carmanah®

2015

ANNUAL REPORT

Message from the Chairman

To Our Shareholders,

Carmanah Technologies has continued to evolve in many satisfying ways during 2015. Most importantly, I can report that our management team executed on its operating plan for 2015. In this context we exceeded our expectations for revenue production and profitability. Our company is stable, well capitalized and solidly profitable.

Perhaps the most notable singular event of the year was the acquisition of the Sabik Group of Companies with which we had enjoyed a longstanding prior relationship. This acquisition deepens our capabilities with the addition of extremely knowledgeable teams in Germany and Finland, and strengthens our product range to include marking systems for offshore wind and a broad array of robust and high-powered marine aids to navigation. To date, the integration of Sabik could not have gone better, and the efficiency with which the merger was accomplished is a credit to the months of detailed planning by our respective management teams.

While successful acquisitions can provide the step function of growth, our strategy also includes a program for continual organic growth. In this respect our management team has set lofty future goals to increase both the numbers and capabilities of Carmanah's "last mile partners" on whom we rely to be the final, local connection with our end users.

In addition to organic growth it is our plan to lead the way with technology where we can build distinctive areas of technological competence that can be harnessed to develop and deploy best of breed products. At its core, this plan seeks to deliver to our customers products and systems that are environmentally responsible while reducing their capital and/or operating cost. In the best of cases a product will define a new category that dramatically benefits the customer. We know that we operate in a competitive world which demands this innovation and we are keen to take on the challenge with the expectation of winning. We want to build on a portfolio of core competencies, and today these include the integration of LEDs for signalling and lighting, energy management which allows us to maximize usable power output from battery systems, generally powered by solar panels, and communications which is driving the transformation of our products to communicate with each other, and with land based networks, and satellites.

It is good to step back and check in on one's aspirations from time to time. In recent years our team has resonated with a goal of a triple bottom line; people, planet, and profit. Addressing all three components, without a sacrifice to any single component, is a challenge for any corporation and one that we strive to meet. I am pleased that we have created a sustainable and profitable business, but where we are equally focused is on our human resources and the communities in which we live. Virtually every product we produce saves CO^2, but in addition, we have continued to focus on other areas where environmentally sensible policies can make a difference. This ranges from "greening" our head office to ensuring our supply chain and distribution policies are as efficient as possible. All of these efficiencies add to our profitability and help focus us on core beliefs, and we expect that trend to continue.

As part of the Sabik transaction, our new senior managers chose to accept a material part of the consideration in Carmanah stock. All of our employees

I am pleased that we have created a sustainable and profitable business, but where we are equally focused is on our human resources and the communities in which we live.

have options and the Board continues to collectively own 42% of the total outstanding shares. I can't think of a better combination for long-term success because the shareholders, management and employees are all aligned on creating dramatic value and all will benefit by it. Perhaps this is the greatest transformation in the structure of Carmanah since our new team took over three years ago, and a reason for the success we have already achieved, and the great things we expect to achieve in the future.

We thank you for your support and remain dedicated to earning your trust as we continue the momentum we are so proud to report on the pages that follow.

Best,

Michael W. Sonnenfeldt
Chairman of the Board

Message from the CEO

To Our Shareholders,

A year ago I reported to you after my first full year as your CEO. At that time, I spoke of the considerable effort that my Carmanah colleagues had put forward to reverse the trend from prior periods which was evidenced by declining revenues and consistent losses. I also spoke about the principal challenge we faced at the outset of 2015 to build on this trend, while at the same time using the knowledge we are gaining in the market to create a long-term strategy for the company. Said simply, our challenge was to generate stable, profitable growth in 2015 while simultaneously building a plan for significant long-term shareholder value. I am happy to report on our progress in both regards.

A new financial trend has taken hold at Carmanah. We are now solidly profitable and growing. Your staff team has accomplished this by focusing on profitability and understanding that the keys to operational excellence come from revenue growth, working to improve margins, and closely controlling costs. The magnitude of the performance change that your staff team has delivered over this past year has been remarkable. It is almost entirely due to the culture of our workplace that supports engagement and commitment, and includes devolved decision making. We have a great group of people who are working hard and rightfully enjoying their achievements. On a personal level, I am grateful and privileged to be able to work with such a highly engaged and amazingly capable group of people.

In addition to changing the financial outcome of the business, we have also fully embraced the principles of a triple bottom line – "people, planet and profit." In 2015, we produced our first corporate sustainability report, a summary of which is included in the pages that follow. Importantly, we are proving that a commitment to our people and the community in which we live, as well as a commitment to reducing impacts on the planet, is entirely consistent and supportive of improving profitability. These commitments go beyond making us feel good. They also allow us to recruit the best and the brightest.

I would like to mention as well just how pleased we are with the Sabik Group of Companies acquisition that we completed in mid-2015. Our new partners, the management of Sabik Marine in Finland and Sabik Offshore in Germany, together with their staff colleagues, have been a great addition to the Carmanah family. The commitment of our partners to operating excellence and profitable growth was evident before we acquired the businesses and has been even more evident in the post-acquisition period. Again, we couldn't be happier with the acquisition and we are really encouraged about the future of each of these businesses.

Our long-term strategy for the company is also coming into focus. While it is still too early to precisely describe our plans, we are confident that it is well within our means to allocate resources such that we can attain and defend market leadership and earn attractive margins. Throughout 2016, we will be describing

On a personal level, I am grateful and privileged to be able to work with such a highly engaged and amazingly capable group of people.

these exciting plans in detail. In my opinion, Carmanah's best is yet to come.

As we work to realize all of our aspirations for Carmanah, we do so mindful of, and grateful for, the support of our shareholders.

Respectfully,
John Simmons
CEO

Message from Sabik Marine

Sabik Marine has more than 35 years of experience in the development and production of signals for waterways and ports, offshore oil and gas, and aquaculture farms. We were among the first to adopt LED technology in our products and are one of the world's leading manufacturers of marine signals.

Our products consist of a wide range of self-contained and high-performance signal lanterns that can easily be tailored to meet customized needs. The merger of Carmanah and Sabik products enables us to offer a unique combination of low-mix, high-volume Carmanah self-contained solar lights with high-mix, low-volume long range and special lights. Our signals are produced in factories in Canada and Finland. Most of our lanterns provide connectivity for remote monitoring and control.

Sabik Marine headquarters are based in Porvoo, Finland. Thanks to our global distribution network in over 70 countries, our products help ensure safety at sea in coastal regions and inland waters around the world. To enable us to offer our customers improved local service, we have subsidiaries in the United Kingdom and Singapore, and sales offices in Canada, Germany and Russia.

As leaders in technology, our engineers continuously improve existing products and develop new solutions. Safety is and remains our main driver. Through our extensive experience and vigorous testing, we provide high quality products made to defy the harshest environmental conditions—strong winds, high waves, drifting ice, hail, severe temperature fluctuations, and months without daylight—to prevent possible hazards. Sabik Marine is often the first to innovate and implement new technologies, and our products ultimately lead the way for the industry.

Our goal is to enhance safety for marine traffic by constantly improving the reliability of visual navigation aids. Our advanced monitoring and programming tools—LightGuard Monitor and Bluetooth® Control—take safe marine navigation to a completely new level.

Sabik Marine is often the first to innovate and implement new technologies, and our products ultimately lead the way for the industry.

SABIK
WE SHOW THE WAY

Message from Sabik Offshore

Through product innovation and broadening our product portfolio, our goal is to become the #1 supplier for a complete offshore wind marking solution.

Sabik Offshore is in the signalling business, providing marine aids-to-navigation solutions for the offshore wind industry. Since 2008, we have been supplying solutions developed specifically for temporarily marking offshore construction sites and permanently marking offshore wind farms.

Our temporary marking solutions include providing Cardinal Buoys with self-contained lanterns that are remotely monitored with our LightGuard monitoring system to mark the perimeter of the construction site. As foundations and transition pieces are installed offshore, they become obstructions in the water that also require marking with our self-contained lanterns.

Permanent marking solutions vary from project to project. However, a typical system generally contains two 5NM lanterns, flood lights, ID marking signs with a comprehensive system behind to synchronize all navigational lights, a battery supply backup, and remote monitoring and control.

Proudly, Sabik Offshore products and services have achieved 100% market share for providing permanent marking solutions for German offshore wind farms.

With over 1,200 turbines and 22 platforms installed with our systems, Sabik Offshore has become a leader in integrated offshore marking systems, and is now expanding beyond our borders. With a dedicated technical sales manager in England, we are quickly gaining ground in the UK offshore wind market, having delivered our first project at Dudgeon in 2015. We have also had success in Belgium, the Netherlands and Denmark, and are setting our sights on emerging markets, such as France and the US.

Sabik Offshore's success is reflected in our value statement:

“We provide complete aids-to-navigation solutions.

Near or far, we create confidence that structures in waters are properly marked, keeping mariners and assets safe while reducing operational costs.

We are the professionals in aids-to-navigation and are dedicated to our customers’ success. Through many years of experience, we have the application knowledge and technical competence to deliver innovative solutions for our customers.

Our products and services are designed to perform, be reliable and hassle free.”
- SABIK Offshore value statement

Through product innovation and broadening our product portfolio, our goal is to become the #1 supplier for a complete offshore wind marking solution.

SABIK OFFSHORE
MARK IT · LIGHT IT · KEEP IT SAFE

Corporate Sustainability Report

INTRODUCTION

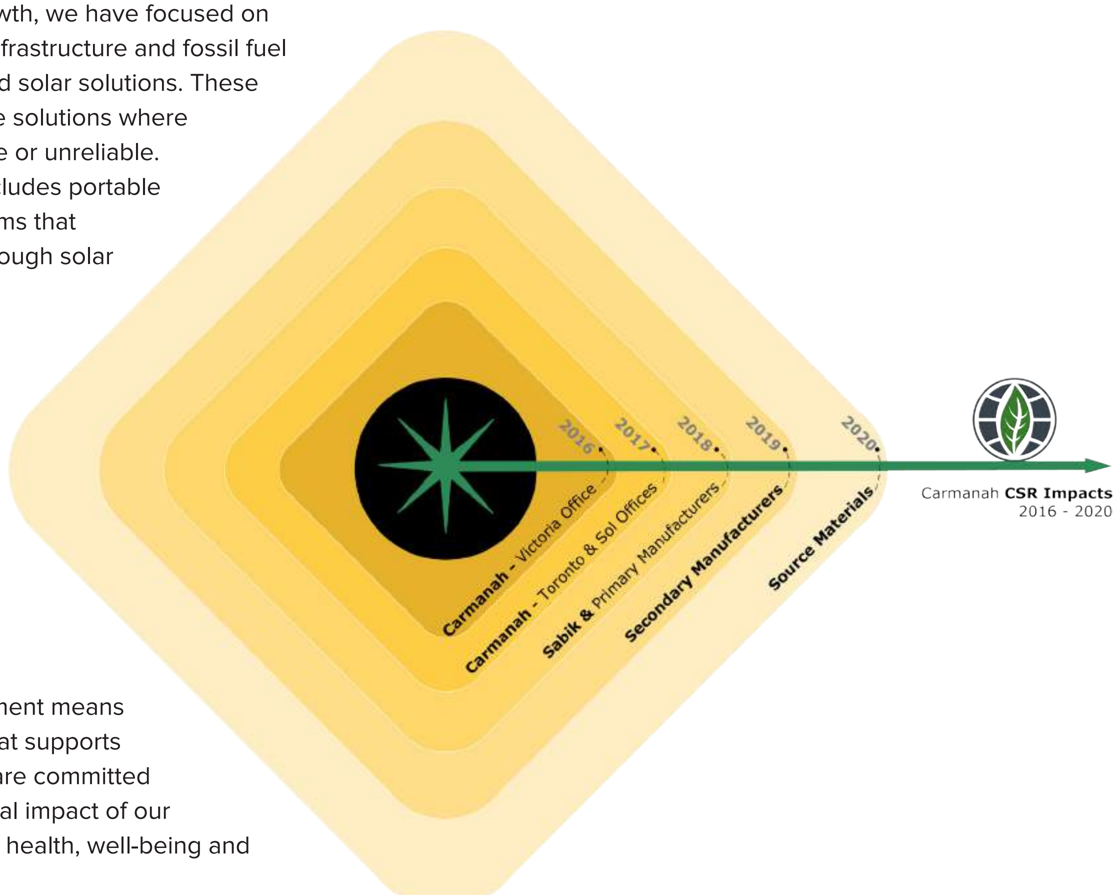
Carmanah designs, develops and distributes renewable and energy-efficient technologies with installations in over 110 countries worldwide. The impacts of Carmanah's products include a reduction in greenhouse gas (GHG) emissions and a decrease in electrical grid reliance.

Carmanah's three operating divisions either produce clean energy or utilize energy efficient technology through solar or LEDs. Over time, Carmanah has expanded its signal and illumination division to include marine, aviation, obstruction, traffic, outdoor illumination, and offshore wind marking solutions. Throughout our growth, we have focused on moving customers from grid infrastructure and fossil fuel reliant technologies to LED and solar solutions. These products provide infrastructure solutions where traditional power is unavailable or unreliable. Carmanah's power division includes portable power and rooftop solar systems that provide energy generation through solar technology.

Since our beginnings in 1996, Carmanah has always been involved in sustainable initiatives. But that was not enough for us. In our 2015 annual report, we are proud to announce and report on our corporate triple bottom line activities.

Our triple bottom line commitment means doing business in a manner that supports people, planet and profit. We are committed to minimizing the environmental impact of our operations and supporting the health, well-being and education of our people and the people in the communities we serve. We believe that these activities will benefit both the environment and society, while simultaneously enhancing our corporate profitability and value.

In our first year of reporting, we are focusing on our Victoria, BC, headquarters, as strong leadership in these initiatives must start at the core of the company. Leadership at our corporate headquarters is a precursor for engaging our other offices, and setting up our manufacturers and suppliers to comply with our future sustainable practices.



PLANET 2015 HIGHLIGHTS (VICTORIA HQ)

- GHG analysis for 2014 and 2015
- Monthly GHG analysis on travel and shipping
- 15% reduction of electricity usage due to more efficient servers
- 98% of office waste diverted from landfill
- Greenest office award at the Vancouver Island Eco Star Awards
- 29% of staff commuting by low-emissions transportation methods (e.g. bike, bus, walk etc.)
- Product design to reduce dependence on PVC
- Product development focused on increased energy efficiency
- Initiated packaging recycling instructions
- Introduced product disposal and recycling instructions for new products

PEOPLE 2015 HIGHLIGHTS

"At Carmanah, we are all passionate about what we do and making a difference in the world. To keep employees energized and working creatively, we put employee spirit and autonomy first. We believe in transparency and an open and forthright culture."

- Outstanding VIATEC Foodbank Challenge participation. All funds are donated to the local Mustard Seed food bank and charity.
  - Greatest Overall Contributor November 2015
  - Greatest Per Employee Contributor November 2015
  - Second Greatest Overall Contributor February 2015

- Corporate donation matching programs for all fundraising initiatives

- 2015 UVic Co-op Employer of the Year

- Carmanah University is a monthly, employee-run educational session that allows all employees to learn more about other departments of our operation. These sessions are highly anticipated and increase our inter-department efficiencies.

13TH ANNUAL VIATEC FOOD BANK CHALLENGE

ECOSTAR Awards WINNER 2015

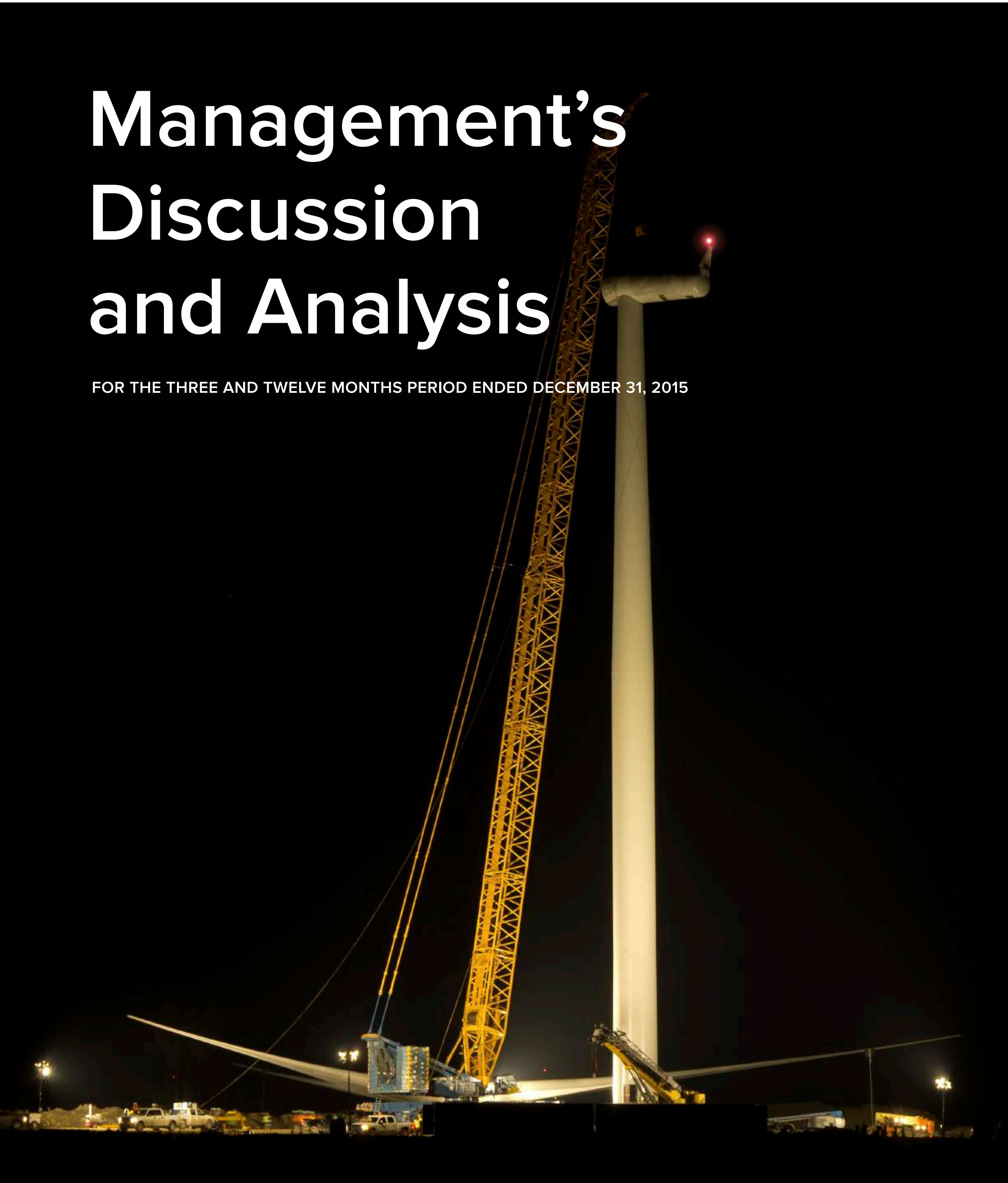
- All Carmanah employees are encouraged to submit their business ideas to our "Big Bold Ideas" program, which spans process improvements and corporate ideas all the way to new market expansion suggestions and more. Reviewed on a quarterly basis, the best ideas are put into action. This program has allowed for all employees to contribute to the road map and overall success of Carmanah.

- Through World Vision, Carmanah donated one goat in the name of each employee in recognition of the 2015 holiday season. These goats will be gifted to families in South Sudan and Somalia.

It takes a very special co-operative education (co-op) employer to stand out from the 1,130 organizations that provided outstanding dynamic learning opportunities for UVic co-op students in 2015.

Management's Discussion and Analysis

FOR THE THREE AND TWELVE MONTHS PERIOD ENDED DECEMBER 31, 2015



ABOUT THIS MD&A

This Management Discussion and Analysis ("MD&A") discusses the consolidated financial condition and operating performance for Carmanah Technologies Corporation (the "Company") and should be read together with our audited consolidated financial statements for the year ended December 31, 2015. References to the "Company", "Carmanah", "we", "us" or "our" are to be taken as references to Carmanah Technologies Corporation. These documents, along with additional information about our Company, including the Annual Report, Annual Information Form, and so forth, 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 ("CSPC"), Carmanah Technologies (US) Corporation, and Sol, Inc. ("Sol"). The statements also include the results from the Sabik Group of Companies ("Sabik", "Sabik Group", or the "Group") acquired on July 2, 2015. The Sabik Group includes Sabik Oy, Sabik Offshore GmbH, Sabik Pte Ltd, Sabik Limited and Sabik Offshore Limited.

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. This 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 29, 2016.

Our management reports on certain non-IFRS measures which are used to evaluate financial performance. As non-IFRS measures generally do not have a standardized meaning and therefore may not be comparable to similar measures presented by other issuers, securities regulations require non-IFRS measures to be clearly defined, qualified and reconciled with their nearest IFRS measure. See Section 8 for the definition, calculation and reconciliation of these figures.

SECTION		CONTENTS
1	Financial Highlights	A summary of our consolidated results for the quarter and twelve months ended December 31, 2015
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

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;
- the successful development of new and innovative products to help penetrate new geographic markets;
- the future success of our recent restructuring initiative and our ability to produce positive operating income;
- the outcome of claims and lawsuits;
- our belief that we are well-positioned to support the continued rapid development of the systems the Ontario Power Authority FIT Program facilitates and our continued monitoring of opportunities in other jurisdictions;
- our intention to be a leader or top contender in each of the market segments we operate within and our specific plan to achieve that goal;
- our belief that the signals industry is ready for consolidation;
- our plan to explore synergy opportunities that may exist in overlapping product lines, commercial efficiencies, R&D projects and potentially manufacturing competencies;
- that "connected" devices are likely to be data gateways that provide a variety of sensor data that will increase safety and further reduce operating costs;
- our expectation that the current installed base of signalling products will become obsolete and result in increases in growth rates for the signals industry;
- our expectation of growth in solar LED illumination;
- our expectation that manufacturing costs will continue to improve as solar becomes increasingly competitive with other forms of power generation;
- our plan to continue to pursue several significant portfolios of Feed-in-Tariff ("FIT") 4.0 projects which we hope to secure in and begin build out in the latter half of 2016; and
- our expectation that a majority of the On-Grid receivables will be collected in 2016.

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, but not limited to, the risks discussed under the heading "Risk Factors" in our annual information form dated March 29, 2016. 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;
- risk that we may become involved in disputes, litigation or arbitration proceedings; and
- geopolitical or other global or local events.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Carmanah therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting its business.

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

1. Financial Highlights

FINANCIAL HIGHLIGHTS FOR THE THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Consolidated statements of Income/(loss)						
Revenue	21,327	13,451	58.6%	68,206	43,732	56.0%
Gross margin %	32.3%	34.3%	(2.0)%	33.6%	34.7%	(1.1)%
Operating expenditures	(5,884)	(3,869)	52.1%	(18,158)	(12,792)	41.9%
Other Operating income/(expense)	182	(312)	n/a	3,986	(190)	n/a
Other expenses	(669)	(183)	265.6%	(3,740)	(1,221)	206.3%
Net (loss)/income	601	284	111.6%	10,680	994	974.4%
Consolidated statement of cash flows						
Net Cash used in operating activities	(1,914)	(1,590)	20.4%	(9,865)	(2,443)	303.8%
Net Cash used in investing activities	(200)	(202)	(1.0)%	(17,407)	(226)	7602%
Net Cash (used in)/provided by financing activities	(640)	-	n/a	33,566	6,571	410.8%
Other measures						
Adjusted EBITDA *	2,505	1,234	103.0%	8,569	3,971	115.8%

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

Q4 2015 VS Q4 2014

Revenues for Q4 2015 were $21.3 million, up 58.6% from $13.5 million in the same period in 2014. The majority of this increase is attributable to our Signals segment, which saw an increase in revenues of $7.1 million in the quarter. This increase was the result of $8.4 million of revenues picked up in Q4 2015 from Sabik, the group of companies we acquired on July 2, 2015. Overall revenues from Carmanah's historic Signals verticals were down $1.3 million in Q4 2015 compared to Q4 2014. This decline was primarily due to lower Marine revenues caused by (1) the elimination of intercompany sales to Sabik and (2) a large spike in Marine revenues in Q4 2014 due to the introduction of our new 800 series lantern to the US Coast Guard and a new contract secured with this customer in September 2014. Our Power segment also had higher sales, up $1.4 million to $5.5 million in Q4 2015. This increase was driven by higher revenues in both our On-Grid and Off-Grid verticals. In our Illumination segment, we had sales of $3.3 million, up substantially from Q3 2015, but down from record sales of $4.0 million in Q4 2014.

Gross margin % for Q4 2015 was down 2.0%, compared to Q4 2014. This decrease is due to revenue mix favouring the lower margin Power segment. Operating costs in Q4 2015 were $5.7 million, up from $4.2 million in the same period in 2014. This increase is largely due to the acquisition of Sabik on July 2, 2015, with the Company picking up $2.2 million in associated operating costs in the Q4 2015. Of the $2.2 million, approximately $0.3 million relates to non-recurring amortization associated with intangibles recognized on the acquisition.

The other expenses in Q4 2015 include foreign exchange losses of $0.5 million that resulted on the revaluation of our foreign denominated (mainly Canadian) working capital, and $0.2 million related to other expenditures.

Overall we had net income of $0.6 million in Q4 2015, compared to net income of $0.3 million over the same period in 2014. The overall increase is mainly attributable to the acquisition of Sabik. Adjusted EBITDA for Q4 2015 was $2.5 million, up from $1.2 million over the same period in 2014.

FISCAL 2015 VS FISCAL 2014

Full year 2015 revenues were $68.2 million, up 56.2% from $43.7 million in the same period in 2014. We saw increases in both our Power and Signals segments, which were up $8.7 million and $17.4 million, respectively. Offsetting this growth was a decline in our Illumination segment, where revenues were down $1.6 million over 2014. The increase in our Power segment was due to higher sales in both our Off-grid and On-grid verticals. The increase in the Signals segment was largely driven by the pickup of approximately $14.4 million of revenues associated with Sabik, which we acquired on July 2, 2015. Excluding Sabik, our Signals segment revenues were up $3.0 million over 2014. This increase was driven by higher sales in our Airfield Ground Lighting, Aviation Obstruction and Traffic verticals, all of which benefited from continued efforts to expand our markets through the introduction of new products and expanded distribution. Our Marine vertical was relatively flat year-over-year mainly due to the elimination of intercompany sales with Sabik. The decline in the Illumination segment was due to a soft Q3 2015. Quarterly fluctuations in this segment are not unusual due to longer sales cycles and lead times tied to large infrastructure projects.

Year to date gross margin % was 33.6%, down from 34.7% from 2014. The decrease is largely due to product mix across segments in 2015 as well as some unusually high margins in 2014 due to a beta development project, a warranty reversal and a one-time supplier adjustment. As disclosed in our Q4 2014 MD&A, the normalized gross margin % would have been approximately 32.5%.

Operating expenses for 2015 were $18.2 million, up from $12.8 million in the same period of 2014. This increase is largely due to the acquisition of Sabik on July 2, 2015, which added $4.8 million to our operating costs during the second half of 2015. Excluding Sabik, our 2015 operating costs would have been up approximately $0.6 million over the prior year. This increase is mainly due to (1) an increase in stock-based compensation due to additional grants to employees and directors and (2) higher research and development spending as we continue to renew our product development efforts, offset by lower salary costs, which are down primarily due to the decline in the Canadian dollar.

Other operating expenses for 2015 reflected a recovery of $4.0 million, up from an expense of $0.2 million in the same period of 2014. The 2015 amount includes a $4.5 million recovery associated with the recognition of our Investment Tax Credits as described in section 3, and $0.4 million of expenses related to the final integration and inventory write-offs associated with Sol. The 2014 amounts relate to restructuring charges surrounding Sol.

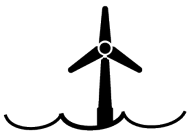
Other expenditures for 2015 were $3.7 million, up from $1.2 million in the same period in 2014. This increase is largely due to M&A costs of $1.2 million incurred to complete the Sabik acquisition, foreign exchange losses of $2.2 million recognized on working capital, and other expenses of $0.3 million.

Overall we had net income of $10.7 million for the year ending December 31, 2015, compared to net income of $1.0 million for the same period in 2014. Adjusted EBITDA for the year ending December 31, 2015, was $8.6 million, up from $4.0 million in the same period in 2014. The increase was primarily due to the inclusion of a half year of Sabik results and organic growth within Carmanah's other business segments.

2. Our Business

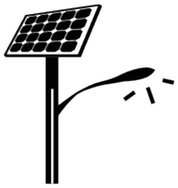
Headquartered in Victoria, British Columbia, Carmanah produces a portfolio of products focused on energy optimized LED and solar technologies. We design, develop and distribute energy efficient LED solutions for infrastructure including: signalling systems for the marine aids to navigation, airfield ground lighting, offshore wind marking, aviation obstruction and traffic markets. Carmanah's product portfolio also includes industrial and commercial solar powered outdoor LED lighting systems, and solar on- and off-grid power generation systems. Since 1996, we have earned a global reputation for delivering strong and effective products for industrial applications that perform reliably in some of the world's harshest environments. Our LED and solar power systems provide durable, dependable, efficient and cost-effective solutions which have been deployed in over 400,000 installations in 110 countries. The Carmanah brand portfolio includes Go Power! and recently acquired companies, Sol and Sabik. In the second half of 2015, Carmanah's Marine vertical was consolidated under the direction of Sabik Oy's management team.

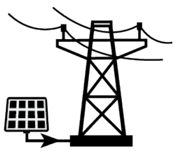
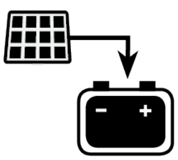
We manage our business within three reportable segments: "Signals", "Illumination", and "Power". The Signals segment includes results from our Airfield Ground Lighting, Aviation Obstruction, Offshore Wind and Marine and Traffic verticals, including the results of our recent acquisition of Sabik as outlined in section 3. The Illumination segment refers to results from our Outdoor Lighting business and includes the results from the recent acquisition of Sol. The Power segment includes results from our On-Grid and Off-Grid verticals. The following provides an overview of these segments and their associated underlying verticals.

Signals	
Aviation 	Our Airfield Ground Lighting vertical 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. Our main competitors in our airfield market include Avlite Systems Pty Ltd and Metalite Aviation Lighting, a trading division of Aeronautical & General Instruments Limited.
Obstruction 	Our Obstruction vertical 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 the obstruction market include Orga BV, Dialight PLC and Flash Technology LLC.
Offshore Wind 	Our Offshore Wind vertical, operating through our 100% owned German subsidiary, Sabik Offshore GmbH, specializes in providing marine aids to navigation solutions for offshore wind farms, providing both temporary (construction phase) and permanent marking. We provide high-quality systems and services that meet demanding safety and efficiency requirements which can stand up to the rigor of harsh environments, having been tested extensively in the Baltic and North Seas since 2008. Our NAi (Navigational Aids Interface) offers a unique and innovative marking and monitoring solution for all wind project types. Our main offshore wind competitors include Pintsch Aben BV, Sealite Pty Ltd, MSM Spain SLL, Mobilis SAS and Vega Industries Inc.

Signals	
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. The purchase of the Sabik Group in 2015 cemented our vision to deliver one of the most comprehensive lines of short and long-range marine navigation aids on the market. Carmanah's main competitors in the Marine market include Sealite Pty Ltd, Vega Industries Inc, and Tideland Signals Corporation.
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-hour roadway beacons. Our main competitors to our Traffic vertical include JS Foster Corporation and TAPCO (Traffic & Parking Control Company Inc).

The product offerings across the Signals segment verticals are similar in nature and share common technology, form factor and components. These products are often used in a variety of applications with little or no modifications. They are also manufactured in a similar fashion and have common distribution channels and routes to markets.

Illumination	
Outdoor Lighting 	Our Outdoor Lighting vertical, including the recent acquisition of Sol, has one of the largest solar outdoor lighting installation bases in the world. We have over 70,000 installations in more than 65 countries and 24 years of solar lighting experience and as a result have a significant amount of brand equity under both the Carmanah and Sol names. Products are used in general illumination applications for pathways, parking lots, and pedestrian areas, as well as highway/street lighting and perimeter lighting. Our outdoor lighting department 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 North American market within outdoor lighting are Solar Electric Power Company (SEPCO) and Solar One Solutions Inc. Internationally we have a variety of competitors operating in different areas of the world.

Power	
On-Grid 	Our On-Grid vertical is focused on the development and construction of commercial solar grid-connected systems. It is operated through our Ontario, Canada based subsidiary, Carmanah Solar Power Corporation. Over the past decade, we have installed utility-connected systems with aggregate capacity of more than five megawatts across more than 70 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 Ontario Power Authority FIT Program facilitates. We continue to monitor opportunities in other jurisdictions beyond the Ontario market. Our main competitors include Panasonic Eco Solutions Canada Inc., RESCo Energy Inc. and Deltro Electric Ltd.
Off-Grid 	Marketed under the Go Power! brand, our Off-Grid vertical 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, through Amazon.com and Amazon.ca, a large online retailer and on an OEM basis to major new motorhome manufacturers. Operationally we utilize several third-party manufacturers and logistics warehouses to stock and distribute associated inventory. Some of our Off-Grid competitors are Xantrex Technologies, a division of Schneider Electric SE, and Samlex America Inc.

As we explore new opportunities in the Power segment, we have begun to classify these businesses as either "On-grid" (systems that tie into the electrical grid) or "Off-grid" (systems that are not generally tied to the electrical grid). The range and extent of product customization and services rendered for customers varies substantially in this segment.

Our long-term growth plan is to become the global leader in solar LED signalling and lighting for infrastructure through the provision of lower cost and environmentally sensitive solutions. We will attain these leadership positions either through organic growth and/or acquisitions which will enable us to obtain appropriate economies of scale. In the near term we intend to:

- sustain organic growth by adding to our global distribution network leading the "Internet of Things" revolution in our signals and lighting product portfolio through connectivity and cloud-based data management and control; and
- solidifying our market position through strategic acquisitions that serve to broaden our product offering and extend distribution.

INDUSTRY TRENDS

There are a number of industry trends that we expect to impact our businesses. By segment these include the following:

- **Signals** – Historically our Signals businesses were primarily lighting products that were placed on or near hazards to provide warning to vehicles, ships and aircraft. These lighting products began to be converted to lower power consumption LED technology a number of years ago and this transition is all but complete. Lower power consumption has had a by-product effect in that many of these devices can now be powered by solar, which has had the impact of lowering capital and operating costs for our customers. Now a new trend is starting to emerge. Signal lighting products are beginning to be connected to data networks and to be monitored and controlled remotely. In addition to providing warning lights, these “connected” devices are likely to be data gateways that provide a variety of sensor data that will increase safety and further reduce operating costs. As these technologies come to fruition we expect that the current installed base of signalling products will become obsolete. As this happens, we expect to see increases in growth rates for the signals industry as a new replacement cycle begins.

- **Illumination** – Similar to signals, LED efficiencies in outdoor lighting are having an impact on power consumption. To produce expected light levels for streets, parking and pathways, the power requirements are much lower than in the past and are likely to be lower in the future. This trend makes the use of solar powered lighting economically more feasible than in the past. Accordingly, we expect growth rates for solar LED illumination to rise.

- **Solar Power** – Solar photovoltaic (“PV”) module costs have decreased rapidly over the past 10 years. While it is hard to predict whether manufacturing costs will continue to decline, it is clear that PV efficiencies are beginning to improve and are likely to continue to improve as solar becomes increasingly competitive with other forms of power generation. Combining this trend with a growing social/environmental bias towards renewable energy sources suggests a positive outlook for solar power businesses.

VISION

We are at the frontier of technology changes that will enable new business models in both our Signals and Illumination segments. It is our vision to harness these technology changes and lead the way with new business models that bring new value to customers.

In our world, adding “internet of things” capability allows our products to be much more than safety and light producing devices. In addition to the traditional purpose of providing light, our devices will house multiple sensors and be capable of transmitting data and receiving remote controls. At a base level, this new capability, once ubiquitous, will help our customers maintain safety levels at significantly lower cost.

And while improved safety and lower operating costs will be important for our customers, of even greater importance will be our ability to pursue new business models enabled by our technology leadership. It is our vision that customers will find value in our future ability to be a service provider—to provide “light” instead of “light fixtures” and in our signalling spaces, to provide “safety” instead of “safety hardware.” Within the scope of this vision, we expect to be able to provide long-term service to customers who will enjoy low operating costs while avoiding capital investment.

Underlying this vision, our pledge is to develop or acquire technologies that enable Carmanah to lead the way.

3. Operational and Business Highlights

OUR 2015 OPERATIONAL AND BUSINESS HIGHLIGHTS ARE DISCUSSED BELOW.

SABIK ACQUISITION

On July 2, 2015, we completed the acquisition of the Sabik Group of Companies ("Sabik" or the "Group"). The acquired Group consists of the following companies: Sabik Oy, based in Finland, Sabik Offshore GmbH (formerly Sabik GmbH), based in Germany, Sabik PTE Ltd, based in Singapore, and Sabik Ltd and Sabik Offshore Ltd, both based in the United Kingdom. Sabik is a leading manufacturer in the worldwide marine aids to navigation market, with whom we have had a collaborative sales, marketing and development partnership with since 2010. Sabik also provides sophisticated lighting and monitoring solutions to the offshore wind industry. The offshore wind industry will be a new business endeavour for us, a market we believe has strong global growth potential.

The acquisition was announced on June 10, 2015, with the signing of a Share Purchase Agreement (the "Agreement"). Under the Agreement, we have acquired 100% of the shares of each of the companies within the group, with the exception of Sabik Ltd and Sabik Offshore Ltd, where we acquired 81% and 80% respectively. Of the entities acquired, approximately 90% of the revenues are generated by Sabik Oy and Sabik Offshore GmbH. No non-controlling interest has been recognized for Sabik Ltd or Sabik Offshore Ltd, as the amounts have been determined to be immaterial. These minority interests were acquired for a nominal amount in late Q4 2015 and early 2016.

For tax planning purposes, Sabik GmbH was acquired through the use of a second German company, Carmanah Sabik Holdings GmbH. During the Q4 2015, we completed the merger of Sabik GmbH and Carmanah Sabik Holdings GmbH with the combined entities now called Sabik Offshore GmbH.

The purchase price consisted of €17.0 million (USD $18.8 million) in cash and the issuance of 1,180,414 shares of our Common share. The actual value of the consideration issued amounted to $23.3 million, $18.8 million attributable to the cash outlay of €17.0 million (utilizing a Euro to US dollar exchange rate of 1.1072) and $4.5 million to the shares issued. The actual value of the shares on issuance on July 2, 2015, would have been $6.4 million based on the closing share price of $6.79 CAD and a US/CAD exchange rate of 0.7958. However, all of the shares issued were subject to an escrow or hold period, with approximately 147,550 shares being released from the hold period every three months over a two-year period. As a result, the fair value of these shares was discounted utilizing a Black-Scholes option pricing model calculation.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3—Business Combinations, with the results of operations consolidated with ours effective July 2, 2015, and has contributed incremental revenue of $14.4 million and net income of $0.2 million. The low net income is attributable to the amortization of intangibles recognized upon the acquisition of approximately $1.3 million. If the acquisition had occurred on January 1, 2015, Sabik would have contributed revenue of about $23.3 million and a net income of $1.0 million. The total acquisition-related costs incurred by Carmanah were approximately $1.1 million.

Sabik's results have been reported within our Signals segment, with some of the business classified as a part of our new Offshore Wind vertical and the remainder reported under our Marine vertical. The acquisition of Sabik is on strategy and in keeping with our belief that the signals industry is ready for consolidation. Sabik's management team has deep industry experience, market knowledge and technical competence. Therefore, Sabik management now lead the combined Carmanah and Sabik Marine businesses as well as our efforts in the Offshore Wind market. In 2016, we expect synergy opportunities in overlapping product lines, commercial efficiencies, R&D projects and potentially manufacturing competencies. A likely outcome of this will be the transfer and sale of some intellectual property to and from Sabik to ensure technology and other property resides where it will be best utilized.

SABIK
a carmanah company

SHARE OFFERING

On April 28, 2015, we completed a "bought deal" financing (the "Financing") which raised gross proceeds of $32.0 million CAD. The financing was backed by a syndicate of underwriters led by Cormark Securities Inc. and including Canaccord Genuity Corp., GMP Securities LP and Salman Partners Inc. (collectively, the "Underwriters") who agreed to buy and sell to the public 5,650,000 of our common shares ("Common Shares") at a price of $5.00 (CAD) per Common Share. The Underwriters also had an option, exercisable in whole or in part at any time up to 15 days after the closing of the Offering, to purchase up to an additional 750,000 of our Common Shares at the same price. The main part of the Offering closed on April 28, 2015, with 5,650,000 shares issued from treasury. On May 1, 2015, the Underwriters exercised their option to acquire the additional 750,000 shares. The majority of the proceeds from this offering were to be used for future mergers and acquisitions, and a substantial portion of these funds were used for that purpose when we completed the Sabik acquisition on July 2, 2015.

As a part of the Offering, we also issued a total of 332,750 broker warrants (the "Warrants") which allow the holder to acquire one additional Common Share at a price of $5.00 (CAD) per share. These Warrants expire after one year from issuance and 13,310 of these warrants were exercised during the second quarter of 2015.

RECOGNITION OF TAX ASSETS

During 2015, we made the decision to recognize our substantial tax assets which were previously written off at the end of 2011. These assets were originally written off due to the uncertainty of their usage at that time. The decision to reinstate these assets was based on our financial performance over the past eight quarters and our outlook for future periods. These assets, presented on the Statement of Financial Position, include investment tax credits totalling $3.5 million and deferred income tax assets totaling $7.5 million. On the Statement of Income, the investment tax credits of $4.5 million reduced our 2015 operating expenses. Disclosed separately is a net income tax recovery of $5.7 million. Both amounts will allow us to reduce taxes on current and future earnings realized within Canada.

SOL INTEGRATION

We have been working to complete the integration of Sol into our operations since the acquisition on July 2, 2014. In the months following the acquisition to December 31, 2014, Sol's core business functions were maintained to provide time to execute on the integration plan. The majority of Sol's back office functions were eliminated at the end of 2014. The integration of Sol was completed during the first six months of 2015. Some of the major steps completed are noted below:

- During Q1 2015, we worked to close down Sol's manufacturing facility and to transition production to contract manufacturers. These efforts were largely completed in the quarter, with final production winding up on March 31, 2015. The facility was completely closed on May 31, 2015, which coincided with the expiry of the building lease. A sales office in Florida is now fully up and running and all production and inventory has been transferred to the Company's main production and distribution facilities. Current residual head count from Sol is seven full-time employees, all of whom are focused on sales or sales support.
- From a systems perspective, Sol's ERP system was successfully converted in Q1 2015 to the same ERP system that Carmanah implemented in 2014 and their CRM system was transitioned during Q2 2015.

With the integration complete, we will continue to focus on building this business over the coming years.

EXECUTIVE AND BOARD OF DIRECTOR CHANGES

During the first quarter of 2015, we moved to strengthen our leadership and finance teams and initiated a recruiting effort to fill a newly created Chief Operating Officer role and Chief Financial Officer role. In April 2015, we welcomed Tammy Neske as our Chief Operating Officer and Evan Brown as our new Chief Financial Officer.

On October 22, 2015, we announced that we and Tammy Neske, our Chief Operating Officer, agreed to part ways with immediate effect. Pursuant to the terms of her employment contract, Ms. Neske received a severance payment that we recognized in Q4 2015.

On September 30, 2015, we announced that Sara Elford was joining our board of directors. Ms. Elford graduated from Bishop's University in 1994 with a Bachelor of Business Administration and became a CFA Charterholder in 1997. During her almost 20-year career as a Sell-Side Analyst, Ms. Elford focused on Sustainability and Special Situations. From 1998 until her resignation in 2015, Ms. Elford was employed by Canaccord Genuity where she was consistently ranked by Brendan Wood International and also named in the top two for stock picking by Starmine six times since 2003. In her capacity as a Sell-Side analyst, Ms. Elford provided research coverage of Carmanah for over a decade, and brings a perspective that could not be easily matched.

On January 13, 2016, we announced that Peter Berrang resigned from the board of directors with immediate effect.

BUSINESS HIGHLIGHTS

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

Signals

- Our Marine vertical saw strong growth across its business. The majority of this came from the acquisition of Sabik and part of this growth came from increased sales to the US Coast Guard where we were awarded a new multi-year contract in 2014 to supply our M800 series lanterns. While there is no guaranteed financial value of purchases under the contract, the award has purchase targets of $3.4 million over the life of the contract, which may be up to five years if all option years are exercised.

- Within our Traffic vertical, we continued to focus on the rectangular rapid flashing beacon ("RRFB") as well as the School Zone Flasher ("R829"), including a recent win to supply a major US city several hundreds of each product combined. The shipping of these units began in Q1 2016. We have also supplied several Departments of Transportation with the two new products for evaluation. These products are expected to officially launch in 2016.

- Our Aviation Obstruction vertical continued to see growth in 2015 through expanded distribution and increased market share. The OL800 that launched in 2014 has gained momentum in several sectors within the Aviation Obstruction vertical. One of the many successful installations was in Portugal on 150 power towers where our OL800 increased safety by making these structures visible to air traffic.

- In 2015, our Airfield Ground Lighting vertical launched the A704-VL Solar Heli-pad light. The A704-VL optically complies with the latest International Civil Aviation Organization ("ICAO") and the Federal Aviation Administration ("FAA") regulations and military specifications for all helipad applications: Final Approach and Take Off ("FATO"), Touchdown and Lift Off ("TLOF"), taxiway, approach, landing, flight path, and aiming point. This group also saw success with large orders for solar airfield ground lights outside North America. In addition, this vertical continues to expand distribution channels worldwide.

Illumination

- Final production was completed at the Sol production facility in Palm City, Florida, in Q1 2015 and the facility was subsequently closed. Sol now maintains a sales office in Stuart, Florida, and all Illumination products are produced using Carmanah's strategy of toll manufacturing, resulting in margin improvement during the year. This transition included the launching of an arrangement with Cree Inc. to adopt their line of leading luminaires. During the year, a comprehensive market research project was completed to provide guidance for the future domestic go-to-market strategy and product development roadmap. Progress towards the international strategy to add last mile partners included the addition of several partners in the Middle East, sub-Saharan Africa and Latin America.

Power

- Our Off-Grid vertical saw strong year-over-year growth in 2015. This was largely driven by operational improvements and innovation on a number of established products, also reducing material costs in many of these instances. This was in spite of large tariffs implemented in Q1 2015 by both the Canadian and US governments on Chinese-sourced solar panels and solar cells. We took steps and implemented changes to our vendors, thus allowing us to eliminate most of these tariffs. All of these factors contributed to maintaining our margins within the business. We plan to continue to invest in product development in 2016 and as a result should have a number of new innovative products to introduce to this market.

- Our On-Grid vertical saw a slowdown in the development and activity surrounding the Ontario Feed-In-Tariff ("FIT") program in 2015. There were no new contract offers released in 2015; however, the Large Renewable Procurement ("LRP") and FIT 4 contract application windows were opened. As expected, the applications for contracts in both areas far exceeded the procurement targets set out by the Independent Electricity System Operator ("IESO") indicating there is still strong market demand for solar installations in the Province of Ontario. Additionally, there were positive indications from other Canadian provinces for programs that will promote and support the development, installation, and connection of Solar PV Projects in the near term. During 2015, our team focused on completing construction of FIT 2.0 and FIT 3.0 projects and pursuing additional contract opportunities offered as part of the FIT procurement, and executing on business development strategies for securing design-build agreements for FIT 3.0, extended FIT 3.0, and FIT 4.0 projects. In the first half of 2016, the team will continue constructing and connecting the remaining backlog of projects and continue to pursue several significant portfolios of FIT 4.0 projects which it hopes to secure and begin buildout in the latter half of 2016.

OUTLOOK FOR 2016

The Company continued to progress well in 2015 and built on the turnaround that started to take hold in 2014. In 2016, the Company will begin to make strategic investments in the Signals and Illumination segments with a view to driving profitable growth. The Company will concentrate first on organic growth achieved through the addition of distribution on a global scale. In addition, the Company sees opportunities to make strategic acquisitions to add to its product portfolio and to make further distribution gains. Finally, in 2016, the Company will begin to ramp up its product development spending with a focus on integrating advanced telematics into all of our product offerings with the aim of leading the market in "internet of things" capability. Overall the Company is optimistic that it can continue its progress in 2016 and achieve reasonable levels of growth.

4. Financial Results

As previously noted, the information presented in the sections below has been derived from, and should be read in conjunction with, our condensed consolidated interim financial statements for the three and twelve months ended December 31, 2015.

4.1. THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues						
Signals	12,503	5,360	133.3%	34,176	16,798	103.5%
Illumination	3,322	4,038	(17.7)%	8,915	10,489	(15.0)%
Power	5,502	4,053	35.8%	25,115	16,445	52.7%
Total revenue	**21,327**	**13,451**	**58.6%**	**68,206**	**43,732**	**56.0%**
Gross margin %						
Signals	41.0%	44.8%	(3.8)%	42.1%	45.6%	(3.5)%
Illumination	43.0%	26.6%	16.4%	37.8%	27.8%	10.0%
Power	6.0%	28.2%	(22.2)%	20.5%	27.9%	(7.4)%
Total Gross margin %	**32.3%**	**34.3%**	**(2.0)%**	**33.6%**	**34.7%**	**(1.1)%**

Consolidated revenues for the twelve months ended December 31, 2015, were $68.2 million, up $24.5 million over the same period in 2014. Overall, our gross margin for the twelve months ended 2015 was 33.6%, down from 34.7% in the same period in 2014. Overall our backlog was $15.7 million carried into 2016 vs $9.1 million in the prior year. The following section summarizes the changes by segment.

SIGNALS SEGMENT

Revenues for Q4 2015 were $12.5 million, up from $5.4 million in the same period in 2014. Full year 2015 revenues were $34.2 million, up from $16.8 million in the same period in 2014. On a year-to-date basis, the majority of this increase is due to the acquisition of Sabik, which contributed revenues of $6.0 million in Q3 2015 and $8.4 million in Q4 2015. Excluding Sabik, our Signals segment revenues were up $3.0 million over 2014. This increase was driven by higher sales in our Airfield Ground Lighting, Aviation Obstruction and Traffic verticals. Airfield Ground Lighting, which is primarily a project-based business, benefited from a number of larger projects completed and shipped in the first two quarters of 2015. Obstruction's growth continued due to an increase in sales, development and marketing efforts that began in early 2014 when this vertical was spun off from our Aviation or Airfield Ground Lighting vertical. Traffic's growth has largely been fuelled by additional markets and customers embracing the Rapid Rectangular Flashing Beacon (the "RRFB") system, a product we have worked to have certified by a number of US state departments of transportation. Sales in our Marine vertical were flat year-over-year mainly due to the elimination of intercompany sales previously being recognized to Sabik. In addition, our Marine vertical experienced a spike in Q4 2014 due to US Coast Guard procurement of the new M800 lanterns. The Signals segment carried a backlog of $8.3 million into 2016, of which $5.3 million relates to the Sabik Offshore vertical.

Gross margin % in Q4 2015 was 41.0%, down from 44.8% in the same period in 2014. Full year 2015 gross margin % was 42.1%, down from 45.6% for the same period in 2014. These decreases are mainly due to some anomalies in 2014. During the Q2 and Q3 2014, we had a conversion of a beta development project into a commercial sale, resulting in extraordinarily high margins in Q2 2014. Further, in Q3 2014, our margins were positively impacted by the release of warranty provisions associated with the acquisition of a Traffic business in early 2013. Excluding these anomalies, our 2014 gross margin % would have been approximately 41.5%. Our 2015 margin was also negatively impacted by the inclusion of a $0.5 million charge related to a one-time fair value adjustment associated with inventory acquired in the Sabik acquisition. Normalized gross margin % for those periods would have been 45.0% in Q4 2015 and 43.5% for the year.

ILLUMINATION SEGMENT

Revenues for Q4 2015 were $3.3 million, down from $4.0 million in the same period in 2014. Full year 2015 revenues were $8.9 million, down from $10.5 million in the same period in 2014. The decline year-over-year is due to a very soft Q3 2015, which was due to a lack of projects that could be closed and shipped in the period, rather than a general slowdown in sales or a trend in losing projects to competitors. Although we had a strong rebound in revenues in Q4 2015, revenue was lower than the same quarter in 2014. Q4 2014 was a record-breaking quarter for us as we worked to reduce the backlog of orders acquired in the acquisition of Sol, which closed July 2, 2014. Illumination carried a backlog of $0.9 million into 2016.

Gross margin % for Q4 2015 was 43.0%, up from 26.6% in the same period in 2014. Full year 2015 gross margin % was 37.8%, up from 27.8% in the same period in 2014. Although part of these increases is due to operational improvements and cost reductions in the bill of materials of the product lines sold, a reduction in current and future expected warranty costs resulted in recovery of about $0.2 million recognized in Q4 2015. The impact increased margins by approximately 6.6% in the fourth quarter and 2.4% for the year. Normalized margin % for those periods would have been 36.4% in the fourth quarter and 35.4% for the year.

POWER SEGMENT

Revenues for Q4 2015 were $5.5 million, up from $4.1 million in the same period in 2014. Full year 2015 revenues were $25.1 million, up from $16.4 million in the same period in 2014. These increases are due to higher sales in both our On-Grid and Off-Grid verticals. Our On-Grid vertical saw a substantial increase in activity in 2015, with 37 contracts secured in the year compared to 14 in the prior year. On-Grid carried over a backlog of $5.1 million into 2016. Our Off-Grid vertical revenues were up approximately 33% in 2015 compared to 2014. This increase is largely due to continued growth efforts, which include expanding our distribution channels and the introduction of new products. Off-Grid carried a backlog of $1.4 million into 2016.

Gross margin % for Q4 2015 was 6.0%, down from 28.2% from the same period in 2014. Full year 2015 gross margin % was 20.5% down from 27.9% in the same period in 2014. Part of these decreases was due to the sales mix, with higher revenues coming from the relatively lower margin On-Grid vertical. The gross margin for On-Grid was lower than the prior year and was negative in the fourth quarter of 2015. This was primarily due to cost overruns on a large portfolio of projects requiring additional labour to complete on schedule. Gross margin % in Off-Grid was also slightly lower in 2015. This was partly due to the impact of solar panel tariffs levied by the Canadian and US governments on panels manufactured in China, which had an impact in the early part of 2015 until we found an alternative supply of products that was not subject to the tariffs and we were able to adjust prices. We estimate the tariff negatively impacted margins by approximately 1.5% in the year.

SALES BY GEOGRAPHIC REGION

Approximately 30.8% of our 2015 revenues were from outside North America. This is up from 21.4% in the same period in 2014. This increase is mainly due to the inclusion of Sabik since the majority of their sales are in Europe. This percentage increase would have been higher if it weren't for a number of large overseas projects recognized in the first half of 2014.

OPERATING EXPENSES

	Three months ended December 31			Year ended December 31		
(US$ thousands, unless noted otherwise)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Sales and marketing	1,716	1,699	1.0%	5,743	5,292	8.5%
Research, engineering and development	1,044	469	122.6%	2,903	1,533	89.4%
General and administration	3,124	1,701	83.7%	9,512	5,967	59.4%
Other operating expenditures/(recovery)	(182)	312	n/a	(3,986)	190	n/a
Total operating expenditures	**5,702**	**4,181**	**36.4%**	**14,172**	**12,982**	**9.2%**
Operating expenses as % of sales*	26.7%	31.1%	(4.4)%	20.8%	29.7%	(8.9)%
Non-cash items:						
Amortization	*554*	*172*	222.1%	*2,073*	*436*	375.5%
Stock-based payments	*267*	*113*	136.3%	*901*	*326*	176.4%

** A Non-IFRS measure*

Our total operating expenses for the twelve months ended December 31, 2015 were $14.2 million, up from $13.0 million in the same period in 2014. For Q4 2015, total operating costs were $5.7 million, up from $4.2 million in the same period in 2014. A significant portion of the increase for the year and in the fourth quarter was the acquisition of Sabik on July 2, 2015. This resulted in the pick-up of associated operating costs for the first time; specifically $4.8 million for the year and $2.3 million in the fourth quarter. Included in the Sabik operating costs was amortization related to acquired intangibles, which amounted to approximately $1.3 million for the year and $0.3 million in Q4 2015.

If we exclude Sabik operating costs, our operating costs, excluding the one-time income tax recovery of $4.5 million during the year and $0.2 million in the fourth quarter, would have been up $1.0 million for the year, but down $0.6 million in the fourth quarter. Some of the notable changes year-over-year are described below:

- Higher stock-based compensation expense of approximately $0.6 million, which rose in the year due to an increase in the number of options granted to both employees and directors of the board. The expense associated with each option granted is also higher due the rise in our share price relative to last year, which impacts the option pricing model we utilize.
- Higher development costs, which were up approximately $0.6 million over the prior year. This increase is due to a rise in the number of development projects underway as we invest in new products and technologies.
- The above increases were offset by the following:
    1. Lower salaries, which is due to a combination of (1) a reduction in staff as we eliminated a number of positions when we rationalized the operations of Sol, and (2) a lower Canadian dollar which decreased the relative cost of our Canadian staff who are paid in Canadian dollars.
    2. Lower legal costs which have dropped off substantially due to the decreased spending on the lawsuits described in section 5.5.

2015 operating expenses also include a $4.0 million recovery, which we have separately disclosed within operating costs. Included in this amount is a $4.5 million recovery associated with the recognition of our Investment Tax Credits, which were previously not recorded. Offsetting this were some expenditures associated with Sol, including inventory write-downs of $0.4 million and some final restructuring costs incurred in 2015 related to Sol's integration. As with other one-time or unusual transactions, this amount has been recorded within Other operating expenses/(recovery). Normally our policy is to classify inventory write-downs within cost of sales. In this case a departure from this practice was deemed appropriate due to the unusual nature of the write-down, which we feel does not reflect normal operations.

SALES AND MARKETING

Our sales and marketing expenses for 2015 were $5.7 million, up from $5.3 million in the same period of 2014. In Q4 2015, sales and marketing expenses were $1.7 million, which is comparable to the same period in 2014. The increase for the year was largely driven by Sabik, which resulted in the inclusion of $1.1 million of costs since acquisition and $0.6 million in the fourth quarter. This was offset by lower sales costs in Carmanah's historical businesses primarily due to lower compensation due to (1) the lower Canadian dollar resulting in Canadian staffing costs to fall in US dollar terms, and (2) lower variable compensation as the performance within some of the underlying market verticals was below our internal targets. In the fourth quarter, we picked up $0.6 million in costs associated with Sabik. This was offset by lower staff compensation within Carmanah's historical businesses as noted above.

RESEARCH, ENGINEERING AND DEVELOPMENT

Our research, engineering and development expenses for 2015 were $2.9 million, up from $1.5 million in the same period of 2014. In Q4 2015, operating costs were $1.0 million, up from $0.5 million in the same period of 2014. These increases are partly due to the inclusion of Sabik, which added $0.7 million in costs since acquisition and $0.4 million in the fourth quarter. Development costs within Carmanah's historical businesses increased by $0.7 million for the year and $0.1 million in the fourth quarter. These increases were primarily due to higher development activity as we invest in new products and technology.

GENERAL AND ADMINISTRATION

Our general and administration ("G&A") expenses for 2015 was $9.5 million, up from $6.0 million in the same period of 2014. In Q4 2015, G&A expenses were $3.1 million, up from $1.7 million in the same period of 2014. These increases are partly due to the inclusion of Sabik, which added $3.0 million year-to-date and $1.3 million in the fourth quarter. The amortization of acquired intangibles made up $1.3 million of this expense for the year. If we look at non-Sabik G&A expenses, these expenses were up $0.5 million for the full year 2015 and up $0.1 million in Q4 2015, compared to the same periods in 2014. The overall increase is largely due to:

- Higher stock based compensation as previously noted
- Higher salaries and wages associated with G&A, which is primarily due to an expansion of the executive team and related severance costs
- Higher amortization expense due to the new ERP and CRM systems which were recently implemented and are now being amortized
- Lower legal and professional fees which are down substantially over prior year, mainly as 2014 costs were high as we were defending the lawsuit described in section 5.5
- Lower Canadian dollar which decreased the relative cost of our Canadian staff who are paid in Canadian dollars

OTHER INCOME (EXPENSE)

Other expenses were $3.7 million for the year ended December 31, 2015, which is up from $1.2 million in the same period of 2014. The 2014 amount primarily relates to merger and due diligence costs associated with the acquisition of Sol. The 2015 amounts primarily relate to foreign exchange losses of $2.2 million and merger and acquisition related expenditures that are mainly associated with the acquisition of Sabik in the amount of $1.2 million.

INCOME TAXES

Income tax recovery for the twelve months ended December 31, 2015, amounted to $5.7 million, compared to essentially nil in the same period in 2014. As noted in section 3, the majority of this balance relates to the recovery realized upon recognition of previously unrecognized tax assets. These assets relate to both investment tax credits and deferred income taxes, both of which will allow us to reduce taxes on current and future earnings realized within Canada. The decision to reinstate these assets was based on our financial performance over the past eight quarters and our outlook for future periods, which makes it probable these assets will be utilized. Also included within the $5.7 million is approximately $1.4 million related to current income tax expense.

4.2 QUARTERLY TRENDS

	2015				2014			
(US$ thousands, except EPS amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	21,327	19,850	15,715	11,314	13,451	12,168	8,994	9,119
Gross margin	6,889	6,637	5,412	3,969	4,614	4,302	3,261	2,985
Gross margin %	32.3%	33.4%	34.4%	35.1%	34.3%	35.4%	36.3%	32.7%
Normal operating costs	(5,884)	(6,009)	(3,256)	(3,009)	(3,869)	(3,613)	(2,846)	(2,464)
Other operating (expenditures)/recovery	182	-	4,188	(384)	(312)	-	122	-
Other income (expense)	(669)	(1,008)	(1,517)	(546)	(183)	(494)	(99)	(445)
Income tax recovery (expense)	83	97	5,505	-	34	-	-	1
Net (loss)/income	601	(283)	10,332	30	284	195	438	77
EPS – Basic	0.02	(0.01)	0.48	0.00	0.02	0.01	0.04	0.01
EPS– Diluted	0.02	(0.01)	0.47	0.00	0.02	0.01	0.04	0.01
EBITDA(1)	1,527	1,181	5,135	314	535	400	604	182
Adjusted EBITDA(1)	2,505	2,084	2,499	1,481	1,234	1,121	843	773

(1) EBITDA and Adjusted EBTIDA are non-IFRS measures see section 8 for discussion. Foreign exchange gain/loss is now included in the Adjusted EBITDA calculation, as such historical amounts have been updated.

Our quarterly revenues do naturally fluctuate within our business segments primarily due to product mix and the nature of our sales within our market segments. A large portion of our revenues is derived from infrastructure projects that often have longer tender processes and fluctuating timelines. This is most pronounced within our On-Grid, Airfield Ground Lighting and Illumination businesses and to a lesser extent within our Marine and Traffic verticals. Off-Grid 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 larger quarterly swings in revenue are explained below:

- Q1 2015 revenue trended downward due to the timing of project deliveries within our Aviation Obstruction and On-Grid verticals, pushing revenues into Q2 2015.
- Q2 2015 revenues were substantially over trend. This is partly due to the carry-over of projects noted in the previously bullet. It is also due to a general upwards swing in business across most of our business lines as a result of continued investment and expanded sales and marketing efforts.
- Q3 and Q4 2015 revenues trended upward due to the acquisition of the Sabik on July 2, 2105. During the third and fourth quarters, the Sabik entities contributed $6.0 million and $8.4 million, respectively, to our total revenue.

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.

Operating costs were relatively stable from Q3 2013 through to Q2 2014. In Q3 and Q4 2014 operating costs spiked mainly due to the pickup of Sol expenses with their results being consolidated starting July 2, 2014. Operating costs in Q1 2015 dropped off with the elimination of a large portion of Sol's overhead and back office functions. Operating costs increased slightly in Q2 2015, partly due to the expansion of our executive and management teams to position ourselves for future growth. The large increase during Q3 2015 was due to the acquisition of Sabik, which added a number of new office locations and approximately 70 employees, with approximately 50 of those expensed within operating costs. Also included in this is $0.9 million of amortization associated with the backlog acquired from Sabik which was fully shipped by the end of Q4 2015.

Other operating expenditures are operating costs that are non-recurring in nature and have been separated to better highlight their impact and magnitude. The charge in Q4 2013 relates to (1) restructuring expenses of $0.5 million, primarily related to severance costs associated with a reduction in our staffing levels, and (2) asset impairment charges of $0.5 million. Other operating expenditures in 2014 include restructuring charges of $0.3 million in Q4 2014 and a recovery of restructuring expenses in Q2 2014 due to a change in plans for elimination of positions in the company. Other operating expenditures in Q1 2015 primarily relate to a $0.3 million write-off of inventory associated with the integration of Sol and closure of their manufacturing facility. A further $0.1 million was incurred in Q2 2015 relating to Sol as final integration occurred during the quarter. In Q2 2015, we recognized a $4.3 million recovery associated with the recognition of our Investment Tax Credits which were previously not recorded.

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 first two quarters of 2014 included a large amount of costs associated with the acquisition of Sol, although this was partially offset by foreign exchange gains in Q2 2014. The fluctuations in Q3 2014 and Q1 2015 were largely driven by foreign exchange losses. Other expenses in Q2 2015 relate to foreign exchange losses on foreign denominated working capital and also merger, acquisition and due diligence costs associated with the acquisition of Sabik which closed on July 2, 2015. Other expenses in Q3 2015 primarily relate to foreign exchange losses of $0.5 million and additional M&A costs of $0.5 million which mainly relate to the Sabik acquisition.

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)	**2015**	**2014**	**2013**
Sales	68,206	43,732	25,902
Gross margin	22,907	15,162	7,384
Income/(loss) from continuing operations	10,680	994	(5,564)
Income/(loss) per Share – Basic	0.48	0.07	(0.10)
Income/(loss) per Share – Diluted	0.47	0.07	(0.10)
Net income/(loss)	10,680	994	(5,564)
Income/(loss) per Share – Basic	0.48	0.07	(0.10)
Income/(loss) per Share – Diluted	0.47	0.07	(0.10)
Total assets	89,976	33,367	14,957
Total long-term financial liabilities	-	-	-
Cash dividend	-	-	-
Adjusted EBITDA*	8,569	3,971	(2,677)

**Adjusted EBTIDA are non-IFRS measures see Section 8 for discussion.*

Revenue and earnings have been trending upwards significantly over the past three years. Both the revenue and earnings growth are attributable to a combination of organic growth in our underlying businesses and acquisition. On July 2, 2014, we acquired Sol, a competitor in our Illumination segment which resulted in incremental revenues of $5.5 million in 2014. On July 2, 2015, we acquired Sabik, as described in section 3 above. The inclusion of Sabik contributed approximately $14.4 million to our 2015 revenue.

The swing from a loss to positive earnings between 2013 and 2014 was primarily due to the successful restructuring activities initiated in late 2013 that resulted in lower overall operating costs and increased sales efficiencies. The increase in earnings between 2014 and 2015 is largely attributable to the recognition of various tax assets which were previously unrecognized. As the company grows it's expected to significantly benefit from continued sales synergies and operating leverage. See section 4.1 for further details.

The increase in assets between 2013 and 2015 is largely due to a combination of acquisitions described above and/or a number of equity raises used to fund our expansion efforts.

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)	**2015**	**2014**	**CHANGE**
Net Cash used in operating activities	(9,865)	(2,443)	303.8%
Net Cash used in investing activities	(17,407)	(226)	7602%
Net Cash provided from financing activities	33,566	6,571	410.8%
Net Effect of exchange rate changes on cash	(121)	(392)	(69.1)%
Total increase in cash	**6,173**	**3,510**	**75.9%**

CASH USED IN OPERATING ACTIVITIES

During the twelve months ended December 31, 2015, cash provided by our operating activities, excluding changes in working capital, was $2.6 million which is up from $2.4 million in the same period in 2014. Changes in non-cash working capital were negative $12.5 million, up from negative $4.8 million in the same period in 2014. This increase is due to (1) a rise in the number of major projects that have required an upfront working capital investment (2) a general increase in inventory levels as our business grows and (3) the acquisition of Sabik. From a project perspective we have seen a number of larger contracts within our On-Grid vertical that have longer payment terms which has resulted in a large increase in our receivables balance. We expect a majority of the On-Grid receivables to be collected in 2016. 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 twelve months ended December 31, 2015, cash used for investing activities was $17.4 million, up from $0.2 million in the same period in 2014. The 2015 increase primarily relates to the acquisition of Sabik which we disbursed $18.8 million to purchase. The actual value presented in the cash flow statement for the Sabik acquisition is net of $2.1 million of cash within Sabik which was acquired. The remaining amount was from the investment in our new CRM, which we continue to improve, and various tangible additions, including leasehold improvements for a new sales office in Florida and an engineering office in Toronto. The amounts in 2014 primarily relate to expenditures made on our ERP system which went live in late 2014. This was offset by the cash received from the acquisition of Sol, Inc. in Q3 2014.

CASH PROVIDED FROM FINANCING ACTIVITIES

During the twelve months ended December 31, 2015, cash provided from financing activities was $33.6 million, up from $6.6 million in the same period in 2014. In 2015, the amount relates to bought deal equity raise backed by a syndicate of underwriters led by Cormark Securities Inc. Gross proceeds were $32 million CAD from the issuance of 6,400,000 common shares. A total of 332,750 warrants were also issued to the underwriters as a part of the financing. These warrants entitled the underwriters to purchase one additional share for each warrant at a price of $5.00 CAD per share. We also drew $10 million USD from the acquisition line from the CIBC credit facility. These funds were advanced to us on June 30, 2015, in anticipation of the close of the Sabik acquisition. In 2014, we raised $6.6 million from two different private placements, which occurred in Q2 and Q3 of 2014.

5.2 LIQUIDITY AND CAPITAL RESOURCE MEASURES

On December 31, 2015, our overall working capital was $28.3 million, up from $16.1 million at December 31, 2014. This increase is largely due to the bought deal described in the section above. On July 2, 2015, we used $19.1 million for the purchase of Sabik. Other than regular purchases of production and office equipment, we have no further major capital plans in the near term.

In the past, our primary source of liquidity has been from equity issuances and, to a lesser extent, our credit facility, which is discussed in the section below. We believe we have sufficient capital resources and liquidity to run our current business for the foreseeable future. Future acquisitions could require that we raise additional equity or debt.

5.3 CREDIT FACILITIES

In early 2015, we signed a new credit facility (the “Facility”) with the Canadian Imperial Bank of Commerce (“CIBC”). The multifaceted Facility provides credit up to $25.75 million through (i) a $10 million 364-Day Revolving Credit, (ii) a $10 million term acquisition credit, (iii) $3.75 million credit of Letters of Credit, and (iv) $2.0 million for trading room and other liabilities. Our ability to draw on the 364-Day revolving credit, the credit for the letters of credit, and credit for trading room contingent liabilities is subject to certain covenants. Access to the term acquisition credit facility required CIBC's review and approval of the specific acquisition transaction.

On June 25, 2015, we obtained approval from CIBC to draw on the term acquisition credit for the Sabik acquisition as outlined in section 3. On June 30, 2015, a total of $10 million was drawn on the facility in anticipation of closure of the acquisition. The associated debt is repayable on a monthly basis over a five-year term and is broken into two $5 million tranches, both of which are repayable on demand. The first tranche is supported by a 100% guarantee from Export Development Canada and carries an interest rate of US LIBOR plus 1.5%. The EDC fees associated with their guarantee are approximately 4.5% per annum on the outstanding balance. The second tranche carries an interest rate of US LIBOR plus 3.5%.

The Facility is secured by a General Security Agreement and share pledges of the Company’s subsidiaries. The Company is also subject to financial covenants and reporting requirements typical of a facility of this nature.

The Sabik Group of Companies has access to an operating line and loan with a Finnish financial institution. This debt is secured by Carmanah through a letter of credit drawn from the CIBC credit facility noted above.

At December 31, 2015, the principal amount outstanding on the $10 million term acquisition loan was $9.0 million.

5.4 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We work with a number of operating leases that cover facilities and equipment as well as committed contracts covering various IT services. The following table outlines the minimum amounts due under these agreements in future years as at December 31, 2015:

(US$ thousands, unless noted otherwise)	FACILITY LEASES	EQUIPMENT LEASES	IT AND OTHER CONTRACTS	TOTAL
Not later than 1 year	667	61	55	783
2 years to 3 years	948	113	43	1,104
Greater than 3 years	858	72	34	964
Total	2,473	246	132	2,851

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. At present, we are dealing with two significant contract manufacturers, Creation Technologies LP and Star Precision Fabricating Ltd. We previously had Flextronics as our main contract manufacturer; however, we have now fully moved manufacturing away from that facility. Under the terms of the contract manufacturing agreements, we are required to purchase excess raw inventory, which arises in situations where our demand forecasts for particular products are less than actual use or sales in a given period. At December 31, 2015, our contract manufacturers held approximately $1.5 million (December 31, 2014 - $1.8 million) in inventory and $0.7 million (December 31, 2014 - $1.2 million) in outstanding committed purchase orders.

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 and other claims relating to advertising and business practices. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiffs for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respect to a similar patent we hold. In early 2014, our application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The US patent office's review of the Plaintiff's patent resulted in many of the aspects of the patents being rejected. The Plaintiffs have appealed this judgment. Pending that review the court proceedings have been stayed. The outcome of this case is not certain and we intend to continue to defend ourselves and file additional responses to the Court as required. As the outcome of these matters is not currently determinable, no provision has been made at December 31, 2015.

In early March 2015, we filed a civil lawsuit in the Supreme Court of British Columbia against Royal & Sun Alliance Insurance Company of Canada ("RSA") and Integro (Canada) Ltd. ("Integro") operating as Integro Insurance Brokers. The lawsuit has been filed against RSA in an effort to obtain coverage of the claims brought in the US and indemnity of defence costs incurred in the US litigation. The lawsuit against Integro is in negligence for failing to notify RSA of the above-noted US claims in a timely manner. The lawsuit seeks a declaration of coverage and to recover legal defence costs with respect to the US litigation. To date, we have been unsuccessful in negotiating a settlement and we expect the matter to go to trial in early 2017.

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 and where appropriate.

5.9 RELATED PARTY TRANSACTIONS

None.

5.10 PROPOSED TRANSACTION

None.

5.11 SUBSEQUENT EVENTS

None.

OUTSTANDING SHARE DATA

Our common shares trade on the Toronto Stock Exchange ("TSX") (TSX: CMH), and as at December 31, 2015, we had 24,616,600 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options and other outstanding stock units stated in CAD.

	AS AT				
	MARCH 29, 2016	**DECEMBER 31, 2015**	**SEPTEMBER 30, 2015**	**JUNE 30, 2015**	**MARCH 31, 2015**
Share price – closing (CAD$)	5.30	5.68	5.57	6.70	5.90
Market capitalization (CAD$ in thousands)	130,610	139,822	136,913	156,718	100,164
Outstanding					
Shares	24,643,324	24,616,600	24,580,406	23,390,811	16,977,000
Options	1,999,868	2,052,620	2,164,183	2,006,608	1,325,948
Warrants	319,440	319,440	319,440	319,440	-

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. Unless otherwise noted the estimates are inclusive of all our reportable market segments described in section 2.

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, 2015, was $1.2 million, up from $1.1 million at December 31, 2014. There was a decrease in the warranty provision of historical Carmanah and Sol, Inc. sales during the year due to a reduction in general warranty claims as return rates continue to decline. An increase of $0.3 million was related to the acquisition of Sabik based on their historical sales.
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 favourable than forecasted or if unforeseen technological changes occur, we may be required to record a write-down that 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, 2015, our inventory provision was approximately $0.3 million, down from $1.4 million from December 31, 2014. This decrease is primarily due to the reversal of provisions to offset and write-offs of inventory parts with the closure of the Sol manufacturing facility and the transition between contract manufacturers. The write-off of Sol-related inventory resulted in an income statement impact in 2015 of $0.4 million due to some non-provisioned items remaining at closure. Sabik evaluates their inventory periodically and writes down inventory immediately when they determine it to be obsolete.

ACCOUNTING POLICY	ESTIMATES
Other Provisions	In the acquisition of Sol, it was determined that there could be additional liabilities on historical sales. A provision of $0.1 million was recorded at December 31, 2014, and has been reduced to approximately $0.04 million as at December 31, 2015, as we have obtained resolutions for some of these liabilities. In 2015, we reversed the $0.05 million of provision to cover costs associated with monitoring services provided by Cirrus for SIMA enabled products which we sold has been reduced due to likelihood of incurrence. 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. In 2013, we sold approximately 220 SIMA-enabled units with service terms ranging from 1 to 10 years.
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, 2015, our allowance for doubtful accounts was $0.1 million, unchanged from December 31, 2014.
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 14% to 26% and vary depending upon the employee make-up of the associated grants.

ACCOUNTING POLICY	ESTIMATES
Impairment of assets	Each year we make significant judgments in assessing if goodwill, tangible or intangible assets have suffered an impairment loss. Our impairment analysis involves the use of an income approach that relies on estimating the future net cash flows and applying the appropriate discount rate to those future cash flows. Significant management judgment is necessary to evaluate the impact of operating and economic changes on each CGU or underlying asset. Critical assumptions include projected sales growth and market opportunities, future profitability of system sales, operating and administrative expense, capital expenditures, an appropriate discount rate, and in some situations the cost of disposal. In 2014, there were no impairment losses. Our impairment analysis at December 31, 2015 involved the use of income approach that relied on estimating the future net cash flows and applying an appropriate discount rate to those future cash flows. This approach employed the following key assumptions: anticipated sales growth in key markets, changes in gross margins due to pricing changes for materials and the cost of manufacturing, changes in operating and administrative expenses, anticipated capital expenditures, and an appropriate discount rate. The forecast period utilized in the analysis covered 2016 through 2020. Key drivers in this assessment include anticipated overall sales growth, estimated to be between 3% and 10% a year, a terminal growth rate of between 2% and 4%, and a weighted average cost of capital of 14.5%. The analysis indicated an excess over carrying value of $6.4 million for Sol and $19.1 million for Sabik. Management considers the future sales growth rate a key factor in this analysis. In 2015, there were no impairment losses.
Revenue recognition	Our On-Grid vertical includes revenues from projects which includes both good and services. Revenue is recognized on a percentage of completion basis at the measurement of total costs which included internal labour hours completed and external costs. At the start of each project the hours to complete and total external costs are estimated and revised periodically as the project progresses. An external labour rate is then applied to hours completed at the end of each reporting period to determine internal costs and added to external costs to determine the amount of revenue to recognize in accordance with the contracts in place. As a result of the above revenue recognition approach, we will at times have unbilled receivables which arise when project revenues are earned prior to our ability to invoice in accordance with the contract terms. These amounts are disclosed on the Consolidated Statement of Financial Position.

ACCOUNTING POLICY	ESTIMATES
Recoverability of deferred income tax and investment tax credits	During Q2 2015, we made the decision to recognize our tax assets which were previously written off at the end of 2011. These assets were originally written off due to the uncertainty of their usage at that time. The decision to reinstate these assets was based on our management's judgment given our financial performance over the past eight quarters and our outlook for future periods which makes it probable these assets will be utilized. These assets included both investment tax credits and deferred income taxes, both of which will allow us to reduce taxes on current and future earnings realized within Canada.
Fair values of assets and liabilities acquired in business combinations	In a business combination, we acquire various assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets (e.g. technology, brand, order backlog, etc.) acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including estimates surrounding costs to acquire or reproduce a similar asset, expected cash flows, discount rates, etc. Contingent consideration resulting from business combinations is recorded at fair value at the acquisition date as part of the business combination based on expected discounted cash flows, and is subsequently remeasured to fair value at each reporting date with any subsequent change in fair value recognized in the Consolidated Statement of Earnings and Comprehensive Income. During 2015, significant judgment was required to determine the fair value associated with the acquisition of Sabik, which was acquired on July 2, 2015. The transaction was described in section 3 above. The determination of the purchase price and the associated allocation within our December 31, 2015, financial statements are preliminary and are subject to change. The following are the major areas of judgment within the accounting for the acquisition: • The value of the 1,180,414 shares issued on July 2, 2015, was determined to be $4.5 million. If these shares were valued as per the closing price on July 2, 2015, it would have been $6.4 million, based on the closing share price of $6.79 CAD and a US/CAD exchange rate of 0.7958. However, 948,842 of the shares issued were subject to an escrow or hold period, with approximately 118,605 shares being released from the hold period every three months over a two-year period. As a result, the fair value of these shares has been adjusted downward utilizing a Black-Scholes model calculation. The major assumptions for this calculation mainly related to an estimate of our share price volatility, which ranged from 59.5% to 85.8% in the calculations utilized. • We have made a number of estimates and judgments with respects to intangible assets that have been recognized as a result of the acquisition. The major items recognized include Sabik's sales order backlog, product development assets, customer lists and other similar intangibles.

6.2 FUTURE CHANGES IN ACCOUNTING POLICIES

Certain pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that will become effective in future accounting periods. The following is a summary of significant standards that may have an impact on our future financial statements.

- 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. It is anticipated that these changes would be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.
- IFRS 15, Revenue from Contracts with Customers ("IFRS15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. It is anticipated these changes will be effective for annual periods beginning on or after January 1, 2017, although this was tentatively pushed back to January 1, 2018, at the IASB's meeting on April 28, 2015.
- IFRS 16, Leases ("IFRS 16"). IFRS 16 replaces IAS 17. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the Statement of Financial Position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, but only if the entity is also applying IFRS 15.

We are assessing the impact that these standards will have on our consolidated financial statements.

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, 2015, 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

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2015, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that the Company’s internal control over financial reporting was effective as of December 31, 2015.

LIMITATION ON SCOPE OF DESIGN

Prior to the third quarter of 2015, the scope of DC&P and ICFR has been limited to exclude controls, policies and procedures of Sol which was acquired on July 2, 2014. During the second quarter of 2015, we completed the integration of all of Sol’s significant processes and as a result we are no longer relying on the associated scope limitation. However, we are relying on the same scope limitation for both DC&P and ICFR surrounding the Sabik acquisition, which closed on July 2, 2015. We are currently assessing Sabik’s processes, procedures and associated controls with the aim of removing the scope limitation as soon as possible.

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	The competitive environment varies between our different business segments and thus includes companies who (1) manufacture, sell and install off-grid lighting devices and signals, (2) engineer, procure, and install roof top grid connected solar systems, and (3) provide off-grid power solutions. 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 our existing products obsolete if we fail 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.

AREA OF RISK	DESCRIPTION
Ability to Manage Expansion Effectively	We expect to expand our business in the future to meet the anticipated growth in demand for off-grid LED lighting products. If we are unable to manage growth effectively, we may not be able to take advantage of market opportunities, execute our business strategy or respond to competitive pressures. To manage the potential growth of our operations, we may be required to improve operational systems and procedures and expand our relationships with suppliers, manufacturers, distributors and customers. There can be no assurance that the current and planned operations, personnel, systems and internal procedures will be adequate to support future growth.
Foreign Exchange	We have exposures to foreign currency fluctuations, most significantly between the US and Canadian dollar and the US dollar and the Euro. At present our functional and reporting currency is the US dollar, as a significant portion of our sales and cost of sales is denominated in US dollars. However, a significant portion of our operating costs are denominated in Canadian dollars and we generally finance in Canadian dollars as well. As a result, we are exposed to US/Canadian dollar fluctuations which may negatively impact our results. At present level, a lower Canadian dollar positively impacts our results. We are also exposed to fluctuations in the Euro relative to the US dollar as a large portion of Sabik's business is conducted in the Euro. In the past we have entered into foreign exchange contracts to manage exchange rate risks, although none in the past two years. On a regular basis we evaluate our foreign exchange exposures and determine if any action is required. We have not, and do not intend to use foreign exchange contracts, or any other financial instruments, for speculative purposes.
Reliance on Third Party Manufacturers	We rely upon third party manufacturers and suppliers to provide certain underlying components and finished goods. While we try to maintain good relationships with suppliers and contractors, economic, political or other outside factors or changes in our demand may lead to an inability for the providers to fulfill our needs. This may include products not meeting specifications; a failure to meet demand could harm our operations and profitability. 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 product costs, and variable product quality. Additional risks in this area also occur when we transition between manufacturers or when we close any manufacturing facility we may acquire through an acquisition.
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. In an effort to increase sales and margins, we are in the process of developing additional and more direct routes to market. These plans may result in channel conflict, which could negatively impact our sales.

AREA OF RISK	DESCRIPTION
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 and affect our future growth and profitability.
Intellectual Property Risks	A number of our products employ new and innovative technologies. Although we are careful to ensure we have the right to the technology utilized in our products we face the risk of infringing on the patents of others. We pursue a strategy of protecting the technology we develop 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 in each of the jurisdictions in which we conduct our business, 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.

AREA OF RISK	DESCRIPTION
Government Contracts and Subsidies	A significant portion of our revenue is 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. 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 favourably, they may have an adverse impact on our business, financial condition and results of operations.

AREA OF RISK	DESCRIPTION
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, could 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	Although we have had some recent success in growing our sales in a profitable manner, we face a variety of challenges to maintain this in the coming periods. To do so, we must be prudent in adding operating costs and ensure we have sufficient liquidity as our working capital needs grow. There can be no assurance that we will be able to maintain adequate liquidity without additional capital. Our future growth may also come from mergers and acquisitions, which may require us to raise additional capital. There is no guarantee we will be able to raise the necessary capital, and we may be forced to do so on terms that significantly dilute 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 favourably, it may have an adverse impact on our business, financial condition and results of operations.
Acquisitions or other Business Transactions	We may, when and if the opportunity arises, acquire other products, technologies or businesses with activities or product lines that are complementary to our business. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, and products of the acquired companies; the diversion of management's attention from other business concerns; risks associated with entering new markets or conducting operations in industry segments in which we have no or limited experience; and the potential loss of key employees of the acquired company. There can be no assurances that any anticipated benefits of an acquisition will be realized. Future acquisitions could result in potentially dilutive issuances of equity securities, the use of cash, the incurrence of debt and contingent liabilities, and write-off of acquired research and development costs, all of which could materially adversely affect our financial condition, results of operations and cash flows.
Potential Reorganization of Operations or Product Offerings	We routinely review our operations for additional efficiency opportunities or to reduce costs. That analysis may lead to the determination to close, eliminate, rationalize or reduce operations and divisions and/or alter the sales, manufacturing or distribution structure. Should we decide to pursue any such changes, it may incur additional charges and losses which may be material. In addition, we could experience difficulties, disruptions, or delays in the implementation of any such changes and there can be no assurance that we will be able to implement these programs successfully or on a timely basis.

AREA OF RISK	DESCRIPTION
Geopolitical and other Global or Local Events	Geopolitical and other global or local events may have a significant effect on our operations as we operate in numerous foreign countries. Various events, including natural disasters, extreme weather conditions, labour disputes, civil unrest, war, political instability, terrorism, and contagious illness outbreaks, or the perceived threat of these events, may cause a disruption of our normal operations and may disrupt the domestic and international travel of our distributors and sales agents.

8. Definitions and Reconciliations

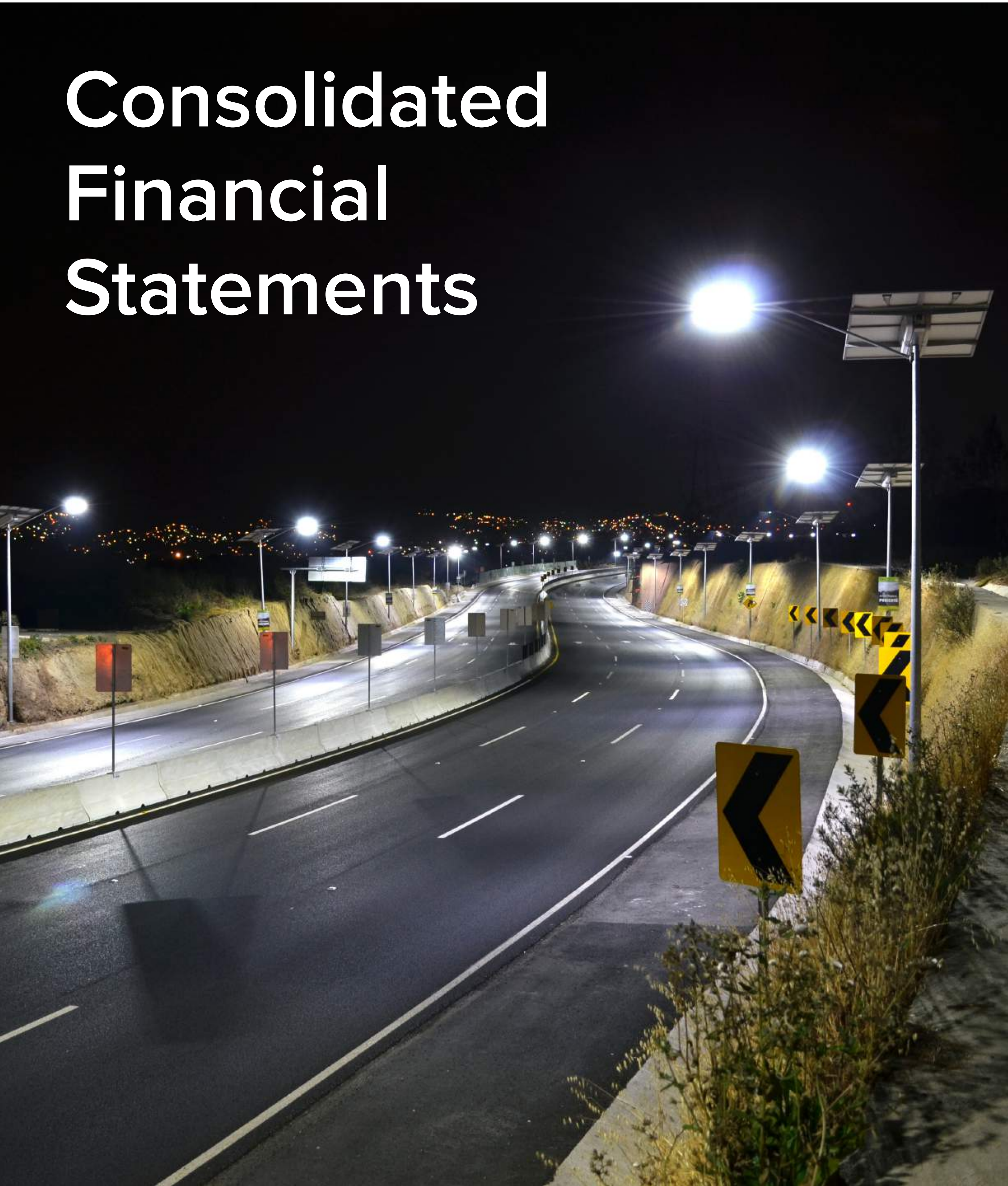
EBITDA AND ADJUSTED EBITDA

For the three and twelve months ended December 31, 2015, we are disclosing EBITDA and adjusted EBITDA, both of which are non-IFRS financial measures, as supplementary indicators of operating performance. We define EBITDA as net income or loss before interest, income taxes, amortization, and non-cash stock based compensation. Adjusted EBITDA removes unusual or non-operating items from EBITDA, such as merger and acquisition costs, restructuring charges, asset write-offs, and foreign exchange gains and losses. We are presenting the non-IFRS financial measures in our filings because we use them internally to make strategic decisions, forecast future results, and evaluate our performance. We are also presenting these measures 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 and Adjusted EBITDA are not intended as a substitute for IFRS measures.

EBITDA RECONCILIATION	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
(US$ in thousands)	**2015**	**2014**	**2015**	**2014**
Net (loss)/income	601	284	10,680	994
Add/(deduct):				
Interest expense	188	-	188	-
Income taxes	(83)	(34)	(5,685)	(35)
Amortization	554	172	2,073	436
Non-cash stock based compensation	267	113	901	326
EBITDA*	**1,527**	**535**	**8,157**	**1,721**
Merger and acquisition costs	3	25	1,218	756
Fair value of acquired inventory	492	-	492	-
Extraordinary legal costs	2	139	34	804
Investment tax credits	(182)	-	(4,502)	-
Restructuring and asset write-offs/(recovery)	143	312	539	190
Other inventory write downs/(recoveries)	15	-	383	-
Foreign exchange loss	505	223	2,248	500
Adjusted EBITDA*	**2,505**	**1,234**	**8,569**	**3,971**

* A Non-IFRS measure. Foreign exchange gain/loss is now included in the adjusted EBITDA calculation, as such historical amounts have been updated.

Consolidated Financial Statements



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, 2015 and December 31, 2014, and the consolidated statements of income and total comprehensive income, consolidated statements 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, 2015 and December 31, 2014 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 29, 2016
Vancouver, Canada

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

	NOTES	DECEMBER 31, 2015	DECEMBER 31, 2014
ASSETS			
Cash	5.1	14,880	8,707
Restricted cash	5.1	-	45
Trade and other receivables	5.2	18,428	8,025
Inventories	6	12,667	5,172
Prepaid and other current assets		1,068	412
Unbilled receivables	5.3	3,033	2,958
Cost of uncompleted projects	6	1,593	384
Total current assets		51,669	25,703
Equipment and leasehold improvements	7	1,337	660
Intangible assets	8	8,700	975
Goodwill	9	17,249	5,746
Deferred income tax asset	19	7,473	283
Investment tax credits	19	3,548	-
Total assets		**89,976**	**33,367**

	NOTES	DECEMBER 31, 2015	DECEMBER 31, 2014
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	5.4	11,117	8,095
Bank debt	11	10,093	-
Provisions	10	1,221	1,165
Income taxes payable		367	-
Deferred revenue		549	294
Total current liabilities		23,347	9,554
Deferred income tax liability	19	1,996	-
Total liabilities		**25,343**	**9,554**
Equity			
Share capital	12	86,118	56,539
Equity reserve	12,13	4,487	3,292
Accumulated other comprehensive loss		(814)	(180)
Deficit		(25,158)	(35,838)
Total equity		64,633	23,813
Total liabilities and equity		**89,976**	**33,367**

Commitments and contingencies – Note 14

Approved and authorized for issue by the Board of Directors on March 29, 2016

"John Simmons"

John Simmons,
Chief Executive Officer Board

"Michael Sonnenfeldt"

Michael Sonnenfeldt,
Chair of the Board

CONSOLIDATED STATEMENTS OF INCOME AND TOTAL COMPREHENSIVE INCOME

(Expressed in thousands of U.S. dollars, except number of share and per share amounts) **Years ended December 31**

	NOTES	2015	2014
Revenues		68,206	43,732
Cost of sales		45,299	28,570
Gross margin	17	22,907	15,162
Operating expenditures			
Sales and marketing		5,743	5,292
Research and development		2,903	1,533
General and administrative		9.512	5,967
		18,158	12,792
Other inventory write downs		442	-
Restructuring expenses	20	74	190
Investment tax credits recognized	19	(4,502)	-
Total operating expenditures	16	14,172	12,982
Operating income		8,735	2,180
Other expenses			
Loss on disposal of assets		(21)	-
Other expense	21	(1,471)	(725)
Foreign exchange loss		(2,248)	(496)
		(3,740)	(1,221)
Income before taxes		4,995	959
Income tax recovery	18	5,685	35
Net Income attributable to shareholders		10,680	994
Other comprehensive loss			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		(634)	(104)
Total comprehensive income		10,046	890
Net Income per share			
Basic		0.48	0.07
Diluted		0.47	0.07
Weighted average number of shares outstanding (Note 12.1)			
Basic		21,905,787	13,936,172
Diluted		22,512,729	13,986,661

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars, except number of share and per share amounts)

	NOTES	SHARE CAPITAL # OF SHARES (NOTE 12) ('000)	AMOUNT	EQUITY RESERVE	SUBTOTAL	ACCUMULATED OTHER COMPREHENSIVE LOSS	DEFICIT	TOTAL EQUITY
Balance, January 1, 2014		10,061	42,870	2,966	45,836	(76)	(36,832)	8,928
Net income		-	-	-	-	-	994	994
Share-based payments	13	-	-	326	326	-	-	326
Shares issued in private placement, net of issuance costs of $40	12	3,130	6,571	-	6,571	-	-	6,571
Sol acquisition	22	3,786	7,098	-	7,098	-	-	7,098
Foreign currency translation adjustments		-	-	-	-	(104)	-	(104)
Balance, December 31, 2014		16,977	56,539	3,292	59,831	(180)	(35,838)	23,813
Net income		-	-	-	-	-	10,680	10,680
Share-based payments	13	-	-	901	901	-	-	901
Shares issued on stock option exercise	13	46	167	(56)	111	-	-	111
Shares issued under bought deal, net of issuance costs of $2,230 offset by tax of $484	12	6,400	24,824	370	25,194	-	-	25,194
Shares issued from warrant exercise	12	13	75	(20)	55	-	-	55
Sabik acquisition	22	1,180	4,513	-	4,513	-	-	4,513
Foreign currency translation adjustments		-	-	-	-	(634)	-	(634)
Balance, December 31, 2015		24,616	86,118	4,487	90,605	(814)	(25,158)	64,633

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	NOTES	Years ended December 31 2015	2014
OPERATING ACTIVITIES			
Net income		10,680	994
Add back (deduct) items not involving cash:			
Amortization		2,073	436
Loss on disposal of assets		21	-
Share-based payments	13	901	326
Unrealized foreign exchange loss		123	327
Restructuring expenses	20	-	190
Recognition of investment tax credits	19	(4,502)	-
Current tax provision		-	405
Deferred income tax recovery	18	(7,171)	(481)
Fair value adjustment to inventory acquired		492	-
Changes in working capital and other items:			
Trade and other receivables		(7,640)	(1,586)
Unbilled receivables		(75)	(2,958)
Inventories		(4,064)	(914)
Cost of uncompleted contracts		(1,209)	(384)
Prepaids and other current assets		(655)	111
Trade and other payables		2,049	1,627
Provisions		(222)	(179)
Deferred revenue		(592)	(357)
Income tax payable		(74)	-
Net cash used in operating activities		(9,865)	(2,443)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		54	-
Acquisitions, net of cash	22	(16,743)	673
Purchase of equipment and leasehold improvements	7	(512)	(213)
Purchase of intangible assets	8	(251)	(686)
Change in restricted cash		45	-
Net cash used in investing activities		(17,407)	(226)

	NOTES	Years ended December 31 2015	2014
FINANCING ACTIVITIES			
Proceeds from bought deal offering, net of issue costs	12	24,710	-
Proceeds from exercised warrants	12	55	-
Proceeds from exercised stock options	13	111	-
Proceeds from credit facility draw	11	10,000	-
Debt repayments		(1,310)	-
Proceeds from private placement		-	6,571
Net cash provided by financing activities		33,566	6,571
Foreign exchange effect on cash		(122)	(392)
Increase in cash		6,173	3,510
Cash at beginning of year		8,707	5,197
Cash at end of year		14,880	8,707

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.

As disclosed in note 22, the Company completed an acquisition of the Sabik Group of Companies ("Sabik", "Group", or "Sabik Group") on July 2, 2015. The acquired Group consists of the following companies: Sabik Oy, based in Finland, Sabik Offshore GmbH (formally Sabik GmbH), based in Germany, Sabik PTE Ltd, based in Singapore, and Sabik Ltd and Sabik Offshore Ltd, both based in the United Kingdom. Under the Share Purchase Agreement, the Company acquired 100% of the shares of each of the companies within the Group, with the exception of Sabik Ltd and Sabik Offshore Ltd, where the Company acquired 81% and 80%, respectively. Of the entities acquired, approximately 90% of the revenues are generated by Sabik Oy and Sabik GmbH. These non-controlling interests were acquired during the fourth quarter of 2015 and the first quarter of 2016 for a nominal amount. Due to the nominal value no amounts were recorded at December 31, 2015. The functional currency of these companies is the Euro, with the exception of Sabik PTE Ltd, which utilizes the U.S. dollar, and Sabik Ltd and Sabik Offshore Ltd, which utilize the British Pound. All intercompany transactions between these entities and with other Carmanah entities have been eliminated.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

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.

Intercompany 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: 2015	2014
Carmanah Technologies (US) Corporation	Employed sales representatives whom were based in the United States	United States - Nevada	100%	100%
Carmanah Solar Power Corporation	Holds a portion of the Company's Power segment	Canada – Ontario	100%	100%
Sol, Inc	Holds a portion of the Company's Illumination segment	United States - Florida	100%	n/a
Sabik Oy	Holds a portion of the Company's Signals segment	Finland	100%	n/a
Sabik Offshore GmbH *(Formally Sabik GmbH)*	Holds a portion of the Company's Signals segment	Germany	100%	n/a
Sabik PTE Ltd	Holds a portion of the Company's Signals segment	Singapore	100%	n/a
Sabik Ltd	Holds a portion of the Company's Signals segment	United Kingdom	100%	n/a
Sabik Offshore Ltd	Holds a portion of the Company's Signals segment	United Kingdom	80%	n/a

2.2 BUSINESS COMBINATIONS AND GOOD WILL

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisition date at fair value. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the appropriate share of the acquiree's identifiable net assets. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations are recognized at their fair values at the acquisition date. Acquisition costs incurred are expensed in the period in which they are incurred except for costs related to shares issued in conjunction with the business combination.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date that the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill is measured at the excess of the fair value of consideration transferred and amount of non-controlling interest in the acquiree and acquisition date fair value of existing equity interest in the acquiree over the acquisition fair value of the net identifiable assets acquired and liabilities assumed. If this amount is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Consolidated Statement of Income and Total Comprehensive Income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.3 FOREIGN CURRENCIES

The presentation currency for the consolidated financial statements is the U.S. dollar. The functional currency of Carmanah Technologies Corporation, Sol Inc, Carmanah Technologies (US) Corporation and Sabik PTE Ltd. is the U.S. dollar. The functional currency of Carmanah Solar Power Corporation is the Canadian dollar. The functional currency of Sabik Oy and Sabik Offshore GmbH is the Euro. The functional currency of Sabik Ltd. and Sabik Offshore Ltd. is the British Pound. The assets and liabilities of subsidiary entities that have different functional currency 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 the Consolidated Statement of 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

Cash comprises of 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.

Trade and other receivables

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

Unbilled receivables

Unbilled receivables arise when project revenues are earned prior to the Company's ability to invoice in accordance with the contract terms. Interest does not accrue on unbilled receivables and they are short-term in nature and are measured at their value.

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 Consolidated Statements of Income and Total Comprehensive Income. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statement of Income and Total Comprehensive Income.

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 to net income. The loss recognized in the Consolidated Statements of Income 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.

Debt

Debt is measured at the initially recognized amounts less any principal repayments made over the term of the loan.

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.

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 amortization 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	3-8
Production equipment	3-10
Research and trade show equipment	5

Estimated useful lives, amortization methods, rates and residual values are reviewed on an annual 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 Consolidated Statements of Income. 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 computer software, license rights, trademarks, patents, a domain name and product development assets recognized from the acquisition of Sol, Inc and the Sabik Group of Companies. Customer lists, order backlog and brand name have been recognized related to the acquisition of Sabik. 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 each year end.

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 straight line basis over 4 years.

The domain name recognized from the acquisition of Sol, Inc and brand names recognized from the acquisition of Sabik have an indefinite life and thus are not amortized but are subject to annual impairment analysis.

The product development asset recognized from the acquisition of Sol has an estimated useful life of 2 years and is being amortized on a straight line basis. The product development assets recognized from the acquisition of Sabik has an estimated useful life of 5 years and is being amortized on a straight line basis.

The customer list asset recognized from the acquisition of Sabik relates to the customer relationships that were acquired have useful lives between 3 and 10 years.

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit ("CGU") fair value less costs of disposal 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 CGU to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU 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 the Consolidated Statements of Income and Total Comprehensive Income.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. 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 previously. Such reversal is recognized in the Consolidated Statements of Income and Total Comprehensive Income. An impairment loss with respect to goodwill is never reversed.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

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 Consolidated Statement of Income.

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.

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 hours incurred for work performed to date compared to the total estimated hours for the project and applying an external labour rate as well as estimated total external costs to costs incurred to date.
- 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 hours, which drives total internal costs, are subject to change, which would have an impact on the timing of revenue recognized.

As a result of the above revenue recognition approach, the Company will at times have unbilled receivables which arise when project revenues are earned prior to the Company's ability to invoice in accordance with the contract terms. Total project-related revenues for 2015 were $10.9 million (2014 - $5.8 million).

2.12 RESEARCH AND DEVELOPMENT COSTS

Carmanah is engaged in research and development activities. Research and development costs are expensed as incurred.

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 Consolidated Statement of Income as operating income under the caption "Investment Tax Credits Recognized". The corresponding impairment of investment tax credits, if any, is recognized as a non-operating expense.

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.

2.15 EARNINGS (LOSS) PER SHARE

The Company presents basic and diluted per share data for its common shares, calculated by dividing the income attributable to common shareholders of Carmanah by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which are composed of restricted shares and share options granted to employees and directors of the Company and warrants.

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 Judgments 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, 2015, the combined allowances were $0.1 million, or 0.8% of the gross accounts receivable balance of approximately $18.4 million. See Note 5.2 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, 2015, the Company had provisions of $0.3 million, or approximately 2.5% of the value of gross inventory.

WARRANTY RESERVE

The Company provides for warranty expenses by analyzing historical failure rates, warranty claims, current sales levels and current information available about returns based on warranty periods. Uncertainty relates to the timing and amount of actual warranty claims that can vary from the Company's estimation.

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 Consolidated Statement of Income in the year that they occur. Current forfeiture rates applied to grants range from 14% to 26% and vary depending upon the employee makeup 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. No deferred tax assets were recognized at December 31, 2014. The Company has recognized its deferred tax assets at December 31, 2015.

ASSETS AND LIABILITIES ACQUIRED IN BUSINESS COMBINATIONS

In a business combination, Carmanah may acquire the assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets (e.g. technology, brand, order backlog, etc.) acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including estimates surrounding costs to acquire or reproduce a similar asset, expected cash flows, discount rates, etc. Contingent consideration resulting from business combinations is recorded at fair value at the acquisition date as part of the business combination based on expected discounted cash flows, and is subsequently remeasured to fair value at each reporting date with any subsequent change in fair value recognized in the Consolidated Statements of Income and Total Comprehensive Income.

IMPAIRMENT OF ASSETS

Each year the Company makes significant judgments in assessing if goodwill, tangible or intangible assets have suffered an impairment loss. The Company's impairment analysis involves the use of an income approach that relies on estimating the future net cash flows and applying the appropriate discount rate to those future cash flows. Significant management judgment is necessary to evaluate the impact of operating and economic changes on each CGU or underlying asset. Critical assumptions include projected sales growth and market opportunities, future profitability of system sales, operating and administrative expense, capital expenditures, an appropriate discount rate, and in some situations the cost of disposal. In 2015 and 2014, there were no impairment losses.

PROJECT REVENUES

Carmanah records project revenues based on a percentage of completion method. Estimates are required to determine the completeness of a project at each period end. Estimates include the total number of internal hours to complete a project, total external costs to complete a project and a labour rate which is used to determine the cost of the total internal hours.

4. Accounting Standards Issued but Not Yet Effective

Certain pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that will become effective in future accounting periods. The following is a summary of significant standards that may have an impact on the Company's future financial statements.

- 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. It is anticipated that these changes would be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. It is anticipated this change will be effective for annual periods beginning on or after January 1, 2018.
- IFRS 16, Leases ("IFRS 16"). IFRS 16 replaces IAS 17. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the Statement of Financial Position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, but only if the entity is also applying IFRS 15.

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

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

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, 2015	DECEMBER 31, 2014
Loans and receivables		
Cash and restricted cash	14,880	8,752
Trade and other receivables	18,428	8,025
Unbilled receivables	3,033	2,958
Other financial liabilities		
Trade and other payables	11,117	8,095
Bank Debt	10,093	-

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 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.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

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 and the U.S. dollar and Euro.

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

	U.S.	CANADIAN	EURO	OTHER	TOTAL
Balance at December 31, 2015					
Cash	12,495	450	1,898	37	14,880
Trade and other receivables	7,203	6,999	4,093	133	18,428
Unbilled receivables	-	3,033	-	-	3,033
Trade and other payables	4,975	4,536	1,350	256	11,117
Bank debt	8,998	-	1,095	-	10,093
Balance at December 31, 2014					
Cash	4,545	3,809	353	-	8,707
Trade and other receivables	6,809	1,035	181	-	8,025
Unbilled receivables	-	2,958	-	-	2,958
Trade and other payables	5,620	2,475	-	-	8,095

Carmanah estimates a five percent increase or decrease in the Canadian dollar relative to the U.S. dollar would result in a $0.3 million loss or gain to operating income given the currency mix of the Company's financial instruments. The Euro amounts are held at the Company's subsidiaries, which have a Euro functional currency so there would be no 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.

INTEREST RATE RISK MANAGEMENT

Carmanah is exposed to interest rate risk on the debt held with financial institutions based on the floating interest rates. Carmanah estimates that a 1% increase or decrease in interest rates would result in a $0.1 million loss or gain to operating income.

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 5.2.

LIQUIDITY RISK MANAGEMENT

Liquidity refers to the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities.

(Unless otherwise noted, expressed in thousands of US dollars,
except number of share and per share amounts)

5.1 CASH

Cash represents cash in banks and cash on hand. There were no cash equivalents at December 31, 2015 (2014 - $Nil).

5.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Trade receivables	17,354	7,523
Allowance for doubtful accounts	(146)	(150)
Other receivables	1,220	652
Trade and other receivables	18,428	8,025
Unbilled receivables	3,033	2,958
Total accounts receivable	**21,461**	**10,983**

5.2.1 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% and 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, 2015	DECEMBER 31, 2014
Balance, beginning of year	150	132
Write-offs of specific accounts	(61)	(75)
Recoveries	-	(1)
Change in provision	57	94
Balance, end of year	**146**	**150**

At December 31, 2015, approximately 99% (December 31, 2014 - 95%) of the trade receivables were either current or are past due but were not impaired, and $7.8 million (December 31, 2014 - $1.5 million) was due from the five largest accounts.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

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, 2015	DECEMBER 31, 2014
1-30 days	3,045	1,272
31-90	3,122	784
90+	1,413	83
Total	7,580	2,139

5.2.2 OTHER RECEIVABLES

Other receivables primarily relate to statutory holdbacks on major EPC 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.

5.3 UNBILLED RECEIVABLES

Unbilled receivables arise when project revenues are earned prior to the Company's ability to invoice in accordance with the contract terms. $3.0 million of unbilled receivables were previously classified as Trade Receivables on the Consolidated Statements of Financial Position for the year ended December 31, 2014. This amount was retrospectively reclassified to provide more useful comparative information regarding the Company's performance with respects to revenue from projects.

5.4 TRADE AND OTHER PAYABLES

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

	DECEMBER 31, 2015	DECEMBER 31, 2014
Trade payables	7,560	5,563
Accrued liabilities	3,557	2,532
	11,117	8,095

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 upon approval from the Company's Board of Directors or shareholders as required. Carmanah has outstanding debt as described in note 11. The Company's overall strategy with respect to management of capital is to use debt for the purpose of acquisition and ongoing operations. The Company is required to meet certain covenants as a result of the outstanding debt. As of December 31, 2015, the Company was in compliance with all covenants.

(Unless otherwise noted, expressed in thousands of US dollars,
except number of share and per share amounts)

6. Inventories

	DECEMBER 31, 2015	DECEMBER 31, 2014
Finished goods	8,361	4,244
Work in progress	563	-
Raw materials	4,068	2,383
Provision for obsolescence	(325)	(1,455)
Net inventories	**12,667**	**5,172**

For the year ended December 31, 2015, inventory recognized as an expense in cost of sales amounted to $40.9 million (2014 - $26.9 million). Included in the above amounts were inventory write downs of $0.1 million (2014 - $0.2 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2015, the Company anticipates the net inventory will be realized within one year.

COSTS OF UNCOMPLETED PROJECTS

The Company incurs costs for project-related revenues recognized using the percent of completion method. These costs primarily relate to acquiring inventory and services. These costs will be recognized with the progress of the projects and are expected to be completed within one year. $0.4 million of costs of uncompleted projects were previously classified within inventory on the Consolidated Statements of Financial Position for the year ended December 31, 2014. This amount was retrospectively reclassified to provide more useful comparative information regarding the Company's performance with respects to revenue from projects.

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

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, 2014	514	599	79	952	469	2,613
Additions	163	3	15	29	3	213
Sol acquisition	1	-	25	15	-	41
Disposals	(78)	-	-	-	-	(78)
Balance December 31, 2014	**600**	**602**	**119**	**996**	**472**	**2,789**
Additions	81	131	71	212	17	512
Sabik acquisition (note 22)	-	135	96	464	-	695
Disposals	(346)	(68)	(57)	(694)	(62)	(1,227)
Foreign exchange adjustment	-	(1)	(2)	(10)	-	(13)
Balance at December 31, 2015	**335**	**799**	**227**	**968**	**427**	**2,756**
Accumulated amortization						
Balance January 1, 2014	**433**	**273**	**36**	**758**	**431**	**1,931**
Amortization for the year	62	120	11	55	28	276
Disposals	(78)	-	-	-	-	(78)
Balance December 31, 2014	**417**	**393**	**47**	**813**	**459**	**2,129**
Amortization for the period	87	173	34	97	7	398
Disposals	(332)	(2)	(28)	(683)	(61)	(1,106)
Foreign exchange adjustment	-	-	-	(2)	-	(2)
Balance December 31, 2015	**172**	**564**	**53**	**225**	**405**	**1,419**
Carrying amounts						
At December 31, 2014	183	209	72	183	13	660
At December 31, 2015	163	235	174	743	22	1,337

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

8. Intangible Assets

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

	PATENTS AND TRADE-MARKS	SOFT-WARE	LICENSE RIGHTS	ACQ-UIRED INTANG-IBLES	CUST-OMER LISTS	PRODUCT DEVELOP-MENT	BRAND AND DOMAIN NAME	BACK-LOG	TOTAL
Cost									
Balance January 1, 2014	**801**	**1,778**	**450**	**623**	**-**	**-**	**-**	**-**	**3,652**
Additions	32	654	-	-	-	-	-	-	686
Sol acquisition	-	-	-	-	-	250	50	-	300
Disposals	-	(4)	-	-	-	-	-	-	(4)
Balance December 31, 2014	**833**	**2,428**	450	**623**	**-**	**250**	**50**	**-**	**4,634**
Additions	7	244	-	-	-	-	-	-	251
Sabik acquisition (note 22)	-	31	-	-	4,800	1,600	2,000	900	9,331
Disposals	(38)	(174)	-	-	-	-	-	-	(212)
Foreign exchange adjustment	-	-	-	-	(72)	(24)	(30)	(14)	(140)
Balance December 31, 2015	**802**	**2,529**	**450**	**623**	**4,728**	**1,826**	**2,020**	**886**	**13,864**
Accumulated amortization									
Balance January 1, 2014	**671**	**1,759**	**450**	**623**	**-**	**-**	**-**	**-**	**3,503**
Amortization for the year	58	40	-	-	-	62	-	-	160
Impairment losses recognized	-	(4)	-	-	-	-	-	-	(4)
Balance December 31, 2014	**729**	**1,795**	**450**	**623**	**-**	**62**	**-**	**-**	**3,659**
Amortization for the year	37	172	-	-	284	285	-	897	1,675
Disposals	(21)	(133)	-	-	-	-	-	-	(154)
Foreign exchange adjustment	-	-	-	-	(3)	(2)	-	(11)	(16)
Balance December 31, 2015	**745**	**1,834**	**450**	**623**	**281**	**345**	**-**	**886**	**5,164**
Carrying amounts									
At December 31, 2014	104	633	-	-	-	188	50	-	975
At December 31, 2015	57	695	-	-	4,447	1,481	2,020	-	8,700

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In 2014, as detailed in note 22, intangible assets of approximately $0.3 million were recognized on the acquisition of Sol. Two specific assets met the criteria for recognition and are described below.

- A value of $0.25 million was attributed to this asset based on the Company's estimate to engineering a similar controller. This amount will be amortized over 2 years as this is management's best estimate of its useful life.
- Sol's rights to the domain name (solarlighting.com) for its main website. The Company has estimated the fair value of this asset at $0.05 million.

In 2015, as detailed in note 22, intangible assets of approximately $9.3 million were recognized on the acquisition of the Sabik Group of Companies. Four specific assets met the criteria for recognition and are described below:

- A value of $4.8 million was attributed to Sabik's customer lists based on long-standing relationships with various key customers. These will be amortized over a period ranging from 2-10 years.
- Sabik's technology, which will remain to complement the Company's existing technology, has an estimated value of $1.6 million and will be amortized over 5 years.
- A value of $2.0 million has been assigned to Sabik's brand.
- Backlog of $0.9 million was acquired for orders secured prior to acquisition. These orders were amortized over the period in which they were shipped.

9. Goodwill

	DECEMBER 31, 2015	DECEMBER 31, 2014
Opening goodwill	5,746	-
Sol acquisition (note 22)	-	5,746
Sabik acquisition (note 22)	11,677	-
Foreign exchange adjustment	(174)	-
Balance at December 31, 2015	**17,249**	**5,746**

The Company recognized goodwill on the acquisition of the Sol, Inc and the Sabik Group of Companies as described in Note 22. Management has determined all of the goodwill is associated with the Company's Illumination and Signals segments, respectively. The Company completed an impairment analysis at December 31, 2015 and 2014 and concluded there was no impairment.

As described in note 2.8, the impairment analysis involved the use of an income approach that relied on estimating the future net cash flows and applying an appropriate discount rate to those future cash flows. This approach employed the following key assumptions: anticipated sales growth in key markets, changes in gross margins due to pricing changes for materials and the cost of manufacturing, changes in operating and administrative expenses, anticipated capital expenditures, and an appropriate discount rate. The forecast period utilized in the analysis covered 2016 through 2020. Key drivers in this assessment of Signals include anticipated overall sales growth, estimated to be between 3% and 5% a year, a terminal growth rate of 2% and a weighted average cost of capital of 14.5%. The analysis indicated an excess over carrying value of $19.1 million for Signals. Key drivers in this assessment of Illumination include anticipated overall sales growth, estimated to be 10% a year, a terminal growth rate of 4% and a weighted average cost of capital of 14.5%. The analysis indicated an excess over carrying value of $16.4 million for Illumination. Management considers the future sales growth rate a key factor in this analysis, which was based on historical trends for Signals and anticipated market growth opportunities for Illumination.

(Unless otherwise noted, expressed in thousands of US dollars,
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10. Provisions

	DECEMBER 31, 2015	DECEMBER 31, 2014
Warranty provisions	1,178	952
Provision relating to Spot Devices Inc. acquisition	-	110
Provision relating to Sol, Inc. acquisition	43	103
	1,221	**1,165**

OUTSTANDING PROVISIONS

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 the customer. 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 provisions during the year:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Opening provision	1,165	660
Warranty costs incurred	(292)	(333)
Provision relating to Spot Devices Inc. acquisition	(110)	-
Warranty provision recognized on acquisition of Sol (note 22)	(60)	454
Warranty provision recognized on acquisition of Sabik (note 22)	278	-
Warranty provision additions/changes	244	384
Foreign exchange adjustment	(4)	-
Closing provision	**1,221**	**1,165**

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

(Unless otherwise noted expressed in thousands of U.S. dollars,
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11. Debt

	DECEMBER 31, 2015	DECEMBER 31, 2014
Term acquisition credit	8,998	-
Short-term debt with European financial institution	1,095	-
	10,093	**-**

The Company signed a credit facility (the "Facility") with the Canadian Imperial Bank of Commerce ("CIBC"). The multifaceted Facility provides credit up to $25.75 million through (1) a $10 million 364-Day Revolving Credit, (2) a $10 million term acquisition credit, (3) $3.75 million credit of Letters of Credit, and (4) $2 million for trading room and other liabilities. The Company's ability to draw on the 364-Day revolving credit, the credit for the letters of credit, and credit for trading room contingent liabilities is subject to certain covenants.

On June 25, 2015, the Company obtained approval from CIBC to draw on the term acquisition credit for the acquisition outlined in note 22. On June 30, 2015, a total of $10 million was drawn on the facility in anticipation of closure of the acquisition. The associated debt is repayable on a monthly basis over a 5-year term and is broken into two $5 million tranches, both of which are repayable on demand. The first tranche is supported by a 100% guarantee from Export Development Canada ("EDC") and carries an interest rate of US LIBOR plus 1.5%. The EDC fees associated with their guarantee is approximately 4.5% per annum on the outstanding balance. The second tranche carries an interest rate of US LIBOR plus 3.5%.

The Facility is secured by a General Security Agreement and share pledges of the Company's subsidiaries. The Company is also subject to financial covenants and reporting requirements typical of a facility of this nature.

At December 31, 2015, the Company has $4.1 million drawn for Letters of Credits. Of these amounts $4.0 million was drawn in relation to the Sabik entities for various guarantees as outlined below.

The Company also has operating loans and credit facilities drawn from a European financial institution. These borrowings are associated with the Sabik entities which were acquired on July 2, 2015, as described in note 22. Sabik has access to $1.0 million EUR credit facility and $1.4 million EUR which can be utilized for guarantees or as a credit facility. At December 31, 2015, the outstanding debt was secured by the CIBC Letters of Credit noted above and included $1.1 million EUR of working capital loans and $0.8 million EUR in outstanding guarantees. This debt carries a variable interest rate of 2% + 1 month EURIBOR.

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

12. Share Capital

The Company is authorized to issue an unlimited number of common shares without par value. All shares are fully paid common shares which have no par value.

EQUITY ISSUANCES

On April 28, 2015, the Company completed a "bought deal" financing (the "Financing") which raised gross proceeds of $32 million CAD. The financing was backed by a syndicate of underwriters led by Cormark Securities Inc. and including Canaccord Genuity Corp., GMP Securities LP and Salman Partners Inc. (collectively, the "Underwriters") who agreed to buy and sell to the public 5,650,000 common shares ("Common Shares") of the Company at a price of $5.00 (CAD) per Common Share. The Underwriters also had an option, exercisable in whole or in part at any time up to 15 days after the closing of the Offering, to purchase up to an additional 750,000 Common Shares of the Company at the same price. The main part of the Offering closed on April 28, 2015, with 5,650,000 shares issued from treasury. On May 1, 2015, the Underwriters exercised their option to acquire the additional 750,000 shares. Proceeds from this offering will largely be used for future mergers and acquisitions.

As a part of the Offering, the Company also issued a total of 332,750 broker warrants (the "Warrants") which allow the holder to acquire one additional Common Share of the Company at a price of $5.00 (CAD) per share. These Warrants expire after one year from issuance and were valued under the Black-Scholes option pricing model. The weighted average fair value of these Warrants was $1.34 CAD per share. The following assumptions were utilized in determining this fair value: a risk-free interest rate of 0.67%, an expected dividend yield of 0%, an expected life of 1 year, and a stock price volatility of 67.31%. The total fair value of these Warrants was determined to be $0.37 million and it was recorded as a reduction to share capital with an offset to the equity reserve account. 13,310 of these Warrants were exercised in the period resulting in additional share capital of $0.05 million. The table below is a reconciliation of the outstanding Warrants. The weighted average exercise price is stated in Canadian dollars.

	# OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1, 2015	-	-
Granted	332,750	$5.00
Exercised	(13,310)	$5.00
Balance, December 31, 2015	**319,440**	**$5.00**

12.1 DILUTED SHARE RECONCILIATION

The following is a reconciliation between basic and diluted weighted average shares for the periods:

	DECEMBER 31, 2015	DECEMBER 31,2014
Basic weighted average shares outstanding	21,905,787	13,936,172
Effect of dilutive securities:		
Stock options and warrants	606,942	50,489
Diluted weighted average shares outstanding	**22,512,729**	**13,986,661**

For the year ended December 31, 2015, 777,350 stock options were not included because the exercise price of those options was higher than the estimated average market price of the common shares during the periods.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

13. 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	CASH SETTLED
			COMPENSATION EXPENSE BASED ON	
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) (none outstanding)	Typical vesting period is between 0 and 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

At present, the Company only has stock options outstanding. The total compensation expense associated with these share-based payment plans is outlined in the table below:

YEARS ENDED DECEMBER 31,	2015	2014
Stock options	901	326

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, 2015:

Available shares (10% of outstanding shares at December 31, 2015)	2,461,660
Less:	
Stock options outstanding at December 31, 2015	(2,052,620)
Number of shares issuable under stock-based compensation plans	409,040

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

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

13.1 STOCK OPTIONS

The following is a summary of the status of the stock options outstanding and exercisable at December 31, 2015 and 2014. The weighted average exercise price is stated in Canadian dollars.

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1, 2014	411,400	$2.10
Granted	1,021,046	$2.56
Forfeited	(96,749)	$3.34
Balance, December 31, 2014	1,335,697	$2.36
Granted	942,950	$5.85
Exercised	(45,876)	$4.61
Forfeited	(180,151)	$3.16
Balance, December 31, 2015	2,052,620	$3.76

The following table summarizes the stock options outstanding and exercisable at December 31, 2015 and 2014. 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, 2014						-
$1.45 to $1.45	300,000	5.9	$1.45	75,000	5.9	$1.45
$1.46 to $2.50	682,950	9.3	$2.50	-	-	-
$2.51 to $2.90	335,947	8.9	$2.73	25,537	3.2	$2.90
$2.91 to $5.30	16,800	1.0	$5.30	16,800	1.0	$5.30
	1,335,697	8.3	$2.36	117,337	4.6	$2.32
At December 31, 2015						$1.45
$1.45 to $1.45	300,000	4.9	$1.45	150,000	4.9	$1.45
$1.46 to $2.50	611,034	8.3	$2.50	143,801	8.3	$2.50
$2.51 to $2.90	311,086	8.2	$2.72	94,973	7.0	$2.76
$2.91 to $6.39	830,500	9.4	$5.92	6,000	0.4	$5.30
	2,052,620	8.2	$3.76	394,774	6.6	$2.21

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

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the year ended December 31, 2015, is $3.08 CAD per share and $1.40 CAD per share for the year ended December 31, 2014. The option valuations were determined using the following weighted average assumptions:

	YEAR ENDED DECEMBER 31,	
	2015	2014
Risk-free interest rate	1.13%	1.72%
Expected dividend yield	0%	0%
Forfeiture rate	17.5%	23.8%
Stock price volatility	55%	59%
Expected life of options	6.2 years	6.2 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.

(Unless otherwise noted, expressed in thousands of US dollars,
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14. Commitments and Contingencies

14.1 OPERATING LEASE AND COMMITTED SERVICE ARRANGEMENTS

Carmanah has a number of operating leases that cover facilities and equipment as well as 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	667	61	55	783
2 years to 3 years	948	113	43	1,104
Greater than 3 years	858	72	34	964
Total	2,473	246	132	2,851

Lease payments recognized as expenses in 2015 amounted to $0.7 million (2014 - $0.6 million).

14.2 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. At present, Carmanah is dealing with two significant contract manufacturers, Creation Technologies LP and Star Precision Fabricating Ltd. Carmanah previously had Flextronics as its main contract manufacturer; however, the Company has now fully moved manufacturing away from that facility. Under the terms of the contract manufacturing agreements, Carmanah is required to purchase excess raw material inventory which arises in situations where the Company's demand forecasts for a particular product is less than actual use or sales in a given period. At December 31, 2015, the contract manufacturers held approximately $1.5 million (2014 - $1.8 million) in inventory and $0.7 million (2014 - $1.2 million) in outstanding committed purchase orders.

14.3 CONTINGENT ASSETS AND LIABILITIES

From time to time, provisions are set up to cover potential legal settlements. There are no provisions recorded at December 31, 2015 or 2014. No settlement amounts were paid out in the years ended December 31, 2015 or 2014.

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 and other claims relating to advertising and business practices. 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. In early 2014, the Company's application to re-examine a number of aspects of the Plaintiffs' patent was accepted by the US patent office. The US patent office's review of the Plaintiffs' patent resulted in many of the aspects of the patents being rejected. The Plaintiff has appealed this judgment. Pending that review, the court proceedings have been stayed. 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. As the outcome of these matters is not currently determinable, no provision has been made at December 31, 2015. The Company has been pursuing its insurance company for coverage of associated defense costs. To the end of December 31, 2015, the Company has incurred approximately $1.1 million defending the underlying lawsuit.

In early March 2015, the Company filed a civil lawsuit in the Supreme Court of British Columbia against Royal & Sun Alliance Insurance Company of Canada ("RSA") and Integro (Canada) Ltd. ("Integro") operating as Integro Insurance Brokers. The lawsuit has been filed in an effort to obtain coverage under one or more of the Company's insurance policies with respects to the above lawsuit. The decision to file a lawsuit against RSA and Integro was made after negotiations with RSA failed to produce an acceptable settlement for repayment of the costs incurred by the Company. The lawsuit seeks to recover legal expenses and damages. To date, the Company has been unsuccessful in negotiating a settlement and it is expect that the matter will go to trial in early 2017.

15. 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"). In April 2015, the Company hired a Chief Operating Officer; however, the Company and Chief Operating Officer agreed to part ways in October 2015.

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

(in thousands of Canadian dollars)	**YEARS ENDED DECEMBER 31**	
	2015	**2014**
Short-term benefits	1,357	894
Termination benefits	198	-
Share-based compensations	2,233	575
Total	**3,788**	**1,469**

The values noted above are in Canadian dollars. They also exclude the value of certain health benefits which the Company is not able to attribute to individual employees due to privacy standards preventing us from obtaining this information. 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 12 months' base salary plus applicable cash-based incentives. Under a change in control (1) the CEO is entitled to no less than 12 months' base salary plus applicable cash-based incentives plus an acceleration of all non-cash incentives and (2) the CFO is entitled to an acceleration of all non-cash incentives.

INVENTORY PURCHASES

The Company purchased $1.0 million (2014 - $0.7 million) of inventory from a vendor in which the Chairman of the Board has significant influence. The relationship with this vendor existed prior to the Chairman's appointment and there are no special terms because of this relationship. At year December 31, 2015, the associated amounts owing in trade and other payables was $0.1 million (2014 - $0.1 million).

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

16. Operating Expenditures

The components of operating expenditures by nature are outlined below:

	YEARS ENDED DECEMBER 31	
	2015	**2014**
Salaries, commissions, and other direct compensation	9,606	8,201
Professional fees, insurance, and public company costs	1,049	1,641
Amortization	1,893	319
Telecom and IT expenses	908	579
Travel and related expenses	837	538
Occupancy costs	816	426
Bank charges and bad debts	231	117
Marketing, advertising, and other related expenses	927	533
Development expenses	875	149
Other expenses	631	153
Share-based payments	901	326
Investment tax credit recognized (note 19)	(4,502)	-
Total operating expenditures	**14,172**	**12,982**

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

17. Segmented Information

The Company's reportable segments are broken into "Signals," "Illumination," and "Power." The following table provides an overview of these segments and underlying verticals.

REPORTING SEGMENT AND UNDERLYING PRODUCTS/ VERTICALS	PRODUCTS OFFERED/MARKETS SERVED
Signals	
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, which is a subsidiary of Carmanah.
Aviation	LED aviation lighting sold worldwide: the Company offers total airfield solutions, from approach lighting to apron lighting, and both solar to hybrid power systems.
Obstruction	LED obstruction lighting sold worldwide: the Company offers self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Offshore	Aid to navigation solutions on offshore wind farms for temporary and permanent marking. These products are sold under Sabik Offshore GmbH, which is a wholly owned subsidiary of Carmanah. Sales are mainly focused on the European market.
Illumination	
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.
Power	
Go Power!	Mobile power solutions for the North American market sold under the Go Power! brand. 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. Previously referred to as Solar EPC Services.

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 that cannot accurately be attributed between various segments, have not been allocated between segments.

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

	SIGNALS	ILLUMINATION	POWER	TOTAL
For the year ended December 31, 2015				
Revenue	34,176	8,915	25,115	68,206
Gross margin	14,387	3,373	5,147	22,907
Gross margin %	42.1%	37.8%	20.5%	33.6%
Total operating expenses (including restructuring)				(14,172)
Other expenses				(3,740)
Income before taxes				4,995
For the year ended December 31, 2014				
Revenue	16,798	10,489	16,445	43,732
Gross margin	7,661	2,917	4,584	15,162
Gross margin %	45.6%	27.8%	27.9%	34.7%
Total operating expenses (including restructuring)				(12,982)
Other expenses				(1,221)
Income before taxes				959

GEOGRAPHIC

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

	YEARS ENDED DECEMBER 31	
	2015	2014
North America	47,204	34,172
Europe	14,133	4,475
South America	961	2,991
Middle East and Africa	2,495	992
Asia Pacific	3,413	1,102
Total revenues	68,206	43,732

As at December 31, 2015, 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 $5.4 million (2014 – $2.6 million), and $3.5 million of assets related to the Sabik entities, which is mainly split between Germany and Finland.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

18. Income Taxes

The components of tax expense for 2015 and 2014 were as follows:

	YEARS ENDED DECEMBER 31	
	2015	**2014**
Current tax expense	(1,486)	(446)
Deferred tax recovery	7,171	481
Total income tax recovery	5,685	35

The following is a reconciliation of income taxes calculated at the Canadian statutory corporate tax rate to the tax expense for 2015 and 2014:

	YEARS ENDED DECEMBER 31	
	2015	**2014**
Income before taxes	4,995	959
Computed tax expense at 26% (2014 – 26%)	(1,298)	(249)
Adjusted for the effects of:		
Expenses not deductible for tax purposes	(542)	(283)
Current year unused tax losses and deductible temporary differences not recognized as deferred tax assets	7,573	407
Adjustments for prior periods	(173)	324
Effects of tax rate changes and foreign tax rate changes	156	(73)
Other	(31)	(91)
Income tax recovery	5,685	35

The applicable federal and provincial statutory income tax rate used for the 2015 and 2014 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.

Non-deductible expenses consist primarily of share-based compensation expense, certain expenditures made in relation to the acquisitions, 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 19.

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

19. Investment Tax Credits and Deferred Taxes

Temporary differences give rise to the following deferred income tax assets and liabilities as at:

	YEARS ENDED DECEMBER 31	
	2015	**2014**
Deferred income tax assets		
Scientific research & experimental development expenditures	2,508	-
Losses available for future periods	2,461	15
Tangible assets	1,345	20
Warranty and other provisions	431	342
Share issuance costs	441	-
Other	19	15
	7,205	392
Deferred income tax liabilities		
Intangible assets	964	109
Inventory	16	-
Investment tax credits	748	-
	1,728	109
Net deferred income tax asset	**5,477**	**283**

The Company has recorded deferred income tax assets available as it is probable that the benefits of these assets will be realized.

(Unless otherwise noted expressed in thousands of U.S. dollars,
except number of share and per share amounts)

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

YEARS ENDED DECEMBER 31	2015	2014
Temporary differences and unused tax losses available to reduce taxable income		
Scientific research & experimental development expenditures	-	9,827
Losses available for future periods	-	9,566
Equipment and leasehold improvements	-	5,998
Warranty and other provisions	-	776
Intangible assets	-	2,590
Share issuance costs	-	294
Capital Losses	121	-
	121	29,051
Tax credits available to reduce taxes payable		
Investment tax credits	-	4,502

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

YEARS ENDED DECEMBER 31	2015	2014
Tax credits recognized		
Investment tax credits	4,503	-
Current tax expense	(955)	-
	3,548	

TEMPORARY DIFFERENCES ASSOCIATED WITH INVESTMENT IN SUBSIDIARIES

As at December 31, 2015, temporary differences of $955 (2014 – $803) 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.

(Unless otherwise noted, expressed in thousands of US dollars,
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20. Restructuring Charges

SOL RESTRUCTURING

With the acquisition of Sol, as described in note 22, a restructuring plan was developed in the latter half of 2014 to complete the integration of the two companies. Under this plan, the Company eliminated Sol's administrative, back office, and manufacturing functions and closed its manufacturing facility. The following table summarizes the costs incurred and balances outstanding with respects to restructuring over 2015.

	SEVERANCE AND RELATED BENEFITS
Balance at January 1, 2015	163
Charges	74
Cash payments	(237)
Balance at December 31, 2015	-

The 2015 payments relate to 9 employees that were terminated as a result of the restructuring activities.

21. Other Expenses

Other expenses primarily relate to merger and acquisition activities, and include legal, due diligence costs, and other related expenditures. During the year ended December 31, 2014, the majority of these costs were related to the acquisition of Sol, Inc. ("Sol") as described in Note 22.

22. Acquistions

SABIK

On July 2, 2015, the Company completed an acquisition of the Sabik Group of Companies. The acquired group consists of the following companies: Sabik Oy, based in Finland, Sabik Offshore GmbH (formally Sabik GmbH), based in Germany, Sabik PTE Ltd, based in Singapore, and Sabik Ltd and Sabik Offshore Ltd, both based in the United Kingdom. Sabik is a manufacturer in the worldwide marine aids-to-navigation market. Carmanah and Sabik had a collaborative sales, marketing, and development partnership since 2010. Sabik also provides sophisticated lighting and monitoring solutions for the offshore wind industry. The offshore wind industry is a new business endeavour for Carmanah. The acquisition was announced on June 10, 2015, with the signing of a Share Purchase Agreement (the "Agreement"). Under the Agreement, the Company acquired 100% of the shares of each of the companies within the group, with the exception of Sabik Ltd and Sabik Offshore Ltd, where the Company acquired 81% and 80%, respectively. Of the entities acquired, approximately 90% of the revenues are generated by Sabik Oy and Sabik Offshore GmbH. The non-controlling interests were acquired during the fourth quarter of 2015 and the first quarter of 2016 for a nominal amount. Due to the nominal value no amounts were recorded at December 31, 2015.

The purchase price outlined in the agreement consisted of €17.0 million in cash and the issuance of 1,180,414 shares of Carmanah. The value of the consideration issued amounted to $23.3 million, $18.8 million attributable to the cash outlay of €17.0 million (utilizing a Euro to US dollar exchange rate of 1.1072) and $4.5 million to the shares issued. However, all of the shares issued were subject to an escrow or hold period, with approximately 147,550 shares being released from the hold period every 3 months over a 2-year period. As a result, the fair value of these shares has been discounted utilizing a Black-Scholes option pricing model. The major assumptions for this calculation mainly related to an estimate of our share price volatility, which ranged from 59.5% to 85.8% in the calculations utilized.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective July 2, 2015, and has contributed incremental revenues of $14.4 million and a net income of $0.2 million. If the acquisition had occurred on January 1, 2015, Sabik would have contributed revenue of $23.3 million and a net income of $1.0 million. The total cost related to this related acquisition was approximately $1.1 million, with the expenses included under the caption "Other (expenses)/income" and as described in note 21.

(Unless otherwise noted, expressed in thousands of US dollars, except number of share and per share amounts)

The fair values of the assets acquired and liabilities assumed in the acquisition at July 2, 2015, are not yet final. The following table is management's current best estimate of these values:

	Preliminary Allocation	Measurement Period Adjustments	Current Allocation
Consideration			
Cash	18,827	-	18,827
Shares issued	4,513	-	4,513
Total consideration	**23,340**	**-**	**23,340**
Identifiable assets acquired and liabilities assumed			
Cash	2,084	-	2,084
Trade and other receivables	2,546	-	2,546
Inventories	2,934	498	3,432
Equipment and other similar assets	726	-	726
Trade and other payables	(973)	-	(973)
Income taxes payable	(441)	-	(441)
Deferred revenue	(847)	-	(847)
Bank debt	(1,403)	-	(1,403)
Provisions	(278)	-	(278)
Deferred tax assets	25	-	25
Deferred tax liabilities	(1,510)	(998)	(2,508)
Acquired intangibles	5,029	4,271	9,300
Goodwill	15,448	(3,771)	11,677
Total	**23,340**	**-**	**23,340**

As noted above, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of assessing the fair values of identifiable assets acquired and liabilities assumed and measuring the potential goodwill. As part of the process, the Company has engaged third-party valuation specialists to provide an independent assessment. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

The primary driver behind the acquisition is to gain economies of scale in the worldwide marine aids-to-navigation market and to gain a foothold in the offshore wind market.

Among other things, the goodwill recognized reflects the potential incremental cash flows that management expects to generate through efficiencies obtained through combined operations, growth in sales to existing and new customers through cross-selling opportunities, and expected growth in the underlying markets, which Sabik should be well positioned to capitalize on. The goodwill is not tax deductible.

SOL INC.

On July 2, 2014, the Company completed the acquisition of Sol, Inc. ("Sol"), a competitor to the Company's Illumination segment. Sol is a manufacturer of solar-powered outdoor lights and is based in Palm City, Florida. The primary driver behind the acquisition was to gain economies of scale in the solar outdoor lighting market.

This acquisition was announced on March 21, 2014, with signing of a Binding Letter of Intent ("LOI"). An Agreement and Plan of Merger (the "Merger Agreement") was signed on May 26, 2014, and the transaction was approved by eligible Carmanah shareholders at the Company's Annual General and Special meeting held on June 23, 2014. The acquisition was a related party transaction as Michael Sonnenfeldt, the Chairman of the Company's Board of Directors (the "Board") and its largest shareholder, was also the majority shareholder of Sol. Prior to the transaction Mr. Sonnenfeldt beneficially held (1) approximately 84.5% of Sol's outstanding shares and (2) was due a note receivable from Sol of approximately $5.3 million.

The Company acquired 100% of the outstanding shares of Sol and an outstanding note receivable due from Sol, which was beneficially owned by Mr. Sonnenfeldt. Consideration paid upon close included the issuance of 3,785,860 common shares of Carmanah issued from treasury, and a $0.06 million cash payment to certain minority shareholders of Sol. The aggregate value of the shares issued on July 2, 2014, amounted to approximately $7.1 million based on the closing share price of $2.00 CAD (post consolidation) and a US/CAD exchange rate of 0.938. The agreement also provided an earn-out of 3% of certain revenues received by Carmanah and was available to electing former shareholders of Sol. This earn-out applied to specifically identified prospective sales opportunities brought forth by Sol and is subject to various conditions. No amounts were paid under the earn-out, which expired on December 31, 2015.

The acquisition was determined to be a business combination and was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective July 2, 2014, and has contributed incremental revenues of $5.5 million and a net loss of $0.5 million. If the acquisition had occurred on January 1, 2014, the Company's revenue would have been approximately of $48.0 million and the Company would have had a loss of approximately $0.6 million. Within Sol's 2014 loss is approximately $0.5 million of costs related to the transaction. Total acquisition-related costs incurred by Carmanah were approximately $0.7 million and are included under the caption "Other (expenses)/income" and as described in note 21.

(Unless otherwise noted, expressed in thousands of US dollars,
except number of share and per share amounts)

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

	Preliminary	Measurement Period Adjustments	Final
Consideration			
Shares issued	7,098	-	7,098
Cash	56	-	56
Contingent consideration based on certain future revenues	-	-	-
Total consideration	**7,154**	**-**	**7,154**
Identifiable assets acquired and liabilities assumed			
Cash	729	-	729
Receivables	825	-	825
Inventory	1,351	(60)	1,291
Other assets	220	-	220
Equipment	35	6	41
Deferred income taxes	-	206	206
Indemnification asset	-	40	40
Trade and other payables	(1,515)	-	(1,515)
Provisions	(351)	(143)	(494)
Deferred revenue	(235)	-	(235)
Intangibles	400	(100)	300
Goodwill	5,695	51	5,746
Total	**7,154**	**-**	**7,154**

The goodwill recognized primarily reflects the potential incremental cash flows management expects to generate through efficiencies obtained through combined operation and growth in sales to existing and new customers through cross-selling opportunities. The goodwill is not tax deductible.

As a part of the purchase agreements, Mr. Sonnenfeldt provided a number of different indemnifications associated with various potential liabilities. At December 31, 2015, the company has estimated approximately $0.2 million related to potential exposures due to warranty of historical sales that would be covered under the indemnification.

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