

CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Financial Statements

For the three and nine months ended September 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	September 30, 2017	December 31, 2016
ASSETS			
Cash		32,292	21,921
Trade and other receivables		10,664	6,560
Inventories	4	8,409	6,215
Prepaid and other current assets		1,232	405
Income taxes receivable		3	148
Non-trade receivables	13, 7.2	8,370	-
Total current assets		60,970	35,249
Property and equipment	5	3,732	1,218
Intangible assets	6	7,549	7,531
Goodwill	6.1	22,896	16,838
Deferred income tax asset		7,162	7,165
Investment tax credits		503	2,512
Assets held for sale	13	-	16,394
Total assets		102,812	86,907
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		6,732	4,612
Bank debt		7,425	7,414
Provisions		808	780
Income taxes payable		91	95
Deferred revenue		987	719
Non-trade payables	13	128	-
Total current liabilities		16,171	13,620
Deferred income tax liability		1,740	1,714
Liabilities held for sale	13	-	2,782
Total liabilities		17,911	18,116
Equity			
Share capital	8	87,198	86,376
Equity reserve	9	5,265	5,065
Accumulated other comprehensive gain/(loss)		833	(1,720)
Deficit		(8,395)	(20,930)
Total equity		84,901	68,791
Total liabilities and equity		102,812	86,907

Commitments and contingencies – note 7
Subsequent events – note 15

Approved and authorized for issue by the Board of Directors on November 14, 2017

“John Simmons”

John Simmons, Chief Executive Officer

“James Meekison”

James Meekison, 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 September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Revenues		14,508	11,316	37,836	37,028
Cost of sales		9,085	6,191	22,202	20,940
Gross profit	11	5,423	5,125	15,634	16,088
Operating expenditures					
Sales and marketing		1,345	1,057	3,636	3,464
Research and development		515	583	1,897	1,859
General and administrative		2,712	2,696	7,357	7,406
Total Operating expenditures	10	4,572	4,336	12,890	12,729
Operating income		851	789	2,744	3,359
Other expenses/(income)					
(Gain)/loss on disposal of assets		-	-	17	(1)
Other (income)/expenses		419	(399)	715	(197)
Foreign exchange (gain)/loss		(25)	(56)	38	(89)
		394	(455)	770	(287)
Income before taxes		457	1,244	1,974	3,646
Income tax expense		139	122	538	809
Net income/(loss) from continuing operations		318	1,122	1,436	2,837
Net income/(loss) from discontinued operations, net of tax	13	(1,428)	(162)	(51)	1,108
Loss on disposal of discontinued operations, On-Grid	13	-	-	(368)	-
Gain on disposal of discontinued operations, Off-Grid	13	11,518	-	11,518	-
Net income attributable to shareholders		10,408	960	12,535	3,945
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to net income:					
Foreign currency translation adjustments		573	244	2,673	675
Foreign currency translation adjustments from discontinued operations		(62)	7	(120)	12
Total comprehensive income		10,919	1,211	15,088	4,632
Net income per share					
Basic - Continuing operations		0.01	0.05	0.06	0.11
Basic - Discontinued operations		0.41	(0.01)	0.45	0.05
Total		0.42	0.04	0.51	0.16
Diluted - Continuing operations		0.01	0.05	0.06	0.11
Diluted - Discontinued operations		0.40	(0.01)	0.44	0.04
Total		0.41	0.04	0.50	0.15
Weighted average number of shares outstanding:					
Basic		24,708,467	24,872,705	24,643,287	24,794,256
Diluted		25,156,872	25,350,896	25,093,985	25,315,979

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Changes in Equity

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

	Notes	# of shares	Share capital Amount	Equity reserve	Accumulated other comprehensive loss	Deficit	Total equity
		(<i>'000</i>)					
Balance, January 1, 2016		24,616	\$86,118	\$4,487	\$(814)	\$(25,158)	\$64,633
Net income		-	-	-	-	3,961	3,961
Share-based payments	9	-	-	599	-	-	599
Shares issued on stock option exercise	9	38	117	(41)	-	-	76
Shares issued from warrant exercise		240	1,186	(262)	-	-	924
Shares acquired and cancelled		(30)	(92)	-	-	-	(92)
Foreign currency translation adjustments		-	-	-	675	-	675
Balance, September 30, 2016		24,864	87,329	4,783	(139)	(21,197)	70,776
Net income		-	-	-	-	267	267
Share-based payments	9	-	-	168	-	-	168
Shares issued on stock option exercise	9	38	101	(29)	-	-	72
Shares acquired and cancelled		(300)	(1,054)	143	-	-	(911)
Foreign currency translation adjustments		-	-	-	(1,581)	-	(1,581)
Balance, December 31, 2016		24,602	86,376	5,065	(1,720)	(20,930)	68,791
Net income		-	-	-	-	12,535	12,535
Share-based payments	9	-	-	477	-	-	477
Shares issued on stock option exercise		306	822	(277)	-	-	545
Foreign currency translation adjustments		-	-	-	2,553	-	2,553
Balance, September 30, 2017		24,908	87,198	5,265	833	(8,395)	84,901

CARMANAH TECHNOLOGIES CORPORATION

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

		Nine months ended September	
	Notes	2017	30, 2016
OPERATING ACTIVITIES			
Net income/(loss)		1,436	2,837
Add back (deduct) items not involving cash:			
Amortization		1,239	1,197
Loss/(gain) on disposal of assets		17	(1)
Share-based payments	9	497	549
Unrealized foreign exchange loss/(gain)		393	(140)
Use of investment tax credits		2,009	1,217
Deferred income tax expense/(recovery)		210	(206)
Changes in working capital and other items:			
Trade and other receivables		(3,034)	1,525
Inventories		(112)	144
Prepays and other current assets		(677)	45
Income tax receivable		145	-
Trade and other payables		1,524	(2,379)
Provisions		28	(238)
Deferred revenue		(4)	179
Income tax payable		(4)	(516)
Net cash provided by operating activities from continuing operations		3,667	4,213
INVESTING ACTIVITIES			
Acquisition of EKTA assets, net of cash	14	(1,412)	-
Acquisition of Vega Industries Ltd., net of cash	14	(8,921)	-
Proceeds from sale of On-Grid	13	2,003	-
Initial proceeds from sale of Off-Grid	13	16,550	-
Purchase of property and equipment	5	(227)	(482)
Purchase of intangible assets	6	(163)	(204)
Net cash provided/(used) in investing activities from continuing operations		7,830	(686)
FINANCING ACTIVITIES			
Proceeds from exercised warrants		-	924
Proceeds from exercised stock options	9	545	76
Debt financing		7,000	-
Debt repayments		(6,994)	(2,598)
Net cash provided/(used) by financing activities from continuing operations		551	(1,598)
Foreign exchange effect on cash		490	76
Increase in cash from continuing operations		12,538	2,005
Cash (used)/provided from discontinued operations	13	(2,167)	3,994
Cash at beginning of period		21,921	14,880
Cash at end of period		32,292	20,879

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the periods ended September 30, 2017 and 2016

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. The Company has assembled a project team, issued instructions to its subsidiaries and is currently working on its accounting analyses. Based on initial research, the Company does not currently expect that IFRS 9

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

will have any material impact on its consolidated financial statements. The Company does not intend to adopt IFRS 16 early.

3. FINANCIAL INSTRUMENTS

Classification and carrying value

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

	September 30, 2017	December 31, 2016
Loans and receivables		
Cash	32,292	21,921
Trade and other receivables	10,664	6,560
Other financial liabilities		
Trade and other payables	6,732	4,612
Bank Debt	7,425	7,414

4. INVENTORIES

	September 30, 2017	December 31, 2016
Finished goods	3,248	1,548
Work in progress	1,037	668
Raw materials	5,234	4,370
Provision for obsolescence	(1,110)	(371)
Net inventories	8,409	6,215

For the nine months ended September 30, 2017, inventory recognized as an expense in cost of sales amounted to \$17.8 million (September 30, 2016 - \$18.4 million). Included in the above amounts were inventory write downs of \$0.8 million (September 30, 2016 - \$0.1 million). There were no reversals of previously recorded inventory write downs. As at September 30, 2017, the Company anticipates the net inventory will be realized within one year.

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

5. PROPERTY AND EQUIPMENT

The Company's 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, 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	81	-	-	18	116	12	-	227
Disposals	(18)	-	(30)	(7)	-	-	-	(55)
Acquisition	45	2,331	-	83	199	-	8	2,666
Reclassification held for sale	(15)	-	-	-	-	-	-	(15)
Foreign exchange adjustments	-	(31)	22	(1)	27	-	(1)	16
Balance at September 30, 2017	454	2,300	878	300	1,507	433	7	5,879
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	64	15	44	32	191	6	-	352
Disposals	(11)	-	(7)	(2)	(4)	(2)	-	(26)
Foreign exchange adjustments	-	(8)	7	-	-	-	-	(1)
Balance September 30, 2017	259	7	717	104	665	395	-	2,147
Carrying amounts								
At December 31, 2016	155	-	213	133	687	30	-	1,218
At September 30, 2017	195	2,293	161	196	842	38	7	3,732

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

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	-	163	-	-	-	-	163
Disposals	(3)	(54)	-	-	-	-	(57)
Foreign exchange adjustments	-	3	562	187	235	49	1,036
Balance September 30, 2017	736	1,338	5,121	1,957	2,184	903	12,239
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	15	201	430	241	-	-	887
Disposals	(2)	-	-	-	-	-	(2)
Foreign exchange adjustments	-	(3)	124	69	-	49	239
Balance September 30, 2017	723	680	1,366	1,018	-	903	4,690
Carrying amounts							
At December 31, 2016	29	744	3,747	1,062	1,949	-	7,531
At September 30, 2017	13	658	3,755	939	2,184	-	7,549

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

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
Vega acquisition (note 14)	-	3,477	3,477
Foreign exchange adjustment	-	1,378	1,378
Balance, September 30, 2017	5,746	17,150	22,896

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 September 30, 2017, the contract manufacturers held approximately \$1.8 million (December 31, 2016 - \$2.4 million) in inventory and \$1.0 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 September 30, 2017 or December 31, 2016. No settlement amounts were paid out in the periods ended September 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 respect 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

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

stayed pending a Reissue Patent Application associated with the new patent involved in the second case. At September 30, 2017, no provision has been made as Management has concluded the probability of outflow is low.

The Company's wholly owned subsidiary, Carmanah Solar Power Corp ("CSPC"), whose assets were sold along with the On-Grid vertical as described in note 13, 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 September 30, 2017, CSPC has \$3.1 million in outstanding receivables related to these projects. This receivable, along with several others totaling \$5.3 million, was not sold along with the rest of the assets of CSPC and has been retained by the Company. 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 September 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 September 30, 2017, Sabik Oy had drawn €0.4 million (USD \$0.4 million) from the operating line for short-term working capital needs. It carries an interest rate of EURIBOR plus 1.35% and was drawn upon for short term working capital needs.

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.

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

9. SHARE-BASED PAYMENTS

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

Nine months ended September 30,	2017	2016
Stock options	497	549

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 September 30, 2017:

Available shares (10% of outstanding shares at September 30, 2017)	2,490,766
Less:	
Stock options outstanding at September 30, 2017	(1,595,544)
Number of shares issuable under stock-based compensation plans	895,222

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 September 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
Granted	148,000	\$3.97
Forfeited	(165,712)	\$5.43
Exercised	(37,767)	\$2.63
Cancelled	(6,000)	\$5.30
Balance, September 30, 2016	1,991,141	\$3.66
Granted	52,000	\$3.83
Exercised	(38,434)	\$2.54
Forfeited	(61,722)	\$2.64
Balance, December 31, 2016	1,942,985	\$3.72
Granted	90,000	\$4.41
Exercised	(305,152)	\$2.21
Forfeited	(132,289)	\$3.67
Balance, September 30, 2017	1,595,544	\$4.05

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

The following table summarizes the stock options outstanding and exercisable at September 30, 2017 and December 31, 2016. The weighted average exercise price is stated in Canadian dollars:

Range (exercise price)	Options outstanding			Options exercisable		
	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 September 30, 2017						
\$1.45 to \$1.45	200,000	3.1	\$1.45	125,000	3.1	\$1.45
\$1.46 to \$2.50	277,436	6.5	\$2.50	195,370	6.5	\$2.50
\$2.51 to \$2.90	246,182	6.8	\$2.71	130,114	6.5	\$2.72
\$2.91 to \$6.39	871,926	8.1	\$5.51	386,252	7.8	\$5.94
	1,595,544	7.0	\$4.05	836,736	6.6	\$3.96

1 - WA – weighted average

2 - Life in years

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the nine months ended September 30, 2017 was \$2.20 CAD per share (September 30, 2016 - \$2.05 CAD per share). The option valuations were determined using the following weighted average assumptions:

	Nine months ended September 30,	
	2017	2016
Risk-free interest rate	1.17%	0.74%
Expected dividend yield	0%	0%
Forfeiture rate	16.3%	16.9%
Stock price volatility	51.7%	54.6%
Expected life of options	6.3 years	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.

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

10. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Salaries, commissions and other direct compensation	2,513	2,023	7,148	6,368
Share-based payments	158	174	497	549
Marketing, advertising and other related expenses	104	198	569	538
Development expenses	149	111	263	446
Travel and related expenses	180	174	552	558
Occupancy costs	247	233	798	691
Telecom and IT expenses	187	242	583	621
Professional fees, insurance and public company costs	593	373	1,201	1,236
Amortization	422	376	1,175	1,084
Bad debts	(34)	255	(124)	315
Bank charges and interest	38	37	112	112
Other expenses	15	140	116	211
Total operating expenditures	4,572	4,336	12,890	12,729

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

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

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 maker uses to evaluate and assess segment performance. Operating expenditures such as sales and marketing, research, engineering and development as well as general and administrative expenses, which cannot accurately be attributed between various segments, have not been allocated between segments.

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

	Signals	Illumination	Total
For the three months ended September 30, 2017			
Revenue	13,849	659	14,508
Gross margin	6,118	(695)	5,423
Gross margin %	44.2%	(105.5%)	37.4%
Total operating expenses			(4,572)
Other expenses			(394)
Income before taxes			457
For the three months ended September 30, 2016			
Revenue	10,006	1,310	11,316
Gross margin	4,603	522	5,125
Gross margin %	46.0%	39.8%	45.3%
Total operating expenses			(4,336)
Other income			455
Income before taxes			1,244
For the nine months ended September 30, 2017			
Revenue	34,665	3,171	37,836
Gross margin	15,786	(152)	15,634
Gross margin %	45.5%	(4.8%)	41.3%
Total operating expenses			(12,890)
Other expenses			(770)
Income before taxes			1,974
For the nine months ended September 30, 2016			
Revenue	31,078	5,950	37,028
Gross margin	13,909	2,179	16,088
Gross margin %	44.8%	36.6%	43.4%
Total operating expenses			(12,729)
Other income			287
Income before taxes			3,646

Geographic

For geographical reporting, revenues have been grouped by the geographic region in which the customer is located. Assets related to the company's operations, consisting of inventory and equipment and leasehold improvements, are grouped by region based on the location of the assets as specified below:

Revenue	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
North America	5,986	5,387	15,858	15,452
Europe	7,282	4,494	19,162	19,167
South America	222	126	494	205
Middle East and Africa	134	303	600	813
Asia Pacific	884	1,006	1,722	1,391
Total revenues	14,508	11,316	37,836	37,028

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

Assets	September 30, 2017	December 31, 2016
North America	2,994	3,633
Europe	4,488	3,800
Asia Pacific	4,659	-
Total equipment and inventories	12,141	7,433

12. RELATED PARTY TRANSACTIONS

None.

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 and the Off-Grid division on August 1, 2017. 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

	Three months ended September 30		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues	1,484	6,785	12,967	20,012
Cost of sales	1,019	5,850	9,142	16,193
Gross profit	465	935	3,825	3,819
Operating expenditures	(785)	(950)	(2,518)	(2,736)
Other income/(expenses)	413	(199)	647	434
Income before taxes	93	(214)	1,954	1,517
Tax (expense)/recovery	(1,521)	52	(2,005)	(409)
Net income/(loss) from discontinued operations	(1,428)	(162)	(51)	1,108
Other comprehensive (loss)/income	(62)	7	(120)	12
Total comprehensive income	(1,490)	(155)	(171)	1,120

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

Assets and liabilities 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:

	September 30, 2017	December 31, 2016
Trade and other receivables	-	6,172
Unbilled receivables	-	4,472
Inventories	-	4,917
Prepaid and other current assets	-	588
Capital and intangible assets	-	178
Deferred tax assets	-	67
Assets held for sale	-	16,394
Deferred revenue	-	9
Trade and other payables	-	2,455
Cost of uncompleted contracts	-	60
Provisions	-	258
Liabilities held for sale	-	2,782

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 \$6.1 million of accounts and notes receivable, of which \$0.8 million has since been collected, due on final completion. The Company also retained \$0.1 million in liabilities relating to these outstanding projects which have been classed as non-trade payables. Once the requirements of the remaining portfolios are complete, CSPC will permanently cease its solar power EPC business.

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

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

	September 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, On-Grid	(368)

Effect of the disposal of the Off-Grid division

On August 1, 2017, Carmanah completed the sale of the Power segment of the Company, selling the Off-Grid Power division. 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. At September 30, 2017, a positive working capital adjustment of \$1.1 million and an escrow receivable of \$2.0 million have been recorded under non-trade receivables.

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

	September 30, 2017
Cash Proceeds	16,550
Amounts held in Escrow	1,950
Total proceeds	18,500
Accounts receivable	(3,095)
Inventories	(4,894)
Deposits and prepaid expenses	(450)
Property and equipment	(96)
Accounts payable and accrued liabilities	867
Provisions	173
Deferred revenue	22
Net assets disposed	11,027
Professional fees and other	(609)
Working capital adjustment	1,100
Gain on disposal of discontinued operations, Off-Grid	11,518

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

Cash flow from discontinued operations

	Nine months ended September 30,	
	2017	2016
Cash (used)/provided by operating activities	(2,167)	3,994
Net cash flow from discontinued operations	(2,167)	3,994

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.

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 \$0.4 million and a net loss of \$0.2 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, except for cash which is final, 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

CARMANAH TECHNOLOGIES CORPORATION

Notes to the consolidated financial statements

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

For the nine months ended September 30, 2017 and 2016

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 \$8.7 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 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 August 1, 2017 and has contributed incremental revenues of \$1.0 million and a net loss of \$0.3 million. If the acquisition had occurred on January 1, 2017, Vega would have contributed revenue of \$3.9 million and a net loss of \$0.9 million. The total year-to-date costs related to this acquisition was approximately \$0.3 million, with the expenses included under the caption “Other expenses”.

The below purchase price allocation is preliminary, except for cash and the working capital adjustment which are final, 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	7,485
Contingent consideration	1,497
Working capital adjustment	(247)
Total consideration	8,735
Identifiable assets acquired and liabilities assumed	
Trade and other receivables	1,178
Inventories	2,175
Other assets	157
Property, plant and equipment	2,720
Bank indebtedness	(4)
Trade and other payables	(623)
Deferred revenue	(284)
Goodwill	3,477
Total	8,735

15. SUBSEQUENT EVENTS

On October 5, 2017, the Company completed a Substantial Issuer Bid (the “Offer”) that the Company has taken up and paid for 6,000,000 common shares (“Shares”) at a price of CAD \$5.00 per Share under the Offer for a total cost of CAD \$30.0 million. The Shares purchased represented 24.09% of the Shares outstanding immediately prior to the purchase. After giving effect to the purchase, the Company had 18,908,019 Shares issued and outstanding.

Shareholders had the opportunity under the Offer to tender Shares until October 4, 2017. Approximately 14,862,667 Shares were tendered to the Offer. The Shares were taken up on a prorated basis in accordance with the terms of the Offer. Payment for the purchased Shares was completed by Computershare Investor Services Inc. in accordance with the Offer.