CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017
(Amounts in thousands of U.S. dollars unless otherwise stated)

carmanah®

(Expressed in thousands of U.S. dollars)

	Notes	June 30, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	3	10,160	11,823
Trade and other receivables	3	8,913	9,458
Inventories	4	8,267	8,504
Prepaid and other current assets		390	1,576
Income taxes receivable		212	416
Held-for-sale assets	13	2,215	-
Non-trade receivables	3	488	5,410
Total current assets		30,645	37,187
Property and equipment	5	1,090	3,640
Intangible assets	6	11,034	10,070
Goodwill	6.1	18,327	18,654
Deferred income tax asset		6,229	6,661
Investment tax credits		1,239	945
Other non-current assets		1,441	-
Total assets		**70,005**	**77,157**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	3	5,107	6,265
Bank debt	3	327	7,383
Provisions		1,134	1,125
Income taxes payable		125	230
Deferred revenue		511	741
Other current liabilities	3	289	-
Non-trade payables	3	379	277
Total current liabilities		7,872	16,021
Other non-current payables	3,7.2(a)	1,320	-
Deferred income tax liability		859	966
Total liabilities		**10,051**	**16,987**
Equity			
Share capital	8	66,496	66,242
Equity reserve	9	2,451	2,326
Accumulated other comprehensive gain		390	1,181
Deficit		(9,383)	(9,579)
Total equity		**59,954**	**60,170**
Total liabilities and equity		**70,005**	**77,157**

Commitments and contingencies – note 7

Approved and authorized for issue by the Board of Directors on August 8, 2018

"John Simmons" "James Meekison"

John Simmons, Chief Executive Officer

James Meekison, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION
Consolidated Statements of Income/(Loss) and Total Comprehensive Income/(Loss) (unaudited)
(Expressed in thousands of U.S. dollars, except number of share and per share amounts)

	Notes	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues		13,803	12,201	28,745	23,328
Cost of sales		7,875	6,986	16,481	13,117
Gross profit	11	**5,928**	**5,215**	**12,264**	**10,211**
Operating expenditures					
Sales and marketing		1,361	1,188	2,646	2,291
Research and development		764	749	1,500	1,382
General and administrative		3,376	2,312	6,641	4,645
Restructuring expenses/(recovery)	13	(20)	-	(73)	-
Total operating expenditures	10	5,481	4,249	10,714	8,318
Operating income		**447**	**966**	**1,550**	**1,893**
Other income/(expenses)					
Gain/(loss) on disposal of assets		-	(17)	(5)	(17)
Other expenses		(186)	(248)	(348)	(296)
Foreign exchange gain/(loss)		(133)	(64)	(178)	(63)
Total other expenditures		(319)	(329)	(531)	(376)
Income before taxes		**128**	**637**	**1,019**	**1,517**
Income tax expense		(264)	(128)	(561)	(399)
Net income/(loss) from continuing operations		**(136)**	**509**	**458**	**1,118**
Net (loss)/income from discontinued operations, net of tax	12	(142)	884	(262)	1,377
Loss on disposal of discontinued operations, On-Grid		-	(368)	-	(368)
Net income/(loss) attributable to shareholders		**(278)**	**1,025**	**196**	**2,127**
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to net income:					
Foreign currency translation adjustments		(1,739)	1,806	(945)	2,100
Foreign currency translation adjustments from discontinued operations		67	(42)	153	(58)
Total comprehensive income/(loss)		**(1,950)**	**2,789**	**(596)**	**4,169**
Net income/(loss) per share					
Basic - Continuing operations		*(0.01)*	*0.02*	*0.02*	*0.05*
Basic - Discontinued operations		*(0.01)*	*0.02*	*(0.01)*	*0.04*
Total		***(0.02)***	**0.04**	**0.01**	**0.09**
Diluted - Continuing operations		*(0.01)*	*0.02*	*0.02*	*0.04*
Diluted - Discontinued operations		*(0.01)*	*0.02*	*(0.01)*	*0.04*
Total		***(0.02)***	**0.04**	**0.01**	**0.08**
Weighted average number of shares outstanding:					
Basic		18,959,282	24,617,728	18,940,849	24,610,156
Diluted		19,302,901	25,069,025	19,279,052	25,050,768

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

	Notes	Share capital *# of shares*	Amount	Equity reserve	Accumulated other comprehensive (loss)/gain	Deficit	Total equity
		('000)					
Balance, January 1, 2017		***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	9	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**
Net income		-	-	-	-	9,224	9,224
Share-based payments	9	-	-	254	-	-	254
Shares issued on stock option exercise	9	*288*	773	(260)	-	-	513
Shares acquired and cancelled		*(6,000)*	(21,004)	(3,035)	-	-	(24,039)
Foreign currency translation adjustments		-	-	-	859	-	859
Balance, December 31, 2017		***18,922***	**66,242**	**2,326**	**1,181**	**(9,579)**	**60,170**
Net income		-	-	-	-	196	196
Share-based payments	9	-	-	221	-	-	221
Shares issued on stock option exercise	9	*87*	271	(96)	-	-	175
Shares acquired and cancelled		*(5)*	(17)	-	-	-	(17)
Foreign currency translation adjustments		-	-	-	(791)	-	(791)
Balance, June 30, 2018		***19,004***	**66,496**	**2,451**	**390**	**(9,383)**	**59,954**

(Expressed in thousands of U.S. dollars)

	Notes	Six months ended June 30, 2018	2017
OPERATING ACTIVITIES			
Net income		458	1,118
Add back (deduct) items not involving cash:			
Amortization		1,622	792
Loss on disposal of assets		5	17
Write-down of property and equipment	13	129	-
Share-based payments	9	221	339
Unrealized foreign exchange loss		(34)	355
Use/(Recognition) of investment tax credits		(294)	408
Deferred income tax expense		325	238
Changes in working capital and other items:			
Trade and other receivables		(952)	(1,474)
Inventories		237	(782)
Prepaids and other current assets		(261)	(794)
Income tax receivable		204	140
Trade and other payables		(1,758)	293
Other current liabilities		220	-
Provisions		9	(2)
Deferred revenue		(230)	83
Income tax payable		(105)	(74)
Net cash provided/(used) in operating activities		**(204)**	**657**
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired		-	(1,412)
Purchase of equipment and leasehold improvements	5	(205)	(196)
Purchase of intangible assets	6,7.2(a)	(715)	(82)
Escrow payment from the acquisition of Vega Industries	13	1,497	-
Escrow payment from sale of Off-Grid		1,462	-
Net cash provided/(used) in investing activities		**2,039**	**(1,690)**
FINANCING ACTIVITIES			
Proceeds from exercised stock options	9	271	64
Debt repayments		(7,000)	(1,011)
Share repurchase		(17)	-
Net cash used in financing activities		**(6,746)**	**(947)**
Foreign exchange effect on cash		(205)	298
Decrease in cash from continuing operations		(5,116)	(1,682)
Cash provided from discontinued operations	12	3,453	2,799
Cash at beginning of period		11,823	21,921
Cash at end of period		10,160	23,038

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, 2017. 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.

Changes to significant accounting policies are described in Note 2.

These condensed consolidated interim financial statements were authorized for issue by the Company's board of directors on August 8, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of these condensed consolidated interim financial statements are included in the Company's audited consolidated financial statements for the year ended December 31, 2017. Those accounting policies have been used throughout all periods presented in the condensed consolidated interim financial statements, except as noted below.

2.1 IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") – replaces IAS 18, Revenue. IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard became effective for annual periods beginning on or after January 1, 2018, which is the date the Company adopted IFRS 15.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard at the date of initial application. The adoption of the new standard does not have a material impact on the comparative information presented.

2.2 IFRS 9 – FINANCIAL INSTRUMENTS

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. The standard became effective for annual periods beginning on or after January 1, 2018, which is the date the Company adopted IFRS 9.

The adoption of this standard did not have a material impact on the measurement of the Company's financial instruments in the condensed consolidated interim financial statements, however additional disclosures have been provided.

The following are new accounting policies for financial instruments under IFRS 9.

FINANCIAL ASSETS

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at amortized cost: Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement.

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

2.2 IFRS 9 – FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL LIABILITIES

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company completed an assessment of its financial instruments as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification under IAS 39	New Classification under IFRS 9
Cash	Loans and receivables – amortized cost	Amortized cost
Foreign currency forward contracts	Fair value through profit or loss	Fair value through profit or loss
Trade and other receivables	Loans and receivables – amortized cost	Amortized cost
Bank debt	Loans and receivables – amortized cost	Amortized cost
Trade and other payables	Other financial liabilities – amortized cost	Amortized cost

IMPAIRMENT OF FINANCIAL ASSETS AT AMORTIZED COST

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's receivables, the Company has no material loss allowance at adoption or as at June 30, 2018.

2.3 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 16, Leases ("IFRS 16"). IFRS 16 replaces IAS 17. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the Statement of Financial Position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is assessing the impact of adopting this standard on its consolidated financial statements.

(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 the Company's financial instruments:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	June 30, 2018
Financial Assets				
Cash and cash equivalents	10,160	-	-	10,160
Trade and other receivables	8,913	-	-	8,913
Non-trade receivables	488	-	-	488
Financial Liabilities				
Trade and other payables	-	(5,107)	-	(5,107)
Bank Debt	-	(327)	-	(327)
Other current liabilities	-	(220)	(69)	(289)
Non-trade payables and other non-current payables	-	(1,699)	-	(1,699)

The Company has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated.

	Loans and receivables	Other financial liabilities	Fair value through profit or loss	December 31, 2017
Financial Assets				
Cash and cash equivalents	11,805	-	18	11,823
Trade and other receivables	9,458	-	-	9,458
Non-trade receivables	5,410	-	-	5,410
Financial Liabilities				
Trade and other payables	-	(6,265)	-	(6,265)
Bank Debt	-	(7,383)	-	(7,383)
Non-trade payables	-	(277)	-	(277)

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

4. INVENTORIES

	June 30, 2018	December 31, 2017
Finished goods	2,614	4,709
Work in progress	1,099	837
Raw materials	4,643	3,975
Provision for obsolescence	(89)	(1,017)
Net inventories	**8,267**	**8,504**

For the six months ended June 30, 2018, inventory recognized as an expense in cost of sales amounted to $14.1 million (June 30, 2017 - $11.0 million). Included in the above amounts were inventory write downs of $0.02 million (June 30, 2017 - $0.1 million). There were no reversals of previously recorded inventory write downs. As at June 30, 2018, the Company anticipates the net inventory will be realized within one year.

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, 2018, the contract manufacturers held approximately $2.4 million (December 31, 2017 - $1.5 million) in inventory and $2.0 million (December 31, 2017 - $1.2 million) in outstanding committed purchase orders.

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

5. PROPERTY AND EQUIPMENT

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

	Computer hardware	Land and building	Leasehold improvements	Office equipment	Production equipment	Research and tradeshow equipment	Vehicle	Total
Cost								
Balance January 1, 2017	**361**	**-**	**886**	**207**	**1,165**	**421**	**-**	**3,040**
Additions	85	-	-	18	153	15	-	271
Disposals	(33)	-	(36)	(7)	-	(4)	-	(80)
Acquisition	46	2,398	-	85	204	-	8	2,741
Foreign exchange adjustments	(2)	(123)	27	9	99	-	-	10
Balance December 31, 2017	**457**	**2,275**	**877**	**312**	**1,621**	**432**	**8**	**5,982**
Additions	9	-	52	2	142	-	-	205
Disposals	(55)	-	-	(8)	-	(10)	-	(73)
Write-down of property and equipment	-	(125)	-	-	-	-	-	(125)
Reclass to held for sale assets	(42)	(2,042)	-	(65)	(175)	-	-	(2,324)
Foreign exchange adjustments	(2)	(108)	(7)	(6)	(38)	-	(1)	(162)
Balance at June 30, 2018	**367**	**-**	**922**	**235**	**1,550**	**422**	**7**	**3,503**
Accumulated amortization								
Balance January 1, 2017	**206**	**-**	**673**	**74**	**478**	**391**	**-**	**1,822**
Amortization for the period	84	24	65	43	264	7	1	488
Disposals	(11)	-	(7)	(2)	(6)	(2)	-	(28)
Foreign exchange adjustments	-	1	10	4	45	-	-	60
Balance December 31, 2017	**279**	**25**	**741**	**119**	**781**	**396**	**1**	**2,342**
Amortization for the period	40	26	43	23	134	4	1	271
Disposals	(51)	-	-	(6)	-	(6)	-	(63)
Reclass to held for sale assets	(20)	(49)	-	(8)	(32)	-	-	(109)
Foreign exchange adjustments	(1)	(2)	(4)	(2)	(18)	-	(1)	(28)
Balance June 30, 2018	**247**	**-**	**780**	**126**	**865**	**394**	**1**	**2,413**
Carrying amounts								
At December 31, 2017	178	2,250	136	193	840	36	7	3,640
At June 30, 2018	120	-	142	109	685	28	6	1,090

(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, 2017	**739**	**1,226**	**4,559**	**1,770**	**1,949**	**854**	**11,097**
Additions	-	187	-	-	-	-	187
Disposals	(3)	(54)	-	-	-	-	(57)
Acquisition	-	-	638	2,215	123	-	2,976
Foreign exchange adjustments	-	14	602	366	255	119	1,356
Balance December 31, 2017	**736**	**1,373**	**5,799**	**4,351**	**2,327**	**973**	**15,559**
Additions	2,463	52	-	-	-	-	2,515
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	(4)	(144)	(100)	(56)	(24)	(328)
Balance June 30, 2018	**3,199**	**1,335**	**5,655**	**4,251**	**2,271**	**949**	**17,660**
Accumulated amortization							
Balance January 1, 2017	**710**	**482**	**812**	**708**	-	**854**	**3,566**
Amortization for the period	18	269	606	663	-	-	1,556
Disposals	(2)	-	-	-	-	-	(2)
Foreign exchange adjustments	-	5	148	97	-	119	369
Balance December 31, 2017	**726**	**756**	**1,566**	**1,468**	-	**973**	**5,489**
Amortization for the period	209	146	276	720	-	-	1,351
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	(2)	(48)	(54)	-	(24)	(128)
Balance June 30, 2018	**935**	**814**	**1,794**	**2,134**	-	**949**	**6,626**
Carrying amounts							
At December 31, 2017	10	617	4,233	2,883	2,327	-	10,070
At June 30, 2018	2,264	521	3,861	2,117	2,271	-	11,034

(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, 2017	5,746	12,908	18,654
Foreign exchange adjustment	-	(327)	(327)
Balance, June 30, 2018	5,746	12,581	18,327

7. COMMITMENTS AND CONTINGENCIES

7.1. COMMITMENTS

See Note 4 Inventories.

7.2. CONTINGENT LIABILITIES

a) 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 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 Plaintiffs have 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 against RSA to obtain coverage of the claims brought in the US and indemnity of defense 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 defense costs with respect to the US litigation. In late April 2016, the Company reached a settlement with the defendants during mediation as described in section 3. Under the settlement, the Company received $0.4 million (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, 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 patent which was granted in September 2015. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. On March 20, 2018, the Company purchased the patents in question from R.D. Jones for a total price of $2.4 million to be paid over a 4-year period. The unpaid portion of this payable has been treated as a non-cash transaction in the Company's consolidated statement of cash flows. As a result of this purchase, this matter is considered closed with no further obligations by either party.

b) The Company's wholly owned subsidiary, Carmanah Solar Power Corp. ("CSPC"), of which assets were sold along with the On-Grid vertical as described in Note 21 of the audited consolidated financial statements for the year ended December 31, 2017, contracted with Hydro Ottawa Holding Inc. ("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 would incur costs of between $0.9 million and $1.0 million to fully complete the contracts. CSPC disputed these amounts as it believed that the work required to complete and test the projects was inconsequential. Hydro Ottawa was 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. This receivable, along with several others was not sold along with the rest of the assets of CSPC and has been retained by the Company. On March 14, 2018, CSPC entered into a settlement with Hydro Ottawa. As a result of the resolution, Carmanah incurred a one-time charge of $1.7 million, negatively impacting the net income from discontinued operations in the fourth quarter of 2017, this matter is considered closed with no further obligations by either party.

c) In June 2017, the Company was named in an Ontario Supreme Court claim filed by Ameico Enterprise 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. As at June 30, 2018, the Company has recorded a provision of $0.3 million (December 31, 2017 - $0.2 million) as this represents the Company's best estimate as to the likely amount that will be paid in order to settle this claim, including legal costs.

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 and is repayable on demand. As of June 30, 2018, Sabik Oy had drawn €0.3 million (USD $0.3 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.

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

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

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,	2018	2017
Stock options	221	339

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, 2018:

Available shares (10% of outstanding shares at June 30, 2018)	1,900,453
Less:	
Stock options outstanding at June 30, 2018	(1,588,443)
Number of shares issuable under stock-based compensation plans	312,010

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, 2017 through June 30, 2018. The weighted average exercise price is stated in Canadian dollars.

	Number of options	Weighted average exercise price
Balance, January 1, 2017	1,942,985	$3.72
Granted	90,000	$4.41
Exercised	(31,446)	$2.70

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

Forfeited	(54,747)	$4.21
Balance, June 30, 2017	1,946,792	$3.75
Granted	128,000	$4.50
Exercised	(288,258)	$2.18
Cancelled/Forfeited	(100,405)	$3.51
Balance, December 31, 2017	1,686,129	$4.09
Exercised	(87,110)	$2.57
Cancelled/Forfeited	(10,576)	$4.08
Balance, June 30, 2018	1,588,443	$4.17

The following table summarizes the stock options outstanding and exercisable at June 30, 2018 and December 31, 2017. 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, 2017						
$1.45 to $1.45	200,000	2.9	$1.45	200,000	2.9	$1.45
$1.46 to $2.50	269,710	6.3	$2.50	187,644	6.3	$2.50
$2.51 to $2.90	237,569	6.7	$2.71	179,535	6.6	$2.71
$2.91 to $6.39	978,850	8.1	$5.40	394,676	7.6	$5.91
	1,686,129	7.0	$4.09	961,855	6.2	$3.72
At June 30, 2018						
$1.45 to $1.45	200,000	2.4	$1.45	200,000	2.4	$1.45
$1.46 to $2.50	192,598	5.8	$2.50	190,436	5.8	$2.50
$2.51 to $2.90	225,995	6.4	$2.70	167,961	6.4	$2.70
$2.91 to $6.39	969,850	7.6	$5.41	511,176	7.1	$5.89
	1,588,443	6.6	$4.17	1,069,573	5.9	$3.95

1 – WA – weighted average

2- Life in years

There were no options granted during the six months ended June 30, 2018.

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

10. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Salaries, commissions and other direct compensation	2,876	2,399	5,928	4,635
Professional fees, insurance and public company costs	543	295	1,000	608
Amortization	850	388	1,622	753
Telecom and IT expenses	208	190	429	396
Travel and related expenses	280	192	469	372
Occupancy costs	273	249	567	551
Bank Charges	44	37	75	74
Marketing, advertising and other related expenses	225	283	365	465
Development expenses	89	80	64	115
Other expenses	6	45	36	101
Share-based payments	99	162	221	339
Bad debts/(recoveries)	8	(71)	11	(91)
Restructuring costs/(recoveries)	(20)	-	(73)	-
Total operating expenditures	5,481	4,249	10,714	8,318

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" and "Illumination". 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 and Vega which are subsidiaries of Carmanah.
Airfield ground 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.
On-Grid	The design, procurement and construction of grid-connected solar power systems in the Canadian industrial market. Previously referred to as Solar EPC Services.

*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.

	Signals	Illumination	Total
For the three months ended June 30, 2018			
Revenue	12,853	950	13,803
Gross margin	5,621	307	5,928
Gross margin %	43.7%	32.3%	42.9%
Total operating expenses			(5,481)
Other expenses			(319)
Income before taxes			128

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

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 six months ended June 30, 2018			
Revenue	26,401	2,344	28,745
Gross margin	11,307	957	12,264
Gross margin %	42.8%	40.8%	42.7%
Total operating expenses			(10,714)
Other expenses			(531)
Income before taxes			1,019
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%	43.8%
Total operating expenses			(8,318)
Other expenses			(376)
Income before taxes			1,517

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,	
	2018	2017	2018	2017
North America	6,280	5,206	11,543	9,872
Europe	6,007	6,165	13,673	11,880
South America	289	166	588	272
Middle East and Africa	70	68	227	466
Asia Pacific	1,157	596	2,714	838
Total revenues	13,803	12,201	28,745	23,328

For geographical reporting, property and equipment and inventory balances for the geographic locations are located at:

	June 30, 2018	December 31, 2017
North America	3,219	3,124
Europe	4,944	4,652
Asia Pacific	1,194	4,368
Total equipment and inventories	**9,357**	**12,144**

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12. 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 and the Off-Grid division on August 1, 2017. The comparative Consolidated Statement of Income and Total Comprehensive Income has been reclassified to present the discontinued operations separately from continuing operations.

RESULTS OF DISCONTINUED OPERATIONS

	Six months ended June 30,	
	2018	2017
Revenues	48	11,483
Cost of sales	-	8,122
Gross profit	48	3,361
Operating income/(expenditures)	37	(1,735)
Other (expenses)/recoveries	(441)	235
(Loss)/income before taxes	(356)	1,861
Tax recovery/(expense)	94	(484)
Net (loss)/income from discontinued operations	(262)	1,377
Other comprehensive income/(loss)	153	(58)
Total comprehensive (loss)/income	(109)	1,319

CASH FLOW FROM (USED IN) DISCONTINUED OPERATION

	Six months ended June 30,	
	2018	2017
Cash provided by operating activities	3,453	2,799
Net cash flow from discontinued operations	3,453	2,799

13. ACQUISITIONS AND RESTRUCTURING

VEGA INDUSTRIES ACQUISITION

On August 1, 2017, the Company acquired the shares of Vega Industries Limited ("Vega"). Vega is a manufacturer in the worldwide marine aids-to-navigation market. The purchase price was NZD $12.0 million (USD $9.0 million) subject to adjustments and holdbacks. The purchase price is reduced by NZD $2.0 million (USD $1.5 million) if the acquiree does not meet certain operating revenue targets for its fiscal year ended March 31, 2018. This is considered contingent consideration receivable and is recorded at its fair value at the date of acquisition, based on the likelihood the revenue target will not be met, and is included as an identifiable asset acquired. As at June 30, 2018, Vega did not meet those targets and we received the full amount held in escrow.

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

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations. The below purchase price allocation for the transaction at June 30, 2018 is final.

	Allocation
Cash consideration	8,982
Contingent consideration receivable	(1,497)
Working capital adjustment	(247)
Total consideration	**7,238**
Identifiable assets acquired and liabilities assumed	
Trade and other receivables	902
Inventories	2,310
Other assets	156
Property, plant and equipment	2,720
Bank indebtedness	(4)
Trade and other payables	(623)
Deferred revenue	(284)
Intangibles	1,773
Goodwill	288
Total	**7,238**

VEGA RESTRUCTURING

With the acquisition of Vega, as described above, a restructuring plan was developed in the latter half of 2017 to complete the integration of Vega into the rest of the Marine division. Under this plan, the company will eliminate Vega's administrative, back office, and manufacturing functions and will migrate its manufacturing facility to Finland and Estonia. We have identified restructuring related costs in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The following table summarizes the costs incurred and true-up of previous provision with respects to restructuring for the six months ending June 30, 2018. A total of 46 employees are to be terminated under this plan, with 9 employees terminated in 2017, 6 employees terminated during the first six months in 2018 and a further 31 employees will be terminated in the remaining six months in 2018.

	Severance and related benefits	Other exit costs	Total
Balance at January 1, 2018	171	159	330
Charges/(Recoveries)	(19)	(130)	(149)
Cash payments	11	65	76
Balance at June 30, 2018	**163**	**94**	**257**

HELD-FOR-SALE ASSETS

In the second quarter of 2018, the carrying value of property, plant and equipment in Vega was written down to its estimated fair value of $2.2 million, using fair value less costs to sell, as a result of the expected sale of the assets in the third quarter of 2018. The assets were classified as held for sale assets on the Company's consolidated statement of financial position as at June 30, 2018. The consolidated statement of income and total comprehensive income for the period ended June 30, 2018 includes a $0.1 million write-down related to these assets. The write-down of the assets to the lower of their carrying amount and their fair value less costs to sell has been recorded under Other expenses and is included in the Company's Signal segment.