honourable Court.
10. The Proposed Monitor has held preliminary discussions with SkyPower Management regarding the Forecast and related matters. Management has advised that it has commenced a review process in an effort to prioritize its contemplated interim funding for its various projects, other assets and operations. Based on the Proposed Monitor's limited review of the Forecast, it is of the view that the Forecast is not unreasonable and it is evident that absent interim financing, the Company will not have sufficient liquidity in the next 30 days to pay storage and maintenance costs in respect of certain GE-XLE turbines, salaries and wages for its employees, general corporate expenses or fund further development costs.
11. The Proposed Monitor understands that during the period leading up to the application before this Honourable Court, SkyPower had undertaken extensive negotiations with various lenders to provide interim and/or DIP financing in order to fund ongoing working capital requirements, general corporate expenses and its development activities. As indicated in the Adler Affidavit, SkyPower canvassed

at least five (5) potential interim and/or DIP lenders including the senior lending syndicate and Lehman Bros. The Proposed Monitor has not been involved in negotiations to secure interim financing.

12. SkyPower Management has advised the Proposed Monitor that its senior lending syndicate and its principal shareholder, Lehman Bros., have not been willing to extend any further financing to SkyPower beyond July 31, 2009 and that the terms contained in other offers of interim or DIP financing have not been acceptable to SkyPower.
13. CIM Group has provided SkyPower with a term sheet to provide a senior secured, super priority debtor in possession credit facility (the "DIP Financing") and that a commitment letter dated August 11, 2009 in respect of the DIP Financing has been agreed between SkyPower and CIM Group.
14. The key elements of the DIP Financing include:
 - a. The total amount of the DIP Financing will be US\$15 million. No more than US\$1,750,000 of the total facility shall be drawn by SkyPower until the initial CCAA Order has been recognized in the United States by an order of the US Bankruptcy Court under Chapter 15 of the US Bankruptcy Code,
 - b. The maturity date of the DIP Financing is the earlier of (i) the effective date of any Plan of Arrangement sanctioned by this Honourable Court, (ii) an event of default under the DIP Financing, and (iii) the date that is four months from the date of the initial CCAA Order,
 - c. The interest rate and fees payable to CIM Group for the DIP Financing include:
 - i. An interest rate of US prime (with a floor of 3.5%) plus 8.75% per annum; and
 - ii. An upfront fee of 375 basis points ("bps") upon closing of the DIP Financing, a fee at maturity of 200 bps of the amount of the DIP Financing outstanding at maturity and a stand-by fee of 0.50% on undrawn amounts under the DIP Financing, and
 - d. Security in support of the DIP Financing will consist of a first ranking Court ordered charge against all assets of SkyPower in priority to the security held by the senior lenders and Lehman Bros., but, the Proposed Monitor understands, subject to a proposed administration charge and the D & O Charge.

15. SkyPower's Forecast indicates an immediate and urgent need for financing of its day to day operations and on-going development or capital costs. The use of the proceeds of the DIP Financing is as set out in the Adler Affidavit.
16. Based on its limited review of the Company's cash flow requirements and the Forecast, the proposed Monitor concurs with SkyPower's view that it is in dire and immediate need of financing of its business and development activities.
17. The key terms of the DIP Financing including the proposed interest rate and fees payable (while not inexpensive) as well as the priming charge sought by CIM Group, while not inexpensive, may be justified by the following factors:
 - a. SkyPower has canvassed a variety of sources for urgent DIP financing;
 - b. the current and general state of credit markets,
 - c. the terms of the proposed DIP financing are not dissimilar to DIP arrangements approved by courts in recent insolvency proceedings in Canada,
 - d. a DIP facility absent priming of incumbent lenders' security position would be difficult to secure, and
 - e. the fact that SkyPower has no material revenue at this time.

THE PROPOSED D & O CHARGE

18. The Company is proposing a D & O Charge consistent with the terms of the model CCAA order in the amount of \$1,250,000. Management has advised that the Company's monthly ongoing gross payroll obligations are approximately \$500,000. The Proposed Monitor has not undertaken a review in order to determine the aggregate amount of the directors' exposure for employee and statutory trust and remittance obligations on a monthly basis.

CONCLUDING COMMENT

19. In light of the foregoing, the Proposed Monitor is supportive of the Company's application for relief under the CCAA, its efforts to obtain interim and/or DIP financing to continue operating while it tries to restructure its affairs and its request for a D & O Charge to ensure that the officers and directors of the Company remain

in place during SkyPower's restructuring. With these matters in place, the Company is in a better position to preserve its going concern value for the benefit of all stakeholders.

All of which is respectfully submitted at Toronto, Ontario this 12th day of August 2009.

KPMG INC., in its capacity as
Proposed Monitor of
SkyPower Corporation



Todd M. Martin
Chairman