CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2014 and 2013
(Amounts in thousands of U.S. dollars unless otherwise stated)
(Unaudited)

CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Statements of Financial Position
(Expressed in thousands of U.S. dollars)
(Unaudited)

	Notes	June 30, 2014	December 31, 2013
ASSETS			
Cash		8,504	5,197
Restricted cash		45	45
Trade and other receivables		7,020	5,614
Inventories	3	2,057	2,967
Prepaid and other current assets		689	303
Total current assets		18,315	14,126
Equipment and leasehold improvements	4	657	682
Intangible assets	5	422	149
Total assets		**19,394**	**14,957**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		4,947	4,763
Provisions		850	850
Deferred revenue		259	416
Current liabilities		6,056	6,029
Equity			
Share capital	7	46,660	42,870
Equity reserve	8	3,067	2,966
Accumulated other comprehensive loss		(72)	(76)
Deficit		(36,317)	(36,832)
Total equity		13,338	8,928
Total liabilities and equity		**19,394**	**14,957**

Commitments and contingencies – note 6
Subsequent events – note 14

Approved and authorized for issue by the Board of Directors on August 7, 2014

John Simmons, Chief Executive Officer

Terry Holland, Director

CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Statements of Income and Loss and Comprehensive Income and Loss
(Expressed in thousands of U.S. dollars, except number of share and per share amounts)
(Unaudited)

	Notes	Three months ended 2014	Three months ended June 30, 2013	Six months ended 2014	Six months ended June 30, 2013
Revenues	10	8,994	6,319	18,113	13,284
Cost of sales	10	5,733	4,777	11,867	9,635
Gross profit	10	3,261	1,542	6,246	3,649
Operating expenditures					
Sales and marketing	9	1,011	961	2,004	1,915
Research and development	9	307	468	611	1,061
General and administrative	9	1,528	1,610	2,695	2,864
Operating expenditures		2,846	3,039	5,310	5,840
Impairment of intangible assets		-	(965)	-	(965)
Operating Income/(loss)		415	(2,462)	936	(3,156)
Other income/(expenses)					
Gain on disposal of assets		-	-	-	2
Other (expenses)/income	13	(205)	(13)	(480)	4
Foreign exchange gain/(loss)		228	(2)	58	(37)
		23	(15)	(422)	(31)
Income/(loss) before taxes		438	(2,477)	514	(3,187)
Income tax recovery/(expense)		-	-	1	(2)
Net income/(loss) attributable to shareholders		438	(2,477)	515	(3,189)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustments		30	(42)	4	(56)
Total comprehensive income/(loss)		468	(2,519)	519	(3,245)
Net income/(loss) per share					
Basic		0.00	(0.05)	0.00	(0.06)
Diluted		0.00	(0.05)	0.00	(0.06)
Weighted average number of shares outstanding:					
Basic		119,275,747	50,186,274	109,995,436	50,109,331
Diluted		119,641,212	50,186,274	110,041,930	50,109,331

CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in thousands of U.S. dollars, except number of share and per share amounts)
(Unaudited)

	Notes	Share capital *# of shares* *('000)*	Share capital Amount	Equity reserve	Subtotal	Accumulated other comprehensive loss	Deficit	Total equity
Balance, January 1, 2013		*47,870*	36,982	2,982	39,964	-	(31,268)	8,696
Net loss		-	-	-	-	-	(3,189)	(3,189)
Share-based payments		-	-	108	108	-	-	108
Shares issued to acquire Spot Devices Inc.		*2,222*	607	-	607			607
Shares issued under stock compensation plans		*95*	28	(28)	-	-	-	-
Foreign currency translation adjustments		-	-	-	-	*(56)*	-	*(56)*
Balance, June 30, 2013		*50,187*	37,617	3,062	40,679	(56)	(34,457)	6,166
Net loss		-	-	-	-	-	(2,375)	(2,375)
Share-based payments		-	-	(62)	(62)	-	-	(62)
Shares issued under stock compensation plans		*184*	34	(34)	-	-	-	-
Shares issued in rights offering, net of issuance costs of $491	7	*50,294*	5,219	-	5,219	-	-	5,219
Foreign currency translation adjustments		-	-	-	-	(20)	-	(20)
Balance, December 31, 2013		*100,612*	42,870	2,966	45,836	(76)	(36,832)	8,928
Net income		-	-	-	-	-	515	515
Share-based payments	8	-	-	101	101	-	-	101
Shares issued in private placement, net of issuance costs of $31	7	19,300	3,790	-	3,790	-	-	3,790
Foreign currency translation adjustments		-	-	-	-	4	-	4
Balance, June 30, 2014		*119,912*	46,660	3,067	49,727	(72)	(36,317)	13,338

CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
(Unaudited)

	Notes	Six months ended June 30, 2014	2013
OPERATING ACTIVITIES			
Net income/(loss)		515	(3,189)
Add back (deduct) items not involving cash:			
Amortization	4 & 5	171	475
Gain on disposal of assets		-	(2)
Impairment of intangible assets		-	965
Share-based payments	8	101	108
Unrealized foreign exchange gain		(126)	(136)
Changes in working capital and other items:			
Trade and other receivables		(1,406)	190
Inventories		910	512
Prepaids and other current assets		(386)	122
Trade and other payables		184	201
Provisions		-	198
Deferred revenue		(157)	102
Net cash provided by (used in) operating activities		(194)	(454)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		-	6
Purchase of equipment and leasehold improvements	4	(110)	(125)
Purchase of intangible assets	5	(309)	(51)
Net cash used in investing activities		(419)	(170)
FINANCING ACTIVITIES			
Proceeds from private placement, net of issue costs	7	3,790	-
Net cash provided by financing activities		3,790	-
Foreign exchange effect on cash		85	45
Increase/(decrease) in cash		3,262	(579)
Cash at beginning of period		5,242	2,687
Cash at end of period		8,504	2,108

1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION

1.1. General business description

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

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

1.2. Basis of preparation and statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards ("IFRS"). They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2013. These condensed consolidated interim 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.

There have been no significant changes to the Company's accounting policies from those disclosed in the consolidated financial statements for the years ended December 31, 2013 and 2012. There have also been no significant changes in judgements or estimates from those disclosed in the consolidated financial statements for the years ended December 31, 2013 and 2012.

2. NEW ACCOUNTING STANDARDS

2.1. Accounting standards adopted in 2014

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 was effective January 1, 2014 and was applied retrospectively. The adoption of this interpretation did not have a significant impact on the Company's condensed interim consolidated financial statements.

2.2. Future Accounting standards

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

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

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the Company's financial statements.

3. INVENTORIES

	June 30, 2014	December 31, 2013
Finished goods	1,830	2,830
Raw materials	1,141	1,123
Provision for obsolescence	(914)	(986)
Net inventories	2,057	2,967

For the six months ended June 30, 2014, inventory recognized as an expense in cost of sales amounted to $11.3 million (June 30, 2013 - $8.9 million). Included in the above amounts were inventory write downs of $0.2 milllion for the six months ended June 30, 2014 (June 30, 2013 – $0.2 million). There were no reversals of previously recognized inventory write downs. As at June 30, 2014, the Company anticipates the net inventory will be realized within one year.

4. 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 at January 1, 2013	982	621	108	768	525	3,004
Additions	12	-	8	184	-	204
Disposals	(480)	(22)	(37)	-	(56)	(595)
Balance at December 31, 2013	**514**	**599**	**79**	**952**	**469**	**2,613**
Additions	101	-	5	4	-	110
Balance at June 30, 2014	**615**	**599**	**84**	**956**	**469**	**2,723**
Accumulated amortization						
Balance at January 1, 2013	852	170	56	441	387	1,906
Amortization for the year	58	124	12	159	94	447
Impairment loss recognized	-	-	-	158	-	158
Disposals	(477)	(21)	(32)	-	(50)	(580)
Balance at December 31, 2013	**433**	**273**	**36**	**758**	**431**	**1,931**
Amortization for the period	22	60	4	27	22	135
Balance at June 30, 2014	**455**	**333**	**40**	**785**	**453**	**2,066**
Carrying amounts						
At December 31, 2013	81	326	43	194	38	682
At June 30, 2014	160	266	44	171	16	657

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

5. INTANGIBLE ASSETS

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

	Patents and trademarks	Software	License rights	Product development assets	Spot acquired intangibles	Total
Cost						
Balance at January 1, 2013	729	2,160	450	545	-	3,884
Additions	72	12	450	-	623	707
Disposals	-	(394)	-	-	-	(394)
Balance at December 31, 2013	**801**	**1,778**	**450**	**545**	**623**	**4,197**
Additions	24	285	-	-	-	309
Balance at June 30, 2014	**825**	**2,063**	**450**	**545**	**623**	**4,506**
Accumulated amortization						
Balance at January 1, 2013	450	1,578	63	545	-	2,636
Impairment losses recognized	140	212	342	-	623	1,317
Disposals	-	(394)	-	-	-	(394)
Amortization for the year	81	363	45	-	-	489
Balance at December 31, 2013	**671**	**1,759**	**450**	**545**	**623**	**4,048**
Amortization for the period	29	7	-	-	-	36
Balance at June 30, 2014	**700**	**1,766**	**450**	**545**	**623**	**4,084**
Carrying amounts						
At December 31, 2013	130	19	-	-	-	149
At June 30, 2014	125	297	-	-	-	422

6. COMMITMENTS AND CONTINGENCIES

6.1. Commitments

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. Carmanah's largest contract manufacturer, Flextronics, requires Carmanah to purchase excess raw inventory which arises in situations where the Company's demand forecasts for particular product is less than actual use or sales in a given period. At June 30, 2014, the contract manufacturer held approximately $1.2 million (December 31, 2013 - $0.9 million) in inventory and $1.3 million (December 31, 2013 - $1.8 million) in outstanding committed purchase orders.

6.2. Contingent liabilities

On July 18, 2013, the Company was named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (all of which are related parties – collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used with respect to Carmanah's solar powered flashing beacons for the traffic safety market and other claims relating to advertising and business practices. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiff for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respects to a similar patent held by the Company. In early 2014, the Company's application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The outcome of this review was positive, with the examiner agreeing with the Company's position. The Plaintiff can still appeal this decision. The outcome of this case is not certain and the Company intends to continue to defend itself and file additional responses to the Court as required to do so. As the outcome of these matters is not currently determinable, no provision has been made at June 30, 2014.

6.3. Credit facilities

The Company does not currently have access to a credit facility. Any credit extended to Carmanah by the Company's bank, Royal Bank of Canada ("RBC"), for products such as letters of credits, credit cards, and foreign exchange hedges are on a cash secured basis.

7. SHARE CAPITAL

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

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

On March 31, 2014, the Company announced plans for a non-brokered private placement to raise approximately $4.2 million CDN. This private placement closed on April 3, 2014 and resulted in the issuance of 19,300,000 common shares at a price of $0.22 a share of which 10,000,000 of common shares were purchased by insiders of the Company. The following were insiders with holdings around or above 10% who participated in the private placement:

- Michael Sonnenfeldt, Carmanah's largest shareholder and Chairman of the Board, subscribed for 3,500,000 shares under the private placement through MUUS Lending Inc., an entity that is beneficially owned by Mr. Sonnenfeldt. Subsequent to the private placement, Mr. Sonnenfeldt beneficially held 28,037,778 common shares, representing approximately 23.4% of Carmanah's issued and outstanding common shares at that time.
- Jim Meekison, a member of the Board of Directors of the Company, subscribed for 3,000,000 shares under the private placement through JDM Investment Holdings Inc, an entity that is beneficially owned by Mr. Meekison. Subsequent to the private placement, Mr. Meekison beneficially held 13,178,000 common shares, representing approximately 11.0% of Carmanah's issued and outstanding common shares at that time.

Subsequent to the acquisition, insiders of the Company held approximately 44% of the issued and outstanding common shares at that time. The proceeds from this Placement are to be used for general corporate purposes, specifically working capital.

A further private placement occurred subsequent to June 30, 2014. This transaction is described in note 14 – Subsequent Events.

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

8. SHARE-BASED PAYMENTS

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Stock options	84	52	101	72
Share units	-	11	-	36
Total compensation expense	84	63	101	108

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 June 30, 2014:

Available shares (10% of outstanding shares at June 30, 2014)	11,991,201
Less:	
Stock options outstanding at June 30, 2014	(10,369,500)
Share units outstanding at June 30, 2014	-
Number of shares issuable under stock-based compensation plans	1,621,701

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

8.1. Stock options

The following is a reconciliation of stock options outstanding between January 1, 2013 through June 30, 2014. The weighted average exercise price is stated in Canadian dollars.

	Number of options	Weighted average exercise price
Balance, January 1, 2013	1,445,800	0.65
Granted	1,780,000	0.32
Forfeited	(237,800)	0.97
Balance, June 30, 2013	2,988,000	0.43
Granted	3,000,000	0.15
Forfeited	(1,874,000)	0.45
Balance, December 31, 2013	4,114,000	0.21
Granted	6,629,500	0.25
Forfeited	(374,000)	0.45
Balance, June 30, 2014	10,369,500	0.23

The following table summarizes the stock options outstanding and exercisable at June 30, 2014 and December 31, 2013. The weighted average exercise price is stated in Canadian dollars:

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

	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, 2013						
$0.15 to $0.25	3,000,000	6.9	$0.15	-	-	-
$0.26 to $0.50	780,000	4.2	$0.29	163,294	4.2	$0.29
$0.51 to $1.00	334,000	2.7	$0.60	284,000	2.4	$0.57
	4,114,000	6.0	$0.21	447,294	3.0	$0.47
At June 30, 2014						
$0.15 to $0.27	9,629,500	8.7	$0.22	-	-	-
$0.28 to $0.52	560,000	3.7	$0.29	186,604	3.7	$0.29
$0.53 to $0.73	180,000	1.5	$0.53	180,000	1.5	$0.53
	10,369,500	8.3	$0.23	366,604	2.6	$0.41

1 - WA – weighted average / 2 – Life in years

The Company uses the Black-Scholes option pricing model to calculate the weighted average fair value of options granted. The weighted average fair value of the stock options granted for the six months ended June 30, 2014 was $0.12 per share. For options granted in the six months ended June 30, 2013, the weighted average fair value was $0.13 per share. The fair values were determined using the following weighted average assumptions:

	Six months ended June 30, 2014	2013
Risk-free interest rate	1.67%	1.14%
Expected dividend yield	0%	0%
Forfeiture rate	23.9%	14.1%
Stock price volatility	59.6%	65.6%
Expected life of options	5.4 years	3.4 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.

8.2. Share units (RSU/PSU)

During the six months ended June 30, 2014, Carmanah granted no Restricted Share Units ("RSUs") or Performance Share Units ("PSUs"). During the six months ended June 30, 2013, Carmanah granted 153,356 RSUs with a weighted average fair value per unit $0.27 CDN and granted no PSUs.

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

	Restricted share units	Performance share units	Total share units
Balance January 1, 2013	54,340	24,932	79,272
Granted	153,356	-	153,356
Vested and issued	(89,819)	(4,500)	(94,319)
Forfeited	(29,457)	-	(29,457)
Balance June 30, 2013	88,420	20,432	108,852
Granted	47,917	-	47,917
Vested and issued	(120,741)	(10,216)	(130,957)
Forfeited	(15,596)	(10,216)	(25,812)
Balance December 31, 2013	-	-	-
Granted	-	-	-
Vested and issued	-	-	-
Balance June 30, 2014	-	-	-

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

9. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Salaries, commissions and other direct compensation	1,556	1,637	3,093	3,381
Professional fees, insurance and public company costs	446	356	842	526
Marketing, advertising and other related expenses	149	87	229	196
Telecom and IT expenses	148	145	274	297
Bank charges and bad debts	129	235	154	271
Travel and related expenses	117	149	205	269
Occupancy costs	85	94	172	197
Share-based payments	84	63	101	108
Amortization	72	200	148	400
Development expenses	42	56	58	155
Other expenses	18	17	34	40
Total operating expenditures	2,846	3,039	5,310	5,840

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

10. SEGMENTED INFORMATION

In January 2014 the Company realigned its reportable segments to better reflect the strategic nature of its underlying businesses and how they will be managed going forward. As a result, the Company’s reportable segments are now broken into “Signals” and “Power”. The Signals segment includes results from the Company’s Traffic, Marine, Aviation and Obstruction verticals. The Power segment includes results from the Company’s Outdoor Lighting, GoPower! and Solar EPC Services verticals. The 2013 results have been restated to reflect this new alignment. 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 under a partnership arrangement.
Aviation	LED aviation lighting sold worldwide - the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems.
Obstruction	LED obstruction lighting sold worldwide - the Company offers simple and self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Power	
Outdoor Lighting	LED lighting systems for off-grid lighting applications, including street, parking lot, park, and pathway applications. Products are sold worldwide using a variety of distribution models
GoPower!	Mobile power solutions for the North American market. Built for the hard demands of RV, utility, and fleet vehicles, as well as marine applications, Go

	Power!'s complete line of solar chargers, inverters, regulators and power accessories deliver electricity where grid-power is inaccessible or unavailable.
Solar EPC Services	The design, procurement and construction of grid-connected solar power systems in the Canadian industrial market.

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

	Signals	Power	Total
For the three months ended June 30, 2014			
Revenue	3,825	5,169	8,994
Gross margin	1,904	1,357	3,261
Gross margin %	49.8%	26.3%	36.3%
Total operating expenses			(2,846)
Other income			23
Income before taxes			438
For the three months ended June 30, 2013			
Revenue	3,058	3,261	6,319
Gross margin	815	727	1,542
Gross margin %	26.7%	22.3%	24.4%
Total operating expenses (including impairment)			(4,004)
Other expenses			(15)
Loss before taxes			(2,477)
For the six months ended June 30, 2014			
Revenue	7,883	10,230	18,113
Gross margin	3,470	2,776	6,246
Gross margin %	44.0%	27.1%	34.5%
Total operating expenses			(5,310)
Other expenses			(422)
Income before taxes			514
For the six months ended June 30, 2013			
Revenue	6,194	7,090	13,284
Gross margin	1,944	1,705	3,649
Gross margin %	31.4%	24.0%	27.5%
Total operating expenses (including impairment)			(6,805)
Other expenses			(31)
Loss before taxes			(3,187)

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

Geographic

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
North America	6,864	5,586	13,432	11,888
South America	717	133	1,207	275
Europe	1,312	484	3,109	930
Middle East and Africa	31	28	163	74
Asia Pacific	70	88	202	117
Total revenues	8,994	6,319	18,113	13,284

As at June 30, 2014, substantially all of the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $0.9 million (December 31, 2013 - $1.0 million).

11. RESTRUCTURING CHARGES

In the fourth quarter of 2013, the Company presented a restructuring plan designed to restore profitability and position the Company for future growth. Under the plan, Carmanah would terminate 14 employees to help reduce fixed salary costs to more sustainable levels. The Company also closed its remote development office in Burnaby, reorganized its internal departments, and started to execute a plan to replace its current ERP and CRM system with a more cost effective and efficient solution. The following table summarizes the costs incurred and balances outstanding with respects to restructuring at June 30, 2014.

	Severance and related benefits	Other exit and other costs	Total
Balance at January 1, 2013	-	-	-
Charges	518	34	552
Cash payments	(312)	(12)	(324)
Balance at December 31, 2013	206	22	228
Cash payments	(84)	-	(84)
Adjustments	(122)	-	(122)
Balance at June 30, 2014	-	22	22

A few positions which were to be eliminated under the plan were ultimately kept due to changes in the Company's business plans. As a result of this, a recovery of $0.1 million was recognized in the second quarter of 2014. A small amount of the restructuring accrual remains outstanding and is related to a cancelation fee associated with the Company's old ERP system.

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

12. FINANCIAL INSTRUMENTS

Classification and carrying value

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

	June 30, 2014	December 31, 2013
Loans and receivables		
Cash and restricted cash	8,549	5,242
Trade and other receivables	7,020	5,614
Other financial liabilities		
Trade and other payables	4,947	4,763

Fair value

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

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

The Company does not have any financial instruments at fair value at June 30, 2014 or December 31, 2013.

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.

13. OTHER EXPENSES

Other expenses primarily relate to merger and acquisition activities, and include legal, due diligence costs, and other related expenditures. During the quarter ended June 30, 2014, the majority of these costs were related to the acquisition of SOL Inc ("Sol") as decribed in note 14.

14. SUBSEQUENT EVENTS

Acquisition of SOL Inc.

On July 2, 2014, the Company completed the acquisition of SOL Inc ("Sol"), a competitor in the Company's Power business segment. Sol is a manufacturer of solar powered outdoor lights and is based out of Palm City Florida. This acquisition was announced on March 21, 2014 with signing of a binding letter of intent ("LOI"), an Agreement and Plan of Merger (the "Merger Agreement") was signed on May 26, 2014, and the transaction was approved by eligible Carmanah shareholders at the Company's Annual General and Special meeting held on June 23, 2014.

The acquisition was a related party transaction, as Michael Sonnenfeldt, the Chairman of the Company's Board of Directors (the "Board") and its largest shareholder was also the majority shareholder of Sol. Prior to the transaction he beneficially held (1) approximately 84.5% of Sol's outstanding shares and (2) was due a note receivable from Sol of approximately $5.3 million. Due to this potential conflict of interest, the Company convened a special committee of the Board consisting of disinterested directors who were responsible to evaluate and assess the potential acquisition. This committee evaluated the proposed transaction and management's assessments and oversaw a variety of work including the completion of a valuation and fairness opinion by an independent consultant.

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

The Company acquired 100% of the outstanding shares of Sol and an outstanding note receivable due from Sol which was beneficially owned by Michael Sonnenfeldt. Consideration paid upon close included the issuance of 37,858,606 common shares of Carmanah, issued from treasury, and a $0.05 million cash payment to certain minority shareholders of Sol. The aggregate value of the shares issued on July 2, 2014 amounted to approximately $7.1 million based on the closing share price of $0.20 CDN and a US/CDN exchange rate of 0.938. The agreement also provides an earn-out of 3% of certain revenues received by Carmanah and is available to electing former shareholders of SOL. This earn-out applies to specifically identified prospective sales opportunities brought forth by SOL and is subject to various conditions. Most significantly, each of these projects must result in revenues of at least $5.0 million and the sales order must be received and accepted by Carmanah prior to December 31, 2015, although cash and delivery can occur after that date. Mr. Sonnenfeldt and certain of his affiliates have elected to waive their right to receive all earn-out payments should they accrue. Accordingly any earn-out payment will be payable to the remaining SOL shareholders on a proportional basis. As of the date of these financial statements, no amount has been allocated to the consideration associated with this earn-out due to substantial uncertainty surrounding the Company's ability to secure the underlying contracts.

This acquisition is considered a business combination.

Customary covenants, representations and warranties exist under the Merger Agreement, and the associated Note Purchase Agreement and Voting and Indemnity Agreement (collectively the "Agreements"). Of particular note under the Agreements is a requirement for Sol's to have a specified working capital balance upon close. Any difference requires either a cash payment out to the vendors or a cash infusion which would be covered by a holdback mechanism created under the Agreements. As of the date of these condensed consolidated interim financial statements, the working capital and other identifiable assets and liabilities assumed under the Agreements have not yet been fully determined. However, here are management's current best estimate of the total consideration for the acquisition and purchase price allocation, in accordance with IFRS 3 – Business Combinations, are estimated as follows:

	$
Consideration	
Shares issued	7,098
Cash	56
Contingent consideration based on certain future revenues	-
Total consideration	7,154
Identifiable assets acquired and liabilities assumed	
Cash	729
Receivables	810
Inventory	1,551
Other assets	220
Equipment	221
Trade and other payables	(1,504)
Provisions	(541)
Deferred revenue	(235)
Customer list and other intangibles	1,300
Deferred income tax liability	(335)
Identifiable net assets acquired	2,216
Goodwill	4,938
Total	**7,154**

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

The primary driver behind the acquisition is to gain economies of scale in the outdoor lighting market.

Private placement

On July 9, 2014, the Company announced plans for a non-brokered private placement to raise $3.0 million CDN. This private placement closed July 17, 2014 and resulted in the issuance of 12,000,000 common shares at a price of $0.25 a share. The private placement was subscribed by insiders of the Company as noted below:

- Jim Meekison, a member of the Board of Directors of the Company, subscribed for 10,000,000 shares under the private placement through JDM Investment Holdings Inc, an entity that is beneficially owned by Mr. Meekison. Subsequent to the private placement, Mr. Meekison held 23,178,000 common shares, representing approximately 13.6% of Company's issued and outstanding common shares.
- Terry Holland, a member of the Board of Directors of the Company, subscribed for 2,000,0000 shares under the private placement through TMH Capital Corporation, an entity that is beneficially owned by Terry Holland. Subsequent to the private placement, Mr. Holland held 4,679,000 common shares, representing approximately 2.75% of Company's issued and outstanding common shares.

Subsequent to the acquisition and the purchase of Sol and this private placement, insiders of the Company held approximately 59.4% of the issued and outstanding common shares. The proceeds from this placement are to be used for general corporate purposes, specifically working capital.

Share consolidation

On July 18, 2014, the Company announced its intention to complete a consolidation of its common shares on the basis of one (1) post-consolidation Common Share for every ten (10) pre-consolidation Common Shares (the "Consolidation"). The consolidation received conditional approval from the TSX on July 23, 2014 and the post-consolidation shares are expected to begin to trading on the Toronto Stock Exchanges at some point in August 2014. Following the consolidation, the Company expects it will have approximately 16,977,062 common shares outstanding. All outstanding stock options will be adjusted proportionately to reflect the consolidation.