CARMANAH TECHNOLOGIES CORPORATION

Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016
(Amounts in thousands of U.S. dollars unless otherwise stated)

CARMANAH TECHNOLOGIES CORPORATION
Consolidated Statements of Financial Position
(Expressed in thousands of U.S. dollars)

	Notes	June 30, 2017	December 31, 2016
ASSETS			
Cash		23,038	21,921
Trade and other receivables		8,034	6,560
Inventories	4	6,997	6,215
Prepaid and other current assets		1,199	405
Income taxes receivable		8	148
Total current assets		39,276	35,249
Equipment and leasehold improvements	5	1,210	1,218
Intangible assets	6	7,589	7,531
Goodwill	6.1	19,094	16,838
Deferred income tax asset		7,033	7,165
Investment tax credits		2,104	2,512
Assets held for sale	13	13,967	16,394
Total assets		**90,273**	**86,907**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		4,905	4,612
Bank debt		6,403	7,414
Provisions		778	780
Income taxes payable		21	95
Deferred revenue		802	719
Total current liabilities		12,909	13,620
Deferred income tax liability		1,810	1,714
Liabilities held for sale	13	2,195	2,782
Total liabilities		**16,914**	**18,116**
Equity			
Share capital	8	86,473	86,376
Equity reserve	9	5,367	5,065
Accumulated other comprehensive gain/(loss)		322	(1,720)
Deficit		(18,803)	(20,930)
Total equity		73,359	68,791
Total liabilities and equity		**90,273**	**86,907**

Commitments and contingencies – note 7
Subsequent events – note 15

Approved and authorized for issue by the Board of Directors on August 9, 2017

"John Simmons"
John Simmons, Chief Executive Officer

"Michael Sonnenfeldt"
Michael Sonnenfeldt, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenues		12,201	13,852	23,328	25,712
Cost of sales		6,986	8,156	13,117	14,749
Gross profit	11	5,215	5,696	10,211	10,963
Operating expenditures					
Sales and marketing		1,188	1,288	2,291	2,407
Research and development		749	640	1,382	1,276
General and administrative		2,312	2,367	4,645	4,711
Total operating expenditures	10	4,249	4,295	8,318	8,394
Operating income		966	1,401	1,893	2,569
Other income/(expenses)					
Gain/(loss) on disposal of assets		(17)	-	(17)	1
Other expenses		(248)	(5)	(296)	(202)
Foreign exchange gain/(loss)		(64)	(4)	(63)	34
		(329)	(9)	(376)	(167)
Income before taxes		637	1,392	1,517	2,402
Income tax expense		(128)	(458)	(399)	(687)
Net income from continuing operations		509	934	1,118	1,715
Net income from discontinued operations, net of tax	13	884	356	1,377	1,271
Loss on disposal of discontinued operations, On-Grid	13	(368)	-	(368)	-
Net income attributable to shareholders		1,025	1,290	2,127	2,986
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to net income:					
Foreign currency translation adjustments		1,806	(562)	2,100	430
Foreign currency translation adjustments from discontinued operations		(42)	3	(58)	5
Total comprehensive income		2,789	731	4,169	3,421
Net income per share					
Basic - Continuing operations		*0.02*	*0.04*	*0.05*	*0.07*
Basic - Discontinued operations		*0.02*	*0.01*	*0.04*	*0.05*
Total		**0.04**	**0.05**	**0.09**	**0.12**
Diluted - Continuing operations		*0.02*	0.04	*0.04*	*0.07*
Diluted - Discontinued operations		*0.02*	0.01	*0.04*	*0.05*
Total		**0.04**	**0.05**	**0.08**	**0.12**
Weighted average number of shares outstanding:					
Basic		24,617,728	24,885,501	24,610,156	24,755,899
Diluted		25,069,025	25,385,957	25,050,768	25,299,380

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Changes in Equity
(Unless otherwise stated, expressed in thousands of U.S. dollars)

	Notes	Share capital *# of shares*	Share capital Amount	Equity reserve	Accumulated other comprehensive loss	Deficit	Total equity
		('000)					
Balance, January 1, 2016		*24,616*	$86,118	$4,487	$(814)	$(25,158)	$64,633
Net income		-	-	-	-	2,986	2,986
Share-based payments	9	-	-	409	-	-	409
Shares issued on stock option exercise	9	32	99	(35)	-	-	64
Shares issued from warrant exercise		240	1,186	(262)	-	-	924
Foreign currency translation adjustments		-	-	-	435	-	435
Balance, June 30, 2016		*24,888*	87,403	4,599	(379)	(22,172)	69,451
Net income			-	-	-	1,242	1,242
Share-based payments	9		-	358	-	-	358
Shares issued on stock option exercise	9	*44*	119	(35)	-	-	84
Shares acquired and cancelled		*(330)*	(1,146)	143	-	-	(1,003)
Foreign currency translation adjustments			-	-	(1,341)	-	(1,341)
Balance, December 31, 2016		*24,602*	86,376	5,065	(1,720)	(20,930)	68,791
Net income		-	-	-	-	2,127	2,127
Share-based payments	9	-	-	335	-	-	335
Shares issued on stock option exercise		*32*	97	(33)	-	-	64
Foreign currency translation adjustments		-	-	-	2,042	-	2,042
Balance, June 30, 2017		*24,634*	86,473	5,367	322	(18,803)	73,359

CARMANAH TECHNOLOGIES CORPORATION

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

		Six months ended June 30,	
	Notes	2017	2016
OPERATING ACTIVITIES			
Net income		1,118	1,715
Add back (deduct) items not involving cash:			
Amortization		792	804
Loss/(gain) on disposal of assets		17	(1)
Share-based payments	9	339	375
Unrealized foreign exchange loss/(gain)		355	(131)
Use of investment tax credits		408	596
Deferred income tax expense		238	158
Changes in working capital and other items:			
Trade and other receivables		(1,474)	(1,353)
Inventories		(782)	757
Prepaids and other current assets		(794)	(85)
Income tax receivable		140	-
Trade and other payables		293	(2,049)
Provisions		(2)	(62)
Deferred revenue		83	(279)
Income tax payable		(74)	(2)
Net cash provided by operating activities from continuing operations		657	443
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	14	(1,412)	-
Purchase of equipment and leasehold improvements	5	(196)	(301)
Purchase of intangible assets	6	(82)	(130)
Net cash used in investing activities from continuing operations		(1,690)	(431)
FINANCING ACTIVITIES			
Proceeds from exercised warrants		-	924
Proceeds from exercised stock options	9	64	64
Debt repayments		(1,011)	(1,425)
Net cash used by financing activities from continuing operations		(947)	(437)
Foreign exchange effect on cash		298	199
Decrease in cash from continuing operations		(1,682)	(226)
Cash provided from discontinued operations	13	2,799	4,278
Cash at beginning of period		21,921	14,880
Cash at end of period		23,038	18,932

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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 – Interim financial reporting, as issued by the International Accounting Standards Board ("IASB"). 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 year ended December 31, 2016. 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.

2. 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, except number of share and per share amounts)

3. FINANCIAL INSTRUMENTS

Classification and carrying value

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

	June 30, 2017	December 31, 2016
Loans and receivables		
Cash	23,038	21,921
Trade and other receivables	8,034	6,560
Other financial liabilities		
Trade and other payables	4,905	4,612
Bank Debt	6,403	7,414

4. INVENTORIES

	June 30, 2017	December 31, 2016
Finished goods	2,659	1,548
Work in progress	669	668
Raw materials	3,950	4,370
Provision for obsolescence	(281)	(371)
Net inventories	6,997	6,215

For the six months ended June 30, 2017, inventory recognized as an expense in cost of sales amounted to $11.0 million (June 30, 2016 - $12.8 million). Included in the above amounts were inventory write downs of $0.1 million (June 30, 2016 - $0.1 million). There were no reversals of previously recorded inventory write downs. As at June 30, 2017, 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)

5. 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, 2016	**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**
Additions	69	-	18	106	3	196
Disposals	(19)	(29)	(7)	-	(1)	(56)
Acquisition	-	-	13	8	-	21
Reclassification held for sale	(15)	-	-	-	-	(15)
Foreign exchange adjustments	-	15	3	17	-	35
Balance at June 30, 2017	**396**	**872**	**234**	**1,296**	**423**	**3,221**
Accumulated amortization						
Balance January 1, 2016	**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**
Amortization for the period	43	28	21	102	4	198
Disposals	(12)	(7)	(2)	-	-	(21)
Foreign exchange adjustments	-	4	1	7	-	12
Balance June 30, 2017	**237**	**698**	**94**	**587**	**395**	**2,011**
Carrying amounts						
At December 31, 2016	155	213	133	687	30	1,218
At June 30, 2017	159	174	140	709	28	1,210

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

6. 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, 2016	**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**
Additions	-	82	-	-	-	-	82
Disposals	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	393	131	164	17	705
Balance June 30, 2017	**739**	**1,308**	**4,952**	**1,901**	**2,113**	**871**	**11,884**
Accumulated amortization							
Balance January 1, 2016	**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**
Amortization for the period	11	132	289	162	-	-	594
Foreign exchange adjustments	-	3	75	40	-	17	135
Balance June 30, 2017	**721**	**617**	**1,176**	**910**	-	**871**	**4,295**
Carrying amounts							
At December 31, 2016	29	744	3,747	1,062	1,949	-	7,531
At June 30, 2017	18	691	3,776	991	2,113	-	7,589

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

6.1. Goodwill

	Illumination	Signals	Total
Balance, December 31, 2016	5,746	11,092	16,838
EKTA asset purchase (note 14)	-	1,203	1,203
Foreign exchange adjustment	-	1,053	1,053
Balance, June 30, 2017	5,746	13,348	19,094

7. COMMITMENTS AND CONTINGENCIES

7.1. 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. 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 each period. At June 30, 2017, the contract manufacturers held approximately $1.7 million (December 31, 2016 - $2.4 million) in inventory and $1.3 million (December 31, 2016 - $0.7 million) in outstanding committed purchase orders.

7.2. Contingent liabilities

From time to time, provisions are set up to cover potential legal settlements. There are no legal provisions recorded at June 30, 2017 or December 31, 2016. No settlement amounts were paid out in the periods ended June 30, 2017 or December 31, 2016.

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. Per the 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, 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 June 30, 2017, no provision has been made as Management has concluded the probability of outflow is low.

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

The Company's wholly owned subsidiary, Carmanah Solar Power Corp ("CSPC"), contracted with Hydro Ottawa for the design and build of eight solar power projects totaling $4.8 million. These contracts were largely completed and invoiced when on January 3, 2017 Hydro Ottawa served notice to terminate the contract citing project delays. Subsequently, on June 21, 2017, Hydro Ottawa provided notice that it will incur costs of between $0.9 million and $1.0 million to fully complete the contracts. CSPC is disputing these amounts. CSPC believes that the work required to complete and test the projects is inconsequential. Hydro Ottawa is also seeking an additional amount for liquidated damages in the amount of $0.9 million and an additional amount for lost revenue in the amount of $0.7 million. As of June 30, 2017, CSPC has $3.0 million in outstanding receivables related to these projects. At this time, CSPC is unable to estimate when this matter will be resolved and what, if any, costs will be incurred.

In June 2017, the Company was named in an Ontario Supreme Court claim filed by Ameico Enterprise ("Ameico") under the Construction Lien Act stating a breach of trust for failure to pay contracts for change orders in the amount of $0.7 million. The lawsuit seeks to recover legal expenses, interest on amounts owing and damages. At June 30, 2017, no provision has been made as Management has been unable to confirm if the claims being made are valid.

7.3. Credit facilities

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 June 30, 2017, Sabik Oy had drawn €0.4 million (USD $0.5 million) from the operating line for short-term working capital needs. It carries and interest rate of EURIBOR plus 1.35% and was drawn upon for short term working capital needs.

7.4. Indemnifications in Contracts

The Company has entered 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.

8. 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.

9. SHARE-BASED PAYMENTS

The total compensation expense, for continuing operations for these share-based payment plans are outlined in the table below:

Six months ended June 30,	2017	2016
Stock options	339	375

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

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, 2017:

Available shares (10% of outstanding shares at June 30, 2017)	2,463,395
Less:	
Stock options outstanding at June 30, 2017	(1,946,792)
Number of shares issuable under stock-based compensation plans	516,603

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

9.1. Stock Options

The following is a reconciliation of stock options outstanding between January 1, 2016 through June 30, 2017. The weighted average exercise price is stated in Canadian dollars.

	Number of options	Weighted average exercise price
Balance, January 1, 2016	2,052,620	$3.76
Forfeited	(150,476)	$5.65
Exercised	(32,363)	$2.60
Expired	(6,000)	$5.30
Balance, June 30, 2016	1,863,781	$3.63
Granted	200,000	$3.93
Exercised	(43,838)	$2.57
Forfeited	(76,958)	$2.77
Balance, December 31, 2016	1,942,985	$3.72
Granted	90,000	$4.41
Exercised	(31,446)	$2.70
Forfeited	(54,747)	$4.21
Balance, June 30, 2017	1,946,792	$3.75

The following table summarizes the stock options outstanding and exercisable at June 30, 2017 and December 31, 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, 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
At June 30, 2017						
$1.45 to $1.45	300,000	3.4	$1.45	225,000	3.4	$1.45
$1.46 to $2.50	483,120	6.8	$2.50	351,572	6.8	$2.50
$2.51 to $2.90	260,022	6.8	$2.72	140,880	6.3	$2.73
$2.91 to $6.39	903,650	8.4	$5.48	293,490	8.0	$6.03
	1,946,792	7.0	$3.75	1,010,942	6.3	$3.33

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 six months ended June 30, 2017 was $2.20 CAD per share. The option valuations were determined using the following weighted average assumptions:

	Six months ended June 30, 2017
Risk-free interest rate	1.17%
Expected dividend yield	0%
Forfeiture rate	16.3%
Stock price volatility	51.7%
Expected life of options	6.3 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. There were no options granted during the six months ended June 30, 2016.

10. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Salaries, commissions and other direct compensation	2,399	2,225	4,635	4,344
Share-based payments	162	106	339	375
Marketing, advertising and other related expenses	283	180	465	340
Development expenses	80	165	115	334
Travel and related expenses	192	210	372	384
Occupancy costs	249	232	551	458
Telecom and IT expenses	190	201	396	379
Professional fees, insurance and public company costs	295	451	608	863
Amortization	388	378	753	708
Bad debts	(71)	61	(91)	62
Bank charges and interest	37	33	74	75
Other expenses	45	53	101	72
Total operating expenditures	4,249	4,295	8,318	8,394

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

11. 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.
Airfield Lighting	LED aviation lighting sold worldwide - the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems.
Aviation/Obstruction	LED obstruction lighting sold worldwide - the Company offers self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Offshore	Aid to navigation solutions on Offshore wind farms for temporary and permanent marking. These products are sold under Sabik Offshore GmbH which is a wholly owned subsidiary of Carmanah. Sales are mainly focused on the European market.
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, park, and pathway applications. Products are sold worldwide using a variety of distribution models
Power*	
Off-Grid	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.

*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 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.

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

	Signals	Illumination	Total
For the three months ended June 30, 2017			
Revenue	11,218	983	12,201
Gross margin	5,117	98	5,215
Gross margin %	45.6%	10.0%	42.7%
Total operating expenses			(4,249)
Other expenses			(329)
Income before taxes			637
For the three months ended June 30, 2016			
Revenue	10,672	3,180	13,852
Gross margin	4,571	1,125	5,696
Gross margin %	42.8%	35.4%	41.1%
Total operating expenses			(4,295)
Other expenses			(9)
Income before taxes			1,392
For the six months ended June 30, 2017			
Revenue	20,816	2,512	23,328
Gross margin	9,668	543	10,211
Gross margin %	46.4%	21.6%	43.7%
Total operating expenses			(8,318)
Other expenses			(376)
Income before taxes			1,517
For the six months ended June 30, 2016			
Revenue	21,072	4,640	25,712
Gross margin	9,306	1,657	10,963
Gross margin %	44.2%	35.7%	42.6%
Total operating expenses			(8,394)
Other expenses			(167)
Income before taxes			2,402

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,
	2017	2016	2017	2016
North America	5,206	6,750	9,872	12,014
Europe	6,165	6,501	11,880	12,384
South America	166	73	272	125
Middle East and Africa	68	178	466	474
Asia Pacific	596	350	838	715
Total revenues	12,201	13,852	23,328	25,712

As at June 30, 2017, substantially all the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $1.5 million (December 31, 2016 - $1.6 million), and $4.5 million (December 31, 2016 - $3.8 million) of assets related to the Sabik entities which are primarily located in Germany and Finland.

12. RELATED PARTY TRANSACTIONS

None.

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

13. 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 the Company completed the sale of the On-Grid division of the Power Segment on April 3, 2017. It is anticipated that sale of the Off-Grid division will also occur in 2017. At June 30, 2017, 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

	Six months ended June 30, 2017	2016
Revenues	11,483	13,227
Cost of sales	8,122	10,343
Gross profit	3,361	2,884
Operating expenditures	(1,735)	(1,786)
Other income	235	634
Income before taxes	1,861	1,732
Tax expense	(484)	(461)
Net income from discontinued operations	1,377	1,271
Other comprehensive (loss)/income	(58)	5
Total comprehensive income	1,319	1,276

Assets and liabilities classified as held for sale

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:

	June 30, 2017	December 31, 2016
Trade and other receivables	6,489	6,172
Unbilled receivables	2,025	4,472
Inventories	4,117	4,917
Prepaid and other current assets	1,217	588
Capital and intangible assets	52	178
Deferred tax assets	67	67
Assets classified as held for sale	13,967	16,394
Deferred revenue	2	9
Trade and other payables	1,894	2,455
Cost of uncompleted contracts	41	60
Provisions	258	258
Liabilities classified as held for sale	2,195	2,782

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

Effect of the disposal of the On-Grid division

On April 3, 2017, Carmanah completed the sale of the assets of Carmanah Solar Power Corp. ("CSPC") which held the Company's solar power engineering, procurement and construction business. The proceeds of the asset sale were $2.0 million.

In addition to these proceeds, CSPC will retain responsibility for four solar power construction portfolios that are at, or close to substantially complete. It is expected that these portfolios will achieve final completion before the end of 2017. While most of the revenue related to these portfolios has been recognized, CSPC retained approximately $5.6 million of accounts and notes receivable, due on final completion. Once the requirements of the remaining portfolios are complete, CSPC will permanently cease its solar power EPC business.

The effect of the disposal of On-Grid on April 3, 2017 on the financial position of the Company is as follows:

	June 30, 2017
Cash Proceeds	2,008
Accounts receivable	(1,462)
Inventories	(481)
Deposits and prepaid expenses	(286)
Property and equipment	(140)
Accounts payable and accrued liabilities	176
Net assets disposed	(185)
Professional fees and other	(177)
Working capital adjustment	(6)
Loss on disposal of discontinued operations	(368)

Cash flow from discontinued operation

	Six months ended June 30, 2017	2016
Cash provided by operating activities	2,799	4,278
Net cash flow from discontinued operations	2,799	4,278

14. ACQUISITIONS

EKTA purchase

On January 2, 2017, the Company acquired the Intellectual rights to a Marine aids to navigation product line marketed under the EKTA brand from Cybernetica AS ("Cybernetica"), an Estonian company, which includes assignments to a number of sales and employment contracts, and some manufacturing assets. The purchase price totaled €1.35 million (USD $1.42 million), with €1.0 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.

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A new legal entity, Sabik OÜ, was incorporated in Estonia to complete the acquisition. The rationale for the acquisition was to strengthen our (1) 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.

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 January 2, 2017 and has contributed incremental revenues of approximately $0.1 million and a net loss of approximately $0.1 million. The total cost related to this acquisition was approximately $0.2 million, with the expenses included under the caption “Other expenses”.

The below purchase price allocation is preliminary and is based on the best estimates of fair values of the assets acquired and liabilities assumed and taking into consideration all relevant information available to date.

	Preliminary Allocation
Consideration	
Cash	1,052
Deferred consideration	368
Total consideration	**1,420**
Identifiable assets acquired and liabilities assumed	
Inventories	203
Equipment and other similar assets	21
Trade and other payables	(7)
Goodwill	1,203
Total	**1,420**

15. SUBSEQUENT EVENTS

On July 24, 2017, the Company amended the credit facility (the “Facility”) with Canadian Imperial Bank of Commerce (“CIBC”). The multifaceted Facility provided up to $25.5 million through: a) a $10 million 364-Day Revolving Credit Facility, expiring June 15, 2018; b) a $15 million revolving Term Acquisition Credit Facility; and c) $0.5 million for trading room on contingent liabilities. The Company’s ability to draw on the 364-Day Committed Revolving Credit, Revolving Term Acquisition Credit, and Credit for Trading Room Contingent Liabilities is subject to borrowing covenants and conditions typical to these credits. Each of the credits have separately applicable interest rates. Only July 31, 2017, the Company repaid the full amount of the term acquisition loan which had a balance of $6.0 million at June 30, 2017.

On August 1, 2017, the Company completed the sale of assets of its Off-Grid Power business (“Go Power!”) to Valterra Products, LLC (“Valterra”), a portfolio company of G. Scott Capital Partners, LLC. (“Scott Capital”). The proceeds of the asset sale were $19.5 million subject to adjustments and holdbacks. Beyond the normal final adjustments and holdbacks that are customary in a transaction of this nature, a potential $1.0 million negative adjustment of purchase price is part of the transaction agreement. The $1.0 million holdback amount has been excluded below as there is a high probability of a tariff through the holdback period ending on January 31, 2019. If there is no tariff implemented during this period, the Company will recognize additional proceeds of $1.0 million. A potential working capital adjustment will be made based on certain working capital targets as set out in the sale agreement. Management has yet to determine the value of this adjustment and as such no value has been assigned.

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

The preliminary effect of the disposal of Off-Grid on August 1, 2017 on the financial position of the Company is as follows:

	August 1, 2017
Cash Proceeds	16,550
Amounts held in escrow	1,950
Purchase price	18,500
Accounts receivable	(3,092)
Inventories	(4,938)
Deposits and prepaid expenses	(1,110)
Property and equipment	(50)
Accounts payable and accrued liabilities	1,258
Provisions	173
Deferred revenue	22
Net assets disposed	10,763
Professional fees and other	(673)
Gain on disposal of discontinued operations	10,090

On August 1, 2017, the Company acquired the shares of Vega Industries Limited (“Vega”). The purchase price was NZD $12.0 million (USD $8.9 million) subject to adjustments and holdbacks. Beyond the normal final adjustments and holdbacks that are customary in a transaction of this nature, a potential NZD $2.0 million (USD $1.5 million) negative adjustment of purchase price is part of the transaction agreement. The potential negative adjustment of up to NZD $2.0 million relates to Vega meeting certain revenue targets through March 31, 2018.

The below purchase price allocation is preliminary and is based on the best estimates of fair values of the assets acquired and liabilities assumed and taking into consideration all relevant information available to date.

	Preliminary Allocation
Cash consideration	7,431
Contingent consideration	1,486
Total consideration	8,917
Identifiable assets acquired and liabilities assumed	
Trade and other receivables	1,110
Inventories	2,159
Other assets	152
Property, plant and equipment	2,700
Bank indebtedness	(3)
Trade and other payables	(649)
Deferred revenue	(282)
Goodwill	3,730
Total	8,917