carmanah®

2016
ANNUAL REPORT

Message from the Chairman

Dear Fellow Shareholder:

What makes a great company? What makes a great investment? Are these the same?

Clearly, they are not, although great investors would prefer to invest in great companies that turn out to be great investments.

Since 2013, the current leadership team has turned around a largely broken company that was losing money in seven lines of business, recapitalized the balance sheet with equity that was initially provided largely by the current board, but happily added to by a growing number of sophisticated investors, made two acquisitions, one with dramatic but as of yet unrealized potential, and started a new telematics initiative to catapult our refocused product lines to become internet savvy, environmentally friendly, and incredibly efficient.

In the fall of 2016 we made the decision to divest our two Power Division activities, and in recent weeks have closed the sale of the business and assets of our On-Grid business, and continue to expect to complete the sale of our Off-Grid business in the coming months. These non-core businesses distracted us by requiring processes, systems, skills, and operations that were unrelated to our core activities.

These divestitures will allow the company to focus on two segments: Signaling and Illumination. These businesses fit together like a glove and have efficiencies and scalability we have not enjoyed before.

For the first time, we are focused solely on designing, manufacturing, and selling world class proprietary products that are all best in class, offer dramatic energy efficiency, protect the environment, and offer our customers substantial economic benefits.

All of our manufactured products, across the entirety of our global activities, lever off of some or all of the following core competencies:

- **Energy Efficiency**, generally achieved through solar power and proprietary power software management, that drives battery power supplies to last longer and deliver more usable power
- **Optics** that allows the lowest energy luminaires (sources of light output) to produce the most usable, brightest light for the particular application
- **Communications**/satellite connectivity – we are in the process of converting every product across our entire three divisions to be satellite or communications enabled, offering new systems of control, support, repair, and maintenance, and economic models not previously ever available
- **Economy** – all of our environmental and technological advancements are for naught if we do not first and foremost offer best in class, most economically competitive solutions

In 2017 we expect to have dramatically high levels of cash that will dwarf any previous war chest. We are no longer a “turn-around,” and will now proceed as a growth company. This will entail new challenges, but with dramatically more growth capital than we have ever had, and with a slimmed down, refocused profitable platform, we are in the best position we have ever been in to maximize shareholder value and deliver exciting returns.

Carmanah’s management team has managed the company well through the refocusing, the integration of two acquisitions, and the divestiture of two product lines. In some sense, we are finally at the starting line.

Over the 3.5 years of the current leadership team’s tenure, our stock has gone from a low of 90 cents per share to a high of $7, and sits at $4.15 (Canadian)

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at the time of this writing. While it is a fool's game to try to precisely interpret what the "market thinks," it is clear that there was an expectation of more progress in acquisition activity and the Illumination business in 2015, and 2016's lackluster stock performance reflected a recalibration of those expectations. But while expectations have been recalibrated, the underlying core Signals business has continued to progress by almost every metric with 2016 continuing to set operational highs in performance. Internally 2016 was a very positive year, and with the 2017 divestitures, the efficiencies our smaller footprint will drive should become evident in short order. So will the growing potential for our Illumination Division and Telematics initiatives.

In sum, I believe 2017 will prove to be a pivotal year in the evolution of Carmanah, and I also believe the continued evolution of a great company will track nicely with our ability to maximize shareholder value.

Best,

Michael W. Sonnenfeldt

Message from the CEO

To Our Shareholders,

I am pleased to report to you after another highly satisfying year for Carmanah Technologies. But before I review our 2016 achievements and tell you about our exciting plans for 2017 and beyond, I would first like to thank my Carmanah colleagues for their dedication to our company and their commitment to each other and the communities in which we live. We have a great team of people and I am privileged to share the work we do together.

Fiscal 2016 was the most profitable year in Carmanah's 20-year history. And while this was a significant achievement, our expectations were for even stronger results. Our first and second quarters were completely on track, but revenues in our third quarter unexpectedly lagged, due mostly to contract timing issues. New order business rebounded strongly in our fourth quarter and we finished the year with a significant backlog. Shareholders should be reminded that we supply products that are components of larger projects and, periodically, timing for projects or contract deliveries is outside of our control. This can lead to short-term variations in order volume, revenues, and profitability. We watch these matters closely and always try to separate normal timing variances from other factors such as structural market changes or competitive activity that may also affect our long-term performance. In these respects, it is our view that all Carmanah businesses are viable competitors and our markets are stable.

As those who have been following our progress will remember, we began rebuilding all Carmanah businesses just over three years ago. It was our view that our businesses were not being optimized and, with effort, we could raise our overall operating proficiency. This work has been largely successful. Over the past three years, the company has reversed a long-term trend of declining revenue, has replaced operating losses with solid profitability, and is now well capitalized.

And while achieving solid profitability was our primary goal three years ago, our additional plan was to use the rebuilding period to consider our markets and determine a long-term strategy for our business. In this respect, we did just that in early 2016 by publishing our vision for Carmanah to be the global leader in the provision of signaling and solar lighting solutions for infrastructure. We believe that we have a deep understanding of these markets and core competencies upon which we can build our businesses and achieve high profit margins. With this vision, we also set out a strategy to provide solutions for our customers that provide the greatest cost savings with the highest environmental sensitivity. Our strategy links environment with economics. While customers will be increasingly attracted to solutions that have the least impact on the environment, they also need to look to Carmanah to provide their best economic solution.

Later in 2016, with vision and strategy in hand, we made the decision to divest our Solar EPC business, which designs and constructs solar plants for developers, and our Go Power! business, which provides mobile solar and power solutions for the RV and work truck market. Both businesses, while valuable in their own respect, do not contribute to our vision or align with our strategy. These divestitures will provide valuable cash resources and afford management more time to focus on our strategy. At this writing, we have completed the sale

While customers will be increasingly attracted to solutions that have the least impact on the environment, they also need to look to Carmanah to provide their best economic solution.

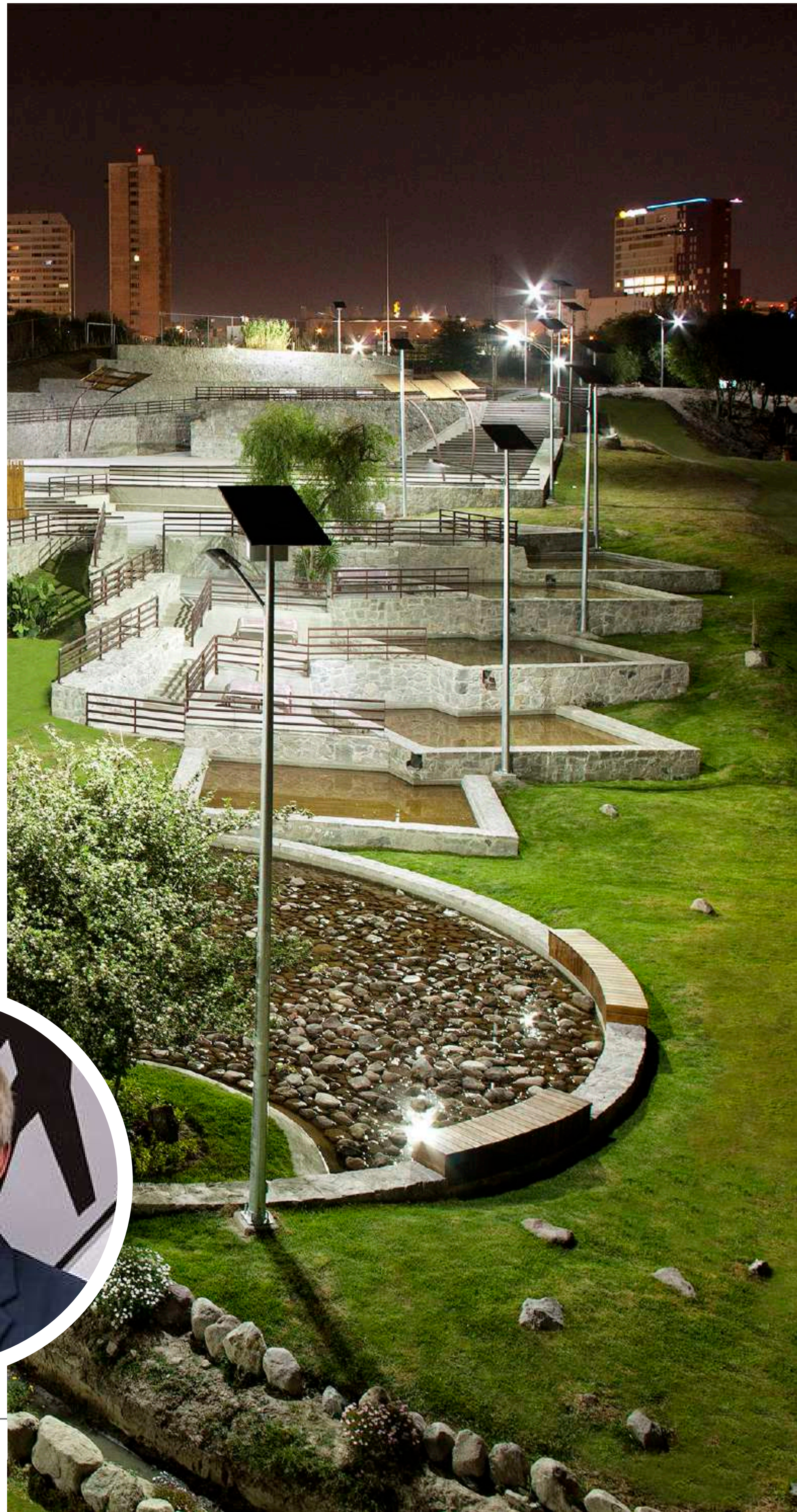
of our Solar EPC business and expect to complete the sale of Go Power! in 2017.

Our company remains committed to its triple bottom line, which focuses equally on “people, planet, and profit.” We believe that this multiple focus enhances our overall results. In this annual report, we are including excerpts from our 2016 Corporate Social Responsibility Report, which I hope you will read. We are as proud of our achievements in these respects as we are of our consistent gains in profitability.

Carmanah has exciting plans for 2017 and beyond. We have completed our rebuilding process and now have a strong vision and a clear strategy. We also have a great team and sufficient financial resources with which to undertake the challenges of growth. As we continue to build our company, we do so ever mindful of the support of our shareholders.

Sincerely,

John Simmons



Corporate Sustainability Report

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

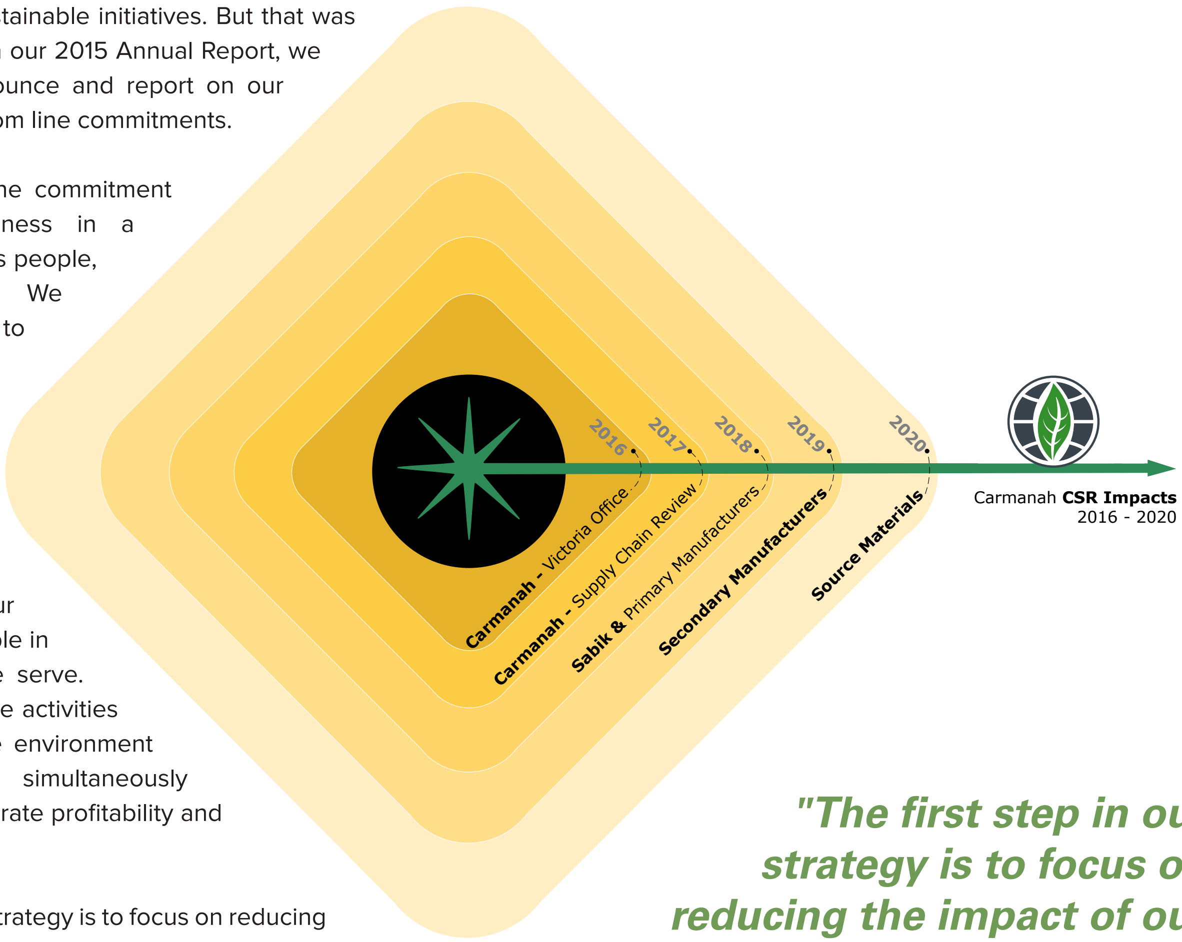
Since our beginnings in 1996, Carmanah has always been involved in sustainable initiatives. But that was not enough for us. In our 2015 Annual Report, we were proud to announce and report on our corporate triple bottom line commitments.

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.

The first step in our strategy is to focus on reducing the impact of our Victoria, Canada, 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.

We realize that outside of the four walls surrounding our headquarters is where upwards of 80% of our impact occurs. Therefore, we have outlined our overall "circle of influence" as an action plan to reach all layers over the next 5–10 years.

Our goals are in place to work from the centre of the circle of influence out to the very outer ring—the source materials (raw components) of our products—and develop initiatives throughout this journey.



"The first step in our strategy is to focus on reducing the impact of our headquarters, a precursor for engaging our other offices, and setting up our manufacturers and suppliers to comply with our future sustainable practices."

2016 PLANET HIGHLIGHTS

- Completed greenhouse gas (GHG) emission analysis for 2016 fiscal year.
- **15.16% overall reduction of annual GHG emissions.**
- **48% reduction of stationery product consumption due to increased awareness of office printing habits.**
- 99% of office waste diverted from landfill.
- Installation of new and improved office recycling station.
- Technology Excellence Award at the 2016 Vancouver Island EcoStar Awards.
- 28.3% of staff commuting by low-emissions transportation methods (e.g., bike, bus, walk, etc.).
- Twice as many Carmanah employees biked to work in 2016!
- 33% travel decrease in 2016: 108 fewer flights, which led to reduction of 55.2 tons of GHG emissions.
- Product development focused on increased energy efficiency.
- Introduced product disposal and recycling instructions for new products.

ECOSTAR Awards 2016 WINNER

ANNUAL EMISSIONS (tCO_2e) – VICTORIA HQ

	Total Emissions (tCO_2e)	Total Emissions per FTE	Total Emissions per Million Revenue
2014	235.8	4.53	14.04
2015	267.2	4.86	13.59
2016	226.7	3.78	8.79

Our total emissions in 2016 were 40.5 tons less than our total emissions in 2015, which is equivalent to taking 11.5 cars off the road for a full year.* Reductions have occurred mostly in Scope 3 emissions—travel and commuting. The emission reduction per full-time employee (FTE) at Carmanah was 1.08 tCO_2e.

*Emissions for one car on the road for a year is calculated by pairing the average yearly driving distance in British Columbia (~15,000 km) with an average vehicle fuel efficiency (10.3 L/100 km), then converting the total fuel used to GHG emissions.

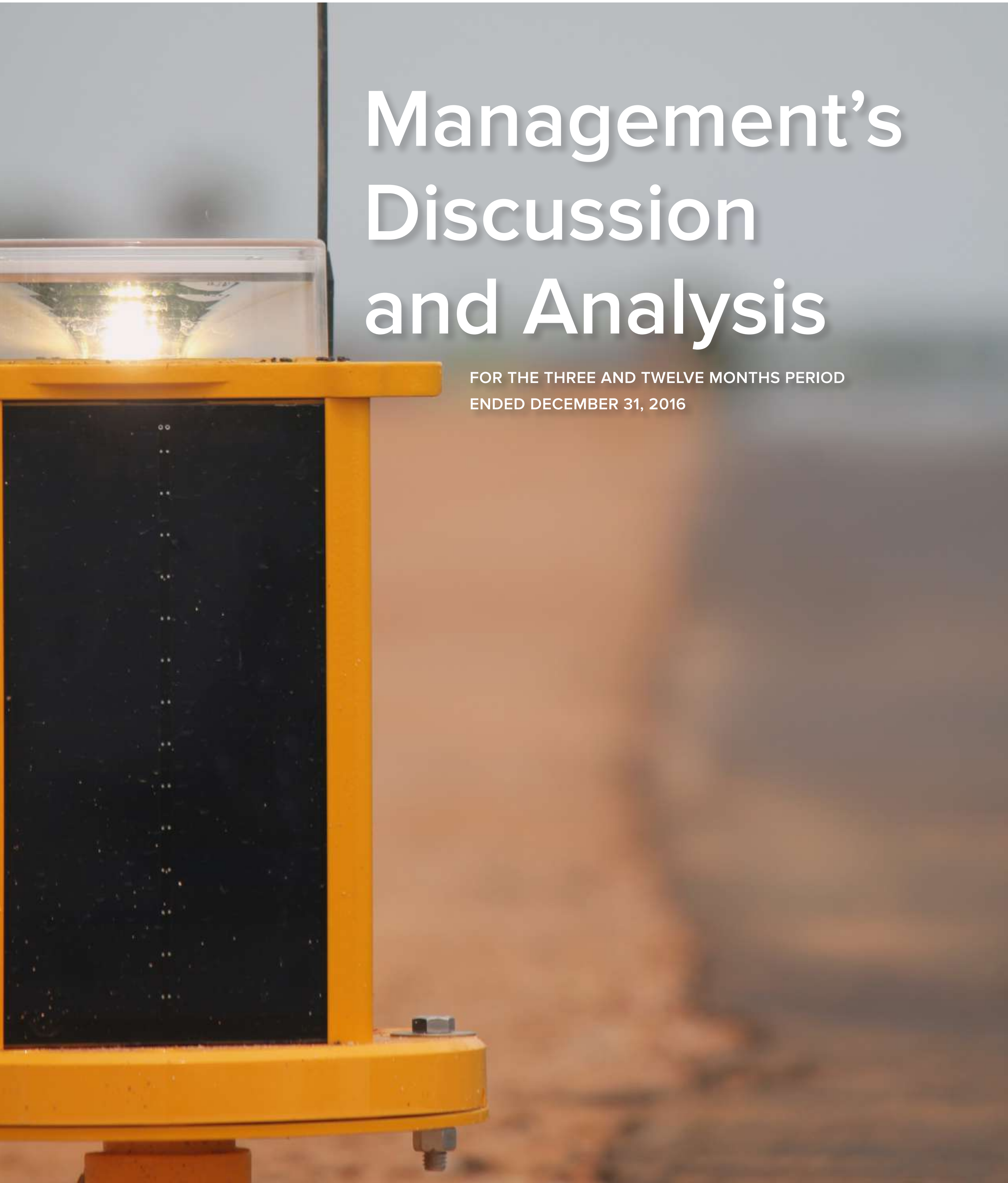
PEOPLE 2016 HIGHLIGHTS

- **2016 VIATEC Employer of the Year award.**
  VIATEC (Victoria Innovation, Advanced Technology & Entrepreneurship Council) awarded Carmanah the Employer of the Year, based on a nomination, staff survey, and observation of work environment. This is an award we are more than honoured to accept.

  "These are the companies who never forget to pause and take the time to think about their staff and provide a positive work environment. This award is based on a company survey of staff and is the tech company most respected and appreciated by their staff."

- Outstanding VIATEC Food Bank Challenge participation. All funds are donated to the local Mustard Seed food bank and charity.
  - Greatest Overall Contributor – November 2016

VIATEC FOOD BANK CHALLENGE



Management's Discussion and Analysis

FOR THE THREE AND TWELVE MONTHS PERIOD
ENDED DECEMBER 31, 2016

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, 2016. 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 Company's Annual MD&A Report and Annual Information Form are available at www.carmanah.com and www.sedar.com. This document contains forward-looking information qualified by 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 ("U.S.") dollars, and has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Section 8 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, Carmanah Technologies (US) Corporation, Sol, Inc. ("Sol"), Sabik Oy, Sabik Offshore GmbH, Sabik Pte Ltd, Sabik Limited, Sabik Offshore Limited, and Sabik Ou.

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 if information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated. The MD&A and the consolidated financial statements were reviewed by our Audit Committee and approved by our Board of Directors. This MD&A is prepared as of March 20, 2017.

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 4 for the definition, calculation, and reconciliation of these figures.

On October 11, 2016, we announced our intention to divest our Power business segment. As required under IFRS 5 – Non Current Assets Held for Sale and Discontinued Operations, the operations of this segment have been classified as discontinued operations for the three and twelve months ended December 31, 2016 and the associated comparative prior periods. For the purposes of discussing our operating results in this MD&A, we have presented our financial information based on our continuing operations unless otherwise noted. Although the Power business segment is treated in this MD&A as a discontinued operation, readers should understand that we currently still own the business and will continue to own it until we complete one or more divestiture transactions relating to this business segment. The discontinued operations do not impact our continuing operations and therefore have not been discussed in this MD&A. At this point, there can be no assurance that we will ultimately be successful in negotiating divestiture transactions for this business segment on acceptable terms.

SECTION		CONTENTS
1	Financial Highlights	A summary of our consolidated results for the quarter and year ended December 31, 2016
2	Overview, Vision, Strategy, & Tactics	Overview of our business, including our vision, strategy, and tactics
3	Performance Scorecard	Key financial performance measures
4	Non-IFRS Financial Measures	Reconciliation of EBITDA and Adjusted EBITDA and Core operating expenditures
5	Operational and Business Highlights	A discussion regarding key operating activities during the period
6	Financial Results	A discussion of our financial performance for the period
7	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
8	Critical Accounting Estimates and Accounting Policy Developments	Accounting estimates that are critical to determining financial results, and changes to accounting policies
9	Risks and Risk Management	A discussion on certain risks and uncertainties facing us

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this 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 our products;
- 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 net income;
- the outcome of claims and lawsuits;
- our intention to be a leader or top contender in each of our market segments;
- 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, research and development ("R&D") projects, and potential manufacturing competencies;
- our belief 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 signaling products will become obsolete and result in increases in growth rates for the signals industry;
- the amount and sufficiency of R&D spending;
- the goal that all strategic products have machine-to-machine capability by the end of 2018;
- our plans with respect to the divestiture of the Power business segment;
- the expansion of the number of top-tier partners over the next five years;
- our expectation of growth in solar LED illumination;
- the expected results of the acquisition from Cybernetica; and
- our expectation that manufacturing costs will continue to improve as solar becomes increasingly competitive with other forms of power generation and our positive outlook for solar power businesses.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and many 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. Such assumptions include, but are not limited to: our assumptions regarding opportunities and availability of potential new projects; our assumption that we will be able to comply with current and future regulatory requirements; and our assumption that we will be able to compete and keep pace with the industry. 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 20, 2017, or included in section 9 of this MD&A. 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;
- our ability to complete potential acquisitions;
- our ability to negotiate the divestitures of Go Power! and Carmanah Solar EPC on acceptable terms;
- slower than anticipated adoption of solar 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;
- our reliance on key employees;
- intellectual property risks;
- environmental and regulatory compliance;
- our reliance on government contracts and subsidies;
- 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. We 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).

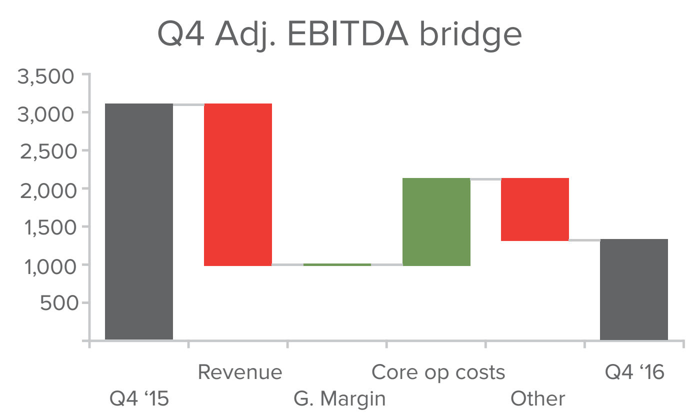
1. Financial Highlights

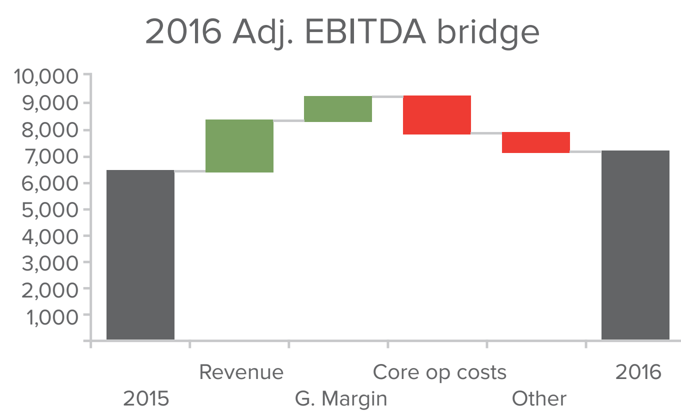
FINANCIAL HIGHLIGHTS FOR THE THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	10,714	15,824	(32.3%)	47,742	43,090	10.8%
Gross margin %	41.6%	41.4%	0.2%	43.0%	41.2%	1.8%
Core operating expenditures*	(3,802)	(4,939)	(23.0%)	(16,531)	(15,168)	9.0%
Net income	80	1,288	(93.8%)	2,917	9,694	1,316
Adjusted EBITDA*	1,316	3,089	(57.4%)	7,020	6,308	11.3%

**Adjusted EBITDA and Core operating expenditures are Non-IFRS measures which are discussed in section 4.*

ADJUSTED EBITDA BRIDGES





BACKLOG RECONCILIATION

US$ thousands	**Q3 closing**	**Bookings**	**Revenue**	**Q4 closing**
Signals	3,495	11,163	8,837	5,821
Illumination	780	1,712	1,877	615
Total	**4,275**	**12,875**	**10,714**	**6,436**

FOURTH QUARTER

In the fourth quarter of 2016, we generated revenues of $10.7 million, down $5.1 million or 32% over the fourth quarter of 2015 revenues of $15.8 million. The overall decline in revenues was primarily attributable to (1) lower Marine and Offshore Wind revenues, both of which had unusually strong revenues in the fourth quarter of 2015 and together represent our two largest Signals verticals, (2) lower Aviation revenues due to project timing, and (3) lower Illumination sales due to a significant decline in international revenues. Offsetting these declines were stronger results from our Traffic vertical.

Gross margin percentage in the fourth quarter of 2016 was 41.6%, up 0.2%, over the same period in 2015.

Operating expenditures in the fourth quarter of 2016 were down $1.1 million over 2015. This decrease was due to reduced sales commissions due to lower revenue, lower product development spending, and an overall reduction of G&A expenses. Net income in the fourth quarter of 2016 was $0.1 million, down from $1.3 million in the fourth quarter of 2015, principally due to the decline in revenue.

Our management relies on Adjusted EBITDA (a non-IFRS measure) to gauge financial performance. In the fourth quarter of 2016, our Adjusted EBITDA was $1.3 million or 12% of revenue, which is down from $3.1 million, or 19% of revenue in the same period in 2015. A table reconciling net income and Adjusted EBITDA is included in section 4.

BACKLOG RECONCILIATION

US$ thousands	December 31, 2015	Bookings	Revenue	December 31, 2016
Signals	7,048	38,688	39,915	5,821
Illumination	940	7,502	7,827	615
Total	**7,988**	**46,190**	**47,742**	**6,436**

FULL YEAR

For the year ended December 31, 2016, we generated revenues of $47.7 million, up $4.6 million or 11% over 2015 revenues of $43.1 million. The overall increase in revenues was primarily due to the inclusion of a full year of the Sabik Group of Companies in 2016, while 2015 only included the final two quarters. On an organic basis, our Traffic vertical delivered strong growth, our Obstruction vertical was stable, and our Airfield and Illumination verticals saw revenue declines. Our business is still largely project based and, as a result, we do experience lumpiness from period to period.

Gross margin percentage for the year was 43.0%, up 1.8%, over the same period in 2015.

Our total operating expenses for the year were $16.5 million, up from $15.2 million in 2015. A large part of this increase was due to the inclusion of a full year of results from the Sabik Group of Companies in 2016, compared to just two quarters in 2015. Net income for the year was $2.9 million, down from $9.7 million in fiscal 2015. This decrease is mainly due to the recognition in 2015 of investment tax credits and deferred income tax assets which were previously unrecognized.

Carmanah's management relies on Adjusted EBITDA (a non-IFRS measure) to gauge financial performance. For the year ended December 31, 2016, Adjusted EBITDA was $7.0 million, or 15% of revenue, which is up from $6.3 million, or 15% of revenue, in the same period in 2015. A table reconciling net income and Adjusted EBITDA is included in section 4.

2. Overview, Vision, Strategy, & Tactics

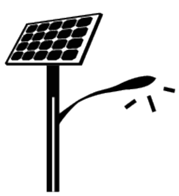
We design, develop, and distribute a portfolio of products focused on energy optimized LED solutions for infrastructure. Since 1996, we have earned a global reputation for delivering durable, dependable, efficient, and cost-effective solutions for industrial applications that perform in some of the world's harshest environments. We manage our business within two reportable segments: Signals and Illumination. The Signals segment serves the Airfield Lighting, Aviation Obstruction, Offshore Wind, Marine, Traffic, and Telematics markets. Telematics is a new vertical created in 2016 that will focus on the design and manufacture of energy-efficient and/or solar-power connected (e.g. the Internet of things – "IoT") devices supporting data capture and transmission for mobile or remote assets. The Illumination segment provides solar-powered LED outdoor lights for municipal and commercial customers.

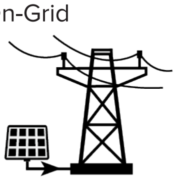
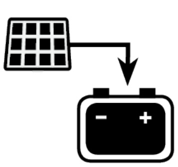
Our Power segment provides solar and/or power solutions for on- and off-grid applications. These businesses are separated into On-Grid and Off-Grid. During the year, we made the strategic decision to divest the Power segment. See further discussion below and in Section 5.

Signals	
Airfields 	Our Airfield Lighting business specializes in solving airfield lighting challenges for 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 and include both military and civilian airports. Our main competitors for this business include Avlite Systems Pty Ltd and Metalite Aviation Lighting.
Obstruction 	Our Aviation Obstruction business provides practical and cost-effective solutions for aviation hazard marking, barricade lighting, way-finding, railway blue flag protection, equipment marking, and more by way of our solar-powered self-contained LED lighting products. Our main competitors in our Obstruction sector include Avlite Systems Pty Ltd, Dialight PLC, and Flash Technology LLC.
Offshore Wind 	Our Offshore Wind business specializes in the provision of comprehensive safety and marking systems for offshore wind farms. Our main offshore wind competitors include Dialight BTI, Pintsch Aben BV, Sealite Pty Ltd, MSM Spain SLL, and Vega Industries Inc.
Marine 	Our Marine business provides total marine aids-to-navigation products and systems for Coast Guards, marine authorities, navies, and ports around the globe. Our main competitors in the Marine market include Sealite Pty Ltd, Vega Industries Inc, and Tideland Signals Corporation.
Traffic 	We serve the North American traffic safety market through the provision of solar-powered flashing beacons for pedestrian crosswalk signals, school zone flashers, and 24-hr roadway beacons. Our main competitors in the Traffic vertical include JS Foster Corporation and TAPCO (Traffic & Parking Control Company Inc).

Signals	
Telematics 	Our Telematics business is currently focused on designing and manufacturing devices to enable remote monitoring of assets. This new vertical was created because we see an opportunity to utilize our knowledge and expertise in solar and energy management systems to build and/or design solar-powered engines to expand the capabilities of new or existing asset tracking devices. While Telematics is currently a vertical within the Signals segment, we anticipate it will become its own segment as it grows.

The product offerings across the verticals within the Signals segment are similar in nature and share common technology, form factor, and components.

Illumination	
Outdoor Lighting 	Our Outdoor Lighting business provides advanced solar-powered LED illumination products for pathways, parking lots, and streets. Our main competitors in the North American market within outdoor lighting are Solar Electric Power Company (SEPCO), First Light Technologies, 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 power generation business constructs commercial solar grid-connected systems. Most of our customers are solar power developers that develop rooftop and ground mount projects within the scope of the Government of Ontario's Feed-in-Tariff ("FIT") program. Our main competitors include Panasonic Eco Solutions Canada Inc., RESCo Energy Inc., and Deltro Electric Ltd.
Off-Grid 	Our Off-Grid power business provides solar kits, solar panels, inverters, chargers, batteries, and other power accessories for the RV, utility, and fleet vehicles, and marine markets. Our sales are made through an established channel of dealers, distributors, and agents throughout the US and Canadian markets, direct to consumer through online retailer Amazon, and on an OEM basis to major new motorhome manufacturers. Some of our Off-Grid competitors are Xantrex Technologies and Samlex America Inc.

*As noted in the "About this MD&A" and further described in section 5, we have made the strategic decision to divest the Power segment. Due to this decision, the operating results of this segment have been classified as a discontinued operation as required under IFRS 5 – *Non Current Assets Held for Sale and Discontinued Operations*. For the purposes of discussing our operating results in this MD&A, we have presented our financial information based on our continuing operations unless otherwise noted.

VISION: GLOBAL LEADER OF SIGNALING AND SOLAR LIGHTING FOR INFRASTRUCTURE

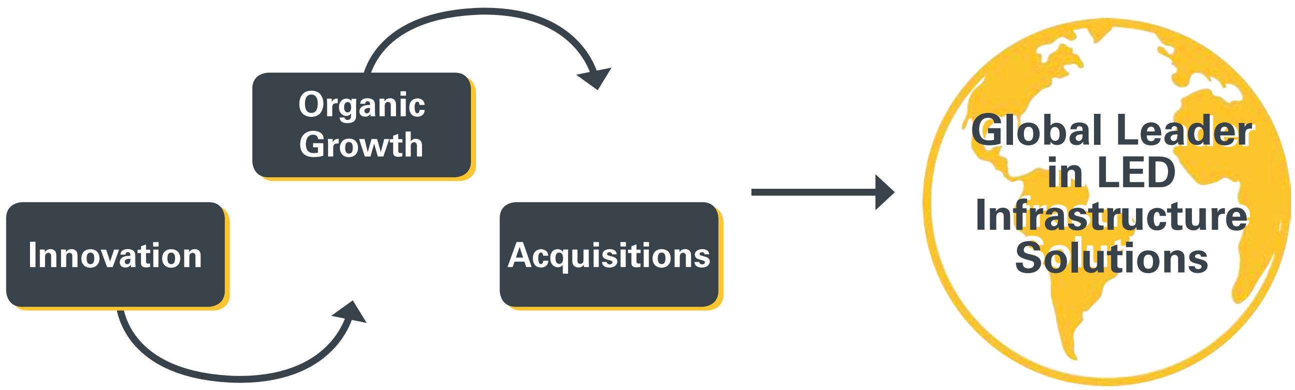
We aspire to be the global leader of signaling and solar lighting solutions for infrastructure through unique product and system solutions that allow us to attain and maintain high gross margins and great growth prospects.

STRATEGY: PROVIDE SOLUTIONS THAT COMBINE COST SAVINGS WITH ENVIRONMENTAL SENSITIVITY

We understand that while our customers are increasingly interested in environmentally sensitive solutions, they are also motivated to make purchase decisions that are economically sound. We believe that our customers need not choose one of these important attributes over the other. Accordingly, our strategy is to provide solutions for our customers that combine the greatest cost savings with the highest environmental sensitivity.

TACTICS: INNOVATION, ORGANIC GROWTH, AND ACQUISITIONS

Tactically we plan to realize our strategy through innovation, organic growth, and acquisitions.



INNOVATION

In 2016, our R&D expense was focused on product development and refinement and totalled $2.4 million, or about 5% of revenues. In each of the next three years we expect R&D to remain around 5% to 7% of revenues. We believe this level of spending is sufficient to meet our technology sustainment needs and fund our strategic initiatives. That said, compelling strategic projects may arise from time to time that management chooses to undertake that would temporarily result in a higher level of R&D expense. When these extraordinary projects are undertaken, we will report on these separately.

Our R&D is focused on technology innovation that keeps in mind our strategy to:

- provide the most environmentally sensitive signaling and lighting products for infrastructure; and equally
- to provide solutions that provide our customers with the greatest economic benefit.

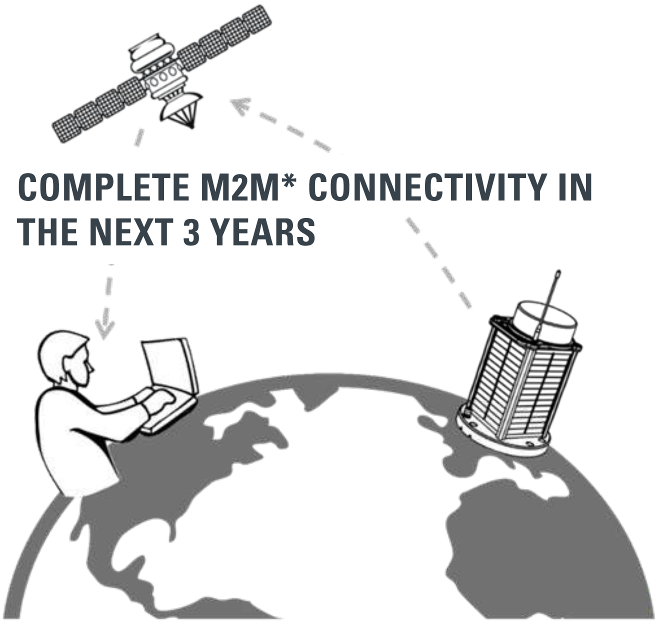
To help us realize on our strategy, our Sustainment Development Team is constantly improving our products to make them smaller, lighter, and more energy efficient without performance compromise. These activities help us to maintain our market competitiveness as well as our attractive product margins.

However, our overarching innovation goal is to develop solutions for our customers that help them to reduce ancillary costs – including maintenance and operating costs – while maintaining or enhancing efficacy. In this respect, our Strategic Development Team is working on new products designed with these goals in mind.

A resounding theme is our commitment to adding connectivity to all our devices so that every deployed device can be monitored, and in some cases controlled, in central locations. This "machine-to-machine" capability and remote monitoring provides a new range of benefits including:

- the ability to determine the need for preventative maintenance before outages occur, thereby reducing outage incidents;
- the ability of our customers to respond to damaged devices more quickly;
- our ability to monitor the functioning of products for performance enhancement and warranty administration; and
- the potential for new service-based business models.

Currently, 8 of our 30 product platforms have machine-to-machine connection capability. Our goal is for all product platforms to have machine-to-machine communications capability by the end of 2018. We will continue to report on this important initiative and other strategic product development activities on a quarterly basis so that shareholders may evaluate our progress.



*Machine to machine.

In early 2016, we started to ramp up R&D spending to help create our new solar LED lighting platform to take advantage of technology trends and lowering cost curves. Our expectation is that our new platform will become a viable economic competitor to grid-connected lighting for new construction in a growing portion of the developed world, and as such, our addressable market will expand exponentially.

Over the next few quarters, culminating with the launch of our new solar LED platform, we will report separately on our progress with this project.

ORGANIC GROWTH

In all markets, and with few exceptions, we rely on some form of "last mile" partner to be the final interface with the end users of our products. Over the next five years, we expect to markedly improve our global distribution by working to appoint new last mile partners in parts of the world where our products are currently not represented. It is also our plan to work to improve the quality and capability of our last mile partners in all markets. We believe that these two initiatives can double the effectiveness of our distribution over the coming five-year period.

LAST MILE PARTNERS: SIGNALS AND ILLUMINATION

We currently have approximately 400 "last mile" partners with whom we work globally within our Signals and Illumination segments. Approximately 10% of these partners would be considered top-tier, which we define as having most of the following attributes:

- being fully trained as to our products and components;
- being capable of responding to customer needs with the optimal selection of our products and/or systems;
- having the financial capability to conduct business and realize on our sales potential without compromise;
- having an annual business development plan agreed to by us that sets out goals and activity commitments for both the partner and us; and
- the ability to use all our ERP solutions to actively record sales potential, forecast, and execute order entry.

Our goal is to significantly expand the number of "top-tier" partners over the next five years and to ensure we cover all significant regions throughout the world. We began tracking this statistic during the second quarter of 2016. At initial outset, we had 300 recognized partners, of whom approximately 10% were considered top-tier.

ACQUISITIONS

We believe that there are signals competitor candidates that, if acquired prudently, can accelerate our ability to realize our vision of becoming the global industry leader. In this respect, we look for candidates that can deliver the following attributes:

- highly capable management teams that will be retained post-transaction;
- unique products or product line extensions that are complementary to our offering;
- market share or distribution that would enhance our partner network;
- transactions that meet or exceed minimum accretion levels; and,
- attractive synergies that can be realized reasonably promptly post-transaction.

We devote resources to identify and build relationships with potential acquisition candidates and, at any given time, we have multiple discussions underway. While we would like to add to our company by way of acquisitions, we are committed to being very disciplined. Moreover, we only proceed with transactions that score highly against our attribute criteria and where attractive financing options are available. Proposed transactions, if any, that result from these efforts will be announced in a timely manner by way of news release.

3. Performance Scorecard

KEY PERFORMANCE MEASURES

The financial performance scorecard highlights the key performance measures that we believe are critical to adding shareholder value. We believe this approach best tracks how efficiently we deploy and manage our assets.

US$ thousands	2016	2015
Average net assets from continuing operations*	28,099	17,942
Cash cycle**	68 days	54 days
Revenue	47,742	43,090
Adjusted EBITDA***	7,020	6,308
Adjusted EBITDA*** / Revenue	14.7%	14.6%
Adjusted EBITDA*** / Average Net Assets	25.0%	35.2%
Revenue / Average Net Assets	1.70	2.40

**Average Net Assets excludes cash, tax assets/liabilities, and bank debt.*

***Cash cycle = Average days' inventory outstanding plus average days' sales outstanding less average days' payable outstanding.*

**** Adjusted EBITDA is a Non-IFRS measure which is discussed in section 4.*

In line with our strategic initiatives, we have set targets for profitability, asset efficiency, and cash conversion. We believe these targets can be achieved through organic growth, continued focus on high margin product offering, operating leverage, and a disciplined approach to cash management.

4. Non-IFRS Financial Measures

Non-IFRS financial measure, like EBITDA, Adjusted EBITDA, and core operating expenditures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers.

EBITDA AND ADJUSTED EBITDA

For the three and twelve months ended December 31, 2016, 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 them to assess our current and future operating results and make investment decisions. EBITDA and Adjusted EBITDA are not intended as a substitute for IFRS measures.

	Three months ended December 31,		Year ended December 31,	
US$ thousands	**2016**	**2015**	**2016**	**2015**
Net income from continuing operations	80	1,288	2,917	9,694
Add/(deduct):				
Interest	57	188	284	188
Income taxes expense/(recovery)	228	149	1,037	(6,062)
Amortization	426	546	1,623	2,052
Non-cash stock based compensation	151	243	700	815
EBITDA*	**942**	**2,414**	**6,561**	**6,687**
Merger and acquisition costs	294	3	666	1,218
Extraordinary legal costs/(recovery)	37	2	(161)	34
Fair value of acquired inventory	-	492	-	492
Investment tax credits – re-recognition	-	(182)	-	(4,502)
Restructuring and asset write-offs	-	143	-	539
Other inventory write downs	-	15	-	383
Foreign exchange (gain)/loss	43	202	(46)	1,457
Adjusted EBITDA*	**1,316**	**3,089**	**7,020**	**6,308**

**A Non-IFRS measure defined above.*

CORE OPERATING EXPENDITURES

For the three and twelve months ended December 31, 2016, we are presenting Core Operating expenditures, a non-IFRS financial measure, as a supplementary indicator of operating performance. We define Core Operating expenditures as Operating expenditures excluding anomalies, such as the recognition of previously unrecognized investment tax credits or restructuring charges. We are presenting the non-IFRS financial measures in our filings because we use them internally to make strategic decisions, forecast future results, and to evaluate our performance. We are also presenting these measures because we believe that our current and potential investors, and many analysts, use them to assess our current and future operating results and to make investment decisions.

5. Operational and Business Highlights

DISCONTINUED OPERATIONS

On October 11, 2016, we announced our intention to divest the Power business segment, which is composed of our Off-Grid (or Go Power! business) and On-Grid (or Solar EPC business) verticals. We have retained Canaccord Genuity Corp. to advise on the divestiture of Go Power! Separately, Alexander Capital Group Inc. has been retained to advise on the divestiture of Carmanah Solar EPC. At this point, there can be no assurances that we will be successful in negotiating the divestitures for either or both businesses on acceptable terms. The decision to divest these businesses was made to allow the company to focus on its stated strategic vision, which is to become the global leader in signals and solar LED illumination for infrastructure. For more details regarding the accounting treatment, readers are encouraged to review the discontinued operations note disclosure in our December 31, 2016, year-end consolidated financial statements, which can be found on our website at [www.carmanah.com/company/financial-reports.](www.carmanah.com/company/financial-reports)

CREDIT FACILITY CHANGE

As described in section 7.3, in June 2016 we signed an updated credit facility agreement with Canadian Imperial Bank of Commerce ("CIBC"). Under the previous agreement, one tranche of the term acquisition facility required Export Development Canada ("EDC") backing. The new agreement removed the need for that backing and reduced the overall interest rate to US LIBOR plus 3.0% for both tranches.

SHARE BUYBACK

On March 9, 2016, we announced that the Toronto Stock Exchange ("TSX") accepted our notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allowed us to repurchase up to 1,426,386 of our common shares, representing approximately 10% of our public float as of March 7, 2016. The program commenced on March 14, 2016, and concluded on March 13, 2017.

The average daily trading volume of our common shares over the six-month period ending February 29, 2016, as calculated per the TSX rules, was 39,836 common shares. Consequently, under TSX rules, we were allowed to purchase daily, through the facilities of the TSX, a maximum of 9,959 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. We paid the market price at the time of acquisition of any common shares in accordance with the rules and policies of the TSX and applicable securities laws. All common shares acquired under the NCIB were cancelled and purchases were funded out of our working capital.

We undertook the NCIB because, in the opinion of our board of directors, the market price of our common shares, from time to time, did not fully reflect the underlying value of our business. We believed that in such circumstances, the outstanding common shares represent an appealing investment for us since a portion of our excess cash generated on an annual basis can be invested for an attractive risk-adjusted return on capital through the NCIB.

There were no purchases made under this program in the first two quarters of 2016. However, during the third quarter, we purchased 29,877 shares at a volume-weighted average price of $3.98 CAD per common share, and in the fourth quarter of 2016 we acquired a block of 300,000 shares which were purchased at a price of $4.00 CAD per common share.

AUDITOR CHANGE

On May 26, 2016, we announced the appointment of KPMG LLP ("KPMG") as our auditors, replacing Deloitte LLP ("Deloitte"). This decision was made based on the audit committee's recommendation to the board. Deloitte resigned as auditors at the board's request. There were no reservations in the report of Deloitte for the audit of the most recently completed fiscal period or at any point prior to the appointment of KPMG and there were no reportable events. A reportable event is a disagreement, consultation, or unresolved issue which, when present, may be viewed as a contributing factor in a change of auditor.

GLOBALSTAR STRATEGIC AGREEMENT

On August 30th, 2016, we announced the signing of a strategic agreement with Globalstar Inc ("Globalstar"). Under the terms of the agreement we will collaborate on the design and manufacturing of a new solar-powered M2M (Machine to Machine) satellite solution for Globalstar. In addition, we will be selecting the Globalstar low earth orbiting satellite constellation for remote connectivity of all our strategic products. The agreement includes a multi-year supply agreement whereby we will design, develop, and supply the next generation of Globalstar devices incorporating solar power charging capabilities. The introduction of solar technology will support longer battery life, which would support a significant increase in data transmission capability on a device by device basis. The first Globalstar products are expected to be ready for market in mid-2017.

The Agreement is also the next step in our advanced Internet of Things strategy utilizing the Globalstar low orbit satellite network to provide remote monitoring to each Carmanah LED infrastructure product. We intend to equip all strategic products with this capability over the next three years.

ACQUISITION OF ETKA ASSETS

In late 2016, we announced the signing of an asset purchase agreement to acquire certain marine aids-to-navigation assets from Cybernetica AS ("Cybernetica"), an Estonia company. This acquisition was completed in early January 2017. Under the agreement, we acquired the intellectual rights to a marine aids-to-navigation product line marketed under the EKTA brand, assignments of several sales and employment contracts, and some manufacturing assets. The purchase price was €1.35 million, with €1 million paid on closing and a further €0.35 million to be paid on the first anniversary of the closing date. The additional payment may be reduced in the event of a breach of certain warranties made in the agreement.

A new legal entity, Sabik Ou, was incorporated in Estonia to complete the acquisition. This entity will be managed as a part of our global Marine business vertical, which is coordinated and controlled by managers and directors of our wholly owned subsidiary, Sabik Marine.

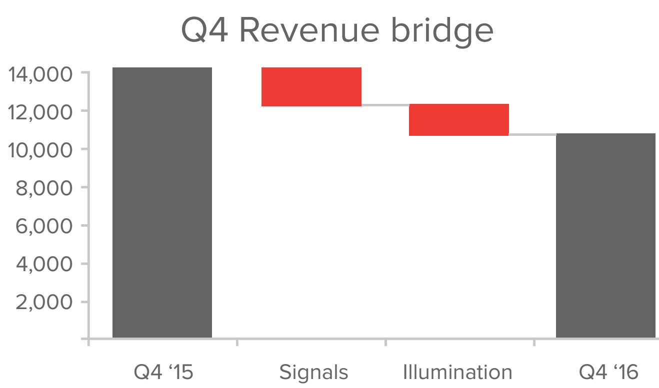
6. Financial Results

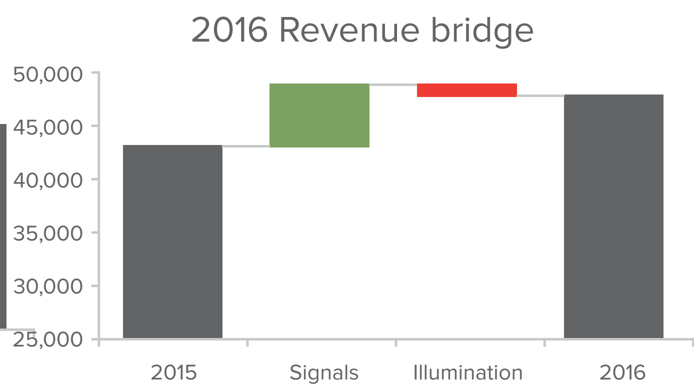
As previously noted, the information presented in the sections below have been derived from, and should be read in conjunction with, our consolidated financial statements for the three and twelve months ended December 31, 2016.

6.1 THREE AND TWELVE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

REVENUE

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues						
Signals	8,837	12,502	(29.3%)	39,915	34,175	16.8%
Illumination	1,877	3,322	(43.5%)	7,827	8,915	(12.2%)
Total revenue	**10,714**	**15,824**	**(32.3%)**	**47,742**	**43,090**	**10.8%**





Revenues for the three months ended December 31, 2016, were down $5.1 million, or 32%, over the same period in 2015. Comparative declines by segment are attributable as follows:

- **Signals** - The decrease in our Signals segment was primarily due to comparatively lower period-over-period sales in our Marine, Offshore Wind, and Aviation verticals. In each of these businesses there were exceptional fourth quarter revenues in 2015 with several large projects coming to fruition in the period.
- **Illumination** - The decrease in our quarter-over-quarter Illumination revenue was isolated to declines in the developing world. This was consistent with a change in sales focus by the Company, which is now emphasizing the pursuit of markets in the developed world – principally in the United States. The Company has had limited success in the developing world where customers have challenging financing issues and procurement systems are less than transparent. At the same time, advances in solar LED technology have been such that the Company is now beginning to compete for traditional grid-connected lighting on an economic basis. The Company expects this trend away from developing world revenues and towards revenue growth in the developed world to continue.

Full year revenues for the year ended December 31, 2016, were up $4.6 million, or 11%, over the same period in 2015 as follows:

- **Signals** - The Signals segment contributed to the overall comparative increase due to the inclusion of a full year of Sabik in 2016, while 2015 only included the final two quarters. At the same time, Sabik Marine’s revenue modestly decreased on a full year basis primarily due to a large project in the fourth quarter 2015 and a slight decline in sales in the Ports and Harbors sector. The Company considers this decline to be temporary and not representative of long term industry issues or of business unit performance. Excluding Sabik Marine, the Signals segment had an increase in its Traffic vertical and a decrease in its Airfield Lighting vertical. Neither of these variations were significant or indicative of longer term market or competitive changes.
- **Illumination** - Illumination revenues also declined for the year ended December 31, 2016. As earlier noted, the decline was largely due to a changing emphasis away from the pursuit of revenue in the developing world (i.e. outside the US and Canada). The Company is increasingly focused on the United States as a market and especially those states within which there is a high degree of new development and high rates of solar irradiation, and will continue to do so for the foreseeable future. To this end, and in 2017, the Company will release a new Illumination product platform designed specifically for these target markets.

SALES BY GEOGRAPHIC REGION

Approximately 52.9% of our revenues for 2016 were from outside North America, up from 48.3% in 2015.

GROSS MARGINS

	Three months ended December 31			Year ended December 31		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Gross margin %						
Signals	47.3%	41.0%	6.3%	45.3%	42.1%	3.2%
Illumination	14.5%	43.0%	(28.5%)	31.3%	37.8%	(6.5%)
Total Gross margin %	**41.6%**	**41.4%**	**0.2%**	**43.0%**	**41.2%**	**1.8%**

Gross margin percentage for the three months to December 31, 2016, was 41.6%, up 0.2% over the same period in 2015. Gross margin percentage for the year ended December 31, 2016, was 43.0%, up 1.8% over the same period in 2015. On a segmented basis, our Signals segment gross margin percentage increase was primarily due to a shift in sales mix. Our Illumination segment gross margin percentage decreased due to a $0.4 million write down for obsolete inventory in the fourth quarter of 2016 as we prepare for a new product release in 2017.

OPERATING EXPENSES

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Sales and marketing	1,194	1,439	(17.0%)	4,658	4,552	2.3%
Research and development	529	814	(35.0%)	2,388	2,058	16.0%
General and administration	2,079	2,686	(22.6%)	9,485	8,558	10.8%
Other operating recoveries	-	(182)	NA	-	(3,986)	NA
Total operating expenditures	**3,802**	**4,757**	**(20.1%)**	**16,531**	**11,182**	**47.8%**
Non-cash items:						
Amortization	*426*	*546*	(22.0%)	*1,623*	*2,052*	(20.9%)
Stock-based payments	*151*	*243*	(37.9%)	*700*	*815*	(14.1%)

	Q1 '15	**Q2 '15**	**Q3 '15**	**Q4 '15**	**Q1 '16**	**Q2 '16**	**Q3 '16**	**Q4 '16**
Sales and marketing	13.3%	11.5%	10.3%	9.1%	9.4%	9.3%	9.3%	11.1%
Research and development	3.8%	3.9%	5.4%	5.1%	5.4%	4.6%	5.2%	4.9%
General and administration	15.9%	17.6%	27.2%	17.0%	19.8%	17.1%	23.8%	19.4%
Total core operating expenditures *	**33.0%**	**33.0%**	**42.9%**	**31.2%**	**34.6%**	**31.0%**	**38.3%**	**35.5%**

**Core operating expenditures is a Non-IFRS measure which is discussed in section 4.*

Our total operating expenses for the year ended December 31, 2016, were $16.5 million, up 48% from $11.2 million in 2015. This increase is mainly due to (1) the inclusion of a full year of results from Sabik in 2016, compared to just two quarters in 2015, and (2) the 2015 recognition of previously unrecorded investment tax credits which are presented in the “Other operating recoveries” caption. Our operating expenditures for the fourth quarter of 2016 were $3.8 million, down from $4.8 million over the same period in 2015. The decrease was mostly attributable to an adjustment of previously accrued variable compensation.

SALES AND MARKETING

Our sales and marketing expenses for the year were $4.7 million, up from $4.6 million over the prior year. The increase is due to the inclusion of a full year of Sabik costs, offset by lower variable compensation. In the fourth quarter of 2016, these expenses were $1.2 million, down from $1.4 million in the same period of 2015. This decrease in the fourth quarter is due to lower variable compensation and marketing expenditures made in the quarter.

RESEARCH AND DEVELOPMENT

Our research and development expenses for the year were $2.4 million, up from $2.1 million in the prior year. The increase is due to the inclusion of a full year of Sabik costs, offset by lower development expenditures. The reduction of development expenditures is partly due to the timing of external expenditures on major projects and the nature of the work performed. In the fourth quarter of 2016, these expenses were $0.5 million, down from $0.8 million in the same period in 2015. The reason for this decrease is largely the same as the explanation for the full year.

GENERAL AND ADMINISTRATION

Our general and administration ("G&A") expenses for 2016 were $9.5 million, up from $8.6 million over the prior year. In the fourth quarter of 2016, these expenses were $2.1 million, down from $2.7 million in the same period of 2015. The significant decline in the fourth quarter expenses is primarily due to (1) an adjustment of previously accrued variable compensation, and (2) a $0.2 million recovery of bad debts recognized in the quarter. The increase in the year ended December 31, 2016, compared to the prior year is due to (1) the inclusion of a full year of Sabik's results, and (2) higher legal, audit, and tax fees. These were offset by an adjustment of previously accrued variable compensation.

OTHER INCOME (EXPENSE)

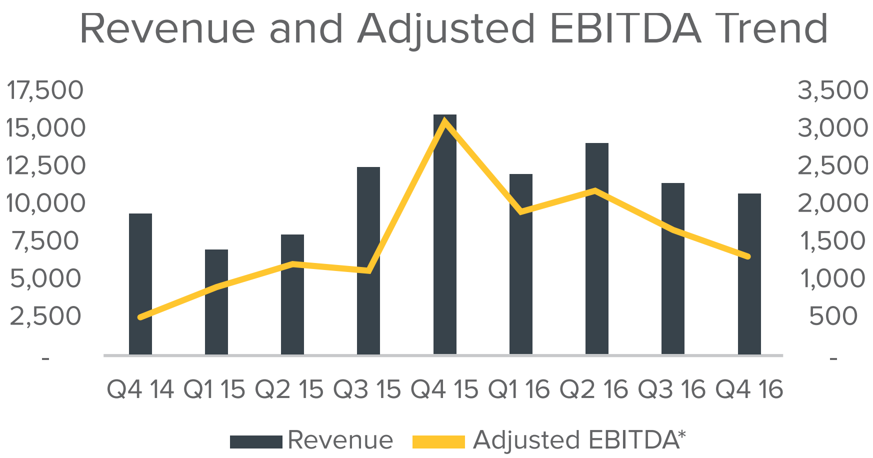
Other income or expenses include various non-operating expenditures, including merger and acquisition costs, foreign exchange, and restructuring charges. For the year ended December 31, 2016, we had other costs of about $0.06 million, compared to other expenses of $2.9 million in the same period in 2015. In 2016, we had a gain of $0.1 million on foreign exchange, a $0.4 million gain associated with a legal recovery described in section 7.5, offset by merger and acquisition costs of about $0.6 million. For the year ended December 31, 2015, the amounts primarily related to foreign exchange losses of $1.5 million and merger and acquisition expenditures of $1.2 million associated the Sabik acquisition.

INCOME TAXES

Income tax expense for the year was $1.0 million, compared to a recovery of $6.1 million in the same period in 2015. The significant recovery in 2015 related to the 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, which made it probable these assets will be utilized.

6.2 QUARTERLY TRENDS

REVENUE



EBITDA and Adjusted EBTIDA are non-IFRS measures. See section 4 for discussion.

US$ thousands (unless noted)	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16
Revenue	6,916	7,934	12,416	15,824	11,860	13,852	11,316	10,714
Gross margin %	39.1%	43.8%	40.5%	41.4%	44.4%	41.1%	45.3%	41.6%
Net income/(loss), cont ops	(196)	9,347	(745)	1,288	781	934	1,122	80
Net income/(loss), total ops	(57)	10,330	(410)	570	1,702	1,292	967	267
EPS – Basic, cont ops	(0.01)	0.44	(0.03)	0.05	0.03	0.04	0.05	0.00
EPS – Diluted, cont ops	(0.01)	0.42	(0.03)	0.05	0.03	0.04	0.05	0.00
EPS – Basic, total ops	0.00	0.48	(0.02)	0.02	0.07	0.05	0.04	0.01
EPS – Diluted, total ops	0.00	0.47	(0.02)	0.02	0.07	0.05	0.04	0.01
Adjusted EBITDA(1)	905	1,187	1,127	3,089	1,870	2,166	1,668	1,316

(1) EBITDA and Adjusted EBTIDA are non-IFRS measures. See section 4 for discussion.

Our quarterly revenues 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 are derived from infrastructure projects that often have long tender processes and fluctuating timelines. This is most pronounced within our Airfield Lighting, Offshore Wind, and Illumination businesses and to a lesser extent within our Marine and Traffic verticals. Following are comments on quarter to quarter changes:

- Q4 2014 to Q1 2015 – The $2.5 million decrease in revenue was primarily due to lower Illumination sales which (a) came off a record Q4, and (b) had a dip in sales due to a reduction in product offering associated with the Sol integration.
- Q1 2015 to Q2 2015 – The significant spike in net income was largely attributable to the recognition of various tax assets.
- Q2 2015 to Q3 2015 – The $4.5 million increase in revenue over Q2 2015 was largely due to the inclusion of Sabik, which resulted in a $6.0 million increase in Signals sales. This was partially offset by a soft quarter in our Illumination segment, which suffered from a lack of large projects being delivered in the quarter. The $0.7 million net loss was largely attributable to the purchase price allocation of the Sabik acquisition, and more specifically the amortization associated with the significant order backlog which we initially estimated at $1.3 million, although that value was later reduced to $0.9 million.

- Q3 2015 to Q4 2015 – The $3.4 million increase in revenue over Q3 was largely attributable to a spike in sales in our Illumination Segment, which rebounded from a soft third quarter. Net income rebounded due to a combination of higher overall sales and lower operating costs.
- Q4 2015 to Q1 2016 – The decrease in revenue was attributable to lower Signals and Illumination sales, both of which were primarily due to large project shipments in the quarter.
- Q1 2016 to Q2 2016 – Although overall revenue was up from Q1 to Q2 2016, we saw a substantial increase in our Illumination segment which rebounded from a soft first quarter.
- Q2 2016 to Q3 2016 – The decrease in revenue of $2.6 million was primarily due to the project nature of the Illumination segment. Although revenue was down, our net income increased by $0.2 million primarily relating to the recovery of legal expenses as described in note 7.5.
- Q3 2016 to Q4 2016 – The decrease in revenue of $0.6 million was primarily due to lower comparative Signals business revenues. There was no change in market or competitive activity in this period. Rather, we regard this change as a normal fluctuation due to the project nature of these businesses. The reduction in net income resulted from lower sales and gross margins.

6.3 SELECT ANNUAL INFORMATION

US$ thousands (unless noted)	**2016**	**2015**	**2014**
Revenue	47,742	43,090	27,287
Gross Margin	20,541	17,759	10,578
Net Income/(Loss) from continuing operations	2,917	9,694	124
Net Income/(Loss) per share (Basic / continuing operations)	0.12	0.44	0.01
Net Income/(Loss) per share (Diluted / continuing operations)	0.12	0.43	0.01
Net Income/(Loss)	4,228	10,433	994
Net Income/(Loss) per share (Basic)	0.17	0.48	0.07
Net Income/(Loss) per share (Diluted)	0.17	0.46	0.07
Total assets	86,907	89,976	33,367
Total long-term financial liabilities	-	-	-
Cash dividend	-	-	-
Adjusted EBITDA*	7,020	6,308	3,263

The revenue growth between 2014 and 2015 was due to a combination of acquired businesses (non-organic) and organic growth. The non-organic growth was associated with the acquisition of the Sabik Group of Companies, which was acquired on July 2, 2015. The organic growth was spread amongst various verticals within our Signals segment. The exact breakdown between these two is not readily determinable given the mixing of the businesses. This growth was offset by a decline in our Illumination segment of about $1.6 million. The revenue growth between 2015 and 2016 was primarily due to the inclusion of a full year of Sabik results in 2016, compared to one half of a year in 2015.

The increase in net income between 2014 and 2015 is largely attributable to the recognition of various tax assets which were previously unrecognized. There were no similar amounts in 2016 which resulted in lower earnings.

7. Liquidity, Capital Resources and Other Disclosures

7.1. SUMMARY OF CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,		
US$ thousands	**2016**	**2015**	**CHANGE**
Net cash provided/(used) in operating activities	6,445	(4,198)	NA
Net cash used in investing activities	(815)	(17,407)	(95.3%)
Net cash (used)/provided from financing activities	(2,610)	33,566	NA
Net effect of exchange rate changes on cash	(18)	(121)	(85.1%)
Total increase in cash from continuing operations	**3,002**	**11,840**	**(74.6%)**

CASH USED IN OPERATING ACTIVITIES

During the year ended December 31, 2016, cash provided by our operating activities, excluding changes in non-cash working capital, was $6.0 million, up from $1.5 million in the same period in 2015. This is largely due to stronger earnings before taxes and investment tax credit in 2016 compared to 2015. We actively manage our working capital by monitoring inventory turnover data, collection of accounts receivable, and taking advantage of trade discounts and/or extended payment terms granted by suppliers.

CASH USED BY INVESTING ACTIVITIES

During the year ended December 31, 2016, cash used for investing activities was $0.8 million, down from $17.4 million in the same period in 2015. The 2016 amounts primarily relate to investments in ERP, CRM, and other supporting systems, as well as production assets. The 2015 amount also included the acquisition of the Sabik Group of Companies using $16.7 million in the third quarter of 2015.

CASH PROVIDED FROM FINANCING ACTIVITIES

During the year ended December 31, 2016, cash used in financing activities was $2.6 million, compared to cash generated of $33.6 million in the same period of 2015. The 2016 amounts relate to (1) proceeds from the exercise of broker warrants and employee stock options, which amounted to $1.1 million, (2) draws on an operating line of $0.4 million, (3) debt repayments of $3.1 million, and (4) share repurchases of $1.0 million related to the Normal Course Issuer Bid described in section 5. The 2015 amount is composed of $24.7 million in proceeds on a share issuance completed in May of 2015 and $10.0 million drawn on a term acquisition loan. A significant portion of the 2015 funds raised were used to acquire the Sabik Group of Companies at the start of the third quarter of 2015.

7.2 LIQUIDITY AND CAPITAL RESOURCE MEASURES

On December 31, 2016, our overall working capital was $21.6 million, down from $28.3 million at December 31, 2015. A significant portion of this drop is due to the reclassification of the net assets (including working capital) associated with the Power segment to assets and liabilities held for sale.

At present, a large portion of our working capital is made up of cash, which stood at $21.9 million at December 31, 2016, up from $14.9 million at December 31, 2015. The increase is largely due to better management of non-cash working capital, especially within our Power segments which we intend to divest. If we are successful with the divestitures, our cash balance is expected to increase further. We hope to utilize this cash to make further strategic investments and acquisitions in the near to medium 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 ample capital resources and liquidity for our current business for the foreseeable future. However, depending on the size of future acquisitions and investments we may be required to raise additional equity or debt.

7.3 CREDIT FACILITIES

In early 2015, we signed a new credit facility (the "Facility") with 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 Facility, (3) $3.75 million for Letters of Credit, and (4) $2.0 million for trading room and other liabilities. Our ability to draw on the 364-Day revolver, 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 requires 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 facility for the acquisition of the Sabik Group of Companies as outlined in Section 3. On June 30, 2015, a total of $10 million was drawn on the facility in anticipation of closing the acquisition. The associated debt is repayable monthly over a five-year term and is broken into two $5 million tranches, both of which are repayable on demand. The first tranche was supported by a 100% guarantee from Canada's Export Development Corporation ("EDC") and carried an interest rate of US LIBOR plus 1.5%. The EDC fees associated with their guarantee were approximately 4.5% per annum on the outstanding balance. The second tranche carried an interest rate of US LIBOR plus 3.5%. On June 16, 2016, we signed an updated credit facility agreement with CIBC which improved the terms of the Facility by eliminating the need for the first tranche to be supported by EDC, and setting the interest rate on both tranches to US LIBOR plus 3.0%.

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, 2016, the principal amount outstanding on the $10.0 million term acquisition loan was $7.0 million.

The Sabik Group of Companies has access to an operating line and loan with Nordea Bank Finland, a Finnish financial institution. This debt is secured by us through a letter of credit drawn from the CIBC credit facility noted above. In March 2016, our German subsidiary, Sabik Offshore GmbH, secured a new credit facility with the Deutsche Bank (the "Deutsche Facility"). The Deutsche Facility provides credit up to €3.0 million through €2.0 million of revolving credit and €1.0 million for guarantees and was secured to support ongoing working capital needs. Interest on the revolving credit facility is variable and is based on EURIBOR plus 1.5%. The Deutsche Facility has been guaranteed through a €2.0 million Letter of Credit issued on the CIBC Facility and a security over inventory within Sabik Offshore GmbH. At December 31, 2016, no amounts were drawn on the revolving credit facility, but €0.4 million was drawn on the Nordea operating line.

7.4 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We utilize several 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 required 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 have relationships with two significant contract manufacturers. Under the terms of the contract manufacturing agreements, we are required to purchase excess raw inventory in situations where our demand forecasts for individual products is less than actual purchases. At December 31, 2016, our contract manufacturers held approximately $2.4 million (December 31, 2015 - $1.5 million) in inventory and $0.7 million (December 31, 2015 - $0.7 million) in outstanding committed purchase orders.

We have several 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, 2016:

US$ thousands	FACILITY LEASES	EQUIPMENT LEASES	VEHICLE LEASES	IT AND OTHER CONTRACTS	TOTAL
Not later than 1 year	591	102	46	43	782
2 year to 3 years	962	173	34	15	1,184
Greater than 3 years	346	24	-	13	383
Total	1,899	299	80	71	2,349

7.5 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. (collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used in our solar-powered flashing beacons for the traffic safety market and other claims relating to advertising and business practices. Various actions were taken in regards to this matter, including a successful application to have the underlying patents reexamined by the U.S patent office which resulted in many aspects of the patents being rejected. The Plaintiff has appealed this judgment. Pending that action, the original court proceedings have been stayed.

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 to obtain coverage of the claims brought in the US and indemnity of defence costs incurred in the US litigation. The lawsuit against Integro alleges 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. In late April 2016, we reached a settlement with the defendants during mediation as described in section 3. Under the settlement, we received CAD $0.5 million for past defense costs and damages. These funds were received in late July 2016. Within the settlement agreement, RSA has agreed to cover 70% of future defense costs incurred on a go forward basis. However, if the underlying action proceeds to trial and a verdict is rendered, a reallocation of the go forward defense costs may occur.

In June 2016, we were named in another lawsuit filed in a United States District Court filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. alleging additional patent infringement of a patent which was granted in September 2015. The outcome of this and the previous case are not certain and we intend to continue to defend ourselves and file additional responses to the Court as required. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. At December 31, 2016, no provision has been made as we believe this latest lawsuit to be without merit.

7.6 CONTINGENT LIABILITY

We have entered into agreements with third parties that include indemnification provisions that are customary in the industry. These indemnification provisions generally require us to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. The maximum amount of potential future indemnification is unlimited; however, we currently hold commercial and product liability insurance. This insurance limits our exposure and may enable us to recover a portion of any future amounts paid. Historically, we have not made any indemnification payments under such agreements and we believe that the fair value of these indemnification obligations is minimal. Accordingly, we have not recognized any liabilities relating to these obligations for any period presented.

7.7 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 7.4, Contractual obligations and commitments.

7.8 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 foreign exchange products or contracts when and where appropriate.

7.9 RELATED PARTY TRANSACTIONS

None other than noted below.

We purchase components from a vendor of which our Chairman of the Board has significant ownership interest. The relationship with the vendor existed prior to the Chairman's appointment and there are no special terms because of this relationship. In total, we purchased approximately $0.9 million from this vendor during the year ended December 31, 2016 ($1.0 million in 2015).

7.10 PROPOSED TRANSACTION

None.

7.11 SUBSEQUENT EVENTS

As outlined and discussed in section 5, on January 1, 2017, we completed the acquisition of the ETKA assets.

OUTSTANDING SHARE DATA

Our common shares trade on the Toronto Stock Exchange ("TSX") (TSX: CMH), and as at December 31, 2016, we had 24,602,504 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options, and other outstanding stock units stated in CAD.

	MARCH 20, 2017	DECEMBER 31, 2016	SEPTEMBER 30, 2016	JUNE 30, 2016	MARCH 31, 2016
Share price – closing (CAD$)	4.06	3.92	4.55	3.99	5.42
Market capitalization (CAD$ in thousands)	99,886	96,442	113,132	99,305	134,865
Outstanding					
Shares	24,602,504	24,602,504	24,864,070	24,888,543	24,882,904
Options	1,928,710	1,942,985	1,991,141	1,863,781	1,999,868
Warrants	-	-	-	-	79,860

8. Critical Accounting Estimates and Accounting Policy Developments

8.1 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
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 assets 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. There were no impairment losses recognized in either 2016 or 2015. Our impairment analysis at December 31, 2016, 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 2017 through 2021. For the assessment of the Goodwill and intangibles acquired in the Sabik acquisition, key drivers included anticipated sales growth, estimated at 17% in 2017 and from 2-4% a year thereafter, a terminal growth rate of 2%, and a weighted average cost of capital of 14.5%. The results of the analysis indicated an excess over carrying value of $19.2 million. For the assessment of the Goodwill and intangibles acquired in the Sol acquisition, key drivers included anticipated sales growth, estimated at 28% in 2017 and 12.5% a year thereafter, a terminal growth rate of 2%, and a weighted average cost of capital of 15.5%. The results of the analysis indicated an excess over carrying value of $3.4 million.

8.2 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 ("IFRS 15"). 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.

8.3 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. Internal control over financial reporting ("ICFR") has been designed to provide reasonable assurance regarding the reliability of financial reporting. Pursuant to Multilateral Instrument 52-109, the Chief Executive Officer and Chief Financial Officer, 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, 2016, 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 considered 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 DC&P 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 ICFR. ICFR 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, ICFR may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's ICFR 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 ICFR was effective as of December 31, 2016.

LIMITATION ON SCOPE OF DESIGN

Prior to the third quarter of 2016, the scope of DC&P and ICFR was limited to exclude controls, policies, and procedures associated with the acquisition of Sabik which we completed on July 2, 2015. During the second quarter of 2016 we completed our initial assessment of Sabik's processes, procedures, and associated controls and as a result, this scope limitation has been removed.

9. 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 in our MD&A and annual information form for the year ended December 31, 2015, filed on SEDAR at www.sedar.com.

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 rooftop grid-connected solar systems, and (3) provide off-grid power solutions. We compete based on 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. We anticipate that certain competitors may transition to solar lighting in the future. If and/or 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 influence demand for our products. Our products may be rendered obsolete or less marketable due to technological advances made by competitors. To maintain our current market share, we may have to make substantial investments in product innovation and development.
Anticipated Adoption Rates for Solar LED Lighting	While we have invested heavily in the development of solar LED lighting products, this technology is still in its early stages. If the rate of solar 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 solar LED lighting products in our targeted markets may not develop or may develop to a lesser extent than anticipated.
Ability to Manage Expansion Effectively	We expect to expand our business in the future to meet the anticipated growth in demand for solar LED lighting products. If we are unable to manage growth effectively, we may not be able to take advantage of market opportunities, execute our business strategy, or respond to competitive pressures. To manage the potential growth of our operations, we may be required to improve operational systems and procedures and expand our relationships with suppliers, manufacturers, distributors, and customers. There can be no assurance that the current and planned operations, personnel, systems, and internal procedures will be adequate to support future growth.

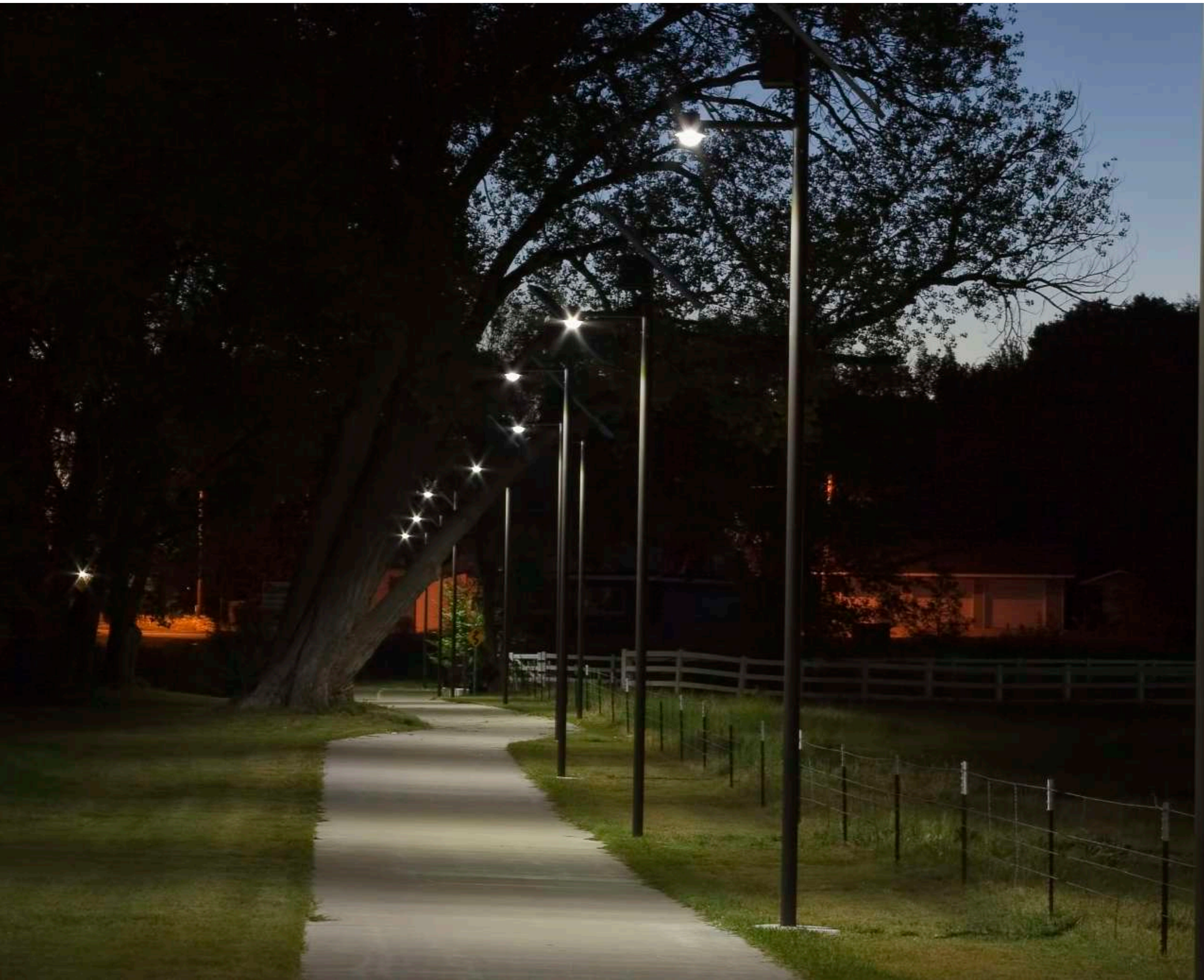
AREA OF RISK	DESCRIPTION
Foreign Exchange	We have exposures to foreign currency fluctuations, most significantly between the U.S. and Canadian dollar and the U.S. dollar and the Euro. At present our functional and reporting currency is the U.S. dollar, as a significant portion of our sales and cost of sales is denominated in U.S. 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 U.S./Canadian dollar fluctuations which may negatively impact our results. At present a lower Canadian dollar positively impacts our results. We are also exposed to fluctuations in the Euro relative to the U.S. dollar as a large portion of our wholly owned subsidiaries business is transacted in Euro. In the past we have entered foreign exchange contracts to manage exchange rate risks, none of which occurred 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 used, 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 that 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 products 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. 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.
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. We may encounter difficulties in recruiting and retaining enough 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.

AREA OF RISK	DESCRIPTION
Intellectual Property Risks	Many 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 comply. In certain cases, the cost of compliance with regulations can be substantial. Failure to comply with present or future regulations could result in legal claims, fines, operation suspensions, or cessation of operations. Compliance often requires incurring costs and capital expenditures. We face few, if any, of these issues directly as we rely on third party manufacturers.
Government Contracts and Subsidies	A significant portion of our revenues are derived from government and military agencies. Consequently, any disruption in government funding or in the relationship with those agencies could adversely affect our business. Additionally, there are many government subsidies and economic incentives for solar energy related businesses, including the FIT Program established by the Government of Ontario. There is no guarantee that these incentives and subsidies will remain in place or that other countries, states, provinces, or municipalities will adopt similar programs. The elimination of such subsidies and incentives, or the failure of additional countries, states, provinces, or municipalities to adopt similar programs, may have an adverse impact on the solar market, and may result in rapid changes in demand and pricing. Such changes may have an adverse impact on our business and financial condition.

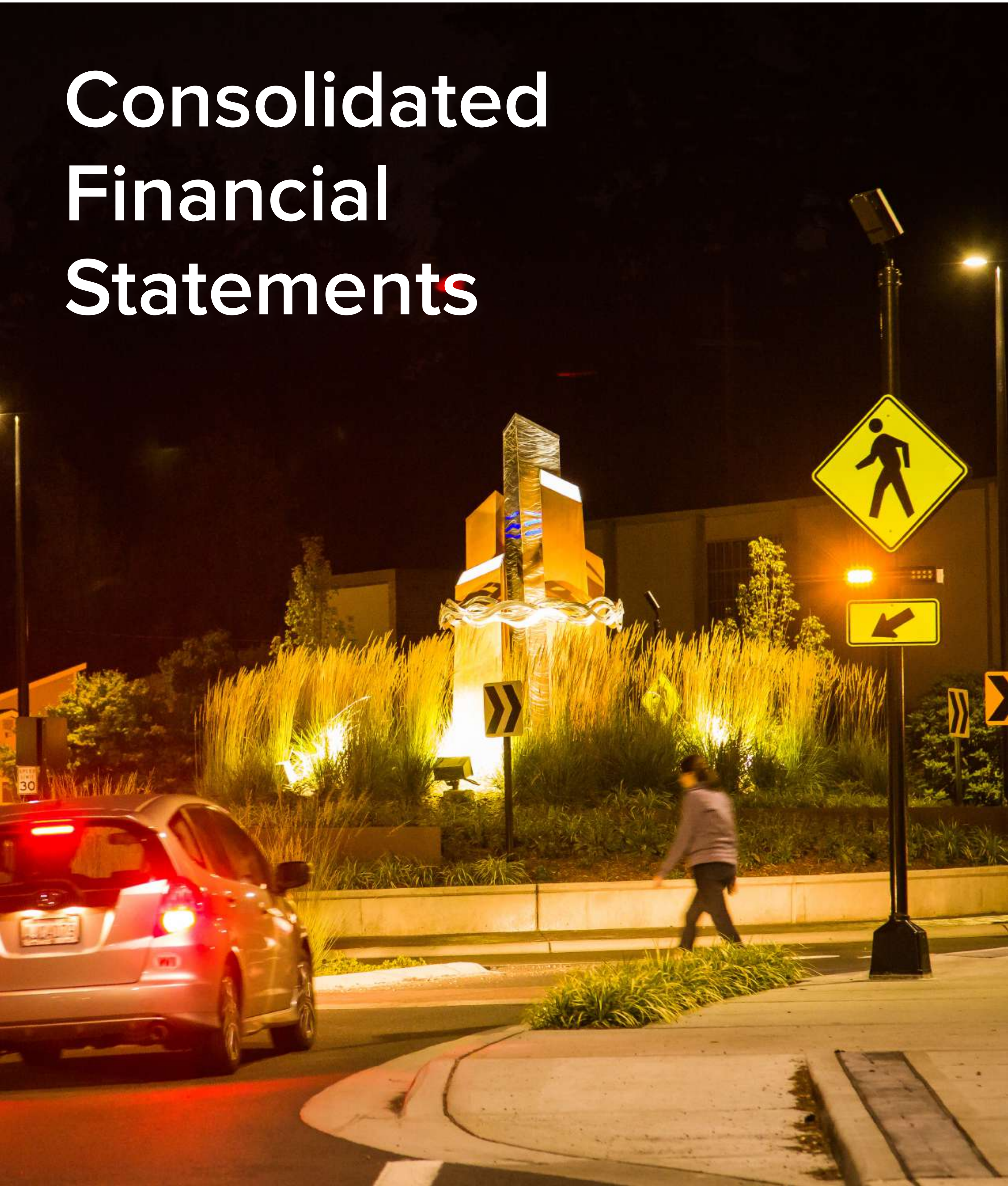
AREA OF RISK	DESCRIPTION
Product Quality and Reliability and Warranty Liability Risk	Problems with product quality and/or performance, including defects in products, could damage our reputation or result in a decrease in customers and revenue, unexpected expenses, and loss of market share. We cannot 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 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 because 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. 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 R&D 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. The new U.S. administration has called for changes to domestic and foreign policy. We cannot predict the impact, if any, the policies adopted by the new administration will have on our business. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.



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 statement of financial position as at December 31, 2016, the consolidated statements of income and total comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 consolidated financial position of Carmanah Technologies Corporation as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

The consolidated financial statements of Carmanah Technologies Corporation as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 29, 2016.

KPMG LLP

March 20, 2017

Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

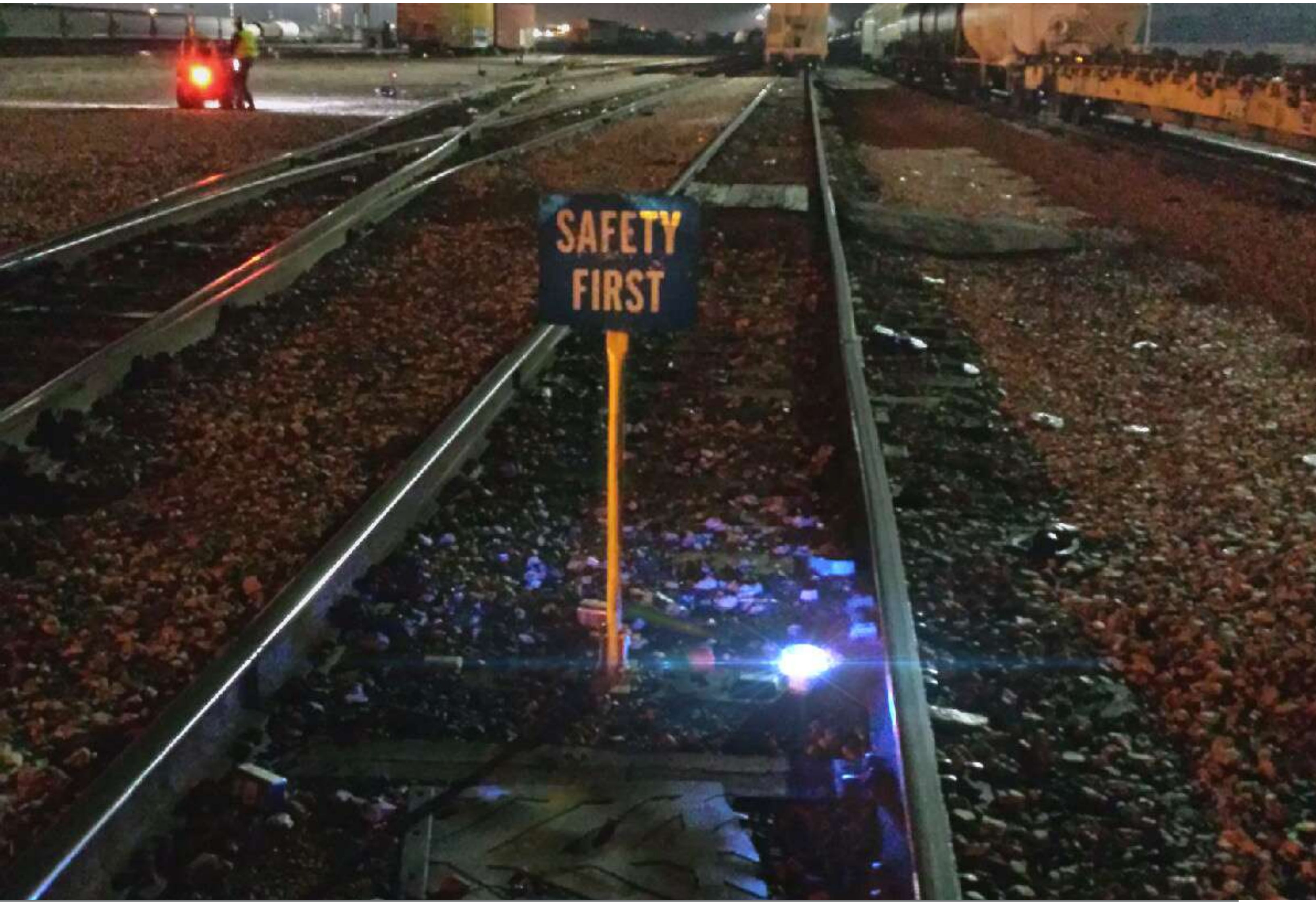
(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	NOTES	DECEMBER 31, 2016	DECEMBER 31, 2015
ASSETS			
Cash	5.1	21,921	14,880
Trade and other receivables	5.2	6,560	18,428
Inventories	6	6,215	12,667
Prepaid and other current assets		405	1,068
Income taxes receivable		148	-
Unbilled receivables	5.2	-	3,033
Cost of uncompleted projects		-	1,593
Total current assets		35,249	51,669
Equipment and leasehold improvements	7	1,218	1,337
Intangible assets	8	7,531	8,700
Goodwill	9	16,838	17,249
Deferred income tax asset	19	7,165	7,473
Investment tax credits	19	2,512	3,548
Assets held for sale	21	16,394	-
Total assets		**86,907**	**89,976**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		4,612	11,117
Bank debt	11	7,414	10,093
Provisions	10	780	1,221
Income taxes payable		95	367
Deferred revenue		719	549
Total current liabilities		13,620	23,347
Deferred income tax liability	19	1,714	1,996
Liabilities held for sale	21	2,782	-
Total liabilities		**18,116**	**25,343**
Equity			
Share capital	12	86,376	86,118
Equity reserve	13	5,065	4,487
Accumulated other comprehensive loss		(1,720)	(814)
Deficit		(20,930)	(25,158)
Total equity		68,791	64,633
Total liabilities and equity		**86,907**	**89,976**

Commitments and contingencies – Note 14
Subsequent events – Note 23

Approved and authorized for issue by the Board of Directors on March 20, 2017

"John Simmons"	*"Michael Sonnenfeldt"*
John Simmons, Chief Executive Officer	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	2016	2015
Revenues		47,742	43,090
Cost of sales		27,201	25,331
Gross profit	17	20,541	17,759
Operating expenditures			
Sales and marketing		4,658	4,552
Research and development		2,388	2,058
General and administrative		9,485	8,558
Other inventory write downs		-	442
Restructuring expenses		-	74
Investment tax credits recognized	19	-	(4,502)
Total operating expenditures	16	16,531	11,182
Other expenses/(income)			
Loss on disposal of assets		17	21
Other expense	20	85	1,471
Foreign exchange (gain)/loss		(46)	1,453
Total other expenditures		56	2,945
Income before taxes		3,954	3,632
Income tax expense/(recovery)	18	1,037	(6,062)
Net income from continuing operations		2,917	9,694
Net income from discontinued operations, net of tax	21	1,311	739
Net Income attributable to shareholders		4,228	10,433
Other comprehensive loss			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		(906)	(410)
Total comprehensive income		3,322	10,023
Net Income per share			
Basic - Continuing operations		*0.12*	*0.44*
Basic - Discontinued operations		*0.05*	*0.04*
Total		**0.17**	**0.48**
Diluted - Continuing operations		*0.12*	*0.43*
Diluted - Discontinued operations		*0.05*	*0.03*
Total		**0.17**	**0.46**

	NOTES	Years ended December 31, 2016	2015
Weighted average number of shares outstanding (Note 12.1)			
Basic		24,756,558	21,905,787
Diluted		25,259,610	22,512,729

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 ('000)	AMOUNT	EQUITY RESERVE	ACCUMULATED OTHER COMPREHENSIVE LOSS	DEFICIT	TOTAL EQUITY
Balance, January 1, 2015		*16,977*	$56,539	$3,292	($180)	$(35,838)	$23,813
Net income		-	-	-	-	10,680	10,680
Share-based payments	13	-	-	901	-	-	901
Shares issued on stock option exercise	13	*46*	167	(56)	-	-	111
Shares issued under bought deal, net of issuance costs of $2,230 offset by tax of $484		*6,400*	24,824	370	-	-	25,194
Shares issued from warrant exercise	12	*13*	75	(20)	-	-	55
Sabik acquisition	22	*1,180*	4,513	-	-	-	4,513
Foreign currency translation adjustments		-	-	-	(634)	-	(634)
Balance, December 31, 2015		*24,616*	86,118	4,487	(814)	(25,158)	64,633
Net income			-	-	-	4,228	4,228
Share-based payments	13		-	767	-	-	767
Shares issued on stock option exercise	13	76	218	(70)	-	-	148
Shares issued from warrant exercise	12	240	1,186	(262)	-	-	924
Shares acquired and cancelled	12	(330)	(1,146)	143	-	-	(1,003)
Foreign currency translation adjustments			-	-	(906)	-	(906)
Balance, December 31, 2016		*24,602*	86,376	5,065	(1,720)	(20,930)	68,791

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

		Years ended December 31,	
	NOTES	2016	2015
OPERATING ACTIVITIES			
Net income		2,917	9,694
Add back (deduct) items not involving cash:			
Amortization		1,623	2,052
Loss on disposal of assets		17	21
Share-based payments	13	700	815
Unrealized foreign exchange loss		(278)	168
Recognition of investment tax credits	19	1,036	(4,502)
Deferred income tax recovery	18	26	(7,253)
Fair value adjustment to inventory acquired		-	492
Changes in working capital and other items:			
Trade and other receivables		3,353	(3,705)
Inventories		327	(3,365)
Prepaids and other current assets		38	(110)
Income tax receivable		(148)	-
Trade and other payables		(2,828)	837
Provisions		(246)	46
Deferred revenue		180	245
Income tax payable		(272)	367
Net cash provided/(used) in operating activities		6,445	(4,198)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		-	54
Acquisitions, net of cash	22	-	(16,743)
Purchase of equipment and leasehold improvements	7	(547)	(512)
Purchase of intangible assets	8	(268)	(251)
Change in restricted cash		-	45
Net cash used in investing activities		(815)	(17,407)

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

		Years ended December 31,	
	NOTES	**2016**	**2015**
FINANCING ACTIVITIES			
Proceeds from bought deal offering, net of issue costs		-	24,710
Proceeds from exercised warrants		924	55
Proceeds from exercised stock options	13	148	111
Proceeds from credit facility draw	11	420	10,000
Debt repayments		(3,099)	(1,310)
Share repurchase	12	(1,003)	-
Net cash (used)/provided by financing activities		(2,610)	33,566
Foreign exchange effect on cash		(18)	(121)
Increase in cash from continuing operations		3,002	11,840
Cash provided from (used) by discontinued operations		4,039	(5,667)
Cash at beginning of period		14,880	8,707
Cash at end of period		21,921	14,880

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 designing, developing, and distributing a portfolio of products focused on energy optimized LED solutions for infrastructure.

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”) under symbol “CMH”. 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”) as issued by the International Accounting Standards Board (“IASB”). 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.

(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: 2016
Carmanah Technologies (U.S.) Corporation	Employed sales representatives who were based in the United States	United States - Nevada	100%
Carmanah Solar Power Corporation	Holds a portion of the Company's Power segment	Canada – Ontario	100%
Sol, Inc	Holds a portion of the Company's Illumination segment	United States - Florida	100%
Sabik Oy	Holds a portion of the Company's Signals segment	Finland	100%
Sabik Ou	Holds a portion of the Company's Signals segment	Estonia	100%
Sabik Offshore GmbH *(Formally Sabik GmbH)*	Holds a portion of the Company's Signals segment	Germany	100%
Sabik PTE Ltd	Holds a portion of the Company's Signals segment	Singapore	100%
Sabik Ltd	Holds a portion of the Company's Signals segment	United Kingdom	100%
Sabik Offshore Ltd	Holds a portion of the Company's Signals segment	United Kingdom	80%

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 (U.S.) 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, Sabik Offshore GmbH, and Sabik Ou 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 DISCONTINUED OPERATION

A discontinued operation is a component of the Company's business, the operations and cashflows of which can be clearly distinguished from the rest of the Company and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with the view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When the operations is classified as a discontinued operation, the Consolidated Statements of Income and Total Comprehensive Income is re-presented as if the operation has been discontinued from the start of the comparative year.

2.5 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.

For the purposes of the Consolidated Statement of Cash Flows, total cash includes 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 ageing, past experience, or known customer circumstances.

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 and Total Comprehensive 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 initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

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.

2.6 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.

2.7 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 are outlined below:

ASSET	YEARS
Computer hardware	3-5
Leasehold improvements	lesser of useful life or 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 and Total Comprehensive 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.

2.8 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 at 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 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.

2.9 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 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.

2.10 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.

2.11 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. The Company maintains several shares based compensation plans for certain employees and directors that may be settled in cash and/or equity. At December 31, 2016, there were no awards outstanding which are cash settled. The expense is recognized over the vesting period, which is the period over which all 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 and Total Comprehensive 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.

2.12 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 drive 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. All the project revenue and unbilled receivables defined above relate to the Company's discontinued operations as described in note 21.

2.13 RESEARCH AND DEVELOPMENT COSTS

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

2.14 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.

The Company's policy is to net ITCs against the associated expense, which are usually captured within the Development caption under operating costs on the Consolidated Statement of Income. Any impairments or initial recognition of the ITCs are recognized under a separate caption within Operating expenditures, as was the case in 2015. This separate presentation is to highlight the unusual nature of these types of adjustments.

2.15 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.

2.16 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.

2.17 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.

2.18 ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, or biological assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant, and equipment are no longer amortized or depreciated, and any equity-accounting investee is no longer equity accounted.

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

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 make-up of the associated grants.

INCOME TAXES

Carmanah calculates income tax provisions in each of the jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax returns, earnings would be affected in a subsequent period.

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 assets 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. Non-current assets classified as held to sale are recorded at the lower of its carrying value or fair value less costs to sell. Management judgment is necessary to evaluate the fair value less costs to sell and critical assumptions include market opportunities and costs to sell. In 2016 and 2015, 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. The extent of the impact of adoption of the standard has not yet been determined.
- 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. The extent of the impact of adoption of the standard has not yet been determined.
- 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 extent of the impact of adoption of the standard has not yet been determined.

The Company is assessing the impact that these standards will have on the Company's consolidated financial statements and does not intend to early adopt the standards.

(Unless otherwise noted expressed in thousands of U.S. dollars,
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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, 2016	DECEMBER 31, 2015
Loans and receivables		
Cash	21,921	14,880
Trade and other receivables	6,560	18,428
Other financial liabilities		
Trade and other payables	4,612	11,117
Bank debt	7,414	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. The carrying value of bank debt is at fair value and subsequently measured at amortized cost using the effective interest method.

(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, presented in USD, is provided below:

	USD	CANADIAN	EURO	OTHER	TOTAL
Balance at December 31, 2016					
Cash	16,358	1,592	3,935	36	21,921
Trade and other receivables	2,956	-	3,390	214	6,560
Trade and other payables	2,489	-	1,885	238	4,612
Bank debt	6,994	-	420	-	7,414
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
Trade and other payables	4,975	4,536	1,350	256	11,117
Bank debt	8,998	-	1,095	-	10,093

Carmanah estimates a five percent increase or decrease in the Canadian dollar relative to the U.S. dollar would result in a $0.1 million loss or gain to net income before tax 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 net 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 net income before tax.

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 U.S. dollars,
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5.1 CASH

Cash represents cash in banks and cash on hand. There were no cash equivalents at December 31, 2016 (2015 - $Nil).

5.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Trade receivables	6,447	17,354
Allowance for doubtful accounts	(225)	(146)
Other receivables	338	1,220
Trade and other receivables	6,560	18,428
Unbilled receivables	-	3,033
Total accounts receivable	**6,560**	**21,461**

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. At December 31, 2016, $1.7 million (December 31, 2015 - $7.8 million) was due from the five largest accounts.

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 has been no recent communication, and (2) a variable percentage (between 10%-50%) on accounts that have had irregular communications, originate from a higher risk country, or have slow payment history. The percentage provided is based on reference to historical experience on defaults and an analysis of the counterparty's current financial situation. The specific accounts are only written off once all collections avenues have been explored or when legal bankruptcy has occurred. The following is a reconciliation of the allowance account:

RECONCILIATION OF THE ALLOWANCE FOR DOUBTFUL ACCOUNTS	DECEMBER 31, 2016	DECEMBER 31, 2015
Balance, beginning of year	146	150
Write-offs of specific accounts	(78)	(61)
Reclassification of discontinued operations	(1)	-
Change in provision	158	57
Balance, end of year	**225**	**146**

At December 31, 2016, approximately 97% (December 31, 2015 - 99%) of the trade receivables were either current or are past due but were not impaired.

(Unless otherwise noted, expressed in thousands of U.S. dollars,
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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, 2016	DECEMBER 31, 2015
1-30 days	1,035	3,045
31-90	534	3,122
90+	215	1,413
Total	**1,784**	**7,580**

5.2.2 OTHER RECEIVABLES

At December 31, 2016, other receivables primarily relate to amounts due from parties not considered to be customers of the Company such as input tax refunds and indemnification assets. At December 31, 2015, the amounts primarily relate to statutory holdbacks on major EPC construction projects, which are included in the Company's discontinued operations as described in note 21. 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 they can be substantially longer in certain situations.

5.3 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, 2016, the Company was in compliance with all covenants.

(Unless otherwise noted expressed in thousands of U.S. dollars,
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6. Inventories

	DECEMBER 31, 2016	DECEMBER 31, 2015
Finished goods	1,548	8,361
Work in progress	668	563
Raw materials	4,370	4,068
Provision for obsolescence	(371)	(325)
Net inventories	**6,215**	**12,667**

For the year ended December 31, 2016, inventory recognized as an expense in cost of sales amounted to $23.6 million (2015 - $22.7 million). Included in the above amounts were inventory write downs of $0.4 million (2015 - $0.2 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2016, the Company anticipates the net inventory will be realized within one year.

(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, 2015	600	602	119	996	472	2,789
Additions	81	131	71	212	17	512
Sabik acquisition	-	135	94	466	-	695
Foreign exchange adjustments	-	(1)	(2)	(10)	-	(13)
Disposals	(346)	(68)	(55)	(596)	(62)	(1,127)
Balance December 31, 2015	**335**	**799**	**227**	**1,068**	**427**	**2,856**
Additions	103	167	8	246	23	547
Disposals	(42)	-	(4)	(70)	(15)	(131)
Reclassification held for sale	(35)	(78)	(19)	(60)	(14)	(206)
Foreign exchange adjustments	-	(2)	(5)	(19)	-	(26)
Balance at December 31, 2016	**361**	**886**	**207**	**1,165**	**421**	**3,040**
Accumulated amortization						
Balance January 1, 2015	**417**	**393**	**47**	**813**	**459**	**2,129**
Amortization for the year	87	173	34	97	7	398
Foreign exchange adjustments	-	-	-	(2)	-	(2)
Disposals	(332)	(2)	(27)	(584)	(61)	(1,006)
Balance December 31, 2015	**172**	**564**	**54**	**324**	**405**	**1,519**
Amortization for the period	83	129	27	225	9	473
Disposals	(30)	-	(1)	(50)	(15)	(96)
Reclassification held for sale	(10)	(19)	(4)	(10)	(6)	(49)
Foreign exchange adjustments	(9)	(1)	(2)	(11)	(2)	(25)
Balance December 31, 2016	**206**	**673**	**74**	**478**	**391**	**1,822**
Carrying amounts						
At December 31, 2015	163	235	173	744	22	1,337
At December 31, 2016	155	213	133	687	30	1,218

(Unless otherwise noted expressed in thousands of U.S. dollars,
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8. Intangible Assets

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

	PATENTS AND TRADEMARKS	SOFTWARE	CUSTOMER LISTS	PRODUCT DEVELOPMENT	BRAND AND DOMAIN NAME	BACKLOG	TOTAL
Cost							
Balance January 1, 2015	**833**	**2,428**	**-**	**250**	**50**	**-**	**3,561**
Additions	7	244	-	-	-	-	251
Sabik acquisition	-	31	4,800	1,600	2,000	900	9,331
Foreign exchange adjustments	-	-	(72)	(24)	(30)	(14)	(140)
Disposals	(101)	(174)	-	-	-	-	(275)
Balance December 31, 2015	**739**	**2,529**	**4,728**	**1,826**	**2,020**	**886**	**12,728**
Additions	-	268	-	-	-	-	268
Disposals	-	(1,539)	-	-	-	-	(1,539)
Reclassification held for sale	-	(32)	-	-	-	-	(32)
Foreign exchange adjustments	-	-	(169)	(56)	(71)	(32)	(328)
Balance December 31, 2016	**739**	**1,226**	**4,559**	**1,770**	**1,949**	**854**	**11,097**
Accumulated amortization							
Balance January 1, 2015	**729**	**1,795**	**-**	**62**	**-**	**-**	**2,586**
Amortization for the year	37	172	284	285	-	897	1,675
Disposals	(85)	(133)	-	-	-	-	(218)
Foreign exchange adjustments	-	-	(3)	(1)	-	(11)	(15)
Balance December 31, 2015	**681**	**1,834**	**281**	**346**	**-**	**886**	**4,028**
Amortization for the year	29	196	542	368	-	-	1,135
Disposals	-	(1,539)	-	-	-	-	(1,539)
Reclassification held for sale	-	(9)	-	-	-	-	(9)
Foreign exchange adjustments	-	-	(11)	(6)	-	(32)	(49)
Balance December 31, 2016	**710**	**482**	**812**	**708**	**-**	**854**	**3,566**
Carrying amounts							
At December 31, 2015	58	695	4,447	1,480	2,020	-	8,700
At December 31, 2016	29	744	3,747	1,062	1,949	-	7,531

(Unless otherwise noted, expressed in thousands of U.S. dollars,
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In 2015, 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 which is not being amortized. This asset is assessed as a part of the impairment analysis described in note 9.
- 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

	ILLUMINATION	SIGNALS	TOTAL
Balance, January 1, 2015	5,746	-	5,746
Sabik acquisition (note 22)	-	11,677	11,677
Foreign exchange adjustment	-	(174)	(174)
Balance, December 31, 2015	5,746	11,503	17,249
Foreign exchange adjustment	-	(411)	(411)
Balance, December 31, 2016	5,746	11,092	16,838

The Company performs an impairment test annually on December 31 each year or if there is an indication of impairment. No impairment of goodwill was identified as a result of the Company's most recent impairment test at December 31, 2016, nor at December 31, 2015. The goodwill impairment testing is based on a value in use approach and is completed for two cash generating units, one within the Signals reportable operating segment and the other being the Illumination segment as a whole.

The key assumptions used in performing the impairment tests were as follows:

	5-YEAR REVENUE GROWTH RATE		DISCOUNT RATE		TERMINAL GROWTH RATE	
SEGMENT	2016	2015	2016	2015	2016	2015
Signals	2.4-17.6%	14.5%	14.5%	14.5%	2%	2%
Illumination	12.5-28.1%	10-39%	15.5%	14.5%	2%	4%

The recoverable amount is determined by management's past experience, and future expectations of the business performance are used to make a best estimate of the expected revenue, earnings before interest, taxes, amortization, and operating cash flows for a five-year period. The revenue growth rate in that period is based upon management's current and long term forecasts for each business is a key driver within the test.

Other key assumptions in the analysis include the discount and terminal growth rate. The discount rate applied in the model is a pre-tax rate that reflects the time value of money and risk associated with the business. The terminal growth rate is based on the long-term growth prospect of the businesses beyond a 5-year term.
The December 31, 2016, impairment assessments showed an excess over carrying value of $3.4 million for Illumination, and $19.2 million for Signals. A sensitivity analysis was also completed on both models and it was determined reasonable changes to key assumptions would not result in an impairment loss.

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

	DECEMBER 31, 2016	DECEMBER 31, 2015
Warranty provisions	737	1,178
Provision relating to Sol, Inc. acquisition	43	43
	780	**1,221**

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.

In the acquisition of Sol, it was determined that there could be additional liabilities on historical sales. A provision remains until we can obtain resolutions for these liabilities.

The following is a reconciliation of the provisions during the year:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Opening provision	1,221	1,165
Warranty costs incurred	(354)	(292)
Provision relating to Spot Devices Inc. acquisition	-	(110)
Warranty provision recognized on acquisition of Sol, Inc	-	(60)
Warranty provision recognized on acquisition of Sabik (note 22)	-	278
Warranty provision additions/changes	188	244
Reclassification of discontinued operations	(258)	-
Foreign exchange adjustment	(17)	(4)
Closing provision	**780**	**1,221**

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. Bank Debt

	DECEMBER 31, 2016	DECEMBER 31, 2015
CIBC facility	6,994	8,998
Deutsche facility	-	1,095
Nordea facility	420	-
	7,414	**10,093**

In 2015, the Company signed a credit facility (the "Facility") with the Canadian Imperial Bank of Commerce ("CIBC"). The multifaceted Facility provided up to $25.75 million through: a) a $10 million 364-Day Revolving Credit Facility; b) a $10 million Term Acquisition Credit Facility; c) $3.75 million for Letters of Credit; and d) $2.0 million for trading room and other liabilities. The Company's ability to draw on the 364-Day revolver, letters of credit, and credit for trading room contingent liabilities is subject to certain covenants.

In June of 2015, the Company drew $10 million on the term acquisition facility to fund the acquisition of Sabik Group of Companies. This debt is repayable on a monthly basis over a 5-year term and was broken into two $5 million tranches, both of which are repayable on demand. The first tranche was 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 was approximately 4.5% per annum on the outstanding balance. The second tranche carried an interest rate of US LIBOR plus 3.5%. In late June 2016, the Company signed an updated credit facility agreement with CIBC which eliminated the need for the first tranche to be supported by EDC, and set the interest rate on both tranches to US LIBOR plus 3.0%.

In late March 2016, the Company's German subsidiary, Sabik Offshore GmbH, signed a new credit facility with Deutsche Bank (the "Deutsche Facility"). The Deutsche Facility provides credit up to €3.0 million through €2.0 million (USD $3.2 million through USD $2.1 million) of revolving credit and €1.0 million (USD $1.1 million) for guarantees and was secured to support ongoing working capital needs. Interest on the revolving credit facility is variable and is based on EURIBOR plus 1.5%. The Deutsche Facility has been guaranteed through a €2.0 million (USD $2.1 million) Letter of Credit issued on the Company's CIBC Facility and a security over inventory within Sabik Offshore GmbH and is repayable on demand. At December 31, 2016, no amounts had been drawn on the revolving credit facility.

Sabik Oy has access to an operating line and a loan with Nordea (the "Nordea Facility"), a Finnish financial institution. The loan and operating line is secured by Carmanah through a letter of credit drawn from the CIBC credit facility noted above and is repayable on demand. At December 31, 2016, Sabik Oy had drawn €0.4 million (USD $0.4 million) from the operating line for short-term working capital needs. It carries an interest rate of EURIBOR plus 1.35% and was drawn upon for short-term working capital needs.

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

WARRANTS

As a part of a "bought deal" financing the Company completed in April 2015, it issued a total of 332,750 broker warrants (the "Warrants") which allowed the holder to acquire one additional Common Share of the Company at a price of $5.00 CAD per share. These Warrants expired 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 CAD and it was recorded as a reduction to share capital with an offset to the equity reserve account. The table below is a reconciliation of the 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**
Exercised	(239,580)	$5.00
Expired	(79,869)	$5.00
Balance, December 31, 2016	**-**	**-**

NORMAL COURSE ISSUER BID

On March 9, 2016, Carmanah announced that the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which would allow the Company to purchase up to 1,426,386 of its common shares, representing approximately 10% of its public float as of March 7, 2016. The program commenced on March 14, 2016, and can continue until March 13, 2017, or an earlier date should the Company complete its purchases.

Under this program, during the year ended December 31, 2016, the Company acquired 329,877 of its common shares at prevailing market prices at the time of the transaction. A total of $1.3 million CAD ($1.1 million USD) was used to acquire these shares. All shares repurchased under the bid were cancelled.

12.1 DILUTED SHARE RECONCILIATION

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

	DECEMBER 31, 2016	DECEMBER 31,2015
Basic weighted average shares outstanding	24,756,558	21,905,787
Effect of dilutive securities: Stock options and warrants	503,052	606,942
Diluted weighted average shares outstanding	**25,259,610**	**22,512,729**

For the year ended December 31, 2016, 1,214,722 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 of 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	Expiry is typically 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 for continuing operations for these share-based payment plans is outlined in the table below:

YEARS ENDED DECEMBER 31,	2016	2015
Stock options	700	815

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, 2016:

Available shares (10% of outstanding shares at December 31, 2016)	2,460,250
Less:	
Stock options outstanding at December 31, 2016	(1,942,985)
Number of shares issuable under stock-based compensation plans	517,265

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

(Unless otherwise noted expressed in thousands of U.S. 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, 2016 and 2015. The weighted average exercise price is stated in Canadian dollars.

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1, 2015	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
Granted	200,000	$3.93
Exercised	(76,201)	$2.58
Expired	(6,000)	$5.30
Forfeited	(227,434)	$4.67
Balance, December 31, 2016	1,942,985	$3.72

The following table summarizes the stock options outstanding and exercisable at December 31, 2015 and 2016. 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, 2015						-
$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
At December 31, 2016						
$1.45 to $1.45	300,000	3.9	$1.45	225,000	3.9	$1.45
$1.46 to $2.50	502,807	7.3	$2.50	233,113	7.3	$2.50
$2.51 to $2.90	281,965	7.2	$2.72	156,675	6.6	$2.74
$2.91 to $6.39	858,213	8.7	$5.55	167,977	8.5	$5.98
	1,942,985	7.4	$3.72	782,765	6.4	$2.99

[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, 2016, is $2.04 CAD per share and $3.08 CAD per share for the year ended December 31, 2015. The option valuations were determined using the following weighted average assumptions:

		YEAR ENDED DECEMBER 31,
	2016	**2015**
Risk-free interest rate	0.91%	1.13%
Expected dividend yield	0%	0%
Forfeiture rate	16.6%	17.5%
Stock price volatility	55%	55%
Expected life of options	6.2 years	6.2 years
Term of options	10 years	10 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 U.S. dollars,
except number of share and per share amounts)

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	VEHICLE LEASES	IT AND OTHER CONTRACTS	TOTAL
Not later than 1 year	591	102	46	43	782
2 years to 3 years	962	173	34	15	1,184
Greater than 3 years	346	24	-	13	383
Total	1,899	299	80	71	2,349

Lease payments recognized as expenses in 2016 amounted to $0.8 million (2015 - $0.7 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. 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 product are less than actual use or sales in a given period. At December 31, 2016, the contract manufacturers held approximately $2.4 million (December 31, 2015 - $1.5 million) in inventory and $0.7 million (December 31, 2015 - $0.7 million) in outstanding committed purchase orders.

14.3 CONTINGENT LIABILITIES

From time to time, provisions are set up to cover potential legal settlements. There are no provisions recorded at December 31, 2016 or 2015. No settlement amounts were paid out in the years ended December 31, 2016 or 2015.

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. (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 were taken in regards to this matter, including a successful application to have the underlying patents reexamined by the U.S. patent office, which resulted in many aspects of the patents being rejected. The Plaintiff has appealed this judgment. Pending that action, the original court proceedings have been stayed.

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. In late April 2016, the Company reached a settlement with the defendants during mediation. Under the settlement, the

Company received CAD $0.5 million for past defense costs and damages. These funds were received and recognized in late July 2016 once all of the terms of the settlement agreement were finalized. According to the agreement, RSA has agreed to cover 70% of future defense costs incurred on a go forward basis. However, in the event that the underlying action proceeds to trial and a verdict is rendered, a reallocation of the go-forward defense costs may occur.

In June 2016, the Company was named in another lawsuit filed in a United States District Court filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. alleging additional patent infringement of a new patent that was granted in September of 2015. The outcome of this and the previous case are not certain and management intends to continue to defend the Company and file additional responses to the Court as required. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. At December 31, 2016, no provision has been made as Management has concluded the probability of outflow is low.

14.4 INDEMNIFICATIONS IN CONTRACTS

The Company has entered into agreements with third parties that include indemnification provisions that are customary in the industry. These indemnification provisions generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. The maximum amount of potential future indemnification is unlimited; however, the Company currently holds commercial and product liability insurance. This insurance limits the Company's exposure and may enable it to recover a portion of any future amounts paid. Historically, the Company has not made any indemnification payments under such agreements and the Company believes that the fair value of these indemnification obligations is minimal. Accordingly, the Company has not recognized any liabilities relating to these obligations for any period presented.

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,**	
	2016	**2015**
Short-term benefits	776	1,357
Termination benefits	-	198
Share-based compensations	719	2,233
Total	**1,495**	**3,788**

(Unless otherwise noted expressed in thousands of U.S. dollars,
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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 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 $0.9 million (December 31, 2015 - $1.0 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 ended December 31, 2016, the associated amounts owing in trade and other payables was $0.03 million (December 31, 2015 - $0.1 million).

16. Operating Expenditures

The components of operating expenditures by nature are outlined below:

	YEARS ENDED DECEMBER 31,	
	2016	**2015**
Salaries, commissions, and other direct compensation	8,672	7,497
Professional fees, insurance, and public company costs	1,509	1,002
Amortization	1,489	1,872
Telecom and IT expenses	826	887
Travel and related expenses	744	713
Occupancy costs	918	723
Bank charges and bad debts	150	135
Marketing, advertising, and other related expenses	665	645
Development expenses	327	724
Other expenses	487	622
Share-based payments	700	815
Bad debts	104	49
Development credits	(60)	-
Investment tax credit recognized (note 19)	-	(4,502)
Total operating expenditures	**16,531**	**11,182**

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 and hybrid power systems.
Obstruction	LED obstruction lighting sold worldwide - the Company offers self-contained obstruction marking lights that provide a range of solutions for marking towers and other obstructions to aerial and ground navigation.
Offshore	Aids-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.
Telematics	Telematics is currently focused on designing and manufacturing devices to enable remote monitoring of assets.
Illumination	
Outdoor Lighting	LED lighting systems for off-grid lighting applications, including street, parking lot, perimeter, 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.

**Discontinued operations.*

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

(Unless otherwise noted expressed in thousands of U.S. dollars,
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	SIGNALS	ILLUMINATION	TOTAL
For the year ended December 31, 2016			
Revenue	39,915	7,827	47,742
Gross margin	18,090	2,451	20,541
Gross margin %	45.3%	31.3%	43.0%
Total operating expenses			(16,531)
Other expenses			(56)
Income before taxes			3,954
For the year ended December 31, 2015			
Revenue	34,175	8,915	43,090
Gross margin	14,386	3,373	17,759
Gross margin %	42.1%	37.8%	41.2%
Total operating expenses (including restructuring)			(11,182)
Other expenses			(2,945)
Income before taxes			3,632

GEOGRAPHIC

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

	YEARS ENDED DECEMBER 31,	
	2016	2015
North America	22,504	22,290
Europe	21,923	13,892
South America	420	882
Middle East and Africa	862	2,484
Asia Pacific	2,033	3,542
Total revenues	47,742	43,090

As at December 31, 2016, substantially all the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $1.6 million (December 31, 2015 - $5.4 million), and $3.8 million (December 31, 2015 - $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,
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18. Income Taxes

Income tax expense / (recovery) is comprised of the following:

YEARS ENDED DECEMBER 31,

	2016	2015
Current tax expense/(recovery):		
Current year	1,491	1,319
Adjustments for prior periods	(98)	(40)
	1,393	1,279
Deferred tax expense/(recovery)		
Origination and reversal of temporary differences	(282)	18
Change in unrecognized deferred tax assets	-	(7,573)
Change in tax rates	(4)	-
Adjustments for prior periods	(70)	214
	(356)	(7,341)
Total income tax expense / (recovery)	1,037	(6,062)

The following is a reconciliation of income taxes calculated at the Canadian statutory corporate tax rate to tax expense/(recovery):

YEARS ENDED DECEMBER 31,

	2016	2015
Income before taxes	3,954	3,632
Computed tax expense at 26% (2015 – 26%)	1,028	944
Adjusted for the effects of:		
Expenses not deductible for tax purposes	281	520
Recognition of deferred tax assets	-	(7,573)
Adjustments for prior periods	(196)	173
Effects of tax rate changes and foreign tax rate changes	(98)	(159)
Other	22	33
Income tax expense / (recovery)	1,037	(6,062)

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 U.S. dollars,
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19. Investment Tax Credits and Deferred Taxes

The tables below outline the movement in temporary tax differences attributable to deferred assets and liabilities. The Company has recorded deferred income tax assets available as it is probable that the benefits of these assets will be realized.

DECEMBER 31, 2016	OPENING BALANCE	RECOGNIZED IN INCOME TAX EXPENSE	RECOGNIZED IN EQUITY	RECLASSIFIED – ASSETS HELD FOR SALE	RECOGNIZED IN FOREIGN EXCHANGE GAIN (LOSS)	ENDING BALANCE
Deferred Income tax assets						
Scientific research & experimental development expenditures	2,508	(78)	-	-	-	2,430
Losses available for future periods	2,461	322	-		-	2,783
Tangible assets	1,345	(42)	-		-	1,303
Warranty and other provisions	431	(204)	-	(65)	(8)	154
Share issuance costs	441	(123)	-		-	318
Other	19	26	-		-	45
	7,205	**(99)**	**-**	**(65)**	**(8)**	**7,033**
Deferred income tax liabilities						
Intangible assets	(964)	(18)	-	-	45	(936)
Inventory	(16)	-	-	-	-	(16)
Investment tax credits	(748)	118	-	-	-	(630)
	(1,728)	**100**	**-**	**-**	**45**	**(1,582)**
Net deferred income tax asset	**5,477**	**1**	**-**	**(65)**	**37**	**5,451**

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

DECEMBER 31, 2015	OPENING BALANCE	RECOGNIZED IN INCOME TAX EXPENSE	RECOGNIZED IN EQUITY	ACQUIRED IN A BUSINESS COMBINATION	RECOGNIZED IN FOREIGN EXCHANGE GAIN (LOSS)	ENDING BALANCE
Deferred Income tax assets						
Scientific research & experimental development expenditures	-	2,508	-	-	-	2,508
Losses available for future periods	15	2,446	-		-	2,461
Tangible assets	20	1,325	-		-	1,345
Warranty and other provisions	342	263	-	(174)	-	431
Share issuance costs	-	(43)	484		-	441
Other	15	4	-		-	19
	392	**6,503**	**484**	**(174)**	**-**	**7,205**
Deferred income tax liabilities						
Intangible assets	(109)	1,310	-	(2,197)	32	(964)
Inventory		107	-	(123)	-	(16)
Investment tax credits		(748)	-	-	-	(748)
	(109)	**669**	**-**	**(2,320)**	**32**	**(1,728)**
Net deferred income tax asset	**283**	**7,172**	**484**	**(2,494)**	**32**	**5,477**

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

	YEARS ENDED DECEMBER 31,	
	2016	**2015**
Temporary differences and unused tax losses available to reduce taxable income		
Unrealized Foreign Exchange Gain	414	121
	414	121

During the December 31, 2016, fiscal year, the Company recognized $60 (2015- $4,503) of investment tax credits as a reduction to operating expenditures. The investment tax credits are available to reduce Canadian federal and provincial taxes otherwise payable.

(Unless otherwise noted expressed in thousands of U.S. dollars,
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20. 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, 2016, the majority of these costs were related to the ETKA asset purchase as described in note 22.

21. Assets Held for Sale and Discontinued Operations

During the third quarter of 2016, management committed to a plan to sell its Power segment to focus on the Company's Signals and Illumination segments. Sales efforts began in September 2016 and it is anticipated that the sale will occur within in 2017. At December 31, 2016, the disposal group was stated at the lower of carrying amount and fair value less costs to sell. The comparative Consolidated Statement of Income and Total Comprehensive Income has been restated to show the discontinued operations separately from continuing operations.

RESULTS OF DISCONTINUED OPERATIONS

	Years ended December 31,	
	2016	**2015**
Revenues	26,879	25,115
Cost of sales	21,705	19,969
Gross profit	5,174	5,146
Operating expenditures	(3,526)	(2,988)
Other income (expense)	90	(790)
Income before taxes	1,738	1,368
Tax expense	(470)	(378)
Net income from discontinued operations	1,268	990
Other comprehensive income (loss)	43	(251)
Total comprehensive income	1,311	739

(Unless otherwise noted, expressed in thousands of U.S. dollars,
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EFFECT OF DISPOSAL ON THE FINANCIAL POSITION OF THE COMPANY

As part of management's plan to sell the Company's Power segment, assets and liabilities associated with the segment have been presented as held for sale. The following are the associated details:

	AS OF DECEMBER 31, 2016
Trade and other receivables	6,172
Unbilled receivables	4,472
Inventories	4,917
Prepaid and other current assets	588
Capital and intangible assets	178
Deferred tax assets	67
Assets classified as held for sale	16,394
Deferred revenue	9
Trade and other payables	2,455
Cost of uncompleted contracts	60
Provisions	258
Liabilities classified as held for sale	2,782

CASH FLOW FROM (USED IN) DISCONTINUED OPERATIONS

	Years ended December 31,	
	2016	2015
Cash provided by (used in) operating activities	4,039	(5,667)
Net cash flow from discontinued operations	4,039	(5,667)

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 of non-controlling interest, 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 U.S. 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 the Company's 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.

(Unless otherwise noted, expressed in thousands of U.S. 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, were finalized during the second quarter of 2016. No changes were made during the three and nine months ended September 30, 2016. The allocation was held open while management completed an assessment of Sabik's warranty provisions. The following table outlines the final purchase price allocation:

	Allocation
Consideration	
Cash	18,827
Shares issued	4,513
Total consideration	**23,340**
Identifiable assets acquired and liabilities assumed	
Cash	2,084
Trade and other receivables	2,546
Inventories	3,432
Equipment and other similar assets	726
Trade and other payables	(973)
Income taxes payable	(441)
Deferred revenue	(847)
Bank debt	(1,403)
Provisions	(278)
Deferred tax assets	25
Deferred tax liabilities	(2,508)
Acquired intangibles	9,300
Goodwill	11,677
Total	**23,340**

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 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.

23. Subsequent Events

ETKA ASSET PURCHASE

In late 2016, the company announced the signing of an asset purchase agreement to acquire certain marine aids-to-navigation assets from Cybernetica AS ("Cybernetica"), an Estonian company. This acquisition was completed on January 1, 2017. Under the agreement, Carmanah acquired the intellectual rights to a marine aids-to-navigation product line marketed under the EKTA brand, assignments to a number of sales and employment contracts, and some manufacturing assets. The purchase price totaled €1.35 million (USD $1.41 million), with €1 million paid on closing and a further €0.35 million to be paid on the first anniversary of the closing date. The additional payment may be reduced in the event of a breach of certain warranties made within the agreement.

We are currently in the process of evaluating the assets acquired and their fair value. We currently do not anticipate a reduction in the purchase price due to breach of certain warranties.

A new legal entity, Sabik Ou, was incorporated in Estonia to complete the acquisition. The rationale for the acquisition was to (1) strengthen our worldwide product portfolio and to allow us to provide more comprehensive single-source solutions to our marine customers, and (2) increase our market presence in Europe through the acquired/assigned sales contracts.

Email: investors@carmanah.com
Toll-Free: 1.877.722.8877 (US & Canada)
Worldwide: 1.250.380.0052
Fax: 1.250.380.0062
Web: **carmanah.com**