CARMANAH TECHNOLOGIES CORPORATION

Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Amounts in thousands of U.S. dollars unless otherwise stated)

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of
Carmanah Technologies Corporation

We have audited the accompanying consolidated financial statements of Carmanah Technologies Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of loss and total comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carmanah Technologies Corporation as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
March 14, 2014
Vancouver, Canada

CARMANAH TECHNOLOGIES CORPORATION

Consolidated statements of financial position
(Expressed in thousands of U.S. dollars)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Cash	5.1	5,197	2,533
Restricted cash	5.1	45	154
Trade and other receivables	5.3	5,614	4,501
Inventories	6	2,967	3,226
Prepaid and other current assets		303	416
Total current assets		14,126	10,830
Equipment and leasehold improvements	7	682	1,098
Intangible assets	8	149	1,248
Total assets		**14,957**	**13,176**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	5.4	4,763	3,861
Provisions	9	850	550
Deferred revenue		416	69
Current liabilities		6,029	4,480
Equity			
Share capital	11	42,870	36,982
Equity reserve	12	2,966	2,982
Accumulated other comprehensive loss		(76)	-
Deficit		(36,832)	(31,268)
Total equity		8,928	8,696
Total liabilities and equity		**14,957**	**13,176**

Commitments and contingencies – note 13

Approved and authorized for issue by the Board of Directors on March 14, 2014

John Simmons, Chief Executive Officer

Michael Sonnenfeldt, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION

Consolidated statements of loss and total comprehensive loss
(Expressed in thousands of U.S. dollars, except number of share and per share amounts)

	Notes	Years ended December 31, 2013	2012
Revenues	16	25,902	26,442
Cost of sales	16	18,518	18,203
Gross profit	16	7,384	8,239
Operating expenditures			
Sales and marketing	15	3,439	4,218
Research and development	15	1,925	2,065
General and administrative	15	5,439	5,783
Total operating expenditures		10,803	12,066
Restructuring expenses	20	(552)	-
Impairment of equipment	7	(158)	-
Impairment of intangible assets	8	(1,317)	-
Operating loss		(5,446)	(3,827)
Other income/(expenses)			
Loss on disposal of assets		(7)	(6)
Other expenditures		(14)	(139)
Foreign exchange (loss)/gain		(92)	53
		(113)	(92)
Loss before taxes		(5,559)	(3,919)
Income tax expense	17	(5)	(2)
Net loss attributable to shareholders		(5,564)	(3,921)
Other comprehensive loss			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		(76)	-
Total comprehensive loss		(5,640)	(3,921)
Net loss per share			
Basic and diluted		(0.10)	(0.09)
Weighted average number of shares outstanding:			
Basic and diluted		55,978,085	44,880,257

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Issued capital *# of shares*	Issued capital Amount	Equity reserve	Subtotal	Deficit	Accumulated other comprehensive loss	Total equity
		('000)						
Balance, January 1, 2012		*43,074*	34,742	3,204	37,946	(27,347)	-	10,599
Net loss		-	-	-	-	(3,921)	-	(3,921)
Share-based payments	12	-	-	257	257	-	-	257
Shares issued under stock compensation plans		*814*	479	(479)	-	-	-	-
Shares issued in private placement, net of issuance costs of $48	11	*3,982*	1,761	-	1,761	-	-	1,761
Balance, December 31, 2012		*47,870*	36,982	2,982	39,964	(31,268)	-	8,696
Net loss		-	-	-	-	(5,564)	-	(5,564)
Share-based payments	12	-	-	46	46	-	-	46
Shares issued to acquire Spot Devices Inc.	19	*2,222*	607	-	607	-	-	607
Shares issued under stock compensation plans		*226*	62	(62)	-	-	-	-
Shares issued in rights offering, net of issuance costs of $491	11	*50,294*	5,219	-	5,219	-	-	5,219
Foreign currency translation adjustments		-	-	-	-	-	(76)	(76)
Balance, December 31, 2013		*100,612*	42,870	2,966	45,836	(36,832)	(76)	8,928

CARMANAH TECHNOLOGIES CORPORATION

Consolidated statements of cash flows
(Expressed in thousands of U.S. dollars)

	Notes	Years ended December 31, 2013	2012
OPERATING ACTIVITIES			
Net loss		(5,564)	(3,921)
Add back (deduct) items not involving cash:			
Amortization		936	1,099
Loss on disposal of assets		7	6
Share-based payments	12	46	257
Impairment of intangible assets	8	1,317	-
Impairment of equipment	7	158	
Unrealized foreign exchange (gain)/loss		(165)	26
Restructuring expenses	20	228	-
Changes in working capital and other items:			
Trade and other receivables		(1,113)	752
Inventories		259	(1,175)
Prepaids and other current assets		113	(24)
Trade and other payables		674	(521)
Provisions		300	(110)
Deferred revenue		347	60
Net cash used in operating activities		(2,457)	(3,551)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		7	-
Purchase of equipment and leasehold improvements		(186)	(130)
Purchase of intangible assets		(84)	(301)
Net cash used in investing activities		(263)	(431)
FINANCING ACTIVITIES			
Proceeds from private placement	11	-	1,761
Proceeds from rights offering	11	5,219	-
Net cash provided by financing activities		5,219	1,761
Foreign exchange effect on cash		56	(26)
Increase (decrease) in cash		2,555	(2,247)
Cash and restricted cash at beginning of year		2,687	4,934
Cash and restricted cash at end of year		5,242	2,687

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

1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION

1.1. General business description

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

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

1.2. Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated 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.

Effective January 1, 2013, the Company adopted the following new or amended accounting standards as issued by the International Accounting Standards Board (“IASB”) IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities), IFRS 13 (Fair Value Measurement), IAS 19 (Employee Benefits) and the amendments to IAS 1 (Presentation of Financial Statements) and IFRS 7 (Financial Instruments - Disclosures). The adoption of these standards and amendments did not have a material impact on the consolidated financial statements except IFRS 13.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Consolidation

Carmanah consolidates subsidiaries controlled by the Company. Control exists when the Company is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company balances and transactions, including any income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements include the following subsidiaries:

Name	Current principal activity	Place of incorporation and operation	Ownership/voting interest held by Company held at:	
			2013	**2012**
Carmanah Technologies (US) Corporation	Employs US based sales representatives on behalf of the parent company	United States - Nevada	100%	100%
Carmanah Solar Power Corporation	Associated Grid-tie business segment	Canada – Ontario	100%	100%

2.2. Business Combinations

The identifiable assets, liabilities and contingent liabilities of a subsidiary, which can be measured reliably, are recorded at their provisional fair values at the date of acquisition. Goodwill is the fair value of the consideration transferred (including contingent consideration and previously held non-controlling interests) less the fair value of Carmanah's share of identifiable net assets on acquisition. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalized within twelve months of the acquisition date.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognized directly in the statement of income (loss) and comprehensive income (loss) in the period of acquisition.

For non-wholly owned subsidiaries, non-controlling interests are initially recorded at the non-controlling interest's proportion of the fair values of net assets recognized at acquisition.

2.3. Foreign Currencies

The presentation currency for the consolidated financial statements is the U.S. dollar. The functional currency of Carmanah Technologies Corporation and Carmanah Technologies (US) Corporation is the U.S. dollar. The functional currency of Carmanah Solar Power Corporation was changed from the U.S. dollar to the Canadian dollar on January 1, 2013. The assets and liabilities of subsidiary entities that differ from that of the Company are translated at the exchange rate prevailing at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognized directly in accumulated other comprehensive income (loss).

Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the period end date. Non-monetary items that are measured in terms of historical cost are translated using the historical rates. All gains and losses on translation of those foreign currency transactions are recorded in income.

2.4. Financial Instruments

Financial instruments are classified into one of the following categories: (1) fair value through profit or loss ("FVTPL"), (2) held-to-maturity ("HTM"), (3) loans and receivables, (4) available-for-sale ("AFS") financial assets or (5) other financial liabilities. The classification determines the accounting treatment of the instrument. Carmanah determines the classification when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are classified as loans and receivables and are measured at amortized cost.

For the purposes of the consolidated statement of cash flows, total cash and cash equivalents include cash at banks and on hand and restricted cash at banks.

Trade and other receivables

Trade receivables do not incur any interest, are short-term in nature and are measured at their nominal value net of appropriate allowance for estimated amounts that are not expected to be recovered. Such allowances are raised based on an assessment of debtor ageing, past experience or known customer circumstances.

Investments

Investments, other than investments in subsidiaries, joint ventures and associates, are financial asset investments and are initially recognized at fair value. At subsequent reporting dates, financial assets that the Company has the expressed intention and ability to hold to maturity (held-to-maturity) as well as loans and receivables are measured at amortized cost, less any impairment losses. The amortization of any discount or premium on the acquisition of a held-to-maturity investment is recognized in the statement of income (loss) in each period using the effective interest method.

Investments other than those classified as held-to-maturity or loans and receivables are classified as either at fair value through profit or loss (which includes investments held for trading) or available-for-sale financial assets. Both categories are subsequently measured at fair value. Where investments are held for trading purposes, realized/unrealized gains and losses for the period are included in the statement of income (loss) and comprehensive income (loss) within Other Income/(Expense). For available-for-sale investments, realized/unrealized gains and losses are recognized in equity until the investment is disposed or impaired, at which time the cumulative gain or loss previously recognized in equity is included in the statement of income (loss).

Impairment of financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognized in the statement of income (loss) and comprehensive income (loss). When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of income (loss) and comprehensive income (loss).

Impairment losses relating to available-for-sale investments are recognized when the decline in fair value is considered significant or prolonged. These impairment losses are recognized by transferring the cumulative loss that has been recognized in accumulated other comprehensive income/(loss) to net income/(loss). The loss recognized in the statement of income (loss) is the difference between the acquisition cost and the current fair value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified and accounted for as debt or equity according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments

Equity instruments issued by Carmanah are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade and other payables are not interest bearing and are measured at their nominal value until settled, which approximates amortized cost.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the asset have expired, the right to receive cash flows has been retained but an obligation to pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled or has expired.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

From time to time Carmanah enters into a variety of derivative financial instruments to manage its exposure to foreign exchange risks, including foreign exchange forward and option contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. The Company does not currently apply hedge accounting for derivatives.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value through profit or loss.

2.5. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all costs of purchase, costs of conversion (direct costs and an allocation of fixed and variable production overheads) and other costs incurred in bringing the inventory to their present location and condition. Net realizable value is the estimated selling price less estimated costs to complete.

2.6. Equipment and leasehold improvements

Equipment and leasehold improvements are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment and leasehold improvements consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized at rates calculated to write off the cost of equipment and leasehold improvements, less their estimated residual value, using the straight-line method. The periods/rates are outlined below:

Asset	Years
Computer hardware	3-5
Leasehold improvements	Term of lease
Office equipment	5-7
Production equipment	5
Research and tradeshow equipment	5

Estimated useful lives, depreciation methods, rates and residual values are reviewed on a periodic basis, with any changes in these estimates accounted for on a prospective basis.

An item of equipment and leasehold improvements is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of income/(loss). Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment and leasehold improvements that are accounted for separately, including major inspection and overhaul expenditures, are capitalized and amortized over their estimated useful life.

2.7. Intangible assets

Intangible assets consist of product development assets, computer software, license rights, trademarks and patents. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each year end.

Product development assets relate to internal development efforts for research and development which have met certain capitalization criteria outlined in 2.12. Product development assets are amortized on a straight-line basis over their estimated useful lives once the related technology has been commercialized and sales commence. The current product development assets have an estimated useful life of 3 years.

Computer software relates to expenditures incurred to acquire and implement software used within the business. Software assets are amortized over their estimated useful lives which varies between 3 and 5 years.

Patent and trademark assets consist of professional fees incurred for the filing of patents and the registration of trademarks for product marketing purposes. Patent and trademark registration and maintenance fees paid are amortized on a 25% declining balance basis.

2.8. Impairment of non-financial assets

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, if any, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

2.9. Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

2.10. Share-based payments

For equity-settled share-based compensation, expense is based on the grant date fair value of the awards expected to vest over the vesting period. For cash-settled share-based compensation, the expense is determined based on the fair value of the award at the end of the reporting period until it is settled. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of income/(loss).

The fair value of the stock options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the stock units granted is measured using the common share price at the time of the grant.

2.11. Revenue recognition

Carmanah measures revenue at the fair value of the consideration received or receivable.

Sale of goods:

Revenue from the sale of products is recognized when all of the following conditions have been met:

- title and risk involving the products are transferred to the buyer;
- the Company's managerial involvement over the goods ceases to exist;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred in respect of the transaction can be measured reliably.

If there is a requirement for customer acceptance of any products shipped, revenue is recognized only after customer acceptance has been received. Payments received in advance of the satisfaction of the Company's revenue recognition criteria are recorded as deferred revenue.

Provisions are established for estimated product returns and warranty costs at the time revenue is recognized based on historical experience for the product.

Sale of services:

Revenue from the rendering of services is recognized when the following criteria are met:

- the amount of revenue can be measured reliably;
- the stage of completion can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

Projects:
Revenue from projects, which can include both the sale of goods and services, is generally recorded on a percentage of completion basis. To determine the amount of revenue to recognize, the Company will:

- Measure the stage of completion by reviewing the proportion of costs incurred for work performed to date compared to the total estimated contract costs.
- Periodically revise the estimates of the percentage of completion of each project by comparing the actual costs incurred to the total estimated costs for the project. These estimates of total cost are subject to change, which would have an impact on the timing of revenue recognized.

2.12. Research and development costs
Carmanah is engaged in research and development activities. Research costs are expensed as incurred. Development costs are expensed, unless all of the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above, less investment tax credits, if applicable.

2.13. Investment tax credits
Carmanah is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development activities. The associated investment tax credits (“ITCs”) are available to the Company to reduce actual income taxes payable and are recorded when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management assesses the probability of usage based upon forecasted results utilizing a sensitivity analysis on various factors that impact profitability.

ITCs are recorded on the statement of income/(loss) as non-operating income under the caption “Investment tax credits recognized”. The corresponding impairment of investment tax credits, if any, is also recognized as a non-operating expense. The Company has not recognized its ITCs due to uncertainty of their usage.

2.14. Income taxes
Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis. The Company has not recognized its deferred tax assets due to uncertainty of their usage.

2.15. Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of Carmanah by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which are comprised of restricted shares and share options granted to employees and directors of the Company. All dilutive potential common shares are anti-dilutive for the years presented.

2.16. Segment reporting

Carmanah's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO"). The CEO is considered the chief operating decision-maker ("CODM") and has the authority for resource allocation and is responsible for assessing the Company's performance.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities; and most critical judgments in applying accounting policies.

3.1. Critical accounting estimates and judgments

Allowance for doubtful accounts

Carmanah must make an assessment of whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. At December 31, 2013, the combined allowances were $0.1 million, or 2.3% of the gross accounts receivable balance of approximately $5.8 million. See financial statement note 5.3 for further discussions on trade receivables and the associated allowance.

Inventory valuation

The Company adjusts inventory values so that the carrying value does not exceed net realizable value. The valuation of inventory at the lower of average cost and net realizable value requires the use of estimates regarding the amount of current inventory that will be sold and the prices at which it will be sold and an assessment of expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for the Company's products, obsolescence, production discontinuation, technology changes and competition. At December 31, 2013, the Company had provisions of $1.0 million, or approximately 25% of the value of gross inventory.

Warranty reserve

Provisions are made at the time of sale for warranties, which are based on historical experience and are regularly monitored. If the estimates for warranties and returns are too low, additional charges will be incurred in future periods and these additional charges could have a material adverse effect on the Company's financial position and results of operations. Carmanah has a provision of $0.6 million at December 31, 2013, which is unchanged from December 31, 2012. Recent historical estimates have not required significant adjustment due to actual experience.

Share-based payments

In determining share-based payments expense, Carmanah makes estimates related to forfeiture rates for each specific grant. Forfeiture rates are used to estimate the number of awards that are expected to vest considering employee turnover rates. The changes in estimates are recognized in the statement of loss in the year that they occur. Current forfeiture rates applied to grants range from 5% to 25% and vary depending upon the employee make-up of the associated grants.

Income taxes

Carmanah calculates income tax provisions in each of the jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax returns, earnings would be affected in a subsequent period. The Company has not recognized deferred tax assets at December 31, 2013 or 2012.

Tangible and Intangible valuation

Each year the Company makes significant judgments in assessing if the intangible assets have suffered an impairment loss. The calculations require the use of estimates. In 2013, impairment losses of $0.7 million were recognized for intangibles and $0.2 million for tangibles.

Spot Devices Inc.

The Company has made a variety of estimates and judgments relating to its recent acquisition of Spot Devices Inc. ("Spot"). During the second quarter of 2013, the Company recognized impairment losses of $0.6 million. Background surrounding the acquisition and associated provisions are provided in note 9 and 19.

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

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2013.

The IASB issued the following new and revised standards addressing the following:

Effective for annual periods beginning on or after January 1, 2014

- IAS 32, Financial Instruments: Presentation ("IAS 32") – IAS 32 has been clarified to read that financial assets and financial liabilities can only be offset when an entity has a legal enforceable right in the normal course of business to offset.
- IFRIC 21, Levies ("IFRIC 21") – IFRIC 21 provides guidance on timing of recognition of liabilities related to levies imposed by a government.

Effective for annual periods beginning on or after January 1, 2015:

- 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. On July 24, 2013, the IASB tentatively decided to defer the mandatory effective date, with earlier adoption still permitted.

The Company is assessing the impact that these standards will have on the Company's consolidated financial statements

5. FINANCIAL INSTRUMENTS

Classification and carrying value

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

	December 31, 2013	December 31, 2012
Loans and receivables		
Cash and restricted cash	5,242	2,687
Trade and other receivables	5,614	4,501
Other financial liabilities		
Trade and other payables	4,763	3,861

Fair value

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

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

The Company does not have any financial instruments reported at fair value at December 31, 2013 or 2012.

The carrying value of cash and restricted cash, trade and other receivables, and trade and other payables approximates their fair value due to the relatively short-term maturity of these financial instruments.

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

Offset financial instruments
Carmanah offsets and settles all of its trade receivables due from its contract manufacturer against associated trade payables. At December 31, 2013, trade receivables of $0.6 million (December 31, 2012 - $0.3 million) have been netted against trade payables.

Foreign currency risk management
Carmanah transacts business in multiple currencies, which gives rise to market risks exposure associated with fluctuating foreign currency values. Most significantly, the Company has potential exposure to currency fluctuations between the U.S. and Canadian dollars.

Interest rate risk management
Carmanah is not exposed to significant interest rate risk.

A breakdown of Carmanah's financial instruments by currency is provided below:

	U.S	Canadian	Other	Total
Balance at December 31, 2013				
Cash and restricted cash	659	4,574	9	5,242
Trade and other receivables	3,963	1,369	282	5,614
Trade and other payables	3,554	1,201	8	4,763
Balance at December 31, 2012				
Cash and cash equivalents	1,363	1,161	163	2,687
Trade and other receivables	3,123	1,188	190	4,501
Trade and other payables	2,471	1,390	-	3,861

Given the relative currency mix noted above, Carmanah estimates a five percent change in the Canadian dollar relative to the U.S. dollar would result in a $0.2 million impact to operating income.

The Company attempts to manage the exposure to foreign currency fluctuations by managing the amount of foreign denominated working capital held. The success of these efforts is often limited due to the uncertainty surrounding the timing and magnitude of foreign currency sales and associated cash flows.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. This risk is mainly associated with trade and other receivables and is discussed in detail within note 5.3.

5.1. Cash
Cash represents cash in banks and cash on hand. There were no cash equivalents at December 31, 2013 (December 31, 2012 - $Nil).

Restricted cash relates to current outstanding standby letters of credit required to secure various sales contracts with customers, and amounts to secure corporate credit cards.

5.2. Derivative financial assets
The Company had no outstanding derivative financial instruments at December 31, 2013 or 2012.

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

5.3. Trade and other receivables

Trade and other receivables are comprised of the following:

	December 31, 2013	December 31, 2012
Trade receivables	5,032	3,943
Allowance for doubtful accounts	(132)	(113)
Net trade receivables	4,900	3,830
Other receivables	714	671
Total trade and other receivables	**5,614**	**4,501**

5.3.1. Net trade receivables

Trade receivables
Trade receivables generally carry 30 day terms, although this can vary for certain customers. Generally, no interest is charged on trade receivables.

Allowance for doubtful accounts/credit risk management
Before extending credit terms to a new customer, Carmanah assesses the potential customer's credit quality by performing external credit checks and references. Credit limits and terms for existing customers are reviewed on an as needed basis based on order and payment history.

At each period end, Carmanah reviews the collectability of outstanding receivables. In general, the Company provides an allowance of (1) 100% on accounts that have been transferred to a collection agency or for which there have been no recent communication, and (2) a variable percentage (between 10%-50%) on accounts that have had irregular communications, originate from a higher risk country, or have slow payment history. The percentage provided is based on reference to historical experience on defaults and an analysis of the counterparty's current financial situation. The specific accounts are only written off once all collections avenues have been explored or when legal bankruptcy has occurred. The following is a reconciliation of the allowance account:

Reconciliation of the allowance for doubtful accounts	December 31, 2013	December 31, 2012
Balance, beginning of year	113	110
Write offs of specific accounts	(187)	(107)
Recoveries	-	36
Change in provision	206	74
Balance, end of year	**132**	**113**

At December 31, 2013, approximately 95% (December 31, 2012 - 76%) of the trade receivables are either current or are past due but was not impaired, and $1.5 million (December 31, 2012 - $1.7 million) is due from the five largest accounts.

Total trade receivables disclosed include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance because there has not been a significant decrease in credit quality and are still considered fully recoverable. The following table outlines the relative age of these receivables that are past due but not impaired:

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

Accounts overdue but not impaired	December 31, 2013	December 31, 2012
1-30 days	1,576	406
31-90	682	100
90+	53	23
Total	**2,311**	**529**

5.3.2. Other receivables

Other receivables primarily relate to statutory holdbacks on major grid-tie construction projects. These construction projects typically carry contractual obligations of holdbacks amounting to 10% of the project revenues recognized and are transferred to trade receivables once projects reach substantial completion. Holdbacks are generally paid 45 days after substantial completion, although can be substantially longer in certain situations.

5.4. Trade and other payables

The Company's trade and other payables are broken down as follows:

	December 31, 2013	December 31, 2012
Trade payables	3,645	2,850
Accrued liabilities	1,118	1,011
	4,763	3,861

5.5. Capital management

Carmanah defines capital that it manages as the aggregate of short-term and long-term debt and total equity. Changes are made to the capital structure in light of economic conditions and upon approval from the Company's Board of Directors or shareholders as required. Carmanah has no outstanding debt and the current objectives are to meet the capital requirements through funds generated from operations without issuing any long-term debt. The Company's overall strategy with respect to management of capital remains unchanged from the year ended December 31, 2012. The Company is currently not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

6. INVENTORIES

	December 31, 2013	December 31, 2012
Finished goods	2,830	2,319
Raw materials	1,123	1,613
Provision for obsolescence	(986)	(706)
Net inventories	2,967	3,226

For the year ended December 31, 2013, inventory recognized as an expense in cost of sales amounted to $17.6 million (2012 - $17.2 million). Included in the above amounts were inventory write downs of $0.5 million (2012 - $0.4 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2013, the Company anticipates the net inventory will be realized within one year.

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

7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	Computer hardware	Leasehold improvements	Office equipment	Production equipment	Research and tradeshow equipment	Total
Cost						
Balance January 1, 2012	898	621	129	806	542	2,996
Additions	84	-	-	30	16	130
Disposals	-	-	(21)	(68)	(33)	(122)
Balance December 31, 2012	**982**	**621**	**108**	**768**	**525**	**3,004**
Additions	12	-	8	184	-	204
Disposals	(480)	(22)	(37)	-	(56)	(595)
Balance December 31, 2013	**514**	**599**	**79**	**952**	**469**	**2,613**
Accumulated amortization						
Balance January 1, 2012	774	46	62	361	322	1,565
Amortization for the year	78	124	15	143	97	457
Disposals	-	-	(21)	(63)	(32)	(116)
Balance December 31, 2012	**852**	**170**	**56**	**441**	**387**	**1,906**
Amortization for the year	58	124	12	159	94	447
Impairment loss recognized	-	-	-	158	-	158
Disposals	(477)	(21)	(32)	-	(50)	(580)
Balance December 31, 2013	**433**	**273**	**36**	**758**	**431**	**1,931**
Carrying amounts						
At December 31, 2012	130	451	52	327	138	1,098
At December 31, 2013	81	326	43	194	38	682

During the fourth quarter of 2013, the Company recognized an impairment loss of $0.2 million associated with production equipment relating to the Company's Outdoor Lighting segment. These production assets primarily relate to the higher end product offered within this market segment. Revenues from these higher priced systems have been declining recently due to competitive and cost pressures, with many customers switching to the Company's lower cost systems. Management expects this trend to continue and therefore has recognized an impairment loss.

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

8. INTANGIBLE ASSETS

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

	Patents and trademarks	Software	License rights	Product development assets	Spot acquired intangibles	Total
Cost						
Balance January 1, 2012	669	2,159	-	545	-	3,373
Additions	60	1	450	-	-	511
Balance December 31, 2012	**729**	**2,160**	**450**	**545**	**-**	**3,884**
Additions	72	12	450	-	623	707
Disposals	-	(394)	-	-	-	(394)
Balance December 31, 2013	**801**	**1,778**	**450**	**545**	**623**	**4,197**
Accumulated amortization						
Balance January 1, 2012	364	1,217	-	413	-	1,994
Amortization for the year	86	361	63	132	-	642
Balance December 31, 2012	**450**	**1,578**	**63**	**545**	**-**	**2,636**
Amortization for the year	81	363	45	-	-	489
Impairment losses recognized	140	212	342	-	623	1,317
Disposals	-	(394)	-	-	-	(394)
Balance December 31, 2013	**671**	**1,759**	**450**	**545**	**623**	**4,048**
Carrying amounts						
At December 31, 2012	279	582	387	-	-	1,248
At December 31, 2013	130	19	-	-	-	149

During the fourth quarter of 2013, the Company recognized an impairment loss of $0.1 million associated with certain patents assets, and $0.2 million associated with software assets. The patent impairment was the result of recent and pending changes to the Company's product offering. The software impairment relates to the Company's ERP system which will be replaced during 2014. Management decided to replace the ERP system as it was determined to be too expensive and inefficient based on the size and complexity of the Company's operations.

During the second quarter of 2013, the Company recognized an impairment loss of $0.3 million associated with its license rights asset. The license rights asset relates to a five year exclusive world-wide marketing license with Laser Guidance Inc ("LG") which was signed in May 2012. Under this agreement, the Company has access to a portfolio of tactical (e.g. mobile) aviation related precision mobile laser guidance approach systems that are designed and manufactured by LG. The Company had made fixed payments to LG totaling $0.45 million and was amortizing this amount over the term of the agreement. To date, no sales have been made as a result of this agreement. Previous impairment analysis indicated a meaningful volume of sales opportunities, with most underlying projects having longer sales cycles. During the second quarter of 2013, a detailed review of the sales opportunities found that they were related to non-tactical (e.g. fixed) approach systems, which are not covered by this agreement. As a result of this and continued uncertainties surrounding the success of the Company's sales efforts associated with products covered under this agreement, this asset was impaired.

As detailed in note 19, intangible assets of approximately $0.6 million were recognized on the acquisition of Spot Devices Inc. ("Spot"). At closing, the "acquired intangibles" were primarily related to customer lists, sales backlogs, product and associated regulatory certifications, and license rights to a proprietary software system referred to as System Infrastructure Management Application ("SIMA"). An impairment of $0.6 million was recognized in the second quarter of 2013, as a result of factors outlined in note 19.

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

9. PROVISIONS

	December 31, 2013	December 31, 2012
Warranty provision	550	550
Provision relating to Spot Devices Inc. acquisition	300	-
	850	550

Warranty provision
Carmanah provides its customers with a limited right of return for defective products. All warranty returns must be authorized by the Company prior to acceptance. The warranty term varies between 1 and 5 years depending on the product and customer sold to. The estimates surrounding the warranty provision are reviewed on a regular basis and updated for recent experience and known product issues.

The following is a reconciliation of the warranty provision during the year:

	December 31, 2013	December 31, 2012
Opening provision	550	660
Warranty costs incurred	(207)	(270)
Warranty provision additions/changes	207	160
Closing provision	**550**	**550**

Due to the uncertainty surrounding the timing of warranty returns, the entire provision has been classified as current.

Provisions relating to Spot Devices Inc. ("Spot") acquisition
The Company has recognized a number of provisions relating to the acquisition of Spot. Note 19 outlines the details of the acquisition.

<u>Spot product warranty</u>
Under the terms of the purchase agreement, the Company took over responsibility for Spot's historical warranty liability. The warranty provision upon acquisition was estimated to be $0.3 million. The warranty costs actually incurred in 2013 amounted to $0.1 million. Based on the Company's best estimate, the outstanding warranty provision at December 31, 2013 is $0.1 million and the Company recognized a recovery of $0.1 million associated with the difference.

<u>SIMA services provision and SIMA product replacement offer</u>
As described in note 19, the Company was never able to secure an economically viable license arrangement for SIMA (Systems Infrastructure Management Application) services from Cirrus Systems LLC ("Cirrus"), a related company of Spot. Cirrus provides the monitoring services that underpin SIMA-enabled products which both Spot and the Company sold. During 2013, Carmanah sold approximately 220 SIMA-enabled units with service terms ranging from 1 to 10 years. Cirrus continues to incur costs associated with providing this service to these customers. The Company recorded a provision of $0.1 million to cover current and future associated costs associated with this service. The provision was based upon Management's analysis of Cirrus's cost structure and is within the range of offers made to Cirrus during negotiations.

During the third quarter of 2013, concerns about the reliability of SIMA-enabled products were brought to management's attention. In some situations SIMA-enabled products can suddenly or unexpectedly fail which could result in a safety hazard. As a result, the Company extended an offer to customers who purchased SIMA-enabled product (since the acquisition date) the ability to obtain replacement products on a free or a substantially discounted basis. The cost of the SIMA-enabled products sold by the Company during 2013 was $0.2 million, which is considered to be maximum exposure associated with this offer. The Company has recorded $0.1 million to cover these replacements and is based on Management's best estimate given the wide range of options open to the end customers. These options include everything from modifying the product, upgrading their solution, or retaining the risk of lost functionality.

10. CREDIT FACILITIES

In 2012, the Company secured a $5.0 million (CAD) revolving demand and a $0.5 million (CAD) term credit facility ("Facility") with Royal Bank of Canada ("RBC") which included certain covenants such as earnings and liquidity thresholds. As the Company has not been in compliance with the above covenants, it was prevented from drawing on the Facility. On July 16, 2013, the Facility was cancelled by RBC. In the foreseeable future, any borrowings (i.e. foreign exchange hedging, letters of credit, etc.) with RBC will continue to be on a cash secured basis.

11. SHARE CAPITAL

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

In September 2013, the Company announced a plan to raise approximately $6.0 million (CAD) through a Shareholders Rights Offering (the "Offering"). Under the Offering, each shareholder was given one right for each share held on the applicable record date. Each right was exercisable for one common share at a subscription price of $0.12 (CAD). In connection with the Offering, the Company entered into a binding standby purchase agreement with a group of investors, who had committed, subject to certain conditions, to purchase up to $5.5 (CAD) million of the rights shares not otherwise subscribed for by other holders. The rights offering closed on November 19, 2013 without the need to engage the standby group of investors further discussed in note 14. The Company raised gross proceeds of $6.0 million (CAD) less issuance costs of $0.5 million (CAD). A total of 50,294,200 shares were issued under the offering.

On August 28, 2012, the Company completed a non-brokered private placement ("Placement") of 3,981,722 common shares at a price of $0.45 (CAD) a share. The Company received $1.8 million (CAD) in gross proceeds from the issuance and incurred costs of $0.05 million (CAD). The common shares issued were subject to a hold period of four months plus one day from the closing of the Placement. The majority of the private placement was subscribed by "insiders" of the Company, as defined by the regulations of the TSX. In total, directors of the Company at that time were involved with 1,364,444 of the shares issued, of which 444,444 were associated with the former Chief Executive Officer. A further 2,017,278 shares were acquired by MUUS Holding LLC ("MUUS"), a company controlled by a director of the Company.

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

12. SHARE-BASED PAYMENTS

The Company's current share-based payments plan allows a maximum number of issuable shares for share-based payments up to the maximum if 10% of the aggregate issued and outstanding shares as approved by the Board of Directors. The Plan allows for the issuance of stock options, stock appreciation rights ("SARs"), restricted share units ("RSUs"), performance share units ("PSUs"), and deferred share units ("DSUs"). The vesting terms and conditions of stock options, SARs, RSUs, PSUs and DSUs are determined by the Board of Directors at the time of grant. The following table summarizes the valuation methods used to measure the fair value of each type of award and the vesting periods.

Type of award	Term and vesting period	Fair Value Measurement	Equity settled	Cash settled
			Compensation expense based on	
Stock options	Maximum term is 10 years and typical is 5 years. Vesting is typically 3 years	Black-Scholes option pricing model	Fair value on next business day after grant date	Fair value at reporting date
Stock units (RSU, PSU, DSU)	Typical vesting period is between 0 to 3 years. Maximum term for RSUs is 3 years.	Closing share price	Fair value on next business day after grant date	Fair value at reporting date
SARs (none outstanding)	Maximum term is 10 years	Closing share price	Fair value at reporting date	Fair value at reporting date

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

Years ended December 31,	2013	2012
Stock options	10	113
Stock units	36	144
Total compensation expense	46	257

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 December 31, 2013:

Available shares (10% of outstanding shares at December 31, 2013)	10,061,201
Less:	
Stock options outstanding at December 31, 2013	(4,114,000)
Share units outstanding at December 31, 2013	-
Number of shares issuable under stock-based compensation plans	5,947,201

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

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

12.1. Stock options

The following is a summary of the status of the stock options outstanding and exercisable at December 31, 2013 and 2012. The weighted average exercise price is stated in Canadian dollars.

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, January 1	1,445,800	0.65	2,094,156	0.78
Granted	4,780,000	0.21	-	-
Forfeited	(2,111,800)	0.51	(538,356)	0.44
Expired	-	-	(110,000)	1.52
Balance, December 31	4,114,000	0.21	1,445,800	0.65

The following table summarizes the stock options outstanding and exercisable at December 31, 2013 and 2012. 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, 2012						
$0.50 to $0.52	750,000	3.8	$0.50	250,000	3.8	$0.50
$0.53 to $0.72	282,000	3.0	$0.53	188,000	3.0	$0.53
$0.73 to $1.03	413.800	1.0	$1.00	413,800	1.0	$1.00
	1,445,800	2.8	$0.65	851,800	2.3	$0.75
At December 31, 2013						
$0.15 to $0.25	3,000,000	6.9	$0.15	-	-	-
$0.26 to $0.50	780,000	4.2	$0.29	163,294	4.2	$0.29
$0.51 to $1.00	334,000	2.7	$0.60	284,000	2.4	$0.57
	4,114,000	6.0	$0.21	447,294	3.06	$0.47

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 year ended December 31, 2013 is $0.09 CDN per share. There were no options granted in 2012. The option valuations for 2013 were determined using the following weighted average assumptions:

	Year ended December 31, 2013
Risk-free interest rate	1.45%
Expected dividend yield	0%
Forfeiture rate	21.1%
Stock price volatility	59%
Expected life of options	4.2 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.

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

12.2. Share units (RSU/PSU)

During the year ended December 31, 2013, Carmanah granted 201,273 RSUs (2012 – 177,079) with a weighted average fair value of $0.25 CDN per unit (2012 - $0.41 CDN), and no PSUs (2012 – Nil).

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

	Restricted share units	Performance share units	Total share units
Balance January 1, 2012	404,737	323,633	728,370
Granted	177,079	-	177,079
Forfeited	(4,855)	(6,758)	(11,613)
Vested and issued	(522,621)	(291,943)	(814,564)
Balance December 31, 2012	54,340	24,932	79,272
Granted	201,273	-	201,273
Forfeited	(45,053)	(10,216)	(55,269)
Vested and issued	(210,560)	(14,716)	(225,276)
Balance December 31, 2013	-	-	-

13. COMMITMENTS AND CONTINGENCIES

13.1. Operating lease and committed service arrangements

Carmanah has a number of operating leases that cover facilities and equipment as well as several committed contracts covering various IT services. The following table outlines the minimum amounts due under these agreements in future years:

	Facility leases	Equipment leases	IT and other contracts	Total
Not later than 1 year	233	30	138	401
2 year to 3 years	401	60	-	461
Total	634	90	138	862

Lease payments recognized as expenses in 2013 amounted to $0.6 million (2012 - $0.6 million).

13.2. Other commitments

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. Carmanah's largest contract manufacturer, Flextronics, requires Carmanah to purchase excess raw inventory which arises in situations where the Company's demand forecasts for particular product is less than actual use or sales in a given period. At December 31, 2013, Flextronics held approximately $0.9 million (December 31, 2012 - $1.1 million) in inventory and $1.8 million (December 31, 2012 - $2.2 million) in outstanding committed purchase orders. Inventory held at other contract manufacturers is approximately $0.2 million in aggregate.

13.3. Contingent assets and liabilities

From time to time, provisions are set up to cover potential legal settlements. There were no legal provisions at December 31, 2013 or 2012. No settlement amounts were paid out in the year ended December 31, 2013 or 2012.

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

On July 18, 2013, the Company was named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (all of which are related parties – collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used with respect to Carmanah's solar powered flashing beacons for the traffic safety market. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiff for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respects to a similar patent held by the Company. Subsequent to year-end, the Company's application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The outcome of this review was positive, with the examiner agreeing with the Company's position. The Plaintiff can still appeal this decision. The outcome of this case is not certain and the Company intends to continue to defend itself and file additional responses to the Court as required to do so. As the outcome of these matters is not currently determinable, no provision has been made at December 31, 2013.

14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team. The Executive Leadership Team consists of the CEO and Chief Financial Officer ("CFO").

Total compensation expense for key management personnel, and the composition thereof, is as follows:

Years ended December 31	2013	2012
Short-term benefits	620	562
Termination benefits	150	-
Share-based compensations	357	200
Total	1,127	762

Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive's employment is terminated, either without cause or due to a change in control of the Company. Under a termination without cause (1) the CEO is entitled to 12 months base salary plus applicable cash-based incentives, and (2) the CFO is entitled to a maximum of 6 months base salary plus applicable cash-based incentives. Under a change in control the CEO is entitled to no less than 12 months base salary plus applicable cash-based incentives plus an acceleration of non-cash incentives that would have vested in that period.

Other transactions with key management personnel

The Company's CEO and its Chairman of the Board, John Simmons and Michael Sonnenfeldt respectively, were part of the investor group involved in the standby purchase agreement associated with the rights offering previously described in note 11. John Simmons was committed under the agreement to a maximum of $0.7 million. MUUS Holdings LLC, a company controlled by Michael Sonnenfeldt, was committed under the agreement to a maximum of $1.8 million. As a result of the standby purchase agreement, John Simmons and MUUS Holdings LLC were paid $0.01 million and $0.04 million respectively at the end of 2013. The fees associated with the standby purchase agreement were netted against the proceeds of the rights offering.

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

15. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Years ended December 31, 2013	2012
Salaries, commissions and other direct compensation	6,267	7,423
Professional fees, insurance and public company costs	1,206	764
Amortization	776	957
Telecom and IT expenses	588	651
Travel and related expenses	456	617
Occupancy costs	397	433
Bank charges and bad debts	355	186
Marketing, advertising and other related expenses	328	381
Development expenses	294	264
Other expenses	90	133
Share-based payments	46	257
Total operating expenditures	10,803	12,066

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

Beginning in 2013, management decided to present costs associated with its engineering group used to support the Company's Solar EPC services segment under the caption "Research, engineering and development". These costs were previously classified under "General and administrative", and mainly consist of salaries, travel and other related costs. This reclassification was made to better characterize the nature of these expenditures. The following table outlines the reclassifications made by quarter for the 2012 periods.

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total 2012
As previously disclosed in 2012					
Research and development	359	481	391	375	1,606
General and administration	1,581	1,571	1,519	1,571	6,242
2013 change					
Research, engineering and development	147	101	112	99	459
General and administration	(147)	(101)	(112)	(99)	(459)
As disclosed in 2013					
Research, engineering and development	506	582	503	474	2,065
General and administration	1,434	1,470	1,407	1,472	5,783

16. SEGMENTED INFORMATION

Recent efforts to increase focus and oversight within the various markets the Company operates in has resulted in an expansion of the number of reportable segments which management (or more specifically the Company's chief operating decision-maker) evaluates. These segments are being reported for the first time in 2013. Last year the Company disclosed two reporting segments: the "Lighting" division, which included the Company's Signals (which included Traffic, Marine, and Aviation/Obstruction) and Outdoor Lighting sectors and the "Solar Power Systems" division, which included the Company's GoPower! and Solar EPC (engineering, procurement & construction) Services sectors. The reportable segments now used by management are outlined below.

Segment	Products offered/Markets served
Traffic	Solar LED flashing beacons for various roadway applications, mainly focused on the North American market.
Marine	A complete range of marine lighting solutions sold worldwide, including a variety of products manufactured by Sabik under a partnership arrangement.
Aviation/Obstruction	LED aviation and obstruction lighting sold worldwide. Within Aviation the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems. Within Obstruction, the Company offers simple and self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Outdoor Lighting	LED lighting systems for off-grid lighting applications, including street, parking lot, park, and pathway applications. Products are sold worldwide using a variety of distribution models
GoPower!	Mobile power solutions for the North American market. Built for the hard demands of RV, utility, and fleet vehicles, as well as marine applications, Go Power!'s complete line of solar chargers, inverters, regulators and power accessories deliver electricity where grid-power is inaccessible or unavailable.
Solar EPC Services	The design, procurement and construction of grid-connected solar power systems in the Canadian industrial market.

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of goods sold and gross margins. Segment profit represents profits without allocation of operating expenses as these costs are not included in the measures that the chief operating decision-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. In addition, a number of the segments share certain inventory and other assets, therefore the Company cannot disclose assets on a segmented basis.

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

	Traffic	Marine	Aviation Obstruction	Outdoor Lighting	GoPower!	Solar EPC Services	Total
For the year ended December 31, 2013							
Revenue	5,067	4,161	3,712	1,942	7,962	3,058	25,902
Gross margin	2,112	1,261	1,110	121	2,240	540	7,384
Gross margin %	41.7%	30.3%	29.9%	6.2%	28.1%	17.7%	28.5%
Total operating expenses							(10,803)
Other expenses							(2,140)
Loss before taxes							(5,559)
For the year ended December 31, 2012							
Revenue	2,597	5,451	3,521	3,676	6,507	4,690	26,442
Gross margin	983	1,754	1,430	980	1,939	1,153	8,239
Gross margin %	37.8%	32.2%	40.6%	26.7%	29.8%	24.6%	31.2%
Total operating expenses							(12,066)
Other expenses							(92)
Loss before taxes							(3,919)

Geographic

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

	Years ended December 31, 2013	2012
North America	21,535	22,152
South America	898	1,264
Europe	2,256	1,925
Middle East and Africa	795	317
Asia Pacific	432	784
Total revenues	25,902	26,442

As at December 31, 2013, substantially all of the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $1.0 million (December 31, 2012 - $1.2 million).

17. INCOME TAXES

The components of tax expense for 2013 and 2012 were as follows:

	Years ended December 31, 2013	2012
Current tax expense	(5)	(2)
Deferred tax expense	-	-
Total income tax expense	(5)	(2)

Current income tax expense in 2013 and 2012 relate to taxes paid in the United States.

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

The following is a reconciliation of income taxes calculated at the Canadian statutory corporate tax rate to the tax expense for 2013 and 2012:

	Years ended December 31, 2013	2012
Loss before taxes	(5,559)	(3,919)
Computed tax recovery at 25.75% (2012 – 25.0%)	1,432	980
Adjusted for the effects of:		
Expenses not deductible for tax purposes	(51)	(80)
Current year unused tax losses and deductible temporary differences not recognized as deferred tax assets	(1,766)	(899)
Effects of tax rate changes	241	-
Share issuance costs	105	-
Other	34	(3)
Income tax expense	(5)	(2)

The applicable federal and provincial statutory income tax rate used for the 2013 and 2012 reconciliations above is the corporate tax rate payable by corporate entities in the province of British Columbia on taxable profits under tax law in that jurisdiction. The rate increased on April 1, 2013 from 25% to 26% due to an increase in the BC income tax rate of 1%.

Non-deductible expenses consist primarily of stock-based compensation expense, certain expenditures made in relation to the purchase of customer lists, and meals and entertainment costs. The valuation adjustments associated with the investment tax credits and unused tax losses and temporary deductible difference are described in financial statement note 18.

18. INVESTMENT TAX CREDITS AND DEFERRED TAXES

The following table is a summary of the unrecognized deductible temporary differences, unused tax losses and unused tax credits:

	December 31, 2013	December 31, 2012
Temporary differences and unused tax losses available to reduce taxable income		
Scientific research & experimental development expenditures	9,827	9,361
Losses available for future periods	8,656	6,249
Equipment and leasehold improvements	5,198	4,568
Intangible assets	2,145	975
Eligible capital expenditures for tax	1,033	778
Provisions	850	550
Other	900	209
	28,609	22,690
Tax credits available to reduce taxes payable		
Investment tax credits	4,610	4,379

The Investment tax credits expire between 2015 and 2033. The losses available for future periods are non-capital in nature and expire between 2027 and 2033. All other tax deductible temporary differences do not have an expiry date.

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

Temporary differences associated with investment in subsidiaries

As at December 31, 2013, temporary differences of $151 (2012 – $134) associated with an investment in a subsidiary has not been recognized as the Company is able to control the timing of the reversal of this difference which is not expected to reverse in the foreseeable future.

19. ACQUISITION OF SPOT DEVICES INC.

On January 4, 2013 ("Acquisition Date"), the Company signed an asset purchase agreement to acquire the pedestrian and school zone traffic device systems business assets of Spot Devices Inc ("Spot"). This agreement provided for the transfer of various business assets to Carmanah and a royalty free right to license a proprietary SIMA software from an associated company of Spot, Cirrus Systems, LLC ("Cirrus"). The license agreement for SIMA was not signed on January 4, 2013 as certain terms had not been finalized. In early July 2013, Carmanah concluded that it would not be able to sign an agreement as it was unable to secure economically viable license terms for a service that underpinned a number of Spot's acquired traffic products.

This acquisition was determined to be a business combination. The assets acquired included inventory, equipment, and various assets related to products produced and sold by Spot including patents, trademarks, marketing material, contracts, technical information, etc. The primary driver behind the acquisition was to immediately expand the Company's product portfolio, gain access to new customers, and build economies of scale within this market vertical.

An initial payment was made through the issuance of 2,222,222 common shares of Carmanah issued upon closing. The share price on January 4, 2013 was CDN $0.27. The agreement also included a conditional payment payable in cash which is based upon cumulative Gross Revenues earned over the calendar years 2013 and 2014. It is calculated as 12.5% of the portion of cumulative 2013 and 2014 Gross Revenues from the sale of the combined Traffic products exceeding $17.5 million. Actual traffic revenues from 2013 and current forecasted revenues for 2014 fall below this threshold, therefore no amounts have been recorded.

Management's estimate of the total consideration for the acquisition and final purchase price allocation, in accordance with IFRS 3 – Business Combinations, was as follows:

	$
Consideration	
Fair value of shares issued	607
Identifiable assets acquired and liabilities assumed	
Inventory	216
Equipment	18
Customer list and other intangibles	623
Product warranty liability	(250)
Identifiable net assets acquired	607

This acquisition contributed approximately $1.2 million in revenues and $0.6 million in gross margins during the year ended December 31, 2013, most of which was recognized in the two quarters of 2013. This amount solely related to Spot products sold during the period, and excluded sales of existing traffic products to their customers and incremental operating costs associated with supporting this business, as these were not tracked or practically determinable.

Due to a variety of events that have occurred subsequent to the acquisition, management has concluded the underlying intangibles acquired are impaired. Of the events, most significant was the inability to secure an economically viable SIMA license agreement. This resulted in a large reduction in the number of Spot products that can be sold going forward as SIMA was highly integrated and has resulted in a higher than expected churn rate with legacy customers. Going forward the Company is working to mitigate these factors. However, the Company is uncertain if significant future cash flows will continue to be generated from this acquisition or if it will be able to adequately identify these cash flows. Consequently, management had recognized an impairment of its intangibles assets of approximately $0.6 million in 2013.

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

A variety of provisions have been recorded as a result of this acquisition which have been described and disclosed in note 9.

20. RESTRUCTURING CHARGES

In the fourth quarter of 2013, the Company presented a restructuring plan designed to restore profitability and position the Company for future growth. Under the plan, Carmanah will terminate about 14 employees to help reduce fixed salary costs to more sustainable levels. The Company also closed its remote development office in Burnaby, reorganized its internal departments, and started to execute a plan to replace its current ERP and CRM system with a more cost effective and efficient solution. As a result of the decision to replace the Company's ERP system, Carmanah has recognized an impairment loss of $0.2 million as described in note 8. This amount was presented as an intangible impairment rather than a restructuring cost. The following table summarizes the costs incurred and balances outstanding at December 31, 2013.

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