carmanah®

we put solar to work™

2013 ANNUAL REPORT

Now, for the first time in a very long time, your board owns substantive numbers of Carmanah shares and its interests are totally aligned with yours – we are all shareholders.

↗ SOLAR AIRFIELD INSTALLATION, NORTHERN BC, CANADA

Message from the Chairman

To our shareholders,

At the Annual General Meeting of the shareholders on April 30, 2013 shareholders resoundingly voiced their displeasure with the Board and the performance of our company by withholding votes for two incumbent Board members. This action by the shareholders set in motion a series of events that we believe has fundamentally changed Carmanah. The shareholders, including me as the largest shareholder, signaled that we expected more. Following our withholding of votes, the former Board chair and a director nominee resigned and shortly thereafter so did our chief executive.

What followed was a complete rebuilding of our Board. First, John Simmons and I were appointed to join incumbent Peter Berrang. Subsequently, Jim Meekison and Terry Holland also accepted Board appointments and John Simmons agreed to take on the role of chief executive.

The new Board and CEO faced a very difficult situation. Years of failed initiatives and operating losses had not only diminished financial capability but had also sapped the confidence of our staff and our customers. Cash was running out rapidly and the way forward was unclear. All of the stakeholders expected and deserved better.

The first order of business was a plan from our management team to restructure the company to reduce operating expenses while, at the same time, refinancing the company to ensure that we had the necessary cash resources to support a turnaround. The Board endorsed both plans and as but one reflection of your new Board, each Board member demonstrated his belief in our company's future by personally committing to invest significant capital in our refinancing. Now, for the first time in a very long time, the Board controls a substantive percentage of Carmanah's shares. As such, the Board's interests are totally aligned with yours - our shareholders.

Our management is continuing to complete the restructuring and has the Board's support and encouragement to grow the business both organically and by way of targeted acquisitions. We will need to do both to fulfill our ambitions, so part of our new structure is focused on operating our business better, while other resources are being developed to identify structure, close and integrate acquisitions that will speed our profitable growth.

While management pursues near term growth, our Board has a broader objective – we want to build a great company. To do so we know that we require a great strategy. We also know that great strategy takes studied consideration and this process should not be rushed. So, over the coming year we will be working on strategy and while it is premature to predict the plans that will emerge from it, we can only repeat that we fully intend to build a great company and we will work hard to do so.

In spite of our lack of profitability in recent years, Carmanah has an important history. We practically invented the solar powered marine beacon found on buoys in navigable waters around the world, and more than a decade ago we led the lighting of runways at airports being built by the US military in Kuwait. Along the way we also built expertise in designing and building roof top solar power plants, traffic and obstruction lighting and have built a very sound mobile solar business. Through it all one of the enduring assets upon which we can build is our ability to produce energy efficient products powered by alternative energy sources. Fundamentally, we know that products designed and built with these goals in mind will become increasingly popular in a changing world which is facing critical matters of climate change.

The second half of 2013 was all about surviving and insuring the viability of the company. I suspect 2014 will see the expansion in certain areas as we focus all of our resources on positioning Carmanah to profitably grow as we continue to make a contribution to our environment and the threats of global climate change. Stay tuned as we get into gear and reposition Carmanah to grow in sound, profitable ways while always being cognizant of our responsibilities to work in ways that help rather than harm our planet.

Sincerely,

Michael W. Sonnenfeldt

Message from the CEO

To our shareholders,

I am delighted to be reporting to you at the end of what has been a very exciting and important year for your company. But before I speak about all that has happened and all that is about to happen I want to express my gratitude, first to the Board which has entrusted this important company to my responsibility and also the Carmanah staff who have welcomed me to its ranks. Many times over the past six months I have told my new colleagues that this is a dream job – and it is true. I have great support from a committed Board, a talented group of colleagues and the unique opportunity to work with technologies and customers that can change the world for the better. For all of this I am grateful.

But while I am excited to be here I am only too aware of the serious difficulty that our company has endured over the past several years. By the mid-point of 2013 the years of continual financial losses had virtually erased shareholder equity and cash resources were dwindling with no end in sight. It was clear to management and clear to our Board that immediate action was required and accordingly we undertook two substantive measures – we restructured operations and refinanced.

Our restructuring plan set out to realign the organization into functional departments within a commitment to reduce the complexity and cost of our operations. Our overall plan was a reduction in our operating run rate costs by more than 20% which did require that we take a restructuring charge in our 4th quarter. While most of the restructuring charge was realized in the 4th quarter, there is a residual charge that will liquidate in the 1st and 2nd quarters of 2014. Most importantly the restructuring has all but eliminated operating losses at current revenue levels.

We also refinanced in the 4th quarter by way of a fully subscribed rights offering that brought more than USD $5.0 million into the company. We now have a strong, debt free balance sheet.

Throughout the latter part of 2013 your staff has begun the process of rebuilding culture and preparing for growth. We have recommitted to a high ethical standard for doing business and are working hard to shape a new culture for Carmanah. We are approaching our work with each other, with our customers and with our suppliers in a forthright and honest manner. At the same time we are embracing the daily discipline required to make and sell our products in a profitable manner.

Profit is now our watchword.
Our entire staff knows that its purpose is to increase the value of your shares.

Profit is now our watchword. Our entire staff knows that its purpose is to increase the value of your shares. We also know that this will not be possible unless and until we demonstrate our ability to generate and then grow profit. We also want you to know that generating profit is important to us as well – because we know that this is the only appropriate measure of our success.

Carmanah's revenues are earned in seven industry sectors in worldwide markets. In each of these sectors we have some unique attributes but in all cases we enjoy a very small market share. While diversity of markets does mitigate business risk, our small individual market shares makes us vulnerable to competitive activity. This being the case we have adopted a near term plan to become a leading contender in each market space where we see long term growth.

We intend to achieve contending market positions in some part through organic growth but mostly through acquisition activity. We have studied each of the markets in which we participate and have found these to be fragmented and susceptible to consolidation. Our hope is to become the lead consolidator and to use our talent and access to capital markets to prudently acquire in each market space as we move forward. It is too early to predict success in these respects but we are optimistic that we will find good candidates to acquire which will join with us in building a great company.

I know that I speak for my staff colleagues when I say that we are really excited to be part of the next chapter in Carmanah's history. We know that we have great potential and we can't wait to prove it.

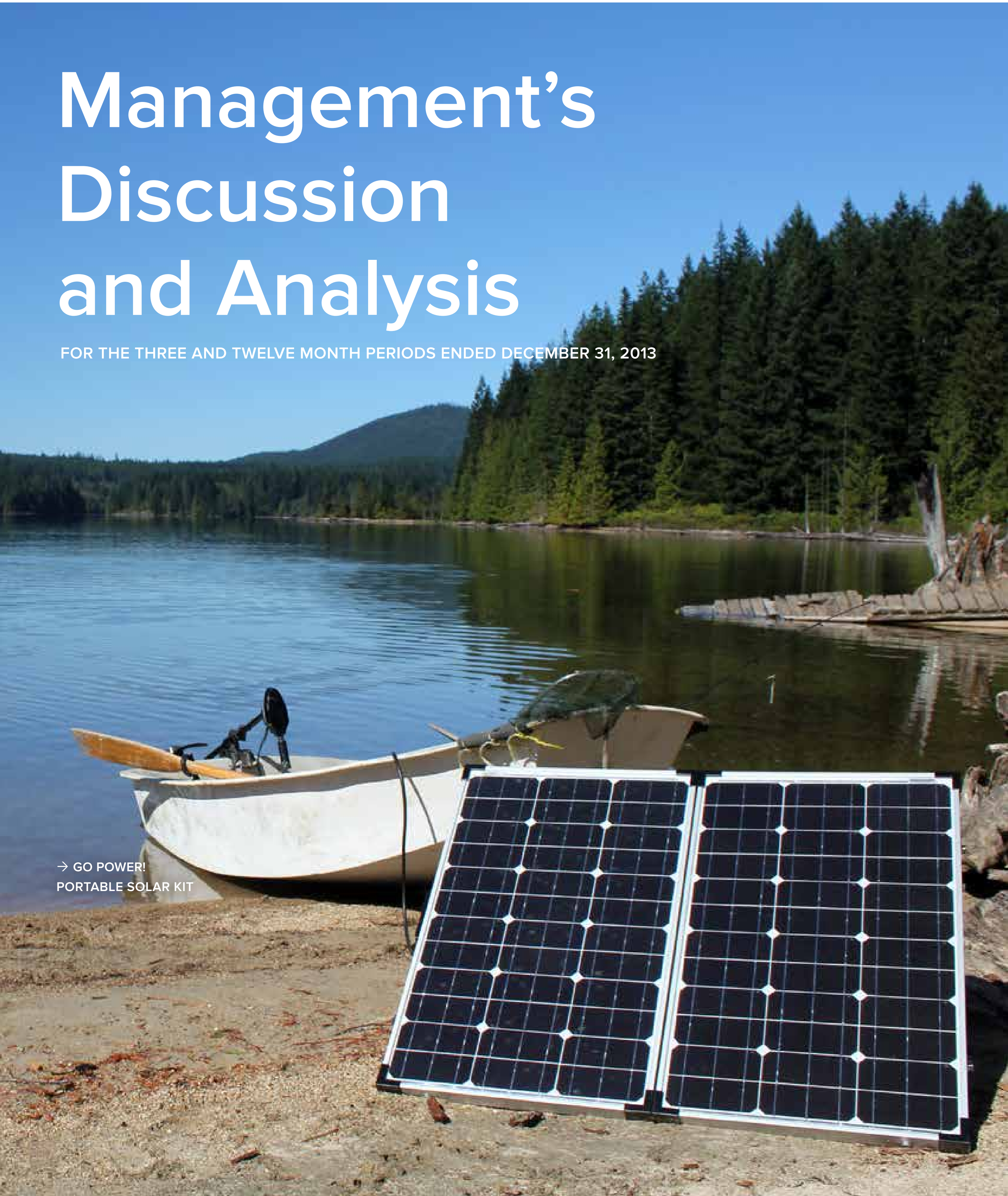
Sincerely,

John C. Simmons

↖ SOLAR EPC INSTALLATION, DOCKSIDE GREEN, VICTORIA, BC CANADA

Management's Discussion and Analysis

FOR THE THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013



→ GO POWER!
PORTABLE SOLAR KIT

ABOUT THIS MD&A

This MD&A discusses the consolidated financial condition and operating performance for our Company and should be read together with our audited consolidated financial statements for the year ended December 31, 2013. These documents, along with additional information about our Company, including the Annual Report, Annual Information Form and recently filed Short Form Prospectus, are available at www.carmanah.com and www.sedar.com. This document contains forward-looking information qualified by reference to the forward-looking statements in the next section.

Unless otherwise indicated, all financial information presented in this MD&A is in our functional and presentation currency, United States of America ("US") dollars, and has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Section 6.2 outlines any relevant recent or pending Accounting policy developments that may impact our financials.

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Carmanah Solar Power Corporation (formerly AVVA Technologies Corporation), and Carmanah Technologies (US) Corporation (a US incorporated company).

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to our senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. Our management determines whether or not information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated. The MD&A and the consolidated financial statements were reviewed by our Audit Committee and approved by our Board of Directors. This MD&A is prepared as of March 14, 2014.

Our management reports on certain non-IFRS measures which is used to evaluate financial performance. As non-IFRS measures generally do not have a standardized meaning, securities regulations require non-IFRS measures to be clearly defined, qualified and reconciled with their nearest IFRS measure. Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") used in this document means standardized EBITDA as defined by the Canadian Performance Reporting Board of the Canadian Institute of Chartered Accountants ("CICA"). See Section 8 for the definition, calculation and reconciliation of.

SECTION		CONTENTS
1	Financial Highlights	A summary of our consolidated results for the quarter and twelve months ended December 31, 2013
2	Our Business	An overview of our business and the industries and markets we operate in
3	Operational and Business Highlights	A discussion regarding key operating activities during the period
4	Financial Results	A discussion of our financial performance for the period
5	Liquidity, Capital Resources and Other Disclosures	A discussion of our operating cash flows, investments and financing activities, as well as liquidity, credit facilities and other disclosures
6	Critical Accounting Estimates and Accounting Policy Developments	Accounting estimates that are critical to determining financial results, and changes to accounting policies
7	Risks and Risk Management	Updates on certain risks and uncertainties facing us
8	Definitions and Reconciliations	Definitions of operating, liquidity and capital resource measures, including calculation and reconciliation of certain non-IFRS measures used by our management

↖ WALKWAY LIGHTING, LUMMI NATION, WASHINGTON, USA

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual results or events to differ materially from those anticipated in such forward looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, prospective investors cannot be assured that actual results will be consistent with these forward-looking statements. In evaluating these statements, readers should specifically consider various factors, including the risks discussed under the heading "Risk Factors" in our annual information form dated March 14, 2014. Additionally, factors that could cause or contribute to such differences include, but are not limited to, the following:

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

Readers should not place undue reliance on forward-looking statements. Some of the specific forward looking statements may include estimates surrounding capital plans, future restructuring costs and anticipated amounts to be raised under the offering. The forward-looking statements in this MD&A are made as of the date hereof. We do not assume any obligation to update the forward-looking information contained in this MD&A other than as required by applicable laws (including without limitation Section 5.8(2) of National Instrument 51-102 Continuous Disclosure Obligations).

1. Financial Highlights

FINANCIAL HIGHLIGHTS FOR THE THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Consolidated statements of loss						
Revenue	7,755	8,361	(7.2)%	25,902	26,442	(2.0)%
Gross margin %	33.3%	28.8%	4.5%	28.5%	31.2%	(2.7)%
Operating expenditures	(2,364)	(2,984)	(20.8)%	(10,803)	(12,066)	(10.5)%
Other operating expenditures	(1,062)	-	n/a	(2,027)	-	n/a
Other income (expenses)	(90)	(146)	(38.4)%	(113)	(92)	22.8%
Net income (loss)	(933)	(721)	29.4%	(5,564)	(3,921)	41.9%
Consolidated statement of cash flows						
Cash provided/(used) in operating activities	(1,707)	(221)	(672.0)%	(2,457)	(3,551)	30.8%
Cash used in investing activities	(59)	(96)	38.5%	(263)	(431)	39.0%
Cash provided in financing activities	5,345	-	n/a	5,219	1,761	(196.4)%
Other measures						
EBITDA *	(689)	(473)	45.7%	(4,623)	(2,820)	63.9%

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

Our fourth quarter 2013 revenues rebounded to $7.8 million from a low of $4.9 million in the third quarter of 2013. Our third quarter revenues were lower than expected primarily due to the timing of project sales and some delayed shipments caused by production problems which arose from production transition between contract manufacturing facilities. During the fourth quarter we successfully completed a rights offering which raised net proceeds of $5.2 million. These funds were partially used to fund restructuring activities that were rolled out in the quarter. The restructuring activities focused on reducing our fixed costs to reduce our breakeven point, but also included a number of initiatives to streamline our operations going forward. A total of $0.6 million of costs were recognized associated with the restructuring and primarily related to severance payments. During the quarter we also recognized approximately $0.5 million in asset impairments which were identified during restructuring planning activities.

Q4 2013 VS Q4 2012

Revenues for the fourth quarter of 2013 were $7.8 million, down from $8.4 million in the same period in 2012. This decrease is primarily due to lower sales in our Solar EPC services and Outdoor Lighting segments, which are down $1.6 million and $0.4 million respectively. These declines are generally due to the timing of project based sales. Offsetting these declines were higher Traffic sales, which were up $1.0 million in the quarter of prior year. This increase is due to a variety of reasons, including production delays caused by the change in contract manufacturing facilities, recent investments in the segments sales and marketing efforts, and new product offerings. Gross margin % for the fourth quarter of 2013 was 33.3%, up from 28.8% in the same period in 2012. This increase is partially due to a change in product mix, with lower sales from Solar EPC services which is a lower margin business. Normalized operating expenditures in the fourth quarter of 2013 were $2.4 million, down from $3.0 million in the same period in 2012. This decrease was largely due to reduced staffing levels.

↗ SOLAR EPC INSTALLATION, OUR LADY OF FATIMA CATHOLIC ELEMENTARY SCHOOL, ONTARIO, CANADA

FISCAL 2013 VS FISCAL 2012

Revenues for fiscal 2013 were $25.9 million, down from $26.4 million in the same period in 2012. We saw decreases in our Solar EPC services, Outdoor Lighting, and Marine segments, which were down $1.6 million, $1.7 million and $1.3 million respectively. The decreases in Solar EPC services and Outdoor Lighting sales resulted from a lack of large project based sales. The decrease in Marine was the result of lower sales in the first three quarters as the segment suffered from increased competition and an aging product line. The launch of several new Marine products occurred part way through the year which began the reverse of this trend. Gross margin % for fiscal 2013 was 28.5%, down from 31.2%. This decrease is due to product discounting, changes in product revenue mix and increased inventory write off. Normalized operating expenditures in fiscal 2013 were $10.8 million, down from $12.1 million in fiscal 2012. This decrease was largely due to a reduction of staffing levels.

2. Our Business

From our headquarters in Victoria, British Columbia, Canada, we design, develop and distribute solar LED lights and solar power systems. As one of the most trusted names in solar technology, we have earned a reputation for delivering strong and effective products for industrial applications worldwide. Industry-proven to perform reliably in some of the world's harshest environments, our solar LED lights and solar power systems provide a durable, dependable and cost-effective energy alternative. We currently serve the following markets:

Industrial Signalling	
Aviation	Carmanah Aviation specializes in solving the airfield lighting challenges encountered by clients in off-grid or weak-grid locations. Our self-contained solar airfield lights support daily flight operations at helipads and airstrips in demanding environments around the globe from South Africa to the Jordanian desert and northern Alaska. Our aviation customers include both military and civilian airports. In 2009, we formed a relationship with the global airfield lighting technology provider ADB Airfield Solutions, LLC ("ADB"). The relationship provides ADB with a line of ADB-branded self-contained Off-grid LED airfield lighting products and provides us with a global route to markets targeting the commercial aviation sector for increased market penetration. Our main competitors in our Aviation market include Avlite Systems Pty Ltd and Metalite.
Obstruction	Carmanah Obstruction division provides practical and cost-effective solutions for ground hazard marking, fence and barricade lighting, way-finding, railway blue flag protection, equipment marking and more. Through rugged and wire-free designs our self-contained, solar powered obstruction lights and hazard markers are ideally suited to withstand the harsh environments typically encountered in oil and gas development projects, mining operations and other industrial development sites across all regions of the globe. Our main competitors in our Obstruction market include Orga BV and Dialight Plc.
Marine	Since initially working with the Canadian and US Coast Guards to create a new generation of aids-to-navigation lanterns, the Carmanah Marine division has become an established supplier to Coast Guards, marine authorities, navies and ports around the globe. In 2010, we partnered with the Sabik Group with a vision to deliver one of the most comprehensive lines of short and long-range marine navigation aids on the market. Our main competitors in our Marine market include Sealite Pty Ltd, Vega, and Tideland.
Traffic	Carmanah solar flashing beacons have been in use across North America for well over a decade, working as reliably in the harsh winter climates of Ohio as they do in the hot Florida sun. Departments of transport, traffic agencies, and active transportation groups continue to call on Carmanah beacons when they are looking for reliable, cost-effective products backed by a friendly and knowledgeable team of experts. Products include pedestrian crosswalk signals, school zone flashers and 24-hr roadway beacons. Our main competitors in our Traffic market include JS Foster Corporation and TAPCO (Traffic & Parking Control Company Inc).
Solar Powered Outdoor Lighting	
Outdoor Lighting	Carmanah Outdoor Lighting division provides products for use in general illumination applications for pathways, parking lots, and pedestrian areas, as well as highway/street lighting and perimeter lighting. Our outdoor lighting division serves local and federal government facilities, government ministries, departments of defense, private utilities (power and lighting), highway concession owners, national and multi-national commercial facilities and public institutions. Our main competitors in the Outdoor Lighting area are SOL Inc., Solar Electric Power Company (SEPCO) and Solar One.

All of the products sold into the Solar Power Outdoor Lighting and Industrial Signalling markets are manufactured goods, which are built by contract manufacturers. Our main contract manufacturer is Flextronics Industrial Inc ("Flextronics"), a worldwide electronics manufacturing company. In 2013, our manufacturing shifted from their plant in Houston Texas to one of their facilities in Charlotte North Carolina. The move was initiated by Flextronics as it was working to close the plant in Texas.

Our usual route to market in our Industrial Signalling market is to sell through established distributors in the various markets and regions we operate. Currently, our aviation, obstruction and marine products are sold worldwide, while our traffic products are sold only in North America. Our route to market for our Solar Power Outdoor Lighting is through traditional lighting agent networks in Canada and the US. Outside North America, our main route to market is to partner with local companies that have established relationships and distribution channels.

↙ RV ROOFTOP SOLAR KIT BY GO POWER!

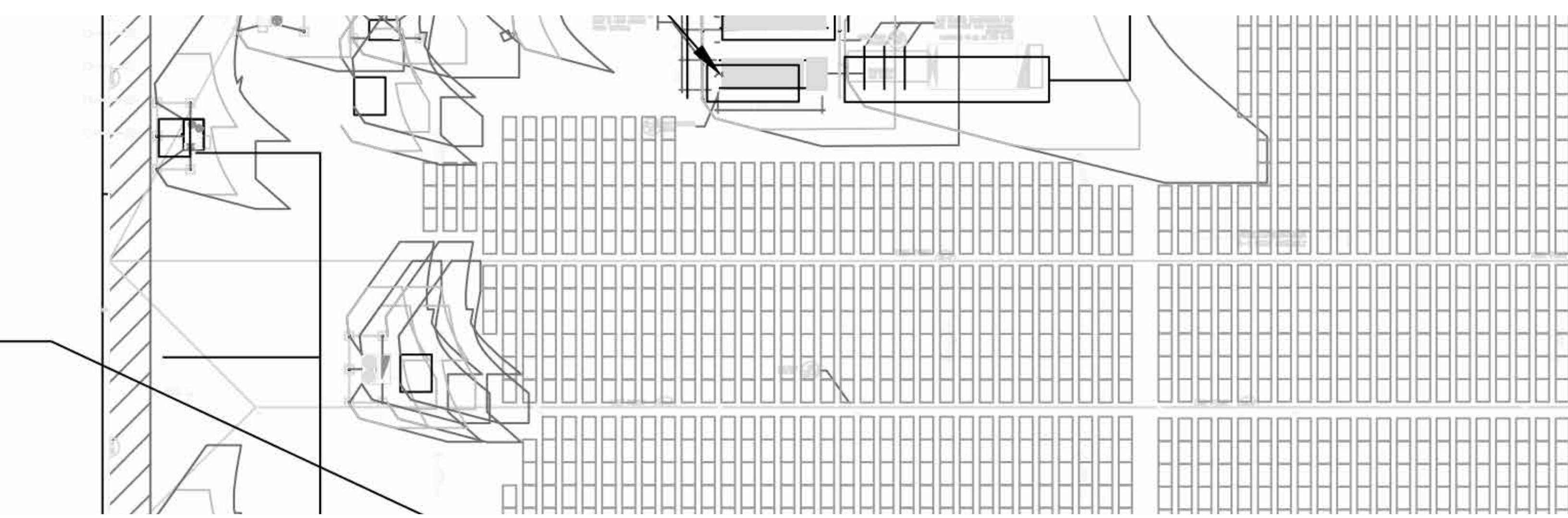
Solar Power Systems	
Solar EPC	The Solar Engineering Procurement and Construction ("EPC") Services segment is focused on the development and construction of roof top commercial solar grid-connected systems. It is operated through our Ontario, Canada based subsidiary, Carmanah Solar Power Corporation ("CSPC"). Over the past decade, we have installed utility connected systems with aggregate capacity of more than five megawatts across more than seventy installations, amassing the broadest range of installation type and complexity of any EPC provider in Canada. Currently this business is primarily focused on the Ontario market due to a Feed-in-Tariff ("FIT") program introduced there by the provincial government. As a leading Solar EPC Services provider, we believe we are well-positioned to support the continued rapid development of the systems the OPA FIT Program facilitates. We continue to monitor opportunities in other jurisdictions beyond the Canadian market.
Go Power!	Marketed under the Go Power! brand, this distribution business provides solar kits, solar panels, inverters, chargers, batteries and other power accessories for the RV, utility and fleet vehicles, and marine markets. Our sales are made through an established channel of dealers, distributors and agents throughout the US and Canadian markets, as well as through Amazon.com, a large online retailer. Operationally we utilize several 3rd party manufacturers and logistics warehouses to stock and distribute associated inventory. Some of our competitors in the Go Power! market area include Xantrex and Samlex.

INDUSTRY TRENDS AND OUTLOOK

A number of our products integrate solar panels, solar charge controllers, LEDs, LED optics and LED drivers into products that provide off-grid lighting and signalling solutions. These products suit a variety of applications, usually where grid electricity is unavailable, unreliable or expensive. The underlying technology used by our products is continuously improving, allowing us to enter new markets and to become more competitive with on-grid solutions. The most notable technological trend that is currently shaping these businesses is the continued increase in LED efficiency. As LED improve, the supporting solar power system can be reduced in size and cost, making the whole product more competitive against grid powered products. Improvements in battery and solar panel technology also play a role, but are improving at a much slower rate.

The solar industry in the United States is facing an escalating trade dispute with China and Taiwan which could ultimately impact our business. The trade dispute is driven by certain US solar manufacturers who allege that Chinese solar manufacturers receive unfair subsidies in the production of solar modules. An initial trade action launched in 2011 resulted in heavy duties on the importation of Chinese solar modules which came into effect in October 2012. These duties were specific to modules that had solar cells produced in China or Taiwan. Our business had no direct exposure as our suppliers secure cells for modules we purchase from outside China and Taiwan. On December 31, 2013, the same US manufacturers filed another petition to the US International Trade Commission ("ITC") to expand the action to include cells that are completed or partially manufactured within a customs territory other than that subject country, using ingots that are manufactured in the subject country, wafers that are manufactured in the subject country, or cells where the manufacturing process begins in the subject country and is completed in a non-subject country. On February 14, 2014, the ITC found there was reason to think that damage was occurring to the US market and passed the case onto the US Department of Commerce ("DOC"). We are confident that the new scope of the investigation proposed by the ITC will not have an impact on our business because the ingots, wafers and cells used in our modules are entirely produced in Germany or Malaysia. However, we are also currently exploring other options to mitigate future exposure if the scope is further expanded, which includes sourcing modules from other countries.

Our initial outlook for 2014 indicates that our restructuring has been successful. Our Q1 2014 revenues continue to show improvement over Q4 2013, our margins are stable and our operating costs are lower than comparable periods. As a result we expect positive operating income for the first time in a number of years. Although progress has been made, we have limited visibility beyond Q1 2014 and cannot rule out revenue variability during the balance of year which may impact results.



3. Operational and Business Highlights

OUR 2013 OPERATIONAL AND BUSINESS HIGHLIGHTS ARE DISCUSSED BELOW.

SPOT DEVICES INC ACQUISITION

On January 4, 2013, we closed the transaction to acquire certain assets of Spot Devices, Inc. ("Spot"), a Nevada, USA-based manufacturer of traffic, pedestrian and school zone safety systems. Included in the transaction was the right to a license agreement for the exclusive use of System Infrastructure Management Application ("SIMA") technology for public roadway applications. SIMA was developed by Cirrus Systems, LLC, a related company to Spot for traffic. SIMA basically provides customers access to control and monitor certain aspects of their products. Terms of the transaction include the issuance of 2.2 million of our shares to Spot (valued approximately $0.6 million on close) plus conditional cash payments pursuant to a two-year cash earn-out where Spot is paid 12.5% of the portion of cumulative 2013 and 2014 Gross Traffic revenues exceeding $17.5 million. At present, our two year revenue forecasts for Traffic products fall short of this earn out target. This transaction was accounted for as a business combination. One of the outstanding items related to this transaction was the negotiation and signing of the SIMA software license agreement ("SLA") with Cirrus.

Due to a variety of events that have occurred subsequent to the acquisition, an impairment loss of $0.6 million was recognized during the second quarter of 2013. The reasons for the impairment included our inability to secure an economically viable SIMA license agreement and a higher than expected churn rate associated with legacy customers.

Section 6.1 outlines a number of provisions that have been recorded as a result of this acquisition.

BOARD CHANGES

There have been a significant number of changes to the board during 2013. These changes were initiated by shareholder vote at the annual general meeting on April 30, 2013. In addition, several other changes took place including:

- Rob Cruickshank and Daniel Nocente resigned from the board on June 19, 2013.
- Michael Sonnenfeldt and John Simmons were appointed to the board on June 26, 2013.
- Michael Sonnenfeldt was elected as Chairman on July 15, 2013.
- Bob Wiens resigned from the board, effective October 1, 2013.
- Jim Meekison and Terry Holland were appointed to the board on December 2, 2013.

EXECUTIVE CHANGES

There have been significant changes in the executive management of the Company including:

- The resignation of Bruce Cousins as CEO, announced on June 19, 2013 but effective August 1, 2013
- The appointment of John Simmons as CEO effective August 1, 2013.
- The termination of Roland Sartorius as CFO effective September 12, 2013.
- The appointment of Stuart Williams as CFO effective September 12, 2013.

RESTRUCTURING ACTIVITY

During the third and fourth quarters, we began to work on a restructuring plan in an effort to restore profitability and position the Company for future growth. The plan focused on streamlining our operations in an effort to reduce salary costs to sustainable levels. It also included a variety of changes to our organization structure, business practises and processes and supporting IT systems. Items of significance include our decision to (1) close our remote development office in Burnaby and (2) replace our current ERP and CRM systems with a more cost effective solution. As a result of these restructuring plans we have incurred a charge of $0.6 million in 2013. The majority of this relates to severance payments.

RIGHTS OFFERING

We completed a shareholder rights offering (the "Offering") in the fourth quarter which raised net proceeds of $5.2 million. Under the Offering, each shareholder was given one right for each share held on the applicable record date. Each right was exercisable for one common share at a subscription price of $0.12 (CAD). In connection with the Offering, we entered into a binding standby purchase agreement with a group of investors, who had committed, subject to certain conditions, to purchase up to $5.5 million (CAD) of the rights shares that were not otherwise subscribed for by other holders. The offering closed on November 19, 2013 without the need for the standby investor group. A total of 50,294,200 shares were issued. Gross proceeds were $6.0 million (CAD) and issuance costs were $0.5 million (CAD).

Below are some of the business highlights within each of our market verticals:

- **MARINE** – During the year we launched several new products, including the M800 series lantern and the M550. Both of these products offer significant performance over our older M502 and M700 series which are both in the processes of being discontinued. These new lanterns continue our tradition of rugged reliability while offering improved efficiency, lighter per unit weight, and simplified user experience.
- **TRAFFIC** – Within our Traffic segment, we closed the acquisition of certain assets of Spot Devices, Inc., expanded our sales team and continued development work on new iterations of our products. Marketing efforts were also expanded, highlights of which included several new social media campaigns and the development of various sales tools.
- **AVIATION/OBSTRUCTION** - Within our Aviation/Obstruction segment, the main focus has been on closing sales opportunities and continuing to split out and grow our Obstruction market. We introduced a number of Obstruction specific lanterns along with related sales and marketing materials. Obstruction and Aviation will be segregated as independent sales verticals starting in 2014.
- **OUTDOOR LIGHTING** - Within our Outdoor Lighting segment, we have been focused on building partnerships, expanding our OEM strategy and on closing sales. In the early part of the year, we signed a supply agreement with Acuity Brands, Inc. ("Acuity"), a leading provider of LED lighting and lighting controls, which provides for the supply and integration of our solar outdoor light engines into certain of their luminaires. To date this partnership hasn't produced significant results. We are currently evaluating our go to market strategy within this market.
- **GO POWER!** - Within our mobile segment, we have continued to focus on expanding our product offering and sales channels and continuing our investment in our social media presence and website. We saw some strong growth from our Recreational Vehicle ("RV") market where we had a 23% performance increase over the same period in 2012 as a result of our annual Canadian booking program. Success in our RV market is attributed to a continuing reduction in solar material costs, resulting in greater value proposition to the dealer network and an increase demand for solar products. We also continued to build the Go Power! brand with the introduction of the Portable Solar Kit series and the release of our largest single panel solar kit to date.
- **SOLAR EPC** – Our Solar EPC segment saw a number of developments within the Ontario FIT program including the release of 146.5 megawatts of new contracts under FIT 2.0 and the opening of applications under FIT 3.0. During the year, our team focused on completing construction of our remaining backlog of FIT 1.0 projects and pursuing contract opportunities under FIT 2.0. During the year, we secured two additional projects worth $2.0 million, with a portion of this work completed prior to the end of the year. The team continues to pursue a significant portfolio of projects which it hopes to secure in early to mid-2014 and build out in the latter half of the year.

4. Financial Results

As previously noted, the information presented in the sections below have been derived from, and should be read in conjunction with our consolidated annual financial statements for the year ended December 31, 2013.

4.1. THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues						
Traffic	1,680	693	142.5%	5,067	2,597	95.1%
Marine	1,454	1,322	10.0%	4,161	5,451	(23.7)%
Aviation/Obstruction	1,150	964	19.3%	3,712	3,521	5.4%
Outdoor Lighting	921	1,331	(30.8)%	1,942	3,676	(47.2)%
GoPower!	1,729	1,584	9.1%	7,962	6,507	22.4%
Solar EPC Services	821	2,467	(66.7)%	3,058	4,690	(34.8)%
Total revenue	**7,755**	**8,361**	**(7.2)%**	**25,902**	**26,442**	**(2.0)%**
Gross margin %						
Traffic	47.3%	39.5%	7.8%	41.7%	37.8 %	3.8%
Marine	35.8%	29.3%	6.5%	30.3%	32.2%	(1.9)%
Aviation/Obstruction	39.8%	35.8%	4.0%	29.9%	40.6%	(10.7)%
Outdoor Lighting	17.2%	32.1%	(14.9)%	6.2%	26.6%	(20.5)%
GoPower!	26.4%	19.4%	6.9%	28.1%	29.8%	(1.7)%
Solar EPC Services	*23.7%*	*27.1%*	*(3.5)%*	*17.7%*	24.6%	(6.9)%
Total Gross margin %	**33.3%**	**28.8%**	**4.5%**	**28.5%**	**31.2%**	**(2.7)%**

Consolidated revenues for the year ended 2013 were down $0.5 million over the same period in 2012. Overall, our gross margin for the year ended 2013 was 28.5%, down from 31.2% in the same period in 2012. The following section summarizes the changes by segment.

- **TRAFFIC** – Year to date revenues were $5.1 million, up from $2.6 million in the same period in 2012. Revenues for the fourth quarter of 2013 were $1.7 million, up from $0.7 million from the same period in 2012. These increases were due to additional investment in sales, marketing and product development, as well as the asset acquisition of Spot. Year to date our gross margins have increased to 41.7%, up from 37.8 %.
- **MARINE** – Year to date revenues were $4.2 million, down from $5.4 million in the same period in 2012. Revenues for the fourth quarter of 2013 were $1.5 million, up from $1.3 million in the same period in 2012. The year to date decrease is due to lower sales from some of our aging product lines and increased competitive pressures. We experienced a slight uptake in sales in the third and fourth quarter of 2013 with the launch of several new products in the middle of the year. From a gross margin perspective, our year to

date margin was 30.3%, down from 32.2% largely due to competitive pressures and write-offs associated with discontinued products.

- **AVIATION/OBSTRUCTION** – Year to date revenues were $3.7 million, up from $3.5 million in the same period in 2012. Revenues for the fourth quarter of 2013 were $1.2 million, up from $1.0 million from 2012. Obstruction sales have been a contributor to growth this year as we continue to develop this market with the introduction of obstruction specific products. In the fourth quarter we hired a dedicated sales person to help further develop this market. Aviation revenues continue to have a large amount of variability quarter to quarter due to the timing of project base sales. Year to date gross margins were 29.9%, down from 40.6% in 2012, primarily the result of our efforts to clear out older generation inventory and an increase in sales of Obstruction products which generally carry a lower margin than Aviation products.
- **OUTDOOR LIGHTING** – Year to date revenues were $1.9 million, down from $3.7 million in the same period in 2012. Revenues for the fourth quarter of 2013 were $0.9 million, down from $1.3 million in the same period in 2012. These declines are largely due to timing of project sales and difficulties competing in the market. Year to date gross margin was 6.2%, down from 26.6% in the prior year due to inventory write offs of slower moving product lines and higher sales of lower margin products.
- **GOPOWER!** – Year to date revenues were $8.0 million, up from $6.5 million in 2012. Revenues in the fourth quarter of 2013 were $1.7 million, up from $1.6 million in the same period in 2012. This significant growth year over year is due to a number of factors, including an expansion of our distribution channels. The introduction of innovative products, such as our folding portable solar kits, and an underlying uptake in the industry with declining prices for solar technologies providing a greater value proposition for our products to our underlying customers. Year to date gross margin was 28.1%, down from 29.8% from the same period in 2012, largely due to higher inbound freight charges as we worked to maintain our inventory levels given higher sales levels, and increased warehousing charges due to higher transaction fees as a result of price increases and higher storage costs due to higher inventory levels year over year.
- **SOLAR EPC SERVICES** – Year to date revenues were $3.0 million which is down from $4.7 million from the same period in 2012. Revenues for the fourth quarter of 2013 were $0.8 million, down from $2.5 million in the same period in 2012. The decline is mainly due to a timing of when projects are won and ultimately constructed. We are continuing to pursue a meaningful book of business which we hope to secure in 2014. Year to date gross margin was 17.7%, down from 24.6% in 2012. This decline is due to pricing pressures in the market space.

SALES BY GEOGRAPHIC REGION

All of our international revenues have been generated by our Aviation/Obstruction, Marine and Outdoor Lighting segments. Our Solar EPC Services business is currently solely focused on the Canadian market and our GoPower! and Traffic segments sell into both the Canadian and US markets.

Approximately 16.9% of our revenues for 2013 were from outside North America. This is up slightly from 16.2% in the same period of 2012. Fluctuations are largely due to the timing of significant project sales outside the North America market.

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

OPERATING EXPENSES

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Sales and marketing	687	1,038	(33.8)%	3,439	4,218	(18.5)%
Research and development	460	474	(3.0)%	1,925	2,065	(6.8)%
General and administration	1,217	1,472	(17.3)%	5,439	5,783	(5.9)%
Total operating expenditures	**2,364**	**2,984**	**(20.8)%**	**10,803**	**12,066**	**(10.5)%**
Operating expenses (excluding restructuring) as % of sales*	30.5%	35.7%	(5.2)%	41.7%	45.6%	(3.9)%
Non-cash items:						
Amortization	244	246	0.8%	936	1,099	(14.8)%
Stock-based payments	13	45	(71.1)%	46	257	(82.1)%

** A Non-IFRS measure*

Our total operating expenses for the year ended of 2013 were $10.8 million, down from $12.1 million in 2012. For the three months ended December 31, 2013, our total operating expenses were $2.4 million, down from $3.0 million from the prior year. These decreases are largely due to lower salaries with a net reduction of seven full time staff equivalents year over year.

SALES AND MARKETING

Our sales and marketing expenses for the year ended 2013 were $3.4 million, down from $4.2 million in the same period in 2012. Sales and marketing expenses in the fourth quarter of 2013 were $0.7 million, down from $1.0 million in the same period of 2012. These decreases were largely the result of lower travel costs and lower agent commissions paid to outside companies due to changes in our sales strategies.

RESEARCH, ENGINEERING AND DEVELOPMENT

Our research, engineering and development expenses for the year ended 2013 were $1.9 million, which is down from $2.1 million from the same period in 2012. For the fourth quarter of 2013, these expenses were $0.5 million, unchanged from the same period in 2012. This annual decline is primarily due to reduced development activities.

GENERAL AND ADMINISTRATION

Our general and administration ("G&A") expenses for the year ended 2013 were $5.4 million, which is down from $5.8 million in the same period in 2012. For the fourth quarter of 2013, these expenses were $1.2 million, down from $1.5 million in the same period in 2012. Within G&A expenses for the year ended 2013, we have seen an increase in legal and bad debt expenses. This was offset by reductions in salaries costs, with a net reduction of five FTEs year over year. A number of these positions were eliminated, while others transitioned into other areas of the organization.

OTHER OPERATING EXPENSES

During the year ended December 31, 2013, we incurred a number of operating expenses that are non-recurring in nature and have been separately disclosed for better clarity and presentation. These expenses are described below.

RESTRUCTURING

During the fourth quarter of 2013 we recognized restructuring charges of $0.6 million as outlined in section 3. These charges mainly relate to severance and termination payments, although there were some miscellaneous costs associated with closing our remote product development office. $0.3 million of these restructuring charges were paid out prior to December 31, 2013. The remaining balance is expected to be paid out in the first couple of quarters.

ASSET IMPAIRMENTS

During the year ended December 31, 2013 we recognized various intangible and tangible asset impairments totalling $2.0 million.

- We recognized an impairment loss of $0.3 million relating to a license asset that covered a portfolio of specialized Aviation mobile precision laser guidance approach systems. It was written off after a review of the potential sales pipeline no longer included products covered under the agreement.
- We recognized an impairment loss of $0.6 million associated with the Spot acquisition. This was required after we were unable to secure an economically viable license agreement for a service that underpinned a number of products which Spot (see 3. Operational & Business Highlights) previously sold.
- We recognized an impairment loss of $0.1 million related to patents on various products. The patents impaired related to obsolete or discontinued product lines where there was no future benefit potential.
- We recognized an impairment loss of $0.2 million relating to our ERP system. The write off was determined by management during the restructuring initiative which showed it was too expensive and highly inefficient.
- We recognized an impairment loss of $0.2 million for production equipment relating to our outdoor lighting segment. These production assets primarily relate to the higher end product offering we have within this market segment. Revenues from these higher priced systems have been declining recently due to competitive pressures and internal product cannibalization as customers switch to our lower cost systems, a trend we expect to continue.

OTHER INCOME (EXPENSE)

Other expenses were $0.1 million for the year ended 2013, which is comparable to the same period in 2012. The 2013 amount is primarily relates to foreign exchange losses and due diligence. The 2012 amount primarily relates to due diligence and other acquisition related costs associated with the asset acquisition of Spot Devices Inc.

INCOME TAXES

Our income tax expense for the year ended December 2013 relates to US state taxes.

4.2 QUARTERLY TRENDS

	2013				2012			
(US$ thousands, except EPS amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	7,755	4,863	6,319	6,965	8,361	6,661	6,063	5,357
Gross margin	2,583	1,152	1,542	2,107	2,411	2,070	1,765	1,993
Gross margin %	33.3%	23.7%	24.4%	30.3%	28.8%	31.1%	29.1%	37.2%
Operating costs	(2,364)	(2,599)	(3,039)	(2,801)	(2,984)	(2,953)	(3,190)	(2,939)
Other operating expenditures	(1,062)	-	(965)	-	-	-	-	-
Other income (expense)	(90)	8	(15)	(16)	(146)	45	(26)	35
Income tax (expense)	-	(3)	-	(2)	(2)	-	-	-
Net (loss)/income	(933)	(1,442)	(2,477)	(712)	(721)	(838)	(1,451)	(911)
EPS – Basic	(0.01)	(0.03)	(0.05)	(0.01)	(0.02)	(0.02)	(0.03)	(0.02)
EPS– Diluted	(0.01)	(0.03)	(0.05)	(0.01)	(0.02)	(0.02)	(0.03)	(0.02)
EBITDA[1]	(689)	(1,222)	(2,237)	(475)	(473)	(550)	(1,163)	(634)

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

Our quarterly revenues have fluctuated over the past several years, primarily due to product mix and the nature of our sales within our market segments. A large portion of our revenues are derived from infrastructure projects that typically often have longer tender processes and fluctuating timelines. This is most pronounced within our Solar EPC Services, Aviation and Outdoor Lighting market segments and to a lesser extent within our Marine and Traffic markets. GoPower! revenues are more seasonal in nature with higher sales in the first two quarters of the year as our distributors gear up for the busier spring and summer periods. The reasons for the largest quarterly swings in revenue are explained below:

- At $8.4 million, Q4 2012 was our largest quarter for revenue in the past two years. This spike was primarily the result of a few larger projects that hit at the same time and resulted in substantially higher sales from our Solar EPC and Outdoor Lighting segments.
- At $4.9 million, Q3 2013 revenues were substantially under our trend. This was primarily due to lower sales in our Aviation, Outdoor Lighting and Solar EPC segments. A good portion of this was due to timing of project sales. The quarter also suffered a bit from production problems caused by our transition between contract manufacturing facilities.

Our gross margin on a quarterly basis is variable and reflects the mix of products and any inventory adjustments/write-offs that are tied to changes in component pricing, technology, and product offering/design. Historically, we see lower margins in the fourth quarters of each year as revisions are made to operational and product plans that often impact the recoverability of inventory.

Our operating costs were relatively stable at around $3 million a quarter up until the end of Q2 2013. Q3 and Q4 of 2013 trended lower due to restructuring initiatives. These initiatives resulted in lower salaries expense, development expenditures, travel and marketing and advertising costs.

Other operating expenditures include restructuring charges of $0.5 million in the fourth quarter of 2013, which primarily related to severance costs associated with a reduction of our staffing levels, and asset impairments of $0.5 million in the fourth quarter and $1.0 million in the second quarter of 2012. See section 4.1 for a description of the asset impairments incurred during 2013.

Our other income (expense) has fluctuated significantly over the quarters. Other income (expense) includes various non-operating items such as foreign exchange gains and losses, acquisition costs, and other items. The fourth quarter of 2012 included costs associated with the acquisition of assets from Spot Devices, Inc.

4.3 SELECT ANNUAL INFORMATION

The following table provides selected financial information for the last three fiscal years.

	Year ended December 31		
(US$ thousands, unless noted otherwise)	**2013**	**2012**	**2011**
Sales	25,902	26,442	35,904
Gross margin	7,384	8,239	11,262
Loss from continuing operations	(5,564)	(3,921)	(8,553)
Loss per Share – Basic and Diluted	(0.10)	(0.09)	(0.20)
Net loss	(5,564)	(3,921)	(8,533)
Loss per Share – Basic and Diluted	(0.10)	(0.09)	(0.20)
Total assets	14,957	13,176	15,441
Total long-term financial liabilities	-	-	-
Cash dividend	-	-	-

The significant drop in revenue between 2011 and 2012 was the result of lower sales from our Solar EPC, Aviation and Outdoor Lighting segments. These sales declined due to a variety of reasons including our failure to secure significant new projects and a general softening in these markets. The most obvious of the market changes was within our Aviation segment with sales to the US military dropping off substantially as the wars in the Middle East were starting to wind down.

The significant net loss in 2011 was due to the write off of our investment tax credits and future tax assets. These were impaired after management reassessed our future earnings potential which resulted in a reduced likelihood of their eventual utilization.

5. Liquidity, Capital Resources and Other Disclosures

5.1. SUMMARY OF CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

(US$ thousands, unless noted otherwise)	2013	2012	CHANGE
Cash provided/(used) in operating activities	(2,457)	(3,551)	30.8%
Cash used in investing activities	(263)	(431)	39.0%
Cash provided from investing activities	5,219	1,761	196.4%
Effects of exchange rate changes on cash	56	(26)	315.4%
Total increase/(decrease) in cash	**2,555**	**(2,247)**	**213.7%**

CASH USED IN OPERATING ACTIVITIES

During the year ended December 31, 2013, cash used by our operating activities, excluding changes in working capital, was $3.0 million which is up from $2.5 million in the same period in 2012. Changes in non-cash working capital were positive $0.6 million, up from a use of cash of $1.0 million from the same period in 2012. We actively manage our working capital by monitoring inventory turnover data, collection of accounts receivable, and taking advantage of trade discounts and/or extended payment terms granted by suppliers.

CASH USED BY INVESTING ACTIVITIES

During the year ended December 31, 2013, cash used for investing activities was $0.3 million, down from $0.4 million in the same period in 2012. The additions in 2013 mainly related to production equipment, while 2012 additions mainly included minor additions relating to investments in IT hardware and software.

CASH PROVIDED FROM FINANCING ACTIVITIES

During the year ended December 31, 2013, cash provided by financing activities was $5.2 million compared to $1.8 million in the same period in 2012. In 2013, we completed a rights offering which raised approximately $5.7 million ($6.0 million CDN) in gross proceeds. Costs associated with this rights offering were approximately $0.5 million. Section 3 provides more details associated with this transaction. In 2012, we completed a non-brokered private placement which raised net proceeds of $1.8 million.

5.2 LIQUIDITY AND CAPITAL RESOURCE MEASURES

On December 31, 2013, our overall working capital was $8.1 million, an increase of $1.8 million compared to $6.3 million at December 31, 2012. This increase is primarily due to the rights offering previously discussed. Without this rights offering our working capital would have declined substantially as a result of our operating losses during the year.

We previously disclosed that the proceeds from the offering would be used for general corporate purposes including, but not limited to: (1) funding restructuring costs and process improvement expenditures all of which will be directed at reducing operating costs; (2) investments in new product development activities to meet market demands and improve gross margins; (3) funding an increase in inventory to meet customer demands and, if required by a change in manufacturing strategy, to buy back parts inventory from the Company's contract manufacturer; and (4) funding operating losses until the results of (1) and (2) can be achieved. To date, the proceeds have been used for working capital needs and in the execution of our restructuring plan previously outlined in section 3. The following table outlines the use of proceeds to December 31, 2013 for items other than working capital:

(US$ thousands)	**As per previous disclosure**	**Incurred to December 31, 2013**
Restructuring activities	Cash amounts not specified*	324

* - previous disclosure of the restructuring activities estimated the restructuring charges at $0.9 million. Actual restructuring expenses incurred amounted to $0.6 million, of which $0.3 million were paid out prior to December 31, 2013. The previous estimate of $0.9 million had included some asset write offs which have been separately disclosed for clearer presentation.

Our capital plans for the 2014 include the replacement of our current ERP and CRM systems. This decision was primarily made in an effort to streamline business processes and reduce ongoing operating costs associated with the legacy systems. We anticipate that the new systems will be in place by the middle of 2014 and will cost somewhere between $0.3 million to $0.5 million.

We are continuing to evaluate our operations in an effort to improve our ability to meet our customer's needs in a profitable manner. Future changes in our inventory management and manufacturing arrangements may occur which could have a significant impact on our liquidity and working capital positions.

5.3 CREDIT FACILITIES

We currently do not have access to a credit facility. Prior to July 2013, we had access to a facility from the Royal Bank of Canada ("RBC"). This facility provided access to a $5.0 million CDN revolving demand loan and a CDN $0.5 million term credit facility. The facility was cancelled on July 16, 2013. As a result, all credit extended to us by RBC, for products such as letters of credits, credit cards, and foreign exchange hedges are on a cash secured basis until we are able to meet the covenant requirements.

5.4 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We have a number of operating leases that cover facilities and equipment as well as several committed contracts covering various IT services. The following table outlines the minimum amounts due under these agreements in future years as at December 31, 2013:

(US$ thousands, unless noted otherwise)	**FACILITY LEASES**	**EQUIPMENT LEASES**	**IT SERVICE CONTRACTS**	**TOTAL**
Not later than 1 year	233	30	138	401
2 year to 3 years	401	60	-	461
Total	634	90	138	862

The total lease commitments are expected to be funded by cash flows from operations.

We have a number of contract manufacturers who build and supply our manufactured products. Our agreements with these contract manufacturers generally require us to be liable for inventory and outstanding committed purchase orders they have outstanding to support our business. If one of these agreements is terminated, we would be required to purchase the associated underlying inventory or arrange for a new contract manufacturer to acquire and hold it in a similar capacity. Our largest contract manufacturer, Flextronics, also requires us to purchase excess raw inventory which arises in situations where our demand forecasts for particular product is less than our actual use or sales in a given period. The value of the Flextronics inventory held at December 31, 2013 was $0.9 million (December 31, 2012 - $1.1 million), and the value of planned purchase orders to support our expected future demand was $1.8 million (December 31, 2012 - $2.2 million). Inventory held at other contract manufacturers is approximately $0.2 million in aggregate.

↖ CARMANAH M550 PRIVATE AID-TO-NAVIGATION

5.5 CLAIMS AND LAWSUITS

On July 18, 2013, we were named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (all of which are related parties – collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used with respect to our solar powered flashing beacons for the traffic safety market. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiff for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respects to patent of a similar nature that we hold. Subsequent to year-end, our application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The outcome of the review was positive, with the examiner agreeing with our position. The Plaintiff can appeal this decision. We are not certain of the outcome of this case and we intend to continue to defend ourselves and will file additional appropriate responses to the Court as required to do so. As the outcome of these matters is not currently determinable, no provision has been made at December 31, 2013.

5.6 CONTINGENT LIABILITY

None.

5.7 OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any off balance sheet arrangements other than standard office/facility lease agreements and vendor managed inventory as noted under section 5.4, Contractual obligations and commitments.

5.8 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our accounts receivable, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

We are exposed to foreign exchange risks as we transact business and have working capital denominated in multiple currencies. We attempt to minimize our exposure through managing our working capital and entering into foreign exchange products or contracts when are where appropriate. At December 31, 2013, our net CDN dollar denominated working capital is higher than normal due the recent closure of our rights offering. Given the recent changes in the business, we are currently reviewing our situation with respects to foreign exchange and our associated policies.

5.9 RELATED PARTY TRANSACTIONS

Our CEO and Chairman of the Board, John Simmons and Michael Sonnenfeldt respectively, were part of the investor group involved in the standby purchase agreement associated with the rights offering previously described under section 3. John Simmons was committed under the agreement to a maximum of $0.7 million. MUUS Holdings LLC, a company controlled by Michael Sonnenfeldt, was committed under the agreement to a maximum of $1.8 million. As a result of the standby purchase agreement, John Simmons and MUUS Holdings LLC were paid $0.01 million and $0.04 million respectively for their commitment.

5.10 PROPOSED TRANSACTION

None.

OUTSTANDING SHARE DATA

Our common shares trade on the Toronto Stock Exchange ("TSX") (TSX: CMH), and as at December 31, 2013 we had 100,612,011 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options and other outstanding stock units stated in Cdn$.

	AS AT				
	MARCH 13, 2014	DECEMBER 31, 2013	SEPTEMBER 30, 2013	JUNE 30, 2013	MARCH 31, 2013
Share price – closing (Cdn $)	0.19	0.15	0.16	0.29	0.30
Market capitalization (Cdn $ in thousands)	19,116	15,092	8,047	14,554	15,040
Outstanding					
Shares	100,612,011	100,612,011	50,294,000	50,186,854	50,134,071
Options	3,972,000	4,114,000	1,792,000	2,998,000	2,810,000
Restricted share units	-	-	6,944	88,420	153,418
Performance share units	-	-	-	20,432	20,432

↙ SOLAR AIDE TO NAVIGATION INSTALLATION, USA

6. Critical Accounting Estimates and Accounting Policy Developments

6.1 CRITICAL ACCOUNTING ESTIMATES

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

The significant accounting policies and estimates are discussed below:

ACCOUNTING POLICY	ESTIMATES
Warranty provision	A provision for future potential product warranty costs is included in cost of goods sold based primarily on prior warranty experience regarding cost of claims and expected product returns. These future product warranty costs include costs associated with repair or replacement of products returned under warranty. Actual future costs in support of these claims may differ from those estimates. We review the provision quarterly and adjust it prospectively. The total provision as at December 31, 2013 was $0.9 million, up from $0.6 million at December 31, 2012. The increase in the warranty provision during the year was mainly due to the acquisition of Spot, with the agreement requiring us to pick up their historical warranty claims, up to a maximum of $0.2 million. At December 31, 2013, the remaining historical warranty provision for Spot was $0.1 million.
Valuation of inventory	We evaluate inventory balances at each balance sheet date and record a provision as necessary for slow moving or obsolete inventory. In performing this review we consider such factors as forecasted sales, demand requirements, product lifecycle and product development plans, quality issues, and current inventory levels. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes occur, we may be required to record write-down which would negatively affect gross margins in the period when the write-downs are recorded and our operating results and financial position could be adversely affected. At December 31, 2013 our inventory provision was approximately $1.0 million, up from $0.7 million at December 31, 2012, mainly due to additions to the provision for slow moving Outdoor Lighting inventory.
Allowance for doubtful accounts	We record an allowance for doubtful accounts related to trade accounts receivable. This allowance is based on our knowledge of the financial condition of our customers, the aging of the receivables, the current business environment and historical experience. A change in one or more of these factors could impact the estimated allowance and provision for bad debts recorded. At December 31, 2013, our allowance for doubtful accounts was $0.1 million, unchanged from December 31, 2012.
Forfeiture rates associated with share-based payments	In determining share-based payments expense, we make estimates related to forfeiture rates for each specific grant. Forfeiture rates are used to estimate the number of awards that are expected to vest considering employee turnover rates. The changes in estimates are recognized in the statement of income (loss) and total comprehensive income (loss) in the year that they occur. Current forfeiture rates applied to grants range from 5% to 25% and vary depending upon the employee make-up of the associated grants.

As noted in section 3, significant estimates have also been made surrounding provisions relating to the Spot acquisition and SIMA services.

- $0.1 million has been provided for to cover costs associated with monitoring services provided by Cirrus for SIMA enabled products which we sold. As described in section 3, we were never able to secure an economically viable license agreement for SIMA monitoring services which are provided by Cirrus, a related company to Spot. During 2013, we sold approximately 220 SIMA-enabled units with service terms ranging from 1 to 10 years. This provision covers current and future costs associated with this service. It is based upon our understanding of Cirrus's cost structure and preliminary monthly fee ranges discussed during negotiations with Cirrus.
- $0.1 million has been provided to cover potential returns or product replacements associated with an offer we extended to customers who purchased SIMA enabled products from us. During the third quarter of 2013, concerns about the reliability of SIMA enabled products were brought to management's attention. In some situations SIMA enabled products can suddenly or unexpectedly fail which could result in a safety hazard. As a result, we extended an offer to customers who purchased SIMA enabled product from us the ability to obtain replacement products on a free or a substantially discounted basis. We estimate the total maximum exposure associated with this offer is approximately $0.2 million, which is the cost of the SIMA-enabled product we sold during the period. We have recorded $0.1 million as a provision which is our best estimate given the wide range of options open to the end customers. These options include everything from modifying the product, upgrading their solution, or retaining the risk or lost functionality.
- $0.1 million has been provided to cover product warranty for legacy customers/installations. This amount is based upon an analysis of the installation base, including what products are still under warranty and our experience with claim rates and costs.

6.2 FUTURE CHANGES IN ACCOUNTING POLICIES

Unless stated otherwise, the following standards are required to be applied for periods beginning on or after January 1, 2014 and based upon our current facts and circumstances, we are evaluating the impact of the application of the following standards:

Effective for annual periods beginning on or after January 1, 2014

- IAS 32, Financial Instruments: Presentation ("IAS 32") – IAS 32 has been clarified to read that financial assets and financial liabilities can only be offset when an entity has a legal enforceable right in the normal course of business to offset.
- IFRIC 21, Levies ("IFRIC 21") – IFRIC 21 provides guidance on timing of recognition of liabilities related to levies imposed by a government.

Effective for annual periods beginning on or after January 1, 2015:

- IFRS 9, Financial Instruments, initially to be applied for periods on or after January 1, 2015 but the effective date has been deferred. On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date, with earlier adoption still permitted.

6.3. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

DISCLOSURE CONTROLS

Our officers and management have evaluated the effectiveness of our DC&P as at December 31, 2013 as required by Canadian securities laws. The evaluation approach involved looking at the size, nature and state of development of the business and thus used a top down risk-based approach to focus evaluation on areas that were deemed to provide the greatest risk to a material misstatement. Our evaluation also took into account our corporate disclosure procedures and the functioning of our Officers, other executive officers, management, Board of Directors, and Audit Committee. Based on this evaluation, our Officers concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the MD&A and the Consolidated financial statements contained in this report were being prepared.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The recent change in our CFOs has impacted internal accounting and finance processes relating to reporting. These changes and their impacts to our internal controls over financial reporting indicated that there are some segregation of duties issues and a lack of review in certain areas. Some of these issues were addressed late in the fourth quarter, although further work is required to fully validate the controls are appropriately designed and operating effectively prior to full certification. We do not believe these control issues are material weaknesses and we will work to addresses these early in 2014.

↗ SOLAR HELIPAD, FRANCE

7. Risks and Risk Management

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

AREA OF RISK	DESCRIPTION
Competitive Environment	Our competition includes companies who manufacture, sell and install off-grid lighting devices. We compete on the basis of product performance, product features, price, quality and post-installation product support. Our ability to compete successfully depends on factors within and beyond our control, including successful and timely development of new products, product performance and quality, product availability, intellectual property protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends. In particular, we anticipate that certain competitors may transition to off-grid lighting in the future. If and when this transition occurs, the greater name recognition and financial resources of these competitors may make it difficult for us to compete. To be successful, we will need to keep pace with rapid changes in lighting technology, changing customer requirements, new product introductions by competitors and evolving industry standards, any of which could render the our existing products obsolete if it fails to respond in a timely manner. Development of new products incorporating advanced technology is a complex process subject to numerous uncertainties. We have in the past experienced, and could in the future experience, delays in introduction of new products. If others develop superior innovative proprietary lighting technology our competitive position may be harmed and it may not achieve sufficient growth in revenue to attain, or sustain, profitability.
Competition with Other Energy Sources	Off-grid LED lighting products compete with products powered by conventional energy and other sources of renewable energy. There is a risk that similar products with alternative power sources will enjoy greater policy support or provide a more cost-effective alternative to conventional lighting than our products.
Technological Changes	Our products rely on us keeping pace with technological changes. Failure to keep pace with state-of-the-art technologies and methodologies may have a materially adverse effect on our results. Evolving industry standards and/or customer needs may have an effect on demand for our products. Our products may be rendered obsolete or less marketable due to technological advances made by competitors. In order to maintain our current market share, we may have to make substantial investments in product innovation and development.
Anticipated Adoption Rates for Off-Grid LED Lighting	While we have invested heavily in the development of off-grid LED lighting products, off-grid LED lighting is still in its early stages. If the rate of off-grid LED lighting adoption is slower than the anticipated commercial trends and we are unable to meet the forecasted sales volumes, we may not generate sufficient revenues to sustain profitability. In addition, demand for off-grid LED lighting products in our targeted markets may not develop or may develop to a lesser extent than anticipated.
Ability to Manage Expansion Effectively	We expect to expand our business in the future to meet the anticipated growth in demand for off-grid LED lighting products. If we are unable to manage growth effectively, we may not be able to take advantage of market opportunities, execute our business strategy or respond to competitive pressures. To manage the potential growth of our operations, we may be required to improve operational systems and procedures and expand our relationships with suppliers, manufacturers, distributors and customers. There can be no assurance that the current and planned operations, personnel, systems and internal procedures will be adequate to support future growth.

AREA OF RISK	DESCRIPTION
Foreign Exchange	Although we utilize the US Dollar as our functional currency, we are still exposed to fluctuations in the exchange rates between the US and Canadian dollar as a portion of our sales are denominated in currencies other than US dollars. Our exposure to Canadian dollar/US dollar fluctuations is reduced as we purchase a portion of inventory and other cost of sales items in Canadian dollars. If the US dollar rises relative to the Canadian dollar, our operating results may be negatively impacted. Additionally, we enter into foreign exchange contracts to manage foreign exchange risk as required. In 2013 we had not entered into any foreign exchange contracts and thus have none outstanding at December 31, 2013. We do not use contracts or any other financial instruments, for speculative purposes.
Reliance on Third Party Manufacturers	We rely on third party manufacturers and suppliers to provide certain products used in our components. While we maintain good relationships with suppliers, increased product demand can lead to increased demand on these providers, which they may not be able to meet. The failure of a supplier to meet product demands and/or specifications could result in significant production delays, which could harm our operations. Should a manufacturer or supplier suffer financial difficulties or any other disruption in manufacturing capacity, we may not be able to secure adequate substitute manufacturing sources for our products in a timely manner. While we believe we have sufficient access to manufacturing capacity to meet current and expected future requirements, it is possible that future capacity needs will not be available. Additionally, as we rely on third party manufacturers, we are subject to risks associated with limited control over delivery schedules, reductions in capacity, the possibility of defects, the possibility of increased products costs and variable product quality.
Reliance on Outside Agents and Distributors	Market penetration of our products heavily depends on the success levels of our distributors and sales agents. There can be no assurances that we will successfully develop and maintain such alliances or that the sales efforts of our distributors and sales agents will be successful.
Reliance on Key Employees	Our success depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. To a significant extent, our success will depend on our senior management team. Competition for these individuals is intense and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. In particular, we may encounter difficulties in recruiting and retaining a sufficient number of qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers.

AREA OF RISK	DESCRIPTION
Intellectual Property Risks	If we are not able to adequately protect or enforce the proprietary aspects of our technology, competitors may utilize our proprietary technology and our operations could be harmed. We currently attempt to protect our technology through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies. Competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of Canada. As a result, we may not be able to protect our proprietary rights adequately in Canada or abroad. Because our patent position involves complex legal, scientific, and factual questions, the issuance, scope, validity and enforceability of our patents cannot be predicted with certainty. Our issued patents may be invalidated or their enforceability challenged, they may be designed around, and they may not provide us with competitive advantages against others with similar products and technology. Furthermore, others may independently develop similar products or technology or duplicate or design around any technologies that we have developed. We may receive notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs and could materially harm our business. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on acceptable terms, if at all. We also may have to indemnify certain customers if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect our business, financial condition and results of operations.
Environmental and Regulatory Compliance	We are subject to a variety of environmental laws, rules and regulations, with which we believe we are in compliance. In certain cases, the cost of compliance with regulations can be substantial. Failure to comply with present or future regulations could result in legal claims, fines, operation suspensions or cessation of operations. Compliance often requires incurring costs and capital expenditures. We face few, if any, of these issues directly as we rely on third party manufacturers.
Government Contracts and Subsidies	A significant portion of our revenues are derived from government and military agencies. Consequently, any disruption in government funding or in the relationship with those agencies could adversely affect our business. Additionally, there are many government subsidies and economic incentives for solar energy related businesses, including the FIT Program established by the Government of Ontario. There is no guarantee that these incentives and subsidies will remain in place or that other countries, states, provinces or municipalities will adopt similar programs. The elimination of such subsidies and incentives, or the failure of additional countries, states, provinces or municipalities to adopt similar programs, may have an adverse impact on the solar market, and may result in rapid changes in demand and pricing. Such changes may have an adverse impact on our business and financial condition.
Product Quality and Reliability and Warranty Liability Risk	Problems with product quality and/or performance, including defects in products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share. We cannot test for all defects, and occasionally defects may be detected after products have been shipped or installed. These defects could cause us to incur significant costs, including product replacement, and may adversely affect our customer relations and business reputation. Additionally, because we source many of our components from third party manufacturers, our ability to control product quality is limited.

AREA OF RISK	DESCRIPTION
Product Quality and Reliability and Warranty Liability Risk	We operate in a market where product reliability is essential as our products are often used as safety devices. A significant product failure could expose us to liability claims. While we maintain insurance to cover these risks, the adequacy of this coverage may be insufficient and litigation may extend beyond coverage held by the Company. Our grid-tie business strategy is to focus on securing EPC contracts. By their nature, these contracts include construction industry agreement terms including, amongst others, liquidated damages and indemnification obligations. We try to use our commercial best efforts to minimize our liability on such exposure. If negative factors occur that are beyond our control or if disputes arise and are not settled favorably, they may have an adverse impact on our business, financial condition and results of operations.
Downturn in Economic and Market Conditions	The lighting industry is susceptible to downturns related to declines in general economic conditions. Demand for solar lighting products and components are adversely impacted by the global financial crisis and corresponding decreases in or postponement of infrastructure spending budgets. We may continue to be adversely impacted by downturns in general economic and market conditions, both nationally and internationally. Economic downturns generally, or in our markets specifically, would have a material adverse effect on our, cash flows, financial condition and results of operations. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders. As we sell to governments who continue to suffer from deficit spending and may need to cut spending further, we may experience a softening demand for our products. Continued economic adversity coupled with a decline in our revenue could adversely affect our ability to meet capital requirements, support working capital requirements and growth objectives, or otherwise adversely affect our business, financial condition and results of operations.
Liquidity and Capital Requirements	We face significant challenges in order to achieve profitability. There can be no assurance that we will be able to maintain adequate liquidity or achieve long-term viability. Our ability to meet obligations is dependent upon our ability to establish profitable operations or raise capital, as needed, through public or private debt or equity financing, or other sources of financing to fund operations. We don't currently have access to a credit facility. The disruption of the capital markets and the continued decline in economic conditions, amongst other factors, could negatively impact our ability to achieve profitability or raise additional capital when needed. There can be no assurance that we will be able to identify a source of such financing, or that such financing will be available on terms acceptable to it, if at all. Moreover, should the opportunity to raise additional capital arise, any additional debt or equity financing could result in significant dilution of the existing holders of our common shares.
Litigation Risk	We may in the future become involved in disputes, litigation or arbitration proceedings. The results of these proceedings cannot be predicted with certainty. If we are unable to resolve these disputes favorably, it may have an adverse impact on our business, financial condition and results of operations.

8. Definitions and Reconciliations

EBITDA

For the three months and year ended December 31, 2013 as well as the respective periods in 2012, we are disclosing EBITDA, a non-IFRS financial measure, as a supplementary indicator of operating performance. We define EBITDA as net loss before interest, income taxes, and amortization. We are presenting the non-IFRS financial measure in our filings because we use it internally to make strategic decisions, forecast future results and to evaluate our performance. We are also presenting this measure because we believe that our current and potential investors and many analysts use it to assess our current and future operating results and to make investment decisions. EBITDA is not intended as a substitute for IFRS measures.

EBITDA RECONCILIATION	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
(US$ thousands)	**2013**	**2012**	**2013**	**2012**
Net loss	(933)	(721)	(5,564)	(3,921)
Add/(deduct):				
Income tax expense	-	2	5	2
Amortization	244	246	936	1,099
EBITDA*	**(689)**	**(473)**	**(4,623)**	**(2,820)**

** A Non-IFRS measure*

Consolidated Financial Statements

↗ SOLAR EPC INSTALLATION,
TECUMSEH VISTA ACADEMY, WINDSOR, ONTARIO

Independent Auditor's Report

To the Shareholders of Carmanah Technologies Corporation

We have audited the accompanying consolidated financial statements of Carmanah Technologies Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of loss and total comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the years 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 International Financial Reporting Standards, 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers 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.

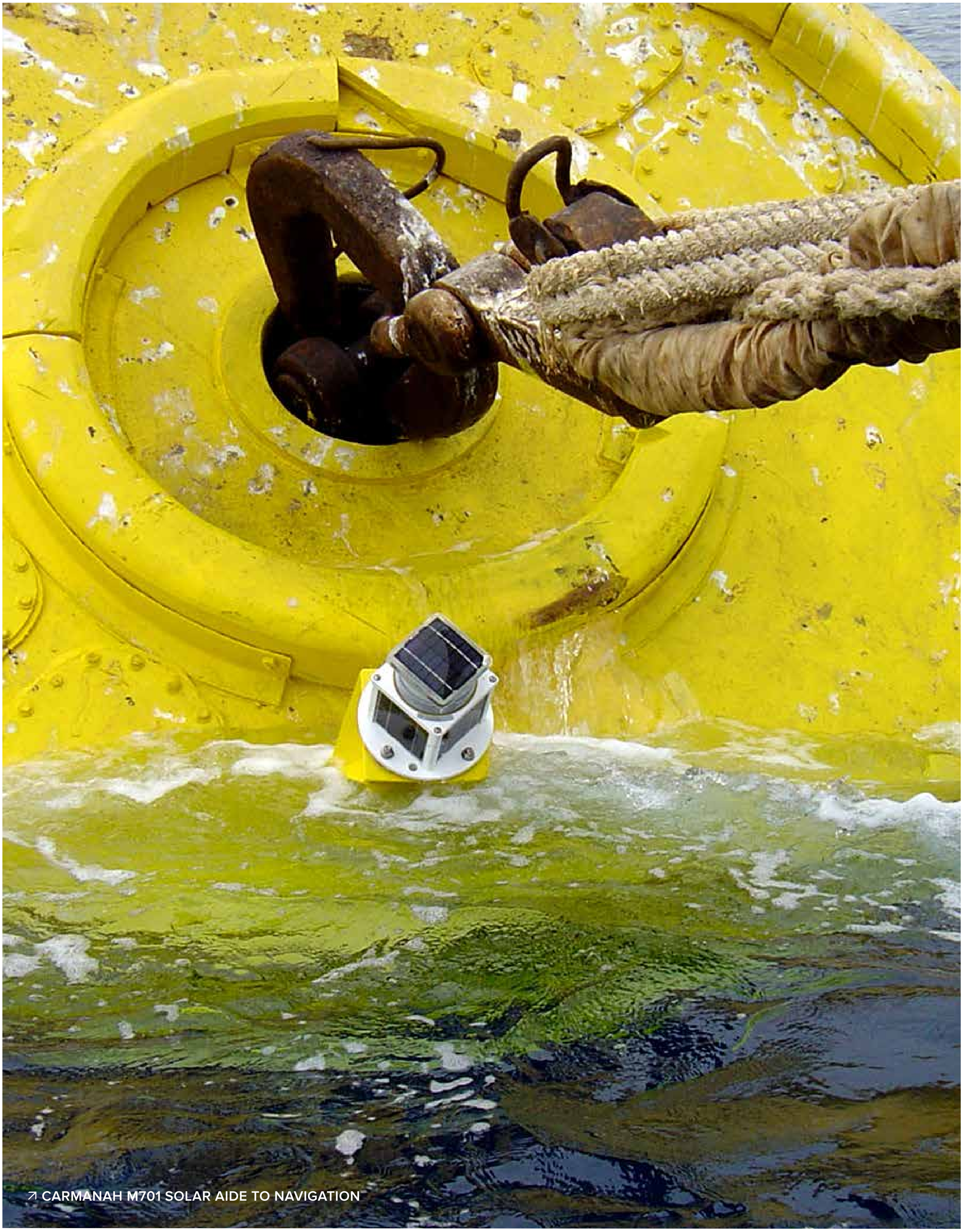
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carmanah Technologies Corporation as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
March 14, 2014
Vancouver, Canada

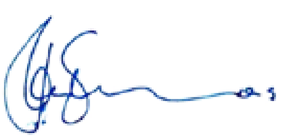


↗ CARMANAH M701 SOLAR AIDE TO NAVIGATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	NOTES	DECEMBER 31, 2013	DECEMBER 31, 2012
ASSETS			
Cash	5.1	**5,197**	**2,533**
Restricted cash	5.1	45	154
Trade and other receivables	5.3	5,614	4,501
Inventories	6	2,967	3,226
Prepaid and other current assets		**303**	**416**
Total current assets		14,126	10,830
Equipment and leasehold improvements	7	682	1,098
Intangible assets	8	149	1,248
Total assets		**14,957**	**13,176**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	5.4	4,763	3,861
Provisions	9	850	550
Deferred revenue		416	69
Current liabilities		6,029	4,480
Equity			
Share capital	11	42,870	36,982
Equity reserve	12	2,966	2,982
Accumulated other comprehensive loss		(76)	-
Deficit		(36,832)	(31,268)
Total equity		8,928	8,696
Total liabilities and equity		**14,957**	**13,176**

Approved and authorized for issue by the Board of Directors on March 14, 2014



John Simmons,
Chief Executive Officer

Michael Sonnnenfeldt,
Chair of the Board

CONSOLIDATED STATEMENTS OF LOSS AND TOTAL COMPREHENSIVE LOSS

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARE AND PER SHARE AMOUNTS)

	NOTES	DECEMBER 31, 2013	DECEMBER 31, 2012
Revenues	16	25,902	26,442
Cost of sales	16	18,518	18,203
Gross profit	16	7,384	8,239
Operating expenditures			
Sales and marketing	15	3,439	4,218
Research and development	15	1,925	2,065
General and administrative	15	5,439	5,783
Total operating expenditures		10,803	12,066
Restructuring expenses	20	(552)	-
Impairment of equipment	7	(158)	-
Impairment of intangible assets	8	(1,317)	-
Operating loss		(5,446)	(3,827)
Other income/(expenses)			
Loss on disposal of assets		(7)	(6)
Other expenditures		(14)	(139)
Foreign exchange (loss)/gain		(92)	53
		(113)	(92)
Loss before taxes		(5,559)	(3,919)
Income tax expense	17	(5)	(2)
Net loss attributable to shareholders		(5,564)	(3,921)
Other comprehensive loss			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		(76)	-
Total comprehensive loss		(5,640)	(3,921)
Net loss per share			
Basic and diluted		(0.10)	(0.09)
Weighted average number of shares outstanding:			
Basic and diluted		55,978,085	44,880,257

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARE AND PER SHARE AMOUNTS)

	NOTES	ISSUED CAPITAL # OF SHARES ('000)	ISSUED CAPITAL AMOUNT	EQUITY RESERVE	SUBTOTAL	DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY
Balance, January 1, 2012		43,074	34,742	3,204	37,946	(27,347)	-	10,599
Net loss		-	-	-	-	(3,921)	-	(3,921)
Share-based payments	12	-	-	257	257	-		257
Shares issued under stock compensation plans		814	479	(479)	-	-	-	-
Shares issued in private placement, net of issuance costs of $48	11	3,982	1,761	-	1,761	-	-	1,761
Balance, December 31, 2012		47,870	36,982	2,982	39,964	(31,268)	-	8,696
Net loss		-	-	-	-	(5,564)	-	(5,564)
Share-based payments	12	-	-	46	46	-	-	46
Shares issued to acquire Spot Devices Inc.	19	2,222	607	-	607	-	-	607
Shares issued under stock compensation plans		226	62	(62)	-	-	-	-
Shares issued in rights offering, net of issuance costs of $491	11	50,294	5,219	-	5,219	-	-	5,219
Foreign currency translation adjustments		-	-	-	-	-	(76)	(76)
Balance, December 31, 2013		100,612	42,870	2,966	45,836	(36,832)	(76)	8,928

↘ SOLAR AID-TO-NAVIGATION INSTALLATION, USA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	NOTES	Years ended December 31 2013	2012
OPERATING ACTIVITIES			
Net loss		(5,564)	(3,921)
Add back (deduct) items not involving cash:			
Amortization		936	1,099
Loss on disposal of assets		7	6
Share-based payments	12	46	257
Impairment of intangible assets	8	1,317	-
Impairment of equipment	7	158	-
Unrealized foreign exchange (gain)/loss		(165)	26
Restructuring expenses	20	228	-
Changes in working capital and other items:			
Trade and other receivables		(1,113)	752
Inventories		259	(1,175)
Prepaids and other current assets		113	(24)
Trade and other payables		674	(521)
Provisions		300	(110)
Deferred revenue		347	60
Net cash used in operating activities		(2,457)	(3,551)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		7	-
Purchase of equipment and leasehold improvements		(186)	(130)
Purchase of intangible assets		(84)	(301)
Net cash used in investing activities		(263)	(431)
FINANCING ACTIVITIES			(3,921)
Proceeds from private placement	11	-	1,761
Proceeds from rights offering	11	5,219	-
Net cash provided by financing activities		5,219	1,761
Foreign exchange effect on cash		56	(26)
Increase (decrease) in cash		2,555	(2,247)
Cash and restricted cash at beginning of year		2,687	4,934
Cash and restricted cash at end of year		5,242	2,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARE AND PER SHARE AMOUNTS)
For the years ended December 31, 2013 and 2012

1. Summary of Business and Basis of Preparation

1.1 GENERAL BUSINESS DESCRIPTION

Carmanah Technologies Corporation (the "Company" or "Carmanah") was incorporated under the provisions of the Business Corporations Act (Alberta) on March 26, 1996 and was continued under the provisions of the Business Corporations Act (British Columbia) on August 24, 2009. The Company is in the business of developing and distributing renewable and energy-efficient technologies, including solar-power LED lighting, and solar powered systems and equipment.

Carmanah is a publicly-listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at 250 Bay Street, Victoria, British Columbia, Canada, V9A 3K5. The Company's registered and records office is located at Borden Ladner Gervais LLP, 1200 Waterfront Centre, 200 Burrard Street, P.O. Box 48600, Vancouver, British Columbia V7X 1T2.

1.2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value.

Effective January 1, 2013, the Company adopted the following new or amended accounting standards as issued by the International Accounting Standards Board ("IASB") IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities), IFRS 13 (Fair Value Measurement), IAS 19 (Employee Benefits) and the amendments to IAS 1 (Presentation of Financial Statements) and IFRS 7 (Financial Instruments - Disclosures). The adoption of these standards and amendments did not have a material impact on the consolidated financial statements except IFRS 13.

2. Significant Accounting Policies

2.1 BASIS OF CONSOLIDATION

Carmanah consolidates subsidiaries controlled by the Company. Control exists when the Company is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company balances and transactions, including any income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements include the following subsidiaries:

NAME	CURRENT PRINCIPAL ACTIVITY	PLACE OF INCORPORATION AND OPERATION	OWNERSHIP/VOTING INTEREST HELD BY COMPANY HELD AT: 2013	2012
Carmanah Technologies (US) Corporation	Employs US based sales representatives on behalf of the parent company	United States - Nevada	100%	100%
Carmanah Solar Power Corporation	Associated Grid-tie business segment	Canada – Ontario	100%	100%

2.2 BUSINESS COMBINATIONS

The identifiable assets, liabilities and contingent liabilities of a subsidiary, which can be measured reliably, are recorded at their provisional fair values at the date of acquisition. Goodwill is the fair value of the consideration transferred (including contingent consideration and previously held non-controlling interests) less the fair value of Carmanah's share of identifiable net assets on acquisition. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalized within twelve months of the acquisition date.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognized directly in the statement of income (loss) and comprehensive income (loss) in the period of acquisition.

For non-wholly owned subsidiaries, non-controlling interests are initially recorded at the non-controlling interest's proportion of the fair values of net assets recognized at acquisition.

2.3 FOREIGN CURRENCIES

The presentation currency for the consolidated financial statements is the U.S. dollar. The functional currency of Carmanah Technologies Corporation and Carmanah Technologies (US) Corporation is the U.S. dollar. The functional currency of Carmanah Solar Power Corporation was changed from the U.S. dollar to the Canadian dollar on January 1, 2013. The assets and liabilities of subsidiary entities that differ from that of the Company are translated at the exchange rate prevailing at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognized directly in accumulated other comprehensive income (loss).

Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the period end date. Non-monetary items that are measured in terms of historical cost are translated using the historical rates. All gains and losses on translation of those foreign currency transactions are recorded in income.

2.4 FINANCIAL INSTRUMENTS

Financial instruments are classified into one of the following categories: (1) fair value through profit or loss ("FVTPL"), (2) held-to-maturity ("HTM"), (3) loans and receivables, (4) available-for-sale ("AFS") financial assets or (5) other financial liabilities. The classification determines the accounting treatment of the instrument. Carmanah determines the classification when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

FINANCIAL ASSETS

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are classified as loans and receivables and are measured at amortized cost.

For the purposes of the consolidated statement of cash flows, total cash and cash equivalents include cash at banks and on hand and restricted cash at banks.

Trade and other receivables

Trade receivables do not incur any interest, are short-term in nature and are measured at their nominal value net of appropriate allowance for estimated amounts that are not expected to be recovered. Such allowances are raised based on an assessment of debtor ageing, past experience or known customer circumstances.

Investments

Investments, other than investments in subsidiaries, joint ventures and associates, are financial asset investments and are initially recognized at fair value. At subsequent reporting dates, financial assets that the Company has the expressed intention and ability to hold to maturity (held-to-maturity) as well as loans and receivables are measured at amortized cost, less any impairment losses. The amortization of any discount or premium on the acquisition of a held-to-maturity investment is recognized in the statement of income (loss) in each period using the effective interest method.

Investments other than those classified as held-to-maturity or loans and receivables are classified as either at fair value through profit or loss (which includes investments held for trading) or available-for-sale financial assets. Both categories are subsequently measured at fair value. Where investments are held for trading purposes, realized/unrealized gains and losses for the period are included in the statement of income (loss) and comprehensive income (loss) within Other Income/(Expense). For available-for-sale investments, realized/unrealized gains and losses are recognized in equity until the investment is disposed or impaired, at which time the cumulative gain or loss previously recognized in equity is included in the statement of income (loss).

Impairment of financial assets (including receivables)
A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognized in the statement of income (loss) and comprehensive income (loss). When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of income (loss) and comprehensive income (loss).

Impairment losses relating to available-for-sale investments are recognized when the decline in fair value is considered significant or prolonged. These impairment losses are recognized by transferring the cumulative loss that has been recognized in accumulated other comprehensive income/(loss) to net income/(loss). The loss recognized in the statement of income (loss) is the difference between the acquisition cost and the current fair value.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified and accounted for as debt or equity according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments
Equity instruments issued by Carmanah are recorded at the proceeds received, net of direct issue costs.

Trade and other payables
Trade and other payables are not interest bearing and are measured at their nominal value until settled, which approximates amortized cost.

Derecognition of financial assets and financial liabilities
Financial assets are derecognized when the rights to receive cash flows from the asset have expired, the right to receive cash flows has been retained but an obligation to pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled or has expired.

Offsetting financial assets and liabilities
Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments
From time to time Carmanah enters into a variety of derivative financial instruments to manage its exposure to foreign exchange risks, including foreign exchange forward and option contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. The Company does not currently apply hedge accounting for derivatives.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value through profit or loss.

2.5 INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion (direct costs and an allocation of fixed and variable production overheads) and other costs incurred in bringing the inventory to their present location and condition. Net realizable value is the estimated selling price less estimated costs to complete.

2.6 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment and leasehold improvements consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized at rates calculated to write off the cost of equipment and leasehold improvements, less their estimated residual value, using the straight-line method. The periods/rates are outlined below:

ASSET	YEARS
Computer hardware	3-5
Leasehold improvements	Term of lease
Office equipment	5-7
Production equipment	5
Research and tradeshow equipment	5

Estimated useful lives, depreciation methods, rates and residual values are reviewed on a periodic basis, with any changes in these estimates accounted for on a prospective basis.

An item of equipment and leasehold improvements is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of income/(loss). Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment and leasehold improvements that are accounted for separately, including major inspection and overhaul expenditures, are capitalized and amortized over their estimated useful life.

2.7 INTANGIBLE ASSETS

Intangible assets consist of product development assets, computer software, license rights, trademarks and patents. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each year end.

Product development assets relate to internal development efforts for research and development which have met certain capitalization criteria outlined in 2.12. Product development assets are amortized on a straight-line basis over their estimated useful lives once the related technology has been commercialized and sales commence. The current product development assets have an estimated useful life of 3 years.

Computer software relates to expenditures incurred to acquire and implement software used within the business. Software assets are amortized over their estimated useful lives which varies between 3 and 5 years.

Patent and trademark assets consist of professional fees incurred for the filing of patents and the registration of trademarks for product marketing purposes. Patent and trademark registration and maintenance fees paid are amortized on a 25% declining balance basis.

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, if any, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

2.9 PROVISIONS

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

2.10 SHARE-BASED PAYMENTS

For equity-settled share-based compensation, expense is based on the grant date fair value of the awards expected to vest over the vesting period. For cash-settled share-based compensation, the expense is determined based on the fair value of the award at the end of the reporting period until it is settled. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of income/(loss).

The fair value of the stock options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the stock units granted is measured using the common share price at the time of the grant.

2.11 REVENUE RECOGNITION

Carmanah measures revenue at the fair value of the consideration received or receivable.

SALE OF GOODS:

Revenue from the sale of products is recognized when all of the following conditions have been met:

- title and risk involving the products are transferred to the buyer;
- the Company's managerial involvement over the goods ceases to exist;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred in respect of the transaction can be measured reliably.

If there is a requirement for customer acceptance of any products shipped, revenue is recognized only after customer acceptance has been received. Payments received in advance of the satisfaction of the Company's revenue recognition criteria are recorded as deferred revenue.

Provisions are established for estimated product returns and warranty costs at the time revenue is recognized based on historical experience for the product.

SALE OF SERVICES:

Revenue from the rendering of services is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the stage of completion can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

PROJECTS:

Revenue from projects, which can include both the sale of goods and services, is generally recorded on a percentage of completion basis. To determine the amount of revenue to recognize, the Company will:

- Measure the stage of completion by reviewing the proportion of costs incurred for work performed to date compared to the total estimated contract costs.
- Periodically revise the estimates of the percentage of completion of each project by comparing the actual costs incurred to the total estimated costs for the project. These estimates of total cost are subject to change, which would have an impact on the timing of revenue recognized.

2.12 RESEARCH AND DEVELOPMENT COSTS

Carmanah is engaged in research and development activities. Research costs are expensed as incurred. Development costs are expensed, unless all of the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above, less investment tax credits, if applicable.

2.13 INVESTMENT TAX CREDITS

Carmanah is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development activities. The associated investment tax credits (“ITCs”) are available to the Company to reduce actual income taxes payable and are recorded when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management assesses the probability of usage based upon forecasted results utilizing a sensitivity analysis on various factors that impact profitability.

ITCs are recorded on the statement of income/(loss) as non-operating income under the caption “Investment tax credits recognized”. The corresponding impairment of investment tax credits, if any, is also recognized as a non-operating expense. The Company has not recognized its ITCs due to uncertainty of their usage.

2.14 INCOME TAXES

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis. The Company has not recognized its deferred tax assets due to uncertainty of their usage.

2.15 EARNINGS (LOSS) PER SHARE

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of Carmanah by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which are comprised of restricted shares and share options granted to employees and directors of the Company. All dilutive potential common shares are anti-dilutive for the years presented.

2.16 SEGMENT REPORTING

Carmanah's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO"). The CEO is considered the chief operating decision-maker ("CODM") and has the authority for resource allocation and is responsible for assessing the Company's performance.

3. Significant Judgements and Estimates

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities; and most critical judgments in applying accounting policies.

3.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Carmanah must make an assessment of whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. At December 31, 2013, the combined allowances were $0.1 million, or 2.3% of the gross accounts receivable balance of approximately $5.8 million. See financial statement note 5.3 for further discussions on trade receivables and the associated allowance.

INVENTORY VALUATION

The Company adjusts inventory values so that the carrying value does not exceed net realizable value. The valuation of inventory at the lower of average cost and net realizable value requires the use of estimates regarding the amount of current inventory that will be sold and the prices at which it will be sold and an assessment of expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for the Company's products, obsolescence, production discontinuation, technology changes and competition. At December 31, 2013, the Company had provisions of $1.0 million, or approximately 25% of the value of gross inventory.

WARRANTY RESERVE

Provisions are made at the time of sale for warranties, which are based on historical experience and are regularly monitored. If the estimates for warranties and returns are too low, additional charges will be incurred in future periods and these additional charges could have a material adverse effect on the Company's financial position and results of operations. Carmanah has a provision of $0.6 million at December 31, 2013, which is unchanged from December 31, 2012. Recent historical estimates have not required significant adjustment due to actual experience.

SHARE-BASED PAYMENTS

In determining share-based payments expense, Carmanah makes estimates related to forfeiture rates for each specific grant. Forfeiture rates are used to estimate the number of awards that are expected to vest considering employee turnover rates. The changes in estimates are recognized in the statement of loss in the year that they occur. Current forfeiture rates applied to grants range from 5% to 25% and vary depending upon the employee make-up of the associated grants.

INCOME TAXES

Carmanah calculates income tax provisions in each of the jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax returns, earnings would be affected in a subsequent period. The Company has not recognized deferred tax assets at December 31, 2013 or 2012.

TANGIBLE AND INTANGIBLE VALUATION

Each year the Company makes significant judgments in assessing if the intangible assets have suffered an impairment loss. The calculations require the use of estimates. In 2013, impairment losses of $0.7 million were recognized for intangibles and $0.2 million for tangibles.

SPOT DEVICES INC.

The Company has made a variety of estimates and judgments relating to its recent acquisition of Spot Devices Inc. ("Spot"). During the second quarter of 2013, the Company recognized impairment losses of $0.6 million. Background surrounding the acquisition and associated provisions are provided in note 9 and 19.

4. Accounting Standards Issued but Not Yet Effective

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2013.

The IASB issued the following new and revised standards addressing the following:

Effective for annual periods beginning on or after January 1, 2014

- IAS 32, Financial Instruments: Presentation ("IAS 32") – IAS 32 has been clarified to read that financial assets and financial liabilities can only be offset when an entity has a legal enforceable right in the normal course of business to offset.
- IFRIC 21, Levies ("IFRIC 21") – IFRIC 21 provides guidance on timing of recognition of liabilities related to levies imposed by a government.

Effective for annual periods beginning on or after January 1, 2015:

- IFRS 9, Financial Instruments ("IFRS 9") – replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date, with earlier adoption still permitted.

The Company is assessing the impact that these standards will have on the Company's consolidated financial statements.

5. Financial Instruments

CLASSIFICATION AND CARRYING VALUE

The following table summarizes information regarding the classification and carrying values of Carmanah's financial instruments:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Loans and receivables		
Cash and restricted cash	5,242	2,687
Trade and other receivables	5,614	4,501
Other financial liabilities		
Trade and other payables	4,763	3,861

FAIR VALUE

The following fair value measurement hierarchy is used for financial instruments that are measured in the statement of financial position at fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company does not have any financial instruments reported at fair value at December 31, 2013 or 2012.

The carrying value of cash and restricted cash, trade and other receivables, and trade and other payables approximates their fair value due to the relatively short-term maturity of these financial instruments.

OFFSET FINANCIAL INSTRUMENTS

Carmanah offsets and settles all of its trade receivables due from its contract manufacturer against associated trade payables. At December 31, 2013, trade receivables of $0.6 million (December 31, 2012 - $0.3 million) have been netted against trade payables.

FOREIGN CURRENCY RISK MANAGEMENT

Carmanah transacts business in multiple currencies, which gives rise to market risks exposure associated with fluctuating foreign currency values. Most significantly, the Company has potential exposure to currency fluctuations between the U.S. and Canadian dollars.

INTEREST RATE RISK MANAGEMENT

Carmanah is not exposed to significant interest rate risk.

A breakdown of Carmanah's financial instruments by currency is provided below:

	U.S	CANADIAN	OTHER	TOTAL
Balance at December 31, 2013				
Cash and restricted cash	659	4,574	9	5,242
Trade and other receivables	3,963	1,369	282	5,614
Trade and other payables	3,554	1,201	8	4,763
Balance at December 31, 2012				
Cash and cash equivalents	1,363	1,161	163	2,687
Trade and other receivables	3,123	1,188	190	4,501
Trade and other payables	2,471	1,390	-	3,861

Given the relative currency mix noted above, Carmanah estimates a five percent change in the Canadian dollar relative to the U.S. dollar would result in a $0.2 million impact to operating income.

The Company attempts to manage the exposure to foreign currency fluctuations by managing the amount of foreign denominated working capital held. The success of these efforts is often limited due to the uncertainty surrounding the timing and magnitude of foreign currency sales and associated cash flows.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. This risk is mainly associated with trade and other receivables and is discussed in detail within note 5.3.

5.1 CASH

Cash represents cash in banks and cash on hand. There were no cash equivalents at December 31, 2013 (December 31, 2012 - $Nil).

Restricted cash relates to current outstanding standby letters of credit required to secure various sales contracts with customers, and amounts to secure corporate credit cards.

5.2 DERIVATIVE FINANCIAL ASSETS

The Company had no outstanding derivative financial instruments at December 31, 2013 or 2012.

5.3 TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Trade receivables	5,032	3,943
Allowance for doubtful accounts	(132)	(113)
Net trade receivables	4,900	3,830
Other receivables	714	671
Total trade and other receivables	**5,614**	**4,501**

5.3.1 NET TRADE RECEIVABLES

TRADE RECEIVABLES

Trade receivables generally carry 30 day terms, although this can vary for certain customers. Generally, no interest is charged on trade receivables.

ALLOWANCE FOR DOUBTFUL ACCOUNTS/CREDIT RISK MANAGEMENT

Before extending credit terms to a new customer, Carmanah assesses the potential customer's credit quality by performing external credit checks and references. Credit limits and terms for existing customers are reviewed on an as needed basis based on order and payment history.

At each period end, Carmanah reviews the collectability of outstanding receivables. In general, the Company provides an allowance of (1) 100% on accounts that have been transferred to a collection agency or for which there have been no recent communication, and (2) a variable percentage (between 10%-50%) on accounts that have had irregular communications, originate from a higher risk country, or have slow payment history. The percentage provided is based on reference to historical experience on defaults and an analysis of the counterparty's current financial situation. The specific accounts are only written off once all collections avenues have been explored or when legal bankruptcy has occurred. The following is a reconciliation of the allowance account:

RECONCILIATION OF THE ALLOWANCE FOR DOUBTFUL ACCOUNTS	DECEMBER 31, 2013	DECEMBER 31, 2012
Balance, beginning of year	113	110
Write offs of specific accounts	(187)	(107)
Recoveries	-	36
Change in provision	206	74
Balance, end of year	132	113

At December 31, 2013, approximately 95% (December 31, 2012 - 76%) of the trade receivables are either current or are past due but was not impaired, and $1.5 million (December 31, 2012 - $1.7 million) is due from the five largest accounts.

Total trade receivables disclosed include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance because there has not been a significant decrease in credit quality and are still considered fully recoverable. The following table outlines the relative age of these receivables that are past due but not impaired:

ACCOUNTS OVERDUE BUT NOT IMPAIRED	DECEMBER 31, 2013	DECEMBER 31, 2012
1-30 days	1,576	406
31-90	682	100
90+	53	23
Total	2,311	529

5.3.2 OTHER RECEIVABLES

Other receivables primarily relate to statutory holdbacks on major grid-tie construction projects. These construction projects typically carry contractual obligations of holdbacks amounting to 10% of the project revenues recognized and are transferred to trade receivables once projects reach substantial completion. Holdbacks are generally paid 45 days after substantial completion, although can be substantially longer in certain situations.

5.4 TRADE AND OTHER PAYABLES

The Company's trade and other payables are broken down as follows:

ACCOUNTS OVERDUE BUT NOT IMPAIRED	DECEMBER 31, 2013	DECEMBER 31, 2012
Trade payables	3,645	2,850
Accrued liabilities	1,118	1,011
	4,763	3,861

5.5 CAPITAL MANAGEMENT

Carmanah defines capital that it manages as the aggregate of short-term and long-term debt and total equity. Changes are made to the capital structure in light of economic conditions and upon approval from the Company's Board of Directors or shareholders as required. Carmanah has no outstanding debt and the current objectives are to meet the capital requirements through funds generated from operations without issuing any long-term debt. The Company's overall strategy with respect to management of capital remains unchanged from the year ended December 31, 2012. The Company is currently not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

6. Inventories

	DECEMBER 31, 2013	DECEMBER 31, 2012
Finished goods	2,830	2,319
Raw materials	1,123	1,613
Provision for obsolescence	(986)	(706)
Net inventories	**2,967**	**3,226**

For the year ended December 31, 2013, inventory recognized as an expense in cost of sales amounted to $17.6 million (2012 - $17.2 million). Included in the above amounts were inventory write downs of $0.5 million (2012 - $0.4 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2013, the Company anticipates the net inventory will be realized within one year.

7. Equipment and Leasehold Improvements

The Company's equipment and leasehold improvements are broken down as follows:

	COMPUTER HARDWARE	LEASEHOLD IMPROVEMENTS	OFFICE EQUIPMENT	PRODUCTION EQUIPMENT	RESEARCH AND TRADESHOW EQUIPMENT	TOTAL
Cost						
Balance January 1, 2012	898	621	129	806	542	2,996
Additions	84	-	-	30	16	130
Disposals	-	-	(21)	(68)	(33)	(122)
Balance December 31, 2012	**982**	**621**	**108**	**768**	**525**	**3,004**
Additions	12	-	8	184	-	204
Disposals	(480)	(22)	(37)	-	(56)	(595)
Balance December 31, 2013	**514**	**599**	**79**	**952**	**469**	**2,613**
Accumulated amortization						
Balance January 1, 2012	774	46	62	361	322	1,565
Amortization for the year	78	124	15	143	97	457
Disposals	-	-	(21)	(63)	(32)	(116)
Balance December 31, 2012	**852**	**170**	**56**	**441**	**387**	**1,906**
Amortization for the year	58	124	12	159	94	447
Impairment loss recognized	-	-	-	158	-	158
Disposals	(477)	(21)	(32)	-	(50)	(580)
Balance December 31, 2013	**433**	**273**	**36**	**758**	**431**	**1,931**
Carrying amounts						
At December 31, 2012	130	451	52	327	138	1,098
At December 31, 2013	81	326	43	194	38	682

During the fourth quarter of 2013, the Company recognized an impairment loss of $0.2 million associated with production equipment relating to the Company's Outdoor Lighting segment. These production assets primarily relate to the higher end product offered within this market segment. Revenues from these higher priced systems have been declining recently due to competitive and cost pressures, with many customers switching to the Company's lower cost systems. Management expects this trend to continue and therefore has recognized an impairment loss.

8. Intangible Assets

The Company's intangible assets are broken down as follows:

	PATENTS AND TRADEMARKS	SOFTWARE	LICENSE RIGHTS	PRODUCT DEVELOPMENT ASSETS	SPOT ACQUIRED INTANGIBLES	TOTAL
Cost						
Balance January 1, 2012	669	2,159	-	545	-	3,373
Additions	60	1	450	-	-	511
Balance December 31, 2012	**729**	**2,160**	**450**	**545**	**-**	**3,884**
Additions	72	12	450	-	623	707
Disposals	-	(394)	-	-	-	(394)
Balance December 31, 2013	**801**	**1,778**	**450**	**545**	**623**	**4,197**
Accumulated amortization						
Balance January 1, 2012	364	1,217	-	413	-	1,994
Amortization for the year	86	361	63	132	-	642
Balance December 31, 2012	**450**	**1,578**	**63**	**545**	**-**	**2,636**
Amortization for the year	81	363	45	-	-	489
Impairment losses recognized	140	212	342	-	623	1,317
Disposals	-	(394)	-	-	-	(394)
Balance December 31, 2013	**671**	**1,759**	**450**	**545**	**623**	**4,048**
Carrying amounts						
At December 31, 2012	279	582	387	-	-	1,248
At December 31, 2013	130	19	-	-	-	149

During the fourth quarter of 2013, the Company recognized an impairment loss of $0.1 million associated with certain patents assets, and $0.2 million associated with software assets. The patent impairment was the result of recent and pending changes to the Company's product offering. The software impairment relates to the Company's ERP system which will be replaced during 2014. Management decided to replace the ERP system as it was determined to be too expensive and inefficient based on the size and complexity of the Company's operations.

During the second quarter of 2013, the Company recognized an impairment loss of $0.3 million associated with its license rights asset. The license rights asset relates to a five year exclusive world-wide marketing license with Laser Guidance Inc ("LG") which was signed in May 2012. Under this agreement, the Company has access to a portfolio of tactical (e.g. mobile) aviation related precision mobile laser guidance approach systems that are designed and manufactured by LG. The Company had made fixed payments to LG totaling $0.45 million and was amortizing this amount over the term of the agreement. To date, no sales have been made as a result of this agreement. Previous impairment analysis indicated a meaningful volume of sales opportunities, with most underlying projects having longer sales cycles. During the second quarter of 2013, a detailed review of the sales opportunities found that they were related to non-tactical (e.g. fixed) approach systems, which are not covered by this agreement. As a result of this and continued uncertainties surrounding the success of the Company's sales efforts associated with products covered under this agreement, this asset was impaired.

As detailed in note 19, intangible assets of approximately $0.6 million were recognized on the acquisition of Spot Devices Inc. ("Spot"). At closing, the "acquired intangibles" were primarily related to customer lists, sales backlogs, product and associated regulatory certifications, and license rights to a proprietary software system referred to as System Infrastructure Management Application ("SIMA"). An impairment of $0.6 million was recognized in the second quarter of 2013, as a result of factors outlined in note 19.

9. Provisions

	DECEMBER 31, 2013	DECEMBER 31, 2012
Warranty provision	550	550
Provision relating to Spot Devices Inc. acquisition	300	-
	850	**550**

WARRANTY PROVISION

Carmanah provides its customers with a limited right of return for defective products. All warranty returns must be authorized by the Company prior to acceptance. The warranty term varies between 1 and 5 years depending on the product and customer sold to. The estimates surrounding the warranty provision are reviewed on a regular basis and updated for recent experience and known product issues.

The following is a reconciliation of the warranty provision during the year:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Opening provision	550	660
Warranty costs incurred	(207)	(270)
Warranty provision additions/changes	207	160
Closing provision	**550**	**550**

Due to the uncertainty surrounding the timing of warranty returns, the entire provision has been classified as current.

PROVISIONS RELATING TO SPOT DEVICES INC. ("SPOT") ACQUISITION

The Company has recognized a number of provisions relating to the acquisition of Spot. Note 19 outlines the details of the acquisition.

Spot product warranty

Under the terms of the purchase agreement, the Company took over responsibility for Spot's historical warranty liability. The warranty provision upon acquisition was estimated to be $0.3 million. The warranty costs actually incurred in 2013 amounted to $0.1 million. Based on the Company's best estimate, the outstanding warranty provision at December 31, 2013 is $0.1 million and the Company recognized a recovery of $0.1 million associated with the difference.

SIMA services provision and SIMA product replacement offer

As described in note 19, the Company was never able to secure an economically viable license arrangement for SIMA (Systems Infrastructure Management Application) services from Cirrus Systems LLC ("Cirrus"), a related company of Spot. Cirrus provides the monitoring services that underpin SIMA-enabled products which both Spot and the Company sold. During 2013, Carmanah sold approximately 220 SIMA-enabled units with service terms ranging from 1 to 10 years. Cirrus continues to incur costs associated with providing this service to these customers. The Company recorded a provision of $0.1 million to cover current and future associated costs associated with this service. The provision was based upon Management's analysis of Cirrus's cost structure and is within the range of offers made to Cirrus during negotiations.

During the third quarter of 2013, concerns about the reliability of SIMA-enabled products were brought to management's attention. In some situations SIMA-enabled products can suddenly or unexpectedly fail which could result in a safety hazard. As a result, the Company extended an offer to customers who purchased SIMA- enabled product (since the acquisition date) the ability to obtain replacement products on a free or a substantially discounted basis. The cost of the SIMA-enabled products sold by the Company during 2013 was $0.2 million, which is considered to be maximum exposure associated with this offer. The Company has recorded $0.1 million to cover these replacements and is based on Management's best estimate given the wide range of options open to the end customers. These options include everything from modifying the product, upgrading their solution, or retaining the risk of lost functionality.

10. Credit Facilities

In 2012, the Company secured a $5.0 million (CAD) revolving demand and a $0.5 million (CAD) term credit facility ("Facility") with Royal Bank of Canada ("RBC") which included certain covenants such as earnings and liquidity thresholds. As the Company has not been in compliance with the above covenants, it was prevented from drawing on the Facility. On July 16, 2013, the Facility was cancelled by RBC. In the foreseeable future, any borrowings (i.e. foreign exchange hedging, letters of credit, etc.) with RBC will continue to be on a cash secured basis.

11. Share Capital

All shares are fully paid common shares which have no par value.

In September 2013, the Company announced a plan to raise approximately $6.0 million (CAD) through a Shareholders Rights Offering (the "Offering"). Under the Offering, each shareholder was given one right for each share held on the applicable record date. Each right was exercisable for one common share at a subscription price of $0.12 (CAD). In connection with the Offering, the Company entered into a binding standby purchase agreement with a group of investors, who had committed, subject to certain conditions, to purchase up to $5.5 (CAD) million of the rights shares not otherwise subscribed for by other holders. The rights offering closed on November 19, 2013 without the need to engage the standby group of investors further discussed in note 14. The Company raised gross proceeds of $6.0 million (CAD) less issuance costs of $0.5 million (CAD). A total of 50,294,200 shares were issued under the offering.

On August 28, 2012, the Company completed a non-brokered private placement ("Placement") of 3,981,722 common shares at a price of $0.45 (CAD) a share. The Company received $1.8 million (CAD) in gross proceeds from the issuance and incurred costs of $0.05 million (CAD). The common shares issued were subject to a hold period of four months plus one day from the closing of the Placement. The majority of the private placement was subscribed by "insiders" of the Company, as defined by the regulations of the TSX. In total, directors of the Company at that time were involved with 1,364,444 of the shares issued, of which 444,444 were associated with the former Chief Executive Officer. A further 2,017,278 shares were acquired by MUUS Holding LLC ("MUUS"), a company controlled by a director of the Company.

12. Share-Based Payments

The Company's current share-based payments plan allows a maximum number of issuable shares for share-based payments up to the maximum if 10% of the aggregate issued and outstanding shares as approved by the Board of Directors. The Plan allows for the issuance of stock options, stock appreciation rights ("SARs"), restricted share units ("RSUs"), performance share units ("PSUs"), and deferred share units ("DSUs"). The vesting terms and conditions of stock options, SARs, RSUs, PSUs and DSUs are determined by the Board of Directors at the time of grant. The following table summarizes the valuation methods used to measure the fair value of each type of award and the vesting periods.

TYPE OF AWARD	TERM AND VESTING PERIOD	FAIR VALUE MEASUREMENT	EQUITY SETTLED COMPENSATION EXPENSE BASED ON	CASH SETTLED
Stock options	Maximum term is 10 years and typical is 5 years. Vesting is typically 3 years	Black-Scholes option pricing model	Fair value on next business day after grant date	Fair value at reporting date
Stock units (RSU, PSU, DSU)	Typical vesting period is between 0 to 3 years. Maximum term for RSUs is 3 years.	Closing share price	Fair value on next business day after grant date	Fair value at reporting date
SARs (none outstanding)	Maximum term is 10 years	Closing share price	Fair value at reporting date	Fair value at reporting date

The total compensation expense associated with these share-based payment plans are outlined in the table below:

YEARS ENDED DECEMBER 31,	2013	2012
Stock options	10	113
Stock units	36	144
Total compensation expense	**46**	**257**

Currently, all outstanding awards issued under these plans are equity settled, although the plans do allow for cash settlement if elected by the Board of Directors.

The following table provides a reconciliation of the maximum shares issuable under stock-based compensation plans as at December 31, 2013:

Available shares (10% of outstanding shares at December 31, 2013)	10,061,201
Less:	
Stock options outstanding at December 31, 2013	(4,114,000)
Share units outstanding at December 31, 2013	-
Number of shares issuable under stock-based compensation plans	5,947,201

The details on how these compensation costs were calculated are outlined in the respective sections below.

12.1 STOCK OPTIONS

The following is a summary of the status of the stock options outstanding and exercisable at December 31, 2013 and 2012. The weighted average exercise price is stated in Canadian dollars.

	2013		2012	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1	1,445,800	0.65	2,094,156	0.78
Granted	4,780,000	0.21	-	-
Forfeited	(2,111,800)	0.51	(538,356)	0.44
Expired	-	-	(110,000)	1.52
Balance, December 31	4,114,000	0.21	1,445,800	0.65

The following table summarizes the stock options outstanding and exercisable at December 31, 2013 and 2012. The weighted average exercise price is stated in Canadian dollars:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE (EXERCISE PRICE)	NUMBER	WA[1] REMAINING LIFE[2]	WA[1] EXERCISE PRICE	NUMBER	WA[1] REMAINING LIFE[2]	WA[1] EXERCISE PRICE
At December 31, 2012						
$0.50 to $0.52	750,000	3.8	$0.50	250,000	3.8	$0.50
$0.53 to $0.72	282,000	3.0	$0.53	188,000	3.0	$0.53
$0.73 to $1.03	413.800	1.0	$1.00	413,800	1.0	$1.00
	1,445,800	2.8	$0.65	851,800	2.3	$0.75
At December 31, 2013						
$0.15 to $0.25	3,000,000	6.9	$0.15	-	-	-
$0.26 to $0.50	780,000	4.2	$0.29	163,294	4.2	$0.29
$0.51 to $1.00	334,000	2.7	$0.60	284,000	2.4	$0.57
	4,114,000	6.0	$0.21	447,294	3.06	$0.47

[1] - WA – weighted average [2] - Life in years

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the year ended December 31, 2013 is $0.09 CDN per share. There were no options granted in 2012. The option valuations for 2013 were determined using the following weighted average assumptions:

	YEAR ENDED DECEMBER 31, 2013
Risk-free interest rate	1.45%
Expected dividend yield	0%
Forfeiture rate	21.1%
Stock price volatility	59%
Expected life of options	4.2 years

Stock price volatility was determined solely using the historical volatility of the Company's share price using the same period as the expected life of the options.

12.2 SHARE UNITS (RSU/PSU)

During the year ended December 31, 2013, Carmanah granted 201,273 RSUs (2012 – 177,079) with a weighted average fair value of $0.25 CDN per unit (2012 - $0.41 CDN), and no PSUs (2012 – Nil).

A reconciliation of share unit activity during the period is outlined below:

	RESTRICTED SHARE UNITS	PERFORMANCE SHARE UNITS	TOTAL SHARE UNITS
Balance January 1, 2012	404,737	323,633	728,370
Granted	177,079	-	177,079
Forfeited	(4,855)	(6,758)	(11,613)
Vested and issued	(522,621)	(291,943)	(814,564)
Balance December 31, 2012	54,340	24,932	79,272
Granted	201,273	-	201,273
Forfeited	(45,053)	(10,216)	(55,269)
Vested and issued	(210,560)	(14,716)	(225,276)
Balance December 31, 2013	-	-	-

13. Commitments and Contingencies

13.1 OPERATING LEASE AND COMMITTED SERVICE ARRANGEMENTS

Carmanah has a number of operating leases that cover facilities and equipment as well as several committed contracts covering various IT services. The following table outlines the minimum amounts due under these agreements in future years:

	FACILITY LEASES	EQUIPMENT LEASES	IT AND OTHER CONTRACTS	TOTAL
Not later than 1 year	233	30	138	401
2 year to 3 years	401	60	-	461
Total	634	90	138	862

Lease payments recognized as expenses in 2013 amounted to $0.6 million (2012 - $0.6 million).

13.2 OTHER COMMITMENTS

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. Carmanah's largest contract manufacturer, Flextronics, requires Carmanah to purchase excess raw inventory which arises in situations where the Company's demand forecasts for particular product is less than actual use or sales in a given period. At December 31, 2013, Flextronics held approximately $0.9 million (December 31, 2012 - $1.1 million) in inventory and $1.8 million (December 31, 2012 - $2.2 million) in outstanding committed purchase orders. Inventory held at other contract manufacturers is approximately $0.2 million in aggregate.

13.3 CONTINGENT ASSETS AND LIABILITIES

From time to time, provisions are set up to cover potential legal settlements. There were no legal provisions at December 31, 2013 or 2012. No settlement amounts were paid out in the year ended December 31, 2013 or 2012.

On July 18, 2013, the Company was named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (all of which are related parties – collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used with respect to Carmanah's solar powered flashing beacons for the traffic safety market. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiff for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respects to a similar patent held by the Company. Subsequent to year-end, the Company's application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The outcome of this review was positive, with the examiner agreeing with the Company's position. The Plaintiff can still appeal this decision. The outcome of this case is not certain and the Company intends to continue to defend itself and file additional responses to the Court as required to do so. As the outcome of these matters is not currently determinable, no provision has been made at December 31, 2013.

14. Related Party Transactions

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team. The Executive Leadership Team consists of the CEO and Chief Financial Officer ("CFO").

Total compensation expense for key management personnel, and the composition thereof, is as follows:

	YEARS ENDED DECEMBER 31	
	2013	**2012**
Short-term benefits	620	562
Termination benefits	150	-
Share-based compensations	357	200
Total	**1,127**	**762**

Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive's employment is terminated, either without cause or due to a change in control of the Company. Under a termination without cause (1) the CEO is entitled to 12 months base salary plus applicable cash-based incentives, and (2) the CFO is entitled to a maximum of 6 months base salary plus applicable cash-based incentives. Under a change in control the CEO is entitled to no less than 12 months base salary plus applicable cash-based incentives plus an acceleration of non-cash incentives that would have vested in that period.

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Company's CEO and its Chairman of the Board, John Simmons and Michael Sonnenfeldt respectively, were part of the investor group involved in the standby purchase agreement associated with the rights offering previously described in note 11. John Simmons was committed under the agreement to a maximum of $0.7 million. MUUS Holdings LLC, a company controlled by Michael Sonnenfeldt, was committed under the agreement to a maximum of $1.8 million. As a result of the standby purchase agreement, John Simmons and MUUS Holdings LLC were paid $0.01 million and $0.04 million respectively at the end of 2013. The fees associated with the standby purchase agreement were netted against the proceeds of the rights offering.

15. Operating Expenditures

The components of operating expenditures by nature are outlined below:

	YEARS ENDED DECEMBER 31	
	2013	**2012**
Salaries, commissions and other direct compensation	6,267	7,423
Professional fees, insurance and public company costs	1,206	764
Amortization	776	957
Telecom and IT expenses	588	651
Travel and related expenses	456	617
Occupancy costs	397	433
Bank charges and bad debts	355	186
Marketing, advertising and other related expenses	328	381
Development expenses	294	264
Other expenses	90	133
Share-based payments	46	257
Total operating expenditures	**10,803**	**12,066**

The amortization expense as noted in the statement of cash flows includes amortization classified under cost of sales.

Beginning in 2013, management decided to present costs associated with its engineering group used to support the Company's Solar EPC services segment under the caption "Research, engineering and development". These costs were previously classified under "General and administrative", and mainly consist of salaries, travel and other related costs. This reclassification was made to better characterize the nature of these expenditures. The following table outlines the reclassifications made by quarter for the 2012 periods.

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	TOTAL 2012
As previously disclosed in 2012					
Research and development	359	481	391	375	1,606
General and administration	1,581	1,571	1,519	1,571	6,242
2013 change					
Research, engineering and development	147	101	112	99	459
General and administration	(147)	(101)	(112)	(99)	(459)
As disclosed in 2013					
Research, engineering and development	506	582	503	474	2,065
General and administration	1,434	1,470	1,407	1,472	5,783

16. Segmented Information

Recent efforts to increase focus and oversight within the various markets the Company operates in has resulted in an expansion of the number of reportable segments which management (or more specifically the Company's chief operating decision-maker) evaluates. These segments are being reported for the first time in 2013. Last year the Company disclosed two reporting segments: the "Lighting" division, which included the Company's Signals (which included Traffic, Marine, and Aviation/Obstruction) and Outdoor Lighting sectors and the "Solar Power Systems" division, which included the Company's GoPower! and Solar EPC (engineering, procurement & construction) Services sectors. The reportable segments now used by management are outlined below.

SEGMENT	PRODUCTS OFFERED/MARKETS SERVED
Traffic	Solar LED flashing beacons for various roadway applications, mainly focused on the North American market.
Marine	A complete range of marine lighting solutions sold worldwide, including a variety of products manufactured by Sabik under a partnership arrangement.
Aviation/ Obstruction	LED aviation and obstruction lighting sold worldwide. Within Aviation the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems. Within Obstruction, the Company offers simple and self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Outdoor Lighting	LED lighting systems for off-grid lighting applications, including street, parking lot, park, and pathway applications. Products are sold worldwide using a variety of distribution models
GoPower!	Mobile power solutions for the North American market. Built for the hard demands of RV, utility, and fleet vehicles, as well as marine applications, Go Power!'s complete line of solar chargers, inverters, regulators and power accessories deliver electricity where grid-power is inaccessible or unavailable.
Solar EPC Services	The design, procurement and construction of grid-connected solar power systems in the Canadian industrial market.

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of goods sold and gross margins. Segment profit represents profits without allocation of operating expenses as these costs are not included in the measures that the chief operating decision-maker uses to evaluate and assess segment performance. Operating expenditures such as sales and marketing, research, engineering and development as well as general and administrative expenses, which cannot accurately be attributed between various segments, have not been allocated between segments. In addition, a number of the segments share certain inventory and other assets, therefore the Company cannot disclose assets on a segmented basis.

	TRAFFIC	MARINE	AVIATION OBSTRUCTION	OUTDOOR LIGHTING	GOPOWER!	SOLAR EPC SERVICES	TOTAL
For the year ended December 31, 2013							
Revenue	5,067	4,161	3,712	1,942	7,962	3,058	25,902
Gross margin	2,112	1,261	1,110	121	2,240	540	7,384
Gross margin %	41.7%	30.3%	29.9%	6.2%	28.1%	17.7%	28.5%
Total operating expenses							(10,803)
Other expenses							(2,140)
Loss before taxes							(5,559)
For the year ended December 31, 2012							
Revenue	2,597	5,451	3,521	3,676	6,507	4,690	26,442
Gross margin	983	1,754	1,430	980	1,939	1,153	8,239
Gross margin %	37.8%	32.2%	40.6%	26.7%	29.8%	24.6%	31.2%
Total operating expenses							(12,066)
Other expenses							(92)
Loss before taxes							(3,919)

GEOGRAPHIC

For geographical reporting, revenues are attributed to the geographic location in which the customer is located:

	YEARS ENDED DECEMBER 31	
	2013	**2012**
North America	21,535	22,152
South America	898	1,264
Europe	2,256	1,925
Middle East and Africa	795	317
Asia Pacific	432	784
Total revenues	25,902	26,442

As at December 31, 2013, substantially all of the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $1.0 million (December 31, 2012 - $1.2 million).

17. Income Taxes

The components of tax expense for 2013 and 2012 were as follows:

YEARS ENDED DECEMBER 31	2013	2012
Current tax expense	(5)	(2)
Deferred tax expense	-	-
Total income tax expense	(5)	(2)

Current income tax expense in 2013 and 2012 relate to taxes paid in the United States.

The following is a reconciliation of income taxes calculated at the Canadian statutory corporate tax rate to the tax expense for 2013 and 2012:

YEARS ENDED DECEMBER 31	2013	2012
Loss before taxes	(5,559)	(3,919)
Computed tax recovery at 25.75% (2012 – 25.0%)	1,432	980
Adjusted for the effects of:		
Expenses not deductible for tax purposes	(51)	(80)
Current year unused tax losses and deductible temporary differences not recognized as deferred tax assets	(1,766)	(899)
Effects of tax rate changes	241	-
Share issuance costs	105	-
Other	34	(3)
Income tax expense	(5)	(2)

The applicable federal and provincial statutory income tax rate used for the 2013 and 2012 reconciliations above is the corporate tax rate payable by corporate entities in the province of British Columbia on taxable profits under tax law in that jurisdiction. The rate increased on April 1, 2013 from 25% to 26% due to an increase in the BC income tax rate of 1%.

Non-deductible expenses consist primarily of stock-based compensation expense, certain expenditures made in relation to the purchase of customer lists, and meals and entertainment costs. The valuation adjustments associated with the investment tax credits and unused tax losses and temporary deductible difference are described in financial statement note 18.

18. Investment Tax Credits and Deferred Taxes

The following table is a summary of the unrecognized deductible temporary differences, unused tax losses and unused tax credits:

YEARS ENDED DECEMBER 31	2013	2012
Temporary differences and unused tax losses available to reduce taxable income		
Scientific research & experimental development expenditures	9,827	9,361
Losses available for future periods	8,656	6,249
Equipment and leasehold improvements	5,198	4,568
Intangible assets	2,145	975
Eligible capital expenditures for tax	1,033	778
Provisions	850	550
Other	900	209
	28,609	22,690
Tax credits available to reduce taxes payable		
Investment tax credits	4,610	4,379

The Investment tax credits expire between 2015 and 2033. The losses available for future periods are non-capital in nature and expire between 2027 and 2033. All other tax deductible temporary differences do not have an expiry date.

TEMPORARY DIFFERENCES ASSOCIATED WITH INVESTMENT IN SUBSIDIARIES

As at December 31, 2013, temporary differences of $151 (2012 – $134) associated with an investment in a subsidiary has not been recognized as the Company is able to control the timing of the reversal of this difference which is not expected to reverse in the foreseeable future.

19. Acquisition of Spot Devices Inc.

On January 4, 2013 (“Acquisition Date”), the Company signed an asset purchase agreement to acquire the pedestrian and school zone traffic device systems business assets of Spot Devices Inc (“Spot”). This agreement provided for the transfer of various business assets to Carmanah and a royalty free right to license a proprietary SIMA software from an associated company of Spot, Cirrus Systems, LLC (“Cirrus”). The license agreement for SIMA was not signed on January 4, 2013 as certain terms had not been finalized. In early July 2013, Carmanah concluded that it would not be able to sign an agreement as it was unable to secure economically viable license terms for a service that underpinned a number of Spot’s acquired traffic products.

This acquisition was determined to be a business combination. The assets acquired included inventory, equipment, and various assets related to products produced and sold by Spot including patents, trademarks, marketing material, contracts, technical information, etc. The primary driver behind the acquisition was to immediately expand the Company’s product portfolio, gain access to new customers, and build economies of scale within this market vertical.

An initial payment was made through the issuance of 2,222,222 common shares of Carmanah issued upon closing. The share price on January 4, 2013 was CDN $0.27. The agreement also included a conditional payment payable in cash which is based upon cumulative Gross Revenues earned over the calendar years 2013 and 2014. It is calculated as 12.5% of the portion of cumulative 2013 and 2014 Gross Revenues from the sale of the combined Traffic products exceeding $17.5 million. Actual traffic revenues from 2013 and current forecasted revenues for 2014 fall below this threshold, therefore no amounts have been recorded.

Management’s estimate of the total consideration for the acquisition and final purchase price allocation, in accordance with IFRS 3 – Business Combinations, was as follows:

	$
Consideration	
Fair value of shares issued	607
Identifiable assets acquired and liabilities assumed	
Inventory	216
Equipment	18
Customer list and other intangibles	623
Product warranty liability	(250)
Identifiable net assets acquired	607

This acquisition contributed approximately $1.2 million in revenues and $0.6 million in gross margins during the year ended December 31, 2013, most of which was recognized in the two quarters of 2013. This amount solely related to Spot products sold during the period, and excluded sales of existing traffic products to their customers and incremental operating costs associated with supporting this business, as these were not tracked or practically determinable.

Due to a variety of events that have occurred subsequent to the acquisition, management has concluded the underlying intangibles acquired are impaired. Of the events, most significant was the inability to secure an economically viable SIMA license agreement. This resulted in a large reduction in the number of Spot products that can be sold going forward as SIMA was highly integrated and has resulted in a higher than expected churn rate with legacy customers. Going forward the Company is working to mitigate these factors. However, the Company is uncertain if significant future cash flows will continue to be generated from this acquisition or if it will be able to adequately identify these cash flows. Consequently, management had recognized an impairment of its intangibles assets of approximately $0.6 million in 2013.

A variety of provisions have been recorded as a result of this acquisition which have been described and disclosed in note 9.

20. Restructuring Charges

In the fourth quarter of 2013, the Company presented a restructuring plan designed to restore profitability and position the Company for future growth. Under the plan, Carmanah will terminate about 14 employees to help reduce fixed salary costs to more sustainable levels. The Company also closed its remote development office in Burnaby, reorganized its internal departments, and started to execute a plan to replace its current ERP and CRM system with a more cost effective and efficient solution. As a result of the decision to replace the Company's ERP system, Carmanah has recognized an impairment loss of $0.2 million as described in note 8. This amount was presented as an intangible impairment rather than a restructuring cost. The following table summarizes the costs incurred and balances outstanding at December 31, 2013.

	SEVERANCE AND RELATED BENEFITS	OTHER EXIT AND OTHER COSTS	TOTAL
Balance at January 1, 2013	-	-	-
Charges	518	34	552
Cash payments	(312)	(12)	(324)
Balance at December 31, 2013	206	22	228

Investor Relations

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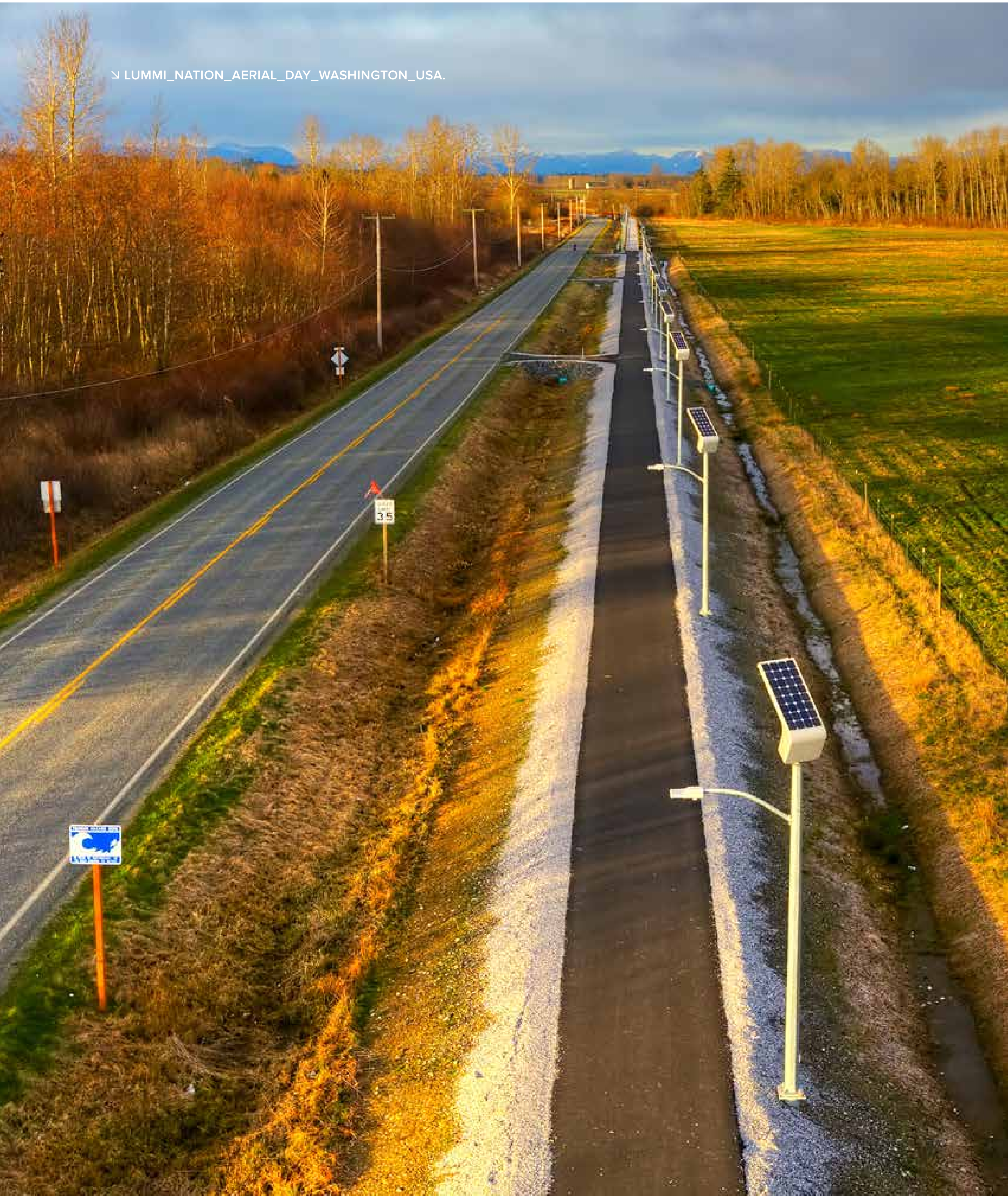

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