CARMANAH TECHNOLOGIES CORPORATION

Condensed Interim Consolidated Financial Statements

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

carmanah®

(Expressed in thousands of U.S. dollars)

	Notes	September 30, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	3	12,475	11,823
Trade and other receivables	3	8,924	9,458
Inventories	4	7,947	8,504
Prepaid and other current assets		865	1,576
Income taxes receivable		477	416
Non-trade receivables	3	488	5,410
Total current assets		31,176	37,187
Property and equipment	5	1,046	3,640
Intangible assets	6	10,343	10,070
Goodwill	6.1	18,237	18,654
Deferred income tax asset		5,885	6,661
Investment tax credits		1,248	945
Other non-current assets		1,440	-
Total assets		**69,375**	**77,157**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	3	5,786	6,265
Bank debt	3	325	7,383
Provisions		1,042	1,125
Income taxes payable		18	230
Deferred revenue		694	741
Other current liabilities	3	31	-
Non-trade payables	3	368	277
Total current liabilities		8,264	16,021
Other non-current payables	3, 7.2(a)	1,200	-
Deferred income tax liability		724	966
Total liabilities		**10,188**	**16,987**
Equity			
Share capital	8	66,557	66,242
Equity reserve	9	2,509	2,326
Accumulated other comprehensive gain		80	1,181
Deficit		(9,959)	(9,579)
Total equity		**59,187**	**60,170**
Total liabilities and equity		**69,375**	**77,157**

Commitments and contingencies – note 7

Approved and authorized for issue by the Board of Directors on November 14, 2018

"John Simmons" ______________________

John Simmons, Chief Executive Officer

"James Meekison" ______________________

James Meekison, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION
Interim 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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues		12,862	14,508	41,607	37,836
Cost of sales		7,534	9,085	24,015	22,202
Gross profit	11	**5,328**	**5,423**	**17,592**	**15,634**
Operating expenditures					
Sales and marketing		1,168	1,345	3,814	3,636
Research and development		790	515	2,290	1,897
General and administrative		2,949	2,712	9,590	7,357
Restructuring recovery	13	(12)	-	(85)	-
Total operating expenditures	10	4,895	4,572	15,609	12,890
Operating income		**433**	**851**	**1,983**	**2,744**
Other income/(expenses)					
Loss on disposal of assets		(131)	-	(136)	(17)
Other expenses		(823)	(419)	(1,171)	(715)
Foreign exchange gain/(loss)		(2)	25	(178)	(38)
Total other expenditures		(956)	(394)	(1,485)	(770)
Income/(loss) before taxes		**(523)**	**457**	**498**	**1,974**
Income tax expense		(102)	(139)	(665)	(538)
Net income/(loss) from continuing operations		**(625)**	**318**	**(167)**	**1,436**
Net (loss)/income from discontinued operations, net of tax	12	44	(1,428)	(213)	(51)
Gain on disposal of discontinued operations, Off-Grid		-	11,518	-	11,518
Loss on disposal of discontinued operations, On-Grid		-	-	-	(368)
Net income/(loss) attributable to shareholders		**(581)**	**10,408**	**(380)**	**12,535**
Other comprehensive income/(loss)					
Items that will not be reclassified subsequently to net income:					
Foreign currency translation adjustments		(256)	573	(1,201)	2,673
Foreign currency translation adjustments from discontinued operations		(53)	(62)	100	(120)
Total comprehensive income/(loss)		**(890)**	**10,919**	**(1,481)**	**15,088**
Net income/(loss) per share					
Basic - Continuing operations		(0.03)	0.01	0.00	0.06
Basic - Discontinued operations		0.00	0.41	(0.01)	0.45
Total		**(0.03)**	**0.42**	**(0.01)**	**0.51**
Diluted - Continuing operations		(0.03)	0.01	0.00	0.06
Diluted - Discontinued operations		0.00	0.40	(0.01)	0.44
Total		**(0.03)**	**0.41**	**(0.01)**	**0.50**
Weighted average number of shares outstanding:					
Basic		19,050,916	24,708,467	18,965,583	24,643,287
Diluted		19,355,686	25,156,872	19,291,203	25,093,985

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

	Notes	Share capital		Equity reserve	Accumulated other comprehensive (loss)/gain	Deficit	Total equity
		# of shares	Amount				
		('000)					
Balance, January 1, 2017		***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	9	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**
Net income		-	-	-	-	(1,184)	(1,184)
Share-based payments	9	-	-	112	-	-	112
Shares issued on stock option exercise	9	*14*	48	(16)	-	-	32
Shares acquired and cancelled		*(6,000)*	(21,004)	(3,035)	-	-	(24,039)
Foreign currency translation adjustments		-	-	-	348	-	348
Balance, December 31, 2017		***18,922***	**66,242**	**2,326**	**1,181**	**(9,579)**	**60,170**
Net income		-	-	-	-	(380)	(380)
Share-based payments	9	-	-	302	-	-	302
Shares issued on stock option exercise	9	*107*	332	(119)	-	-	213
Shares acquired and cancelled		*(5)*	(17)	-	-	-	(17)
Foreign currency translation adjustments		-	-	-	(1,101)	-	(1,101)
Balance, September 30, 2018		***19,024***	**66,557**	**2,509**	**80**	**(9,959)**	**59,187**

(Expressed in thousands of U.S. dollars)

	Notes	Nine months ended September 30, 2018	2017
OPERATING ACTIVITIES			
Net (loss)/income		(167)	1,436
Add back (deduct) items not involving cash:			
Amortization		2,399	1,239
Loss on disposal of assets	13	136	17
Share-based payments	9	302	497
Unrealized foreign exchange loss		(78)	393
Use/(Recognition) of investment tax credits		(303)	2,009
Deferred income tax expense		534	210
Changes in working capital and other items:			
Trade and other receivables		(963)	(3,034)
Inventories		557	(112)
Prepaids and other current assets		(729)	(677)
Income tax receivable		(61)	145
Trade and other payables		(1,018)	1,524
Other current liabilities		91	-
Provisions		(83)	28
Deferred revenue		(47)	(4)
Income tax payable		(212)	(4)
Net cash provided in operating activities		**358**	**3,667**
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired		-	(1,412)
Acquisition of Vega Industries Ltd., net of cash		-	(8,921)
Proceeds from sale of On-Grid		-	2,003
Initial proceeds from sale of Off-Grid		-	16,550
Proceeds from sale of assets	13	2,248	-
Purchase of equipment and leasehold improvements	5	(276)	(227)
Purchase of intangible assets	6,7.2(a)	(835)	(163)
Escrow payment from the acquisition of Vega Industries	13	1,497	-
Escrow payment from sale of Off-Grid		1,462	-
Net cash provided in investing activities		**4,096**	**7,830**
FINANCING ACTIVITIES			
Proceeds from exercised stock options	9	213	545
Debt financing		-	7,000
Debt repayments		(7,000)	(6,994)
Share repurchase		(17)	-
Net cash (used)/provided in financing activities		**(6,804)**	**551**
Foreign exchange effect on cash		(243)	490
Increase/(Decrease) in cash from continuing operations		(2,593)	12,538
Cash (used)/provided from discontinued operations	12	3,245	(2,167)
Cash at beginning of period		11,823	21,921
Cash at end of period		12,475	32,292

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 interim consolidated 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 November 14, 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, however disclosures have been updated to reflect the requirements of the standard.

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.

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 September 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	September 30, 2018
Financial Assets				
Cash and cash equivalents	12,475	-	-	12,475
Trade and other receivables	8,924	-	-	8,924
Non-trade receivables	488	-	-	488
Financial Liabilities				
Trade and other payables	-	(5,786)	-	(5,786)
Bank Debt	-	(325)	-	(325)
Other current liabilities	-	(84)	53	(31)
Non-trade payables and other non-current payables	-	(1,568)	-	(1,568)

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

	September 30, 2018	December 31, 2017
Finished goods	1,819	4,709
Work in progress	1,032	837
Raw materials	5,165	3,975
Provision for obsolescence	(69)	(1,017)
Net inventories	**7,947**	**8,504**

For the nine months ended September 30, 2018, inventory recognized as an expense in cost of sales amounted to $20.8 million (September 30, 2017 - $17.8 million). Included in the above amounts were inventory write downs of $0.05 million (September 30, 2017 - $0.8 million). There were no reversals of previously recorded inventory write downs. As at September 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 September 30, 2018, the contract manufacturers held approximately $2.3 million (December 31, 2017 - $1.5 million) in inventory and $2.2 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	14	-	55	5	194	8	-	276
Disposals	(125)	(2,042)	(2)	(75)	(175)	(6)	(8)	(2,433)
Write-down of property and equipment	-	(125)	-	-	-	-	-	(125)
Foreign exchange adjustments	(1)	(108)	(9)	(7)	(47)	-	-	(172)
Balance at September 30, 2018	**345**	**-**	**921**	**235**	**1,593**	**434**	**-**	**3,528**
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	42	26	64	26	189	6	1	354
Disposals	(85)	(49)	(1)	(11)	(32)	(6)	(1)	(185)
Foreign exchange adjustments	(1)	(2)	(5)	(2)	(18)	-	(1)	(29)
Balance September 30, 2018	**235**	**-**	**799**	**132**	**920**	**396**	**-**	**2,482**
Carrying amounts								
At December 31, 2017	178	2,250	136	193	840	36	7	3,640
At September 30, 2018	110	-	122	103	673	38	-	1,046

(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	111	-	-	-	-	2,574
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	(5)	(182)	(127)	(72)	(31)	(417)
Balance September 30, 2018	**3,199**	**1,393**	**5,617**	**4,224**	**2,255**	**942**	**17,630**
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	364	208	408	1,065	-	-	2,045
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	(3)	(60)	(67)	-	(31)	(161)
Balance September 30, 2018	1,090	**875**	**1,914**	**2,466**	-	**942**	**7,287**
Carrying amounts							
At December 31, 2017	10	617	4,233	2,883	2,327	-	10,070
At September 30, 2018	2,109	518	3,703	1,758	2,255	-	10,343

(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	-	(417)	(417)
Balance, September 30, 2018	5,746	12,491	18,237

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 appealed this judgment. Pending that action, the original court proceedings were 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 alleged negligence for failing to notify RSA of the above-noted US claims in a timely manner. The lawsuit sought 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 September 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.

d) In August 2018, the Company was served with a legal claim in which it was named as a defendant in a case filed in the Circuit Court of Cook County, Illinois by the administrator of the estate of an individual who was killed in a boating accident in 2016. The plaintiff alleges, among other things, that the Company was negligent in the design, manufacture or sale of a marine lantern that was installed near the site of the accident. The Company denies any liability and is defending the case in cooperation with its insurers. The Company has concluded no provision is required as at September 30, 2018.

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 September 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.

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

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 share-based payment plans are outlined in the table below:

Nine months ended September 30,	2018	2017
Stock options	302	497

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, 2018:

Available shares (10% of outstanding shares at September 30, 2018)	1,902,476
Less:	
Stock options outstanding at September 30, 2018	(1,562,206)
Number of shares issuable under stock-based compensation plans	340,270

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

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

9.1. STOCK OPTIONS

The following is a reconciliation of stock options outstanding between January 1, 2017 through September 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	(305,152)	$2.21
Forfeited	(132,289)	$3.67
Balance, September 30, 2017	1,595,544	$4.05
Granted	128,000	$4.50
Exercised	(14,552)	$2.79
Cancelled/Forfeited	(22,863)	$4.24
Balance, December 31, 2017	1,686,129	$4.09
Exercised	(107,347)	$2.57
Cancelled/Forfeited	(16,576)	$4.14
Balance, September 30, 2018	1,562,206	$4.20

The following table summarizes the stock options outstanding and exercisable at September 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 September 30, 2018						
$1.45 to $1.45	200,000	2.2	$1.45	200,000	2.2	$1.45
$1.46 to $2.50	172,361	5.5	$2.50	172,361	5.5	$2.50
$2.51 to $2.90	225,995	6.2	$2.70	167,961	6.2	$2.70
$2.91 to $6.39	963,850	7.4	$5.41	561,513	6.9	$5.80
	1,562,206	6.3	$4.20	1,101,835	5.7	$4.02

1 – WA – weighted average

2- Life in years

There were no options granted during the nine months ended September 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Salaries, commissions and other direct compensation	2,598	2,513	8,526	7,148
Professional fees, insurance and public company costs	333	593	1,333	1,201
Amortization	777	422	2,399	1,175
Telecom and IT expenses	243	187	672	583
Travel and related expenses	238	180	707	552
Occupancy costs	272	247	839	798
Bank Charges	43	38	118	112
Marketing, advertising and other related expenses	136	104	501	569
Development expenses	174	149	238	263
Other expenses	28	15	64	116
Share-based payments	81	158	302	497
Bad debts/(recoveries)	(16)	(34)	(5)	(124)
Restructuring costs/(recoveries)	(12)	-	(85)	-
Total operating expenditures	4,895	4,572	15,609	12,890

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.

(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 September 30, 2018			
Revenue	11,753	1,109	12,862
Gross margin	4,878	450	5,328
Gross margin %	41.5%	40.6%	41.4%
Total operating expenses			(4,895)
Other expenses			(956)
Income before taxes			(523)
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 nine months ended September 30, 2018			
Revenue	38,154	3,453	41,607
Gross margin	16,185	1,407	17,592
Gross margin %	42.4%	40.7%	42.3%
Total operating expenses			(15,609)
Other expenses			(1,485)
Income before taxes			498
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

GEOGRAPHIC

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
North America	7,120	5,986	18,663	15,858
Europe	4,127	7,282	17,800	19,162
South America	253	222	841	494
Middle East and Africa	63	134	290	600
Asia Pacific	1,299	884	4,013	1,722
Total revenues	12,862	14,508	41,607	37,836

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

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

	September 30, 2018	December 31, 2017
North America	3,151	3,124
Europe	5,842	4,652
Asia Pacific	-	4,368
Total equipment and inventories	**8,993**	**12,144**

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

	Nine months ended September 30,	
	2018	2017
Revenues	48	12,967
Cost of sales	-	9,142
Gross profit	48	3,825
Operating income/(expenditures)	30	(2,518)
Other (expenses)/recoveries	(363)	647
(Loss)/income before taxes	(285)	1,954
Tax recovery/(expense)	72	(2,005)
Net (loss)/income from discontinued operations	(213)	(51)
Other comprehensive income/(loss)	100	(120)
Total comprehensive (loss)/income	(113)	(171)

CASH FLOW FROM (USED IN) DISCONTINUED OPERATION

	Nine months ended September 30,	
	2018	2017
Cash provided/(used) by operating activities	3,245	(2,167)
Net cash flow from discontinued operations	3,245	(2,167)

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

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 was reduced by NZD $2.0 million (USD $1.5 million) if the acquiree did not meet certain operating revenue targets for its fiscal year ended March 31, 2018. This is considered contingent consideration receivable and was recorded at its fair value at the date of acquisition, based on the likelihood the revenue target would not be met, and was 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.

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 September 30, 2018 is final.

	Allocation
Cash consideration	8,982
Contingent consideration received	(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 would eliminate Vega's administrative, back office, and manufacturing functions and migrate its manufacturing facility to Finland and Estonia. The Company 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 the previous provision with respect to restructuring for the nine months ending September 30, 2018. A total of 46 employees were to be terminated under this plan, with 9 employees terminated in 2017, 29 employees terminated during the first nine months in 2018 and a further 2 employees will be terminated in the remaining three months in 2018.

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

	Severance and related benefits	Other exit costs	Total
Balance at January 1, 2018	171	159	330
Cash payments	(160)	(54)	(214)
Recoveries	-	(85)	(85)
Balance at September 30, 2018	**11**	**20**	**31**

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. These assets were sold in the third quarter of 2018 and the consolidated statement of income and total comprehensive income for the period ended September 30, 2018 includes a $0.1 million write-down related to these assets and is included in the Company's Signal segment.

14. SUBSEQUENT EVENTS

IDC ACQUISITION

On October 2, 2018, the Company acquired the shares of Information Display Company ("IDC"). IDC is a U.S manufacturer of radar speed signs and other speed displays. The purchase price totaled $1.5 million paid on closing and will be included within the Traffic vertical.

The Company is currently in the process of evaluating the assets acquired and their fair value and does not anticipate a reduction in the purchase price.