

OPEL SOLAR INTERNATIONAL INC.

Consolidated Financial Statements
Years ended December 31, 2010 and 2009



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Opel Solar International, Inc.

We have audited the accompanying consolidated financial statements of Opel Solar International, Inc, which are comprised of the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations and retained earnings (accumulated deficit), comprehensive loss, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.



OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Opel Solar International, Inc as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as of and for the year ended December 31, 2009, were audited by another auditor who expressed an opinion without reservation on those statements in its report dated March 24, 2010.

Marcum LLP

Hartford, CT
April 15, 2011

OPEL SOLAR INTERNATIONAL INC.
(Formerly Opel International Inc.)

CONSOLIDATED BALANCE SHEETS
(Expressed in US Dollars)

DECEMBER 31,	2010	2009
Assets		
Current		
Cash	\$ 6,629,958	\$ 5,027,892
Short-term investments (Note 3)	304,149	1,971,422
Accounts receivable	312,043	332,985
Prepays and other current assets	507,635	793,842
Inventories (Note 4)	5,608,647	7,462,464
Marketable securities (Note 5)	423	403
	13,362,855	15,589,008
Property and equipment (Note 6)	3,381,846	1,693,842
Patents and licenses (Note 7)	192,968	225,475
	\$ 16,937,669	\$ 17,508,325
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 771,938	\$ 1,856,026
Customer deposits (Note 16)	1,347,825	-
	2,119,763	1,856,026
Deferred energy credit (Note 8)	649,642	684,921
Asset retirement obligation (Note 9)	137,597	130,979
	2,907,002	2,671,926
Shareholders' Equity		
Share capital (Note 10(b))	34,330,441	29,939,171
Special voting share (Note 11)	100	100
Special warrants and shares to be issued (Note 12)	276,833	648,861
Warrants (Note 13)	6,025,715	6,842,556
Contributed surplus (Note 14)	8,650,659	4,727,888
Accumulated other comprehensive loss	(2,570,422)	(2,896,268)
Deficit	(32,657,898)	(24,425,909)
Non controlling interest	(24,761)	-
	14,030,667	14,836,399
	\$ 16,937,669	\$ 17,508,325

Commitments and contingencies (Note 17)

On behalf of the Board of Directors

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Director

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Director

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(Expressed in US Dollars)**

| <b>For The Years Ended December 31,</b>                                                   | <b>2010</b>           | <b>2009</b>       |
|-------------------------------------------------------------------------------------------|-----------------------|-------------------|
| Revenue (Note 18)                                                                         | <b>\$ 1,647,638</b>   | <b>\$ 608,545</b> |
| Costs and expenses                                                                        |                       |                   |
| Cost of goods sold, including inventory write off of \$35,035 in 2010 (\$445,000 in 2009) | <b>434,627</b>        | 812,158           |
| General and administration                                                                | <b>5,583,619</b>      | 5,477,263         |
| Research and development                                                                  | <b>3,791,062</b>      | 3,745,488         |
| Foreign currency translation gain                                                         | <b>94,098</b>         | (54,021)          |
| Loss on divestiture of ASM                                                                | <b>40,572</b>         | -                 |
| Investment income, including interest                                                     | <b>(39,590)</b>       | (131,770)         |
| Revalued warrants (Note 13)                                                               | <b>-</b>              | 596,634           |
|                                                                                           | <b>9,904,388</b>      | 10,445,752        |
| Net loss                                                                                  | <b>(8,256,750)</b>    | (9,837,207)       |
| Net loss:                                                                                 |                       |                   |
| Attributable to non-controlling interest                                                  | <b>(24,761)</b>       | (2,210)           |
| Attributable to equity shareholders                                                       | <b>(8,231,989)</b>    | (9,834,997)       |
| Net loss                                                                                  | <b>(8,256,750)</b>    | (9,837,207)       |
| Deficit, beginning of year                                                                | <b>(24,425,909)</b>   | (14,590,912)      |
| Net loss attributable to equity shareholders                                              | <b>(8,231,989)</b>    | (9,834,997)       |
| Deficit, end of year                                                                      | <b>\$(32,657,898)</b> | \$(24,425,909)    |
| Basic and diluted loss per share (Note 15)                                                | <b>\$ (0.12)</b>      | <b>\$ (0.17)</b>  |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Expressed in US Dollars)**

| <b>For The Years Ended December 31,</b>          | <b>2010</b>           | <b>2009</b>           |
|--------------------------------------------------|-----------------------|-----------------------|
| Net loss                                         | <b>\$ (8,256,750)</b> | <b>\$ (9,837,207)</b> |
| Other comprehensive income - net of income taxes |                       |                       |
| Translation adjustment                           | <b>325,846</b>        | 438,872               |
| Comprehensive loss                               | <b>\$ (7,930,904)</b> | <b>\$ (9,398,335)</b> |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**

**CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
**(Expressed in US Dollars)**

| <b>For The Years Ended December 31,</b> | <b>2010</b>          | <b>2009</b>   |
|-----------------------------------------|----------------------|---------------|
| Beginning balance                       | <b>\$(2,896,268)</b> | \$(3,335,140) |
| Translation adjustment                  | <b>325,846</b>       | 438,872       |
| Ending balance                          | <b>\$(2,570,422)</b> | \$(2,896,268) |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in US Dollars)**

| <b>For The Years Ended December 31,</b>                                               | <b>2010</b>        | <b>2009</b>         |
|---------------------------------------------------------------------------------------|--------------------|---------------------|
| CASH (USED IN) PROVIDED BY                                                            |                    |                     |
| OPERATING ACTIVITIES                                                                  |                    |                     |
| Net loss                                                                              | \$ (8,256,750)     | \$ (9,837,207)      |
| Adjustments for:                                                                      |                    |                     |
| Amortization of property and equipment, net of amortization of deferred energy credit | 201,834            | 202,899             |
| Amortization of patents and licenses                                                  | 32,507             | 33,024              |
| Loss on divestiture of ASM                                                            | 40,572             | -                   |
| Accretion of asset retirement obligation                                              | 6,618              | 4,735               |
| Stock-based compensation (Note 14)                                                    | 740,800            | 378,239             |
| Extended warrants (Note 13)                                                           | -                  | 596,634             |
| Inventory write-offs                                                                  | 35,035             | 445,000             |
|                                                                                       | <b>(7,199,384)</b> | <b>(8,176,676)</b>  |
| Net change in non-cash working capital accounts:                                      |                    |                     |
| Accounts receivable                                                                   | 13,865             | 100,250             |
| Prepaid and other current assets                                                      | 205,402            | (105,765)           |
| Inventories                                                                           | 317,090            | (3,011,844)         |
| Accounts payable and accrued liabilities                                              | (1,036,379)        | 263,339             |
| Customer deposits                                                                     | 1,347,825          | -                   |
|                                                                                       | <b>(6,351,581)</b> | <b>(10,930,696)</b> |
| INVESTING ACTIVITIES                                                                  |                    |                     |
| Sale of short-term investments                                                        | 1,667,273          | 318,295             |
| Cash loss on divestiture of ASM                                                       | (419)              | -                   |
| Purchase of property and equipment                                                    | (423,425)          | (148,792)           |
| Purchase of patents and licenses                                                      | -                  | (750)               |
| Deferred energy credit                                                                | -                  | 705,588             |
|                                                                                       | <b>1,243,429</b>   | <b>874,341</b>      |
| FINANCING ACTIVITIES                                                                  |                    |                     |
| Issue of common shares for cash, net of issue costs                                   | 6,384,372          | 200,400             |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH                                               | 325,846            | 438,872             |
| NET CHANGE IN CASH                                                                    | 1,602,066          | (9,417,083)         |
| CASH, beginning of year                                                               | 5,027,892          | 14,444,975          |
| CASH, end of year                                                                     | \$ 6,629,958       | \$ 5,027,892        |

**OPEL SOLAR INTERNATIONAL INC.**  
(Formerly Opel International Inc.)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in US Dollars)

**DECEMBER 31, 2010 and 2009**

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**1. DESCRIPTION OF BUSINESS**

Opel Solar International Inc is incorporated in the Province of Ontario. Opel Solar International Inc and its subsidiary, Opel Inc. (collectively, the "Company") principally develop and market concentrating solar panels and solar tracking systems for commercial applications. Additionally, the Company continues to develop a gallium arsenide microchip and the process to produce it. The Company's research and development ("R&D") efforts relate to the commercialization of CPV solar panels, solar trackers; and optical laser and infrared detection using planar "opto" electronic technology ("POET"). The Company also provides services under "fixed price" and "cost plus" R&D contracts exclusively with the Department of Defense of the United States of America. Such services are provided to the U.S. Department of Defense through Opel Defense Integrated Systems Inc. ("ODIS"), a subsidiary of Opel Inc.

Additionally, the Company formed OPL Solar Europe, SPRL ("OSE"), a Belgian company, to construct solar grid fields for sale to independent third parties in various parts of Europe, the Mediterranean and Northern Africa.

The Company has working capital of \$11,243,092 as of December 31, 2010 compared to \$13,732,982 as of December 31, 2009. The Company is in a position to cover its liabilities as they come due. However, the Company has had a history of losses and should such losses continue the Company will need to seek debt or equity financing to fund its operations. Although the Company has been successful in obtaining such financings in the past, there is no assurance that it will be able to do so in the future. If the Company is unable to obtain such financing, it may not be in a position to continue as a going concern.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are summarized as follows:

**Basis of presentation**

These consolidated financial statements include the accounts of Opel Solar International Inc and its subsidiaries. ASM and Betasol Energias Alternativas, S.L. ("Betasol") are all considered variable interest entities with either Opel Inc. or OSE as the primary beneficiary. As such, their accounts are consolidated with those of the Company. All intercompany balances and transactions have been eliminated on consolidation.

**Foreign currency translation**

The functional currency of Opel Solar International Inc is the Canadian dollar. The Company's reporting currency is the US dollar. The Company's operations in the United States are considered to be self-sustaining. Assets and liabilities are translated using year-end exchange rates and revenue and expenses are translated at weighted average exchange rates. Exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are included in the "foreign currency translation adjustment" account as a component of accumulated other comprehensive income (\$325,846 in 2010 and \$438,872 in 2009). When there is a reduction in the Company's net investment in its self-sustaining foreign operations, the proportionate amount of the cumulative translation adjustment is recognized in earnings.

The financial statements of the US operation's integrated foreign subsidiary, OPL Solar Europe SPRL ("OSE"), are translated for consolidation purposes to its US parent, using the year-end rate of exchange for monetary assets and liabilities, the historical rate of exchange for non-monetary assets and liabilities and the average annual rate of exchange for revenue and expenses. Gains or losses resulting from these translation adjustments are included in net loss (\$94,032 in 2010 and \$54,021 in 2009).

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in them. Significant estimates and assumptions relate to but are not limited to inventory valuation, stock-based payments, asset retirement obligation, income taxes, useful lives for property and equipment and patents, and impairment assessments. Actual results could differ from those estimates.

**Financial Instruments**

Financial instruments are required to be classified as one of the following: held-to-maturity; loans and receivables, held-for-trading; available-for-sale or other financial liabilities.

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term investments, marketable securities, and accounts payable and accrued liabilities. The Company designated its cash and cash equivalents and short-term investments as held-for-trading, its marketable securities as available-for-sale, its accounts receivable as loans and receivables, and its account payable and accrued liabilities as other financial liabilities.

Financial assets held-for-trading are measured at fair value with gains and losses recognized in operations. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).

Fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of a financial instrument that is quoted in active markets is based on the bid price for a financial asset held and the offer price for a financial liability. When an independent price is not available, fair value is determined by using a valuation which refers to observable market data. Such a valuation technique includes comparisons with a similar financial instrument where an observable market price, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants exist.

**Short-term investments**

Short-term investments are classified as held for trading and are stated at fair value. Unrealized holding gains or losses are recognized in operations.

**Marketable securities**

Marketable securities are classified as available for sale and are carried at fair value. Unrealized holding gains and losses are recognized in other comprehensive income (loss).

**Inventories**

Inventories are valued at the lower of cost or net realizable value, with cost determined on a first in, first-out basis. Inventories comprise raw materials; work in process and finished goods. Inventories comprising finished goods relate to solar panels produced to the Company's specifications. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Inventories include the cost of materials purchased and the cost of conversion, as well as other costs required to bring the inventories to their present location and condition.

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(Formerly Opel International Inc.)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in US Dollars)

**DECEMBER 31, 2010 and 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment**

Property and equipment are recorded at cost. Amortization is calculated based on the estimated useful life of the asset using the following rates and methods for old assets (2006 and prior) and new assets (2007 and after):

| <u>New</u>                       |                                                    |
|----------------------------------|----------------------------------------------------|
| Machinery and equipment          | Straight Line, 5 years                             |
| Furniture and fixtures           | Straight Line, 5 years                             |
| Office equipment                 | Straight Line, 5 years                             |
| Leasehold improvements           | Straight Line Over The Remaining Term of the Lease |
| Solar systems for demonstrations | Straight Line, 5 years                             |
| Solar installation               | Straight Line, 20 years                            |

| <u>Old</u>              |                                                    |
|-------------------------|----------------------------------------------------|
| Machinery and equipment | 28.6% to 40%, Declining Balance                    |
| Furniture and fixtures  | 28.6% to 40%, Declining Balance                    |
| Office equipment        | 28.6% to 40%, Declining Balance                    |
| Leasehold improvements  | Straight Line Over The Remaining Term of the Lease |

**Patents and licenses**

Patents and licenses are recorded at cost and amortized on a straight line basis over their estimated useful lives. Ongoing maintenance costs are expensed as incurred. The expiry of the patents and licenses range from 6 - 12 years.

**Impairment of long-lived assets**

The Company evaluates the recoverability of long-lived assets, which include patents and licenses, and property and equipment, for impairment when events or changes in circumstances indicate that the carrying amount of an asset or related group of assets may not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in observable market value, a significant change in the extent or manner in which an asset or group of related assets is used, or other significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. The evaluation includes comparing the carrying amount of the asset or group of related assets to the related estimated undiscounted future cash flows expected to be derived from the asset or group of assets and their residual values. If these future cash flows are less than the carrying amount, then the asset or group of related assets is written down to estimated fair value, based on estimated discounted future cash flows. There were no significant indicators of impairment of the carrying values of long-lived assets at December 31, 2010 or 2009.

**Deferred energy credit**

The Company received in cash an energy credit on its solar installation used in operations. The credit was deferred and is being amortized over the estimated useful life of the asset and is included in the amortization of property and equipment.

**Asset Retirement Obligation**

Asset retirement obligation ("ARO") represents liabilities to the Company for which the amount or timing is uncertain. ARO is recognized when the Company has a legal obligation to decommission an asset, it is probable that such decommissioning will result in an outflow of resources and the amount can be reliably estimated. ARO is measured at the present value of the expected outflows to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The accretion in the obligation due to the passage of time is recognized as an expense.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are provided on differences between the financial reporting and income tax bases of assets and liabilities and on income tax losses available to be carried forward to future years for tax purposes. Deferred income taxes are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse. Valuation allowances are provided to reduce deferred income tax assets to the amount expected to be realized.

**Revenue recognition**

Revenue is comprised of research and development (R&D) service revenue and product sales. Revenue under R&D contracts is recognized as services are provided. R&D costs are recognized as incurred; any unbilled revenue is recognized as services are provided under the terms of the contract. Revenue from product sales is recognized when ownership is transferred to customers for orders with the selling price both fixed and determinable and for which collectability is reasonably assured.

**Interest income**

Interest income on cash and cash equivalents and short-term investments held for trading is recognized as earned using the effective interest method.

**Research and development costs**

Research costs are expensed in the period incurred. Development costs are also expensed in the period incurred unless the Company believes a development project meets Canadian GAAP criteria for deferral and amortization.

**Stock-based compensation**

Stock options and warrants awarded to non employees are accounted for using the fair value of the instrument awarded or service provided whichever is considered more reliable. Stock options and warrants awarded to employees are accounted for using the fair value method. The fair value of such stock options and warrants granted is recognized as expense on a straight-line basis over the vesting period. Fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

**Loss per share**

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year after giving effect to potentially dilutive financial instruments. The dilutive effect of stock options and warrants is determined using the treasury stock method.

**Accounting policy choice for Transaction Costs**

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities that are classified as held for trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Policy Adoptions**

Effective January 1, 2009, the Company adopted the provisions of the following new CICA Handbook Sections:

(a) Goodwill and Intangible Assets

Section 3064, "Goodwill and Intangible Assets" replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

(b) Financial statement concepts

Amendments to Section 1000, "Financial Statement Concepts" clarified the criteria for recognizing an asset, and the timing of expense recognition.

The adoption of the provisions specified above had no material impact on the Company's financial statements.

(c) Business combinations

In January 2009, the CICA approved Handbook Section 1582, "Business Combinations" replacing existing Section 1581 by the same name. It establishes standards for the accounting for a business combination. It provides the Canadian generally accepted accounting principles equivalent to International Financial Reporting Standards IFRS 3 Business Combinations (January 2008). The Section applies prospectively to 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. The CICA recommends that entities planning business combinations in the fiscal year beginning on or after January 1, 2010 adopt these new standards early to avoid restatement on transition to IFRS in 2011. Early adoption of the new standard was permitted.

(d) Consolidated financial statements

In January 2009, the CICA approved Handbook Section 1601, "Consolidated Financial Statements" and Handbook Section 1602, "Non-controlling Interests" replacing existing Section 1600, "Consolidated Financial Statements". This Section establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The CICA recommends that entities planning business combinations in the fiscal year beginning on or after January 1, 2010 adopt these new standards early to avoid restatement on transition to IFRS in 2011. Early adoption of the new standard was permitted.

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**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Non-controlling interests

In January 2009, the CICA approved Handbook Section 1602, "Non-controlling Interests". It establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27 Consolidated and Separate Financial Statements (January 2008). The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The CICA recommends that entities planning business combinations in the fiscal year beginning on or after January 1, 2010 adopt these new standards early to avoid restatement on transition to IFRS in 2011. Early adoption of the new standard was permitted.

**Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its fiscal year beginning January 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. Management is currently assessing the impact of adopting IFRS and it has not yet determined its effect on the Company's consolidated financial statements.

The Company expects a smooth transition to IFRS for reporting the first quarter of 2011.

**3. SHORT-TERM INVESTMENTS**

|                                                                   | <b>2010</b>       | <b>2009</b>  |
|-------------------------------------------------------------------|-------------------|--------------|
| European bank guarantee                                           | \$ -              | \$ 510,828   |
| Corporate bonds (Coupon rate - 0.67%)                             | -                 | 98,946       |
| Canadian government bonds (Coupon rate - 3.375%)                  | <b>203,000</b>    | 256,410      |
| US certificate of deposit (Coupon rates between 0.875% and 1.25%) | <b>101,149</b>    | 1,105,238    |
| Balance                                                           | <b>\$ 304,149</b> | \$ 1,971,422 |

**4. INVENTORIES**

|                 | <b>2010</b>         | <b>2009</b>  |
|-----------------|---------------------|--------------|
| Raw materials   | \$ <b>4,926,278</b> | \$ 4,644,513 |
| Work in process | <b>16,184</b>       | 585,489      |
| Finished goods  | <b>666,185</b>      | 2,232,462    |
| Balance         | <b>\$ 5,608,647</b> | \$ 7,462,464 |

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**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**5. MARKETABLE SECURITIES**

Marketable securities consist of small investments in three companies carrying a market value of \$423 as of December 31, 2010 and \$403 as of December 31, 2009.

**6. PROPERTY AND EQUIPMENT**

| <b>2010</b>                      | <b>Cost</b>         | <b>Accumulated<br/>amortization</b> | <b>Net Book<br/>Value</b> |
|----------------------------------|---------------------|-------------------------------------|---------------------------|
| Machinery and equipment          | \$ 1,171,936        | \$ 630,093                          | \$ 541,843                |
| Furniture and fixture            | 137,254             | 80,688                              | 56,566                    |
| Office equipment                 | 84,157              | 56,938                              | 27,219                    |
| Leasehold improvements           | 44,761              | 4,157                               | 40,604                    |
| Solar systems for demonstrations | 1,394,556           | 180,634                             | 1,213,922                 |
| Construction in progress         | 1,501,692           | -                                   | 1,501,692                 |
| <b>Balance</b>                   | <b>\$ 4,334,356</b> | <b>\$ 952,510</b>                   | <b>\$ 3,381,846</b>       |

| <b>2009</b>                      | <b>Cost</b>         | <b>Accumulated<br/>amortization</b> | <b>Net Book<br/>Value</b> |
|----------------------------------|---------------------|-------------------------------------|---------------------------|
| Machinery and equipment          | \$ 755,388          | \$ 511,539                          | \$ 243,849                |
| Furniture and fixture            | 137,254             | 64,264                              | 72,990                    |
| Office equipment                 | 77,279              | 46,345                              | 30,934                    |
| Leasehold improvements           | 44,761              | 2,918                               | 41,843                    |
| Solar systems for demonstrations | 144,895             | 43,469                              | 101,426                   |
| Solar installation               | 1,249,661           | 46,861                              | 1,202,800                 |
| <b>Balance</b>                   | <b>\$ 2,409,238</b> | <b>\$ 715,396</b>                   | <b>\$ 1,693,842</b>       |

**7. PATENTS AND LICENSES**

| <b>2010</b>          | <b>Cost</b> | <b>Accumulated<br/>amortization</b> | <b>Net book<br/>value</b> |
|----------------------|-------------|-------------------------------------|---------------------------|
| Patents and licenses | \$ 361,169  | \$ 168,201                          | \$ 192,968                |

  

| <b>2009</b>          | <b>Cost</b> | <b>Accumulated<br/>amortization</b> | <b>Net book<br/>value</b> |
|----------------------|-------------|-------------------------------------|---------------------------|
| Patents and licenses | \$ 361,919  | \$ 136,444                          | \$ 225,475                |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**8. DEFERRED ENERGY CREDIT**

In 2008, the Connecticut Clean Energy Fund, ("CCEF") provided \$526,518 in funding cash credits to the Company for its solar energy installation on Linden School, in Plainville, CT. This funding credit was provided to the Company as an incentive for creating a clean energy alternative, it was based on the size and performance of the system after it was installed and operational for a period of six months. In 2009, the Company was awarded \$179,070 on the same project as a part of the United States Department of the Treasury's grant of cash in lieu of tax credits, on qualified alternative energy projects. This cash payment was a part of the American Recovery and Reinvestment Act of 2009.

Changes to the deferred energy credit are as follows:

|                                | 2010       | 2009       |
|--------------------------------|------------|------------|
| Net funding credits, beginning | \$ 684,921 | \$ 705,588 |
| Amortization                   | (35,279)   | (20,667)   |
| Balance, December 31           | \$ 649,642 | \$ 684,921 |

**9. ASSET RETIREMENT OBLIGATION**

The Company has a solar installation currently used in operations. In 2030, the Company is obligated to remove the installation and restore the underlying real estate to its original state. The asset retirement obligation ("ARO") is accreted using the credit-adjusted risk free rate when the liability was initially measured. There are no assets legally restricted for settling the aforementioned asset retirement obligation.

Changes in the asset retirement obligation are as follows:

|                                             | 2010       | 2009       |
|---------------------------------------------|------------|------------|
| Accretion, beginning                        | \$ 130,979 | \$ 126,244 |
| Accretion                                   | 6,618      | 4,735      |
| Accumulated accretion, balance, December 31 | \$ 137,597 | \$ 130,979 |

The initial measurement of the ARO has been added to the cost of equipment.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**10. SHARE CAPITAL**

(a) AUTHORIZED

Unlimited number of common shares  
1 Special voting share, carrying 1,358,000 votes

(b) COMMON SHARES ISSUED

|                                                                       | Number of<br>Shares | Amount        |
|-----------------------------------------------------------------------|---------------------|---------------|
| Balance, December 31, 2008                                            | 55,599,862          | \$ 29,299,882 |
| Issued on the exercise of warrants (Note 13)                          | 500,000             | 200,000       |
| Value assigned to exercised warrants (Note 13)                        | -                   | 71,343        |
| Issued on the exercise of stock options (Note 14)                     | 400,000             | 400           |
| Opel Inc. Exchangeable Shares, exchanged into common shares (Note 12) | 1,803,000           | 367,546       |
| Balance, December 31, 2009                                            | 58,302,862          | 29,939,171    |
| Opel Inc. Exchangeable Shares, exchanged into common shares           | 1,824,987           | 372,029       |
| Issued on private placements                                          | 25,164,665          | 7,178,965     |
| Share issue costs                                                     | -                   | (794,593)     |
| Value assigned to warrants and compensation warrants                  | -                   | (2,365,131)   |
| Balance, December 31, 2010                                            | 85,292,514          | \$ 34,330,441 |

On July 21, 2010, the Company closed a brokered private placement in the amount of \$7,178,964 (\$7,549,400 CAD). IBK Capital Corp. acted as the lead agent in respect of the issuance and sale of 25,164,665 units at a price of \$0.285 (\$0.30 CAD) per unit (the "Offering"). Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.475 (\$0.50 CAD) per share until July 21, 2012. The agents received commissions in the aggregate of \$635,751 (\$668,556 CAD) and 2,476,134 compensation warrants in connection with this Offering. Each compensation warrant entitles the holder to purchase one common share of the Company at \$0.285 (\$0.30 CAD) per share until July 21, 2014. Additional costs associated with the offering amounted to \$158,842 (\$167,038 CAD).

The fair value of the warrants and compensation warrants was estimated using the Black-scholes option pricing model with the following assumptions: dividend yield of 0%, interest rate of 1.52% and 2%, volatility of 120.9% and 113.89% and estimated life of 2 and 4 years. The estimated fair value assigned to the warrants and compensation warrants was \$1,830,631 and \$534,500 respectively.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel Solar International Inc)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**11. SPECIAL VOTING SHARE**

|                                     | Number of<br>Shares | Amount |
|-------------------------------------|---------------------|--------|
| Balance, December 31, 2010 and 2009 | 1                   | \$ 100 |

On June 5, 2007, one (1) special voting share was issued in conjunction with a Support and Trust Agreement entered into amongst Opel Solar International Inc, OPEL Inc. and Equity Transfer & Trust Company. The special voting share carried 1,358,000 and 3,182,987 votes as of December 31, 2010 and 2009 respectively.

**12. SHARES TO BE ISSUED**

Pursuant to a RTO agreement, the Company was obligated to issue 5,972,000 shares to common shareholders of Opel Inc. in exchange for their 5,972,000 Exchangeable Shares of Opel Inc. The value ascribed to the 5,972,000 shares to be issued was \$1,217,408. The following table details the amounts and historical fair value of the Exchangeable Shares of Opel Inc. for the years ended December 31, 2010 and 2009 respectively:

|                                                  | Number of Shares<br>to be Issued | Historical<br>Fair Value |
|--------------------------------------------------|----------------------------------|--------------------------|
| Balance, December 31, 2008                       | 4,985,987                        | \$ 1,016,407             |
| Exchangeable Shares exchanged into common shares | (1,803,000)                      | (367,546)                |
| Balance, December 31, 2009                       | 3,182,987                        | 648,861                  |
| Exchangeable Shares exchanged into common shares | (1,824,987)                      | (372,028)                |
| Balance, December 31, 2010                       | 1,358,000                        | \$ 276,833               |

**13. WARRANTS**

The following table reflects the continuity of warrants:

|                                                    | Average Exercise<br>Price | Number of<br>Warrants | Historical<br>Fair value |
|----------------------------------------------------|---------------------------|-----------------------|--------------------------|
| Balance, December 31, 2008                         | \$ 1.27                   | 21,798,622            | \$ 7,333,164             |
| Exercised                                          | 0.40                      | (500,000)             | (71,343)                 |
| Expired                                            | 0.60                      | (3,276,040)           | (1,015,899)              |
| Additional value assigned to extended warrants (1) | 0.08                      | -                     | 596,634                  |
| Balance, December 31, 2009                         | 1.31                      | 18,022,582            | 6,842,556                |
| Issued                                             | 0.48                      | 12,582,333            | 1,830,631                |
| Compensation warrants issued                       | 0.29                      | 2,476,134             | 534,500                  |
| Expired                                            | 0.90                      | (10,522,582)          | (3,181,972)              |
| Balance, December 31, 2010                         | \$ 0.92                   | 22,558,467            | \$ 6,025,715             |

(1) On December 13, 2009, 7,500,000 warrants initially issued on December 13, 2007 expiring December 13, 2009 were extended to December 13, 2011. The extended warrants were valued using the Black-Scholes option pricing model with the following assumptions; dividend yield - 0%, volatility - 124%, risk-free interest rate - 1.24%, and expected life - 2 years. The additional estimated fair value of \$596,634 was charged to operations.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel Solar International Inc)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**13. WARRANTS (Continued)**

As at December 31, 2010 the following warrants were outstanding:

|  | Number<br>of Warrants | Historical<br>Fair Value (\$) | Exercise<br>Price (\$) | Expiry Date           |
|--|-----------------------|-------------------------------|------------------------|-----------------------|
|  | 7,500,000             | 3,660,584 (1)                 | 1.88                   | December 13, 2011 (2) |
|  | 12,582,333            | 1,830,631 (1)                 | 0.48                   | July 21, 2012         |
|  | 2,476,134             | 534,500 (1)                   | 0.29                   | July 21, 2014         |
|  | <b>22,558,467</b>     | <b>6,025,715</b>              | <b>0.92</b>            |                       |

(1) These warrants were issued in Canadian dollars and are exercisable at \$1.90 CAD, \$0.50 CAD and 0.30 CAD.

(2) The expiry of these warrants was extended to December 13, 2011 from December 13, 2009.

**14. STOCK OPTIONS AND CONTRIBUTED SURPLUS**

On June 17, 2009, shareholders of the Company approved a new fixed 20% stock option plan (the "New Plan"). Under the New Plan, the board of directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and consultants. The New Plan provides that the number of common shares issuable pursuant to options granted under the New Plan and pursuant to other previously granted options is limited to 12,115,000 (the "Number Reserved"). Any subsequent increase in the Number Reserved must be approved by shareholders of the Company and cannot exceed 20% of the number of issued and outstanding shares. Options granted under the New Plan generally vest 25% immediately and 25% every six months from the date of issue, however, the directors may, at their discretion, specify a different vesting period.

Stock option transactions and the number of stock options outstanding were as follows:

|                           | Number of<br>stock options |           | Weighted average<br>exercise price |       |
|---------------------------|----------------------------|-----------|------------------------------------|-------|
|                           | 2010                       | 2009      | 2010                               | 2009  |
|                           |                            |           | \$                                 | \$    |
| Opening Balance           | <b>7,596,000</b>           | 6,524,000 | <b>0.69</b>                        | 0.76  |
| Options expired/cancelled | <b>(127,500)</b>           | (80,000)  | <b>0.32</b>                        | 0.42  |
| Options exercised         | -                          | (400,000) | -                                  | 0.001 |
| Options granted           | <b>3,634,000</b>           | 1,552,000 | <b>0.31</b>                        | 0.20  |
| Closing balance           | <b>11,102,500</b>          | 7,596,000 | <b>0.58</b>                        | 0.69  |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**14. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)**

In 2009, the Company granted the following stock options to directors, officers, employees and consultants of the Company to purchase common shares at an average exercise price of \$0.20 per share:

| Date               | Number of Options | Price (\$) | Expiry             |
|--------------------|-------------------|------------|--------------------|
| February 13, 2009  | 865,000           | 0.13       | February 13, 2014  |
| April 16, 2009     | 262,000           | 0.21       | April 16, 2014     |
| May 21, 2009       | 155,000           | 0.36       | May 21, 2014       |
| June 17, 2009      | 10,000            | 0.45       | June 17, 2014      |
| August 20, 2009    | 80,000            | 0.35       | August 20, 2014    |
| September 29, 2009 | 55,000            | 0.37       | September 29, 2014 |
| November 19, 2009  | 75,000            | 0.31       | November 19, 2014  |
| December 19, 2009  | 50,000            | 0.29       | December 19, 2014  |
|                    | 1,552,000         | 0.20       |                    |

Of the 1,552,000 stock options granted during the 2009, 711,000 have vested with the remainder vesting at various intervals over 18 months. The estimated fair value of the stock options granted in 2009 was \$240,319. In 2009, \$177,920 related to vested stock options was charged to stock based compensation; the remaining unrecognized portion of \$62,399 will be charged to stock option compensation over the remaining vesting period.

Stock based compensation expense for 2009 includes \$200,319 relating to 958,382 vested stock options that were granted in prior years.

In 2010, the Company granted the following stock options to directors, officers, employees and consultants of the Company to purchase common shares at an average exercise price of \$0.31 per share:

| Date              | Number of Options | Price (\$) | Expiry            |
|-------------------|-------------------|------------|-------------------|
| March 18, 2010    | 1,344,000         | 0.28       | March 18, 2020    |
| August 19, 2010   | 2,240,000         | 0.33       | August 19, 2020   |
| November 18, 2010 | 50,000            | 0.33       | November 18, 2020 |
|                   | 3,634,000         | 0.31       |                   |

Of the 3,634,000 stock options granted during the year, 1,244,500 have vested, 62,500 of which were cancelled. The remaining 2,327,000 will vest at various intervals over 18 months. The estimated fair value of the stock options granted in 2010 was \$1,066,970. In 2010, \$693,354 related to vested stock options was charged to stock based compensation, \$15,885 related to the 2010 grants were cancelled in 2010; the remaining unrecognized portion of \$357,731 will be charged to stock option compensation over the remaining vesting period.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**14. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)**

Stock based compensation expense for 2010 includes \$47,446 relating to 809,750 vested stock options that were granted in prior years.

The stock options granted during 2010 and 2009 were valued using the Black-Scholes option pricing model using the following assumptions:

|                                          | <u>2010</u>     | <u>2009</u> |
|------------------------------------------|-----------------|-------------|
| Weighted average risk-free interest rate | <b>3.12%</b>    | 2.17%       |
| Weighted average dividend yield          | <b>0%</b>       | 0%          |
| Weighted average volatility              | <b>114%</b>     | 127%        |
| Weighted average estimated life          | <b>10 years</b> | 5 years     |

**2010**

Details of the stock options outstanding were as follows:

| Historical<br>Fair Value (\$) | Exercisable<br>Options | Number<br>of Options | Exercise<br>Price (\$) | Expiry Date        |
|-------------------------------|------------------------|----------------------|------------------------|--------------------|
| 105,519                       | 310,000                | 310,000              | 0.50                   | March 15, 2011     |
| 6,674                         | 20,000                 | 20,000               | 0.50                   | June 26, 2011      |
| 111,907                       | 300,000                | 300,000              | 0.50                   | September 30, 2011 |
| 122,942                       | 305,000                | 305,000              | 0.60                   | April 26, 2012     |
| 32,824                        | 200,000                | 200,000              | 0.25                   | May 15, 2012       |
| 45,133                        | 275,000                | 275,000              | 0.25                   | May 18, 2012       |
| 120,920                       | 300,000                | 300,000              | 0.60                   | May 24, 2012       |
| 20,154                        | 50,000                 | 50,000               | 0.60                   | May 31, 2012       |
| 20,154                        | 50,000                 | 50,000               | 0.60                   | June 22, 2012      |
| 1,472,016                     | 3,119,000              | 3,119,000            | 0.94 (1)               | September 21, 2012 |
| 239,423                       | 390,000                | 390,000              | 1.48 (1)               | December 14, 2012  |
| 55,819                        | 165,000                | 165,000              | 1.18 (1)               | February 12, 2013  |
| 71,220                        | 142,500                | 190,000              | 1.46 (1)               | April 29, 2013     |
| 6,154                         | 25,000                 | 25,000               | 1.03 (1)               | June 19, 2013      |
| 65,080                        | 225,000                | 225,000              | 0.44 (1)               | July 29, 2013      |
| 9,299                         | 110,000                | 110,000              | 0.11 (1)               | November 6, 2013   |
| 9,900                         | 90,000                 | 90,000               | 0.15 (1)               | December 5, 2013   |
| 97,812                        | 865,000                | 865,000              | 0.13 (1)               | February 13, 2014  |
| 46,017                        | 262,000                | 262,000              | 0.21 (1)               | April 16, 2014     |
| 28,335                        | 75,000                 | 75,000               | 0.36 (1)               | May 21, 2014       |
| 3,534                         | 10,000                 | 10,000               | 0.45 (1)               | June 17, 2014      |
| 9,233                         | 11,250                 | 15,000               | 0.35 (1)               | August 20, 2014    |
| 16,901                        | 41,250                 | 55,000               | 0.37 (1)               | September 29, 2014 |
| 15,275                        | 56,250                 | 75,000               | 0.31 (1)               | November 19, 2014  |
| 9,586                         | 37,500                 | 50,000               | 0.29 (1)               | December 19, 2014  |
| 335,176                       | 640,750                | 1,281,500            | 0.28 (1)               | March 17, 2020     |
| 700,382                       | 560,000                | 2,240,000            | 0.31 (1)               | August 19, 2020    |
| 15,526                        | 12,500                 | 50,000               | 0.31 (1)               | November 19, 2020  |
| <b>3,792,915</b>              | <b>8,648,000</b>       | <b>11,102,500</b>    |                        |                    |

(1) These stock options were issued in Canadian dollars and are exercisable at prices ranging from CAD \$ 0.13 - \$1.48.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**14. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)**

| <b>2009</b> | <b>Historical<br/>Fair Value (\$)</b> | <b>Exercisable<br/>Options</b> | <b>Number<br/>of Options</b> | <b>Exercise<br/>Price (\$)</b> | <b>Expiry Date</b> |
|-------------|---------------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------|
|             | 105,519                               | 310,000                        | 310,000                      | 0.50                           | March 15, 2011     |
|             | 6,674                                 | 20,000                         | 20,000                       | 0.50                           | June 26, 2011      |
|             | 111,907                               | 300,000                        | 300,000                      | 0.50                           | September 30, 2011 |
|             | 122,942                               | 305,000                        | 305,000                      | 0.60                           | April 26, 2012     |
|             | 32,824                                | 200,000                        | 200,000                      | 0.25                           | May 15, 2012       |
|             | 45,133                                | 275,000                        | 275,000                      | 0.25                           | May 18, 2012       |
|             | 120,920                               | 300,000                        | 300,000                      | 0.60                           | May 24, 2012       |
|             | 20,154                                | 50,000                         | 50,000                       | 0.60                           | May 31, 2012       |
|             | 20,154                                | 50,000                         | 50,000                       | 0.60                           | June 22, 2012      |
|             | 1,472,016                             | 3,119,000                      | 3,119,000                    | 0.94 (1)                       | September 21, 2012 |
|             | 239,423                               | 390,000                        | 390,000                      | 1.48 (1)                       | December 14, 2012  |
|             | 55,819                                | 165,000                        | 165,000                      | 1.18 (1)                       | February 12, 2013  |
|             | 71,220                                | 142,500                        | 190,000                      | 1.46 (1)                       | April 29, 2013     |
|             | 6,154                                 | 25,000                         | 25,000                       | 1.03 (1)                       | June 19, 2013      |
|             | 65,080                                | 168,750                        | 225,000                      | 0.44 (1)                       | July 29, 2013      |
|             | 9,299                                 | 82,500                         | 110,000                      | 0.11 (1)                       | November 6, 2013   |
|             | 9,900                                 | 67,500                         | 90,000                       | 0.15 (1)                       | December 5, 2013   |
|             | 97,812                                | 432,500                        | 865,000                      | 0.13 (1)                       | February 13, 2014  |
|             | 46,017                                | 131,000                        | 262,000                      | 0.21 (1)                       | April 16, 2014     |
|             | 28,335                                | 77,500                         | 75,000                       | 0.36 (1)                       | May 21, 2014       |
|             | 3,534                                 | 5,000                          | 10,000                       | 0.45 (1)                       | June 17, 2014      |
|             | 23,760                                | 20,000                         | 80,000                       | 0.35 (1)                       | August 20, 2014    |
|             | 16,901                                | 13,750                         | 55,000                       | 0.37 (1)                       | September 29, 2014 |
|             | 15,275                                | 18,750                         | 75,000                       | 0.31 (1)                       | November 19, 2014  |
|             | 9,586                                 | 12,500                         | 50,000                       | 0.29 (1)                       | December 19, 2014  |
|             | <b>2,756,358</b>                      | <b>6,681,250</b>               | <b>7,596,000</b>             |                                |                    |

(1) These stock options were issued in Canadian dollars and are exercisable at prices ranging from CAD \$ 0.13 - \$1.48.

The following table reflects the continuity of contributed surplus:

|                             | <b>Amount</b> |
|-----------------------------|---------------|
| Balance, December 31, 2008  | \$ 3,333,750  |
| Stock-based compensation    | 378,239       |
| Warrants expired            | 1,015,899     |
| Balance, December 31, 2009  | 4,727,888     |
| Stock-based compensation    | 740,800       |
| Warrants expired            | 3,181,971     |
| Balance, September 30, 2010 | \$ 8,650,659  |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**15. LOSS PER SHARE**

|                                                                  | 2010           | 2009           |
|------------------------------------------------------------------|----------------|----------------|
| <hr/>                                                            |                |                |
| Numerator:                                                       |                |                |
| Net loss attributable to equity shareholders - basic and diluted | \$ (8,231,989) | \$ (9,834,997) |
| <hr/>                                                            |                |                |
| Denominator:                                                     |                |                |
| Weighted average number of common shares outstanding - basic     | 70,510,410     | 56,931,089     |
| Weighted average number of common shares outstanding - diluted   | 70,510,410     | 56,931,089     |
| <hr/>                                                            |                |                |
| Basic and diluted loss per share                                 | \$ (0.12)      | \$ (0.17)      |
| <hr/>                                                            |                |                |

The effect of common share purchase options, warrants, broker warrants and shares to be issued on the net loss in 2010 and 2009 is not reflected as it is anti-dilutive.

**16. CUSTOMER DEPOSITS**

In December 2010, the Company entered into a contract with a customer to provide solar products and services. The contract includes performing site engineering, permitting, installation and commissioning of a solar power plant in Rhode Island, USA. Also included in the contract is the purchase of the various related equipment including panels, trackers, inverters, and combiners. The customer paid \$1,347,825 in 2010 to the Company in order proceed with the procurement of the related equipment. In 2010, no services were performed on this contract and therefore no revenue was recognized. The Company expects to execute this contract in 2011, therefore, the Company classified these receipts as customer deposits on the accompanying balance sheet.

**17. COMMITMENTS AND CONTINGENCIES**

The Company has operating leases for office and research facilities expiring in 2014 and 2013 respectively.

Rent expense under these leases was \$273,145 (2009 - \$210,563). Remaining minimum annual rental payments to the lease expiration dates are as follows:

|       |            |
|-------|------------|
| 2011  | \$ 183,125 |
| 2012  | 197,399    |
| 2013  | 117,787    |
| 2014  | 45,177     |
| <hr/> |            |
|       | \$ 543,488 |
| <hr/> |            |

Rent expense was \$297,022 in 2010 and \$230,819 in 2009

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**18. VARIABLE INTEREST ENTITY**

In 2008, the Company's wholly owned subsidiary, OPL Solar Europe SPRL ("OSE"), had a 50% interest in the issued and outstanding shares of Alcapí Solartwént Management GmbH ("ASM"), a German LLC. which cost the Company \$19,500 (Euros 12,500). ASM was created for the purpose of developing a grid field project in Spain. OSE analysed its relationship with ASM, and determined that OSE was the primary beneficiary and as such ASM was a VIE. Accordingly, the Company consolidated the results of ASM.

During 2010, the Company divested itself of its interest in ASM and recorded a \$40,572 loss on divestiture. The Company had a loan receivable of \$485,132 due from ASM which was repaid in December 2010.

**19. SEGMENT INFORMATION**

The Company and its subsidiaries operate in two distinct segments; (1) the manufacture and sale of high efficiency solar panels and multi-axis solar tracking systems and (2) the design of infrared sensor type products for military and industrial applications. The Company's operating and reporting segments reflect the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision making purposes, including the allocation of resources. There are no intersegment sales. The Company's segments and their products and services are summarized below:

**Opel Inc.**

Opel designs, manufactures and markets high performance concentrating photovoltaic ("HCPV") panels and multi-axis solar tracking systems to transform solar energy into electricity for worldwide application. Opel's HCPV panels can generate up to 40% more kilowatt-hours than conventional flat plate silicon solar panels, resulting in more cost effective electricity generated from the sun.

**OPEL Defense Integrated Systems ("ODIS")**

ODIS designs infrared sensor type products for military and industrial applications. ODIS develops gallium arsenide-based processes and semi-conductor microchip products having several potential major market applications: infrared sensor arrays for Homeland Security monitoring and imaging along with the unique combination of optical lasers, and electronic control circuits on the same microchip for potential applications in various military programs and potentially telecom for, Fibre to The Home

Segmented information for the year ended December 31, 2010 and 2009 is as follows:

|                                               | 2010          |              |               | 2009          |            |               |
|-----------------------------------------------|---------------|--------------|---------------|---------------|------------|---------------|
|                                               | Opel          | ODIS         | Total         | Opel          | ODIS       | Total         |
| Revenue                                       | \$ 539,784    | \$ 1,107,854 | \$ 1,647,638  | \$ 233,136    | \$ 375,409 | \$ 608,545    |
| Interest income                               | 2,901         | -            | 2,901         | 31,938        | -          | 31,938        |
| Amortization                                  | 197,641       | 4,193        | 201,834       | 231,730       | 4,193      | 235,923       |
| Loss attributable to non controlling interest | 24,761        | -            | 24,761        | 2,210         | -          | 2,210         |
| Loss on divestiture of asm                    | 40,572        | -            | 40,572        | -             | -          | -             |
| Segment loss                                  | 6,842,471     | 395,637      | 7,238,108     | 7,483,119     | 1,157,894  | 8,641,013     |
| Corporate operations                          |               |              | 1,018,642     |               |            | 1,196,194     |
| Net loss                                      |               |              | \$ 8,256,750  |               |            | \$ 9,837,207  |
| Total assets                                  | \$ 12,105,506 | \$ 237,012   | \$ 12,342,518 | \$ 12,470,052 | \$ 69,554  | \$ 12,539,606 |
| Capital expenditures                          | \$ 423,425    | \$ -         | \$ 423,425    | \$ 149,542    | \$ -       | \$ 149,542    |

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**19. SEGMENT INFORMATION (Continued)**

The Company operates geographically in the United States, Canada and Europe. Geographical information is as follows:

2010

| As of December 31,     | US            | Canada       | Europe       | Consolidated  |
|------------------------|---------------|--------------|--------------|---------------|
| Current assets         | \$ 8,122,165  | \$ 4,595,151 | \$ 645,539   | \$ 13,362,855 |
| Property and equipment | 1,880,154     | -            | 1,501,692    | 3,381,846     |
| Patents and licenses   | 192,968       | -            | -            | 192,968       |
|                        | \$ 10,195,287 | \$ 4,595,151 | \$ 2,147,231 | \$ 16,937,669 |

2010

| As of December 31,         | US           | Canada    | Europe   | Consolidated |
|----------------------------|--------------|-----------|----------|--------------|
| Year ended December 31,    |              |           |          |              |
| Revenue                    | \$ 1,645,715 | \$ -      | \$ 1,923 | \$ 1,647,638 |
| Cost of goods sold         | 418,829      | -         | 15,798   | 434,627      |
| General and administration | 4,464,597    | 1,055,331 | 63,691   | 5,583,619    |
| Research and development   | 3,791,062    | -         | -        | 3,791,062    |
| Investment income          | (2,695)      | (36,689)  | (206)    | (39,590)     |

2009

| As of December 31,     | US            | Canada       | Europe       | Consolidated  |
|------------------------|---------------|--------------|--------------|---------------|
| Current assets         | \$ 9,524,980  | \$ 4,968,719 | \$ 1,095,309 | \$ 15,589,008 |
| Property and equipment | 1,693,842     | -            | -            | 1,693,842     |
| Patents and licenses   | 225,475       | -            | -            | 225,475       |
|                        | \$ 11,444,297 | \$ 4,968,719 | \$ 1,095,309 | \$ 17,508,325 |

Year ended December 31,

|                            |            |          |          |            |
|----------------------------|------------|----------|----------|------------|
| Revenue                    | \$ 602,130 | \$ -     | \$ 6,415 | \$ 608,545 |
| Cost of goods sold         | 810,642    | -        | 1,516    | 812,158    |
| General and administration | 4,609,959  | 699,381  | 167,923  | 5,477,263  |
| Research and development   | 3,745,488  | -        | -        | 3,745,488  |
| Investment income          | (22,852)   | (99,832) | (9,086)  | (131,770)  |

During 2010, \$1,039,901 or 63% (2009 - \$374,380 or 62%) of the Company's revenues depended on a single customer in ODIS.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**20. INCOME TAXES**

The following table reconciles the expected income tax recovery at the combined United States and Canadian statutory income tax rates of 41% for 2010 and 41% for 2009 to the amounts recognized in operations.

|                                                                                                 | 2010         | 2009         |
|-------------------------------------------------------------------------------------------------|--------------|--------------|
| Net loss                                                                                        | \$ 8,256,750 | \$ 9,837,207 |
| Expected income tax recovery at combined statutory rates                                        | \$ 3,385,000 | \$ 4,032,000 |
| Changes from:                                                                                   |              |              |
| Amounts not deductible for tax purposes                                                         | (309,000)    | (332,000)    |
| Deductible share issuance costs                                                                 | 314,000      | 280,000      |
| Adjustment of prior year estimates and foreign currency fluctuations and reduction in tax rates | (244,000)    | (192,000)    |
| Change in valuation allowance                                                                   | (3,146,000)  | (3,788,000)  |
| Income tax recovery recognized                                                                  | \$ -         | \$ -         |

The following table reflects future income tax assets at December 31,:

|                                     | 2010         | 2009        |
|-------------------------------------|--------------|-------------|
| Resource assets                     | \$ 233,000   | \$ 227,000  |
| Share issue costs                   | 407,000      | 251,000     |
| Canadian non-capital losses         | 403,000      | 333,000     |
| Canadian capital losses             | 383,000      | 383,000     |
| US non-capital losses               | 11,314,000   | 8,400,000   |
|                                     | 12,740,000   | 9,594,000   |
| Valuation allowance                 | (12,740,000) | (9,594,000) |
| Future income tax assets recognized | \$ -         | \$ -        |

In addition to capital losses of \$3,064,000 and resource pools of \$1,111,000 which have no expiry date, the Company had United States and Canadian tax loss carryforwards of \$27,263,000 and \$1,611,000 respectively, which will expire between 2014 and 2030 if not used.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

**21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash, short-term investments, accounts receivable, marketable securities and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company estimates that the fair value of these instruments approximate the carrying values due to their short term nature.

The Company has classified financial instruments as follows:

|                                                   | 2010                | 2009                |
|---------------------------------------------------|---------------------|---------------------|
| Financial assets:                                 |                     |                     |
| Held-for-trading, measured at fair value:         |                     |                     |
| Cash and cash equivalents                         | \$ 6,629,958        | \$ 5,027,892        |
| Short-term investments                            | 304,149             | 1,971,422           |
| Loans and receivable, measured at amortized cost: |                     |                     |
| Accounts receivable                               | 312,043             | 332,985             |
| Available-for-sale, measured at fair value:       |                     |                     |
| Marketable securities                             | 423                 | 403                 |
|                                                   | <b>\$ 7,246,573</b> | <b>\$ 7,332,702</b> |

**Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of short-term investments and accounts receivable. Short-term investments consist of US Treasury notes, held with reputable financial institutions from which management believes the risk of loss is remote. The Company has accounts receivable from parties in various industries and governmental agencies that are currently concentrated in the United States of America. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. The Company has not experienced any significant instances of non-payment from its customers. At year end, accounts receivable balances were concentrated among two customers.

**Exchange Rate Risk**

The functional currency of each of the entities included in the accompanying consolidated financial statements is the local currency where the entity is domiciled. Functional currencies include the US and Canadian dollar and the Euro. Most transactions are conducted in functional currencies. As such, none of the entities included in the consolidated financial statements engage in hedging activities. Currencies in which the Company's exposure to foreign currencies mainly include the Canadian dollar and the Euro. A 10% change in the Canadian dollar and the Euro would increase or decrease other comprehensive income (loss) and net income (loss) by \$47,297 and \$83,065 respectively.

**Interest Rate Risk**

Short-term investments held for trading bear interest at fixed rates, and as such, are subject to risk resulting from fluctuations in interest rates.

**Liquidity Risk**

The Company currently does not maintain credit facilities. The Company's existing cash and cash resources are considered sufficient to fund operating and investing activities over the next twelve months.

**OPEL SOLAR INTERNATIONAL INC.**  
**(Formerly Opel International Inc.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**DECEMBER 31, 2010 and 2009**

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**21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Market Risk**

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is exposed to fair value fluctuations on its short-term investments and marketable securities. The Company's other financial instruments (cash, cash equivalents, accounts receivable and accounts payable and accrued liabilities) are not subject to market risk, due to the short-term nature of these instruments. A 1% change in fair values of short-term investments and marketable securities would decrease or increase net loss by \$3,040.

**22. CAPITAL MANAGEMENT**

In the management of capital, the Company includes shareholders equity (excluding accumulated other comprehensive income (loss), deficit and non controlling interest), cash and short-term investments. The capital of the Company was \$56,217,855 at December 31, 2010. The Company's objective in managing capital is to ensure that financial flexibility is present to increase shareholder value through organic growth and responding to changes in economic and/or market conditions; to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and to safeguard the Company's ability to obtain financing should the need arise.

Currently, the Company has no outstanding debt or covenants, and therefore has no externally or internally imposed capital requirements. As soon as the Company is able to raise debt financing on favourable terms, it may consider this form of capital compared to equity financing, allowing for minimum dilution and maximum shareholder value.

In maintaining its capital, the Company has a strict investment policy which includes investing its surplus capital only in highly liquid, highly rated financial instruments.

The Company reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the year.

**23. ECONOMIC DEPENDENCE**

The Company has a long-term supply contract with a vendor relating to procurement of solar cells. The Company's product sales are significantly dependent on the production and supply volumes of the vendor.