# CARMANAH TECHNOLOGIES CORPORATION

Consolidated Financial Statements
For the years ended December 31, 2014 and 2013
(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, 2014 and December 31, 2013, and the consolidated statements of income and loss and total comprehensive income and loss, consolidated statements 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, 2014 and December 31, 2013 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 10, 2015
Vancouver, Canada

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 5.1 | 8,707 | 5,197 |
| Restricted cash | 5.1 | 45 | 45 |
| Trade and other receivables | 5.3 | 10,983 | 5,614 |
| Inventories | 6 | 5,556 | 2,967 |
| Prepaid and other current assets | | 412 | 303 |
| Total current assets | | 25,703 | 14,126 |
| | | | |
| Equipment and leasehold improvements | 7 | 660 | 682 |
| Intangible assets | 8 | 975 | 149 |
| Goodwill | 9 | 5,746 | - |
| Deferred income tax asset | 19 | 283 | - |
| **Total assets** | | **33,367** | **14,957** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Trade and other payables | 5.4 | 8,095 | 4,763 |
| Provisions | 10 | 1,165 | 850 |
| Deferred revenue | | 294 | 416 |
| Current liabilities | | 9,554 | 6,029 |
| | | | |
| **Equity** | | | |
| Share capital | 12 | 56,539 | 42,870 |
| Equity reserve | 13 | 3,292 | 2,966 |
| Accumulated other comprehensive loss | | (180) | (76) |
| Deficit | | (35,838) | (36,832) |
| Total equity | | 23,813 | 8,928 |
| | | | |
| **Total liabilities and equity** | | **33,367** | **14,957** |

Commitments and contingencies – Note 14

Approved and authorized for issue by the Board of Directors on March 10, 2015

John Simmons, Chief Executive Officer

Michael Sonnenfeldt, Chair of the Board

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Years ended December 31, 2014 | 2013 |
|---|---|---|---|
| Revenues | 17 | 43,732 | 25,902 |
| Cost of sales | 17 | 28,570 | 18,518 |
| Gross profit | 17 | 15,162 | 7,384 |
| | | | |
| Operating expenditures | | | |
| Sales and marketing | 16 | 5,292 | 3,439 |
| Research and development | 16 | 1,533 | 1,925 |
| General and administrative | 16 | 5,967 | 5,439 |
| | | 12,792 | 10,803 |
| | | | |
| Restructuring expenses | 20 | 190 | 552 |
| Impairment of equipment | 7 | - | 158 |
| Impairment of intangible assets | 8 | - | 1,317 |
| Total operating expenditures | | 12,982 | 12,830 |
| | | | |
| Operating income/(loss) | | 2,180 | (5,446) |
| | | | |
| Other income/(expenses) | | | |
| Loss on disposal of assets | | - | (7) |
| Other expenditures | | (725) | (14) |
| Foreign exchange loss | | (496) | (92) |
| | | (1,221) | (113) |
| | | | |
| Income/(loss) before taxes | | 959 | (5,559) |
| | | | |
| Income tax recovery/(expense) | 18 | 35 | (5) |
| | | | |
| Net Income/(loss) attributable to shareholders | | 994 | (5,564) |
| | | | |
| Other comprehensive income/(loss) | | | |
| Items that will not be reclassified subsequently to net income: | | | |
| Foreign currency translation adjustments | | (104) | (76) |
| | | | |
| Total comprehensive income/(loss) | | 890 | (5,640) |
| | | | |
| Net Income/(loss) per share | | | |
| Basic and diluted | | 0.07 | (0.99) |
| | | | |
| Weighted average number of shares outstanding (Note 12.3) | | | |
| Basic | | 13,936,172 | 5,597,808 |
| Diluted | | 13,986,661 | 5,597,808 |

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Share capital *# of shares (Note 12) ('000)* | Share capital Amount | Equity reserve | Subtotal | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | | *4,787* | 36,982 | 2,982 | 39,964 | - | (31,268) | 8,696 |
| Net loss | | - | - | - | - | - | (5,564) | (5,564) |
| Share-based payments | | - | - | 46 | 46 | - | - | 46 |
| Shares issued to acquire Spot Devices Inc. | 22 | *222* | 607 | - | 607 | | | 607 |
| Shares issued under stock compensation plans | | *23* | 62 | (62) | - | - | - | - |
| Shares issued in rights offering, net of issuance costs of $491 | 12 | *5,029* | 5,219 | - | 5,219 | - | - | 5,219 |
| Foreign currency translation adjustments | | - | - | - | - | *(76)* | - | *(76)* |
| Balance, December 31, 2013 | | *10,061* | 42,870 | 2,966 | 45,836 | (76) | (36,832) | 8,928 |
| Net income | | - | - | - | - | - | 994 | 994 |
| Share-based payments | 13 | - | - | 326 | 326 | - | - | 326 |
| Shares issued in private placement, net of issuance costs of $40 | 12 | 3,130 | 6,571 | - | 6,571 | - | - | 6,571 |
| Sol acquisition | 22 | 3,786 | 7,098 | | 7,098 | | | 7,098 |
| Foreign currency translation adjustments | | - | - | - | - | (104) | - | (104) |
| Balance, December 31, 2014 | | *16,977* | 56,539 | 3,292 | 59,831 | (180) | (35,838) | 23,813 |

## CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Years ended December 31, 2014 | 2013 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income/(loss) | | 994 | (5,564) |
| Add back (deduct) items not involving cash: | | | |
| Amortization | | 436 | 936 |
| (Gain)/loss on disposal of assets | | - | 7 |
| Share-based payments | 13 | 326 | 46 |
| Impairment of intangible assets | 8 | - | 1,317 |
| Impairment of equipment | 7 | - | 158 |
| Unrealized foreign exchange loss/(gain) | | 327 | (165) |
| Restructuring expenses | 20 | 190 | 228 |
| Current tax provision | | 405 | - |
| Deferred income tax recovery | | (481) | - |
| Changes in working capital and other items: | | | |
| Trade and other receivables | | (4,544) | (1,113) |
| Inventories | | (1,298) | 259 |
| Prepaids and other current assets | | 111 | 113 |
| Trade and other payables | | 1,627 | 674 |
| Provisions | | (179) | 300 |
| Deferred revenue | | (357) | 347 |
| Net cash used in operating activities | | (2,443) | (2,457) |
| | | | |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of assets | | - | 7 |
| Acquisition of Sol, Net cash acquired | | 673 | - |
| Purchase of equipment and leasehold improvements | | (213) | (186) |
| Purchase of intangible assets | | (686) | (84) |
| Change in restricted cash | | - | 109 |
| Net cash used in investing activities | | (226) | (154) |
| | | | |
| FINANCING ACTIVITIES | | | |
| Proceeds from private placement | 12 | 6,571 | - |
| Proceeds from rights offering | 12 | - | 5,219 |
| Net cash provided by financing activities | | 6,571 | 5,219 |
| | | | |
| Foreign exchange effect on cash | | (392) | 56 |
| Increase in cash | | 3,510 | 2,664 |
| Cash at beginning of year | | 5,197 | 2,533 |
| Cash at end of year | | 8,707 | 5,197 |

(Unless otherwise noted 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.

## 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: | |
|---|---|---|---|---|
| | | | **2014** | **2013** |
| Carmanah Technologies (US) Corporation | Employs sales representatives whom are based in the United States | United States - Nevada | 100% | 100% |
| Carmanah Solar Power Corporation | Holds a portion of the Company's Power segment | Canada – Ontario | 100% | 100% |
| Sol, Inc | Holds a portion of the company's Illumination segment | United States - Florida | 100% | N/A |

### 2.2. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisitions date at fair value. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the appropriate share of the acquiree's identifiable net assets. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations are recognized at their fair values at the acquisition date. Acquisition costs incurred are expensed in the period in which they are incurred except for costs related to shares issued in conjunction with the business combination.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill is measured at the excess of the fair value of consideration transferred and amount of non-controlling interest in the acquiree and acquisition date fair value of existing equity interest in the acquiree over the acquisition fair value of the net identifiable assets acquired and liabilities assumed. If this amount is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Consolidated Statements of Income and Loss and Total Comprehensive Income and Loss

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### 2.3. Foreign Currencies

The presentation currency for the consolidated financial statements is the U.S. dollar. The functional currency of Carmanah Technologies Corporation, Sol Inc 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.

*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 Consolidated Statements of Income and 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 Consolidated Statements of Income and Loss and Total Comprehensive Income and Loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Income and Loss and Total Comprehensive Income and 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 Consolidated Statements of Income and 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 Consolidated Statements of Income and 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 computer software, license rights, trademarks, patents and a domain name and product development asset recognized from the acquisition of Sol, Inc. 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 each year end.

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 straight line basis.

The domain name recognized from the acquisition of Sol, Inc has an indefinite life and thus is not amortized but is subject to annual impairment analysis. The Product Development asset, also recognized from the acquisition of Sol has an estimated useful life of 2 years and is being amortized straight line over that period.

### 2.8. Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit ("CGU") fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using 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 CGU to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU 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 the Consolidated Statements of Income and Loss and Total Comprehensive Income and Loss.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. 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 previously. Such reversal is recognized in the Consolidated Statements of Income and Loss and Total Comprehensive Income and Loss. An impairment loss with respect to goodwill is never reversed.

The following criteria are also applied is assessing impairment of specific assets:

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU or group of CGU's to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**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 Consolidated Statements of Income and 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 hours incurred for work performed to date compared to the total estimated hours for the project.
- Periodically revise the estimates of the percentage of completion of each project by comparing the actual hours incurred to the total estimated hours for the project. These estimates of total hours are subject to change, which would have an impact on the timing of revenue recognized.

As a result of the above revenue recognition approach, the Company will at times have unbilled receivables which arise when project revenues are earned prior to the Company's ability to invoice in accordance with the contract terms. These amounts are included in trade and other receivables on the Consolidated Statement of Financial Position.

**2.12. Research and Development Costs**
Carmanah is engaged in research and development activities. Research costs are expensed as incurred. Development costs are expensed as incurred.

**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.

**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, 2014, the combined allowances were $0.1 million, or 1.4% of the gross accounts receivable balance of approximately $11.1 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, 2014, the Company had provisions of $1.5 million, or approximately 22% of the value of gross inventory.

Warranty reserve
The Company provided for warranty expenses by analyzing historical failure rates, warranty claims, current sales levels and current information available about returns based on warranty periods. Uncertainty relates to the timing and amount of actual warranty claims that can vary from the Company's estimation.

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 26% 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 recognized a portion of its deferred tax assets at December 31, 2014 related to its recent acquisition of Sol. No deferred tax assets were recognized at December 31, 2013.

Assets and liabilities acquired in business combinations
In a business combination, Carmanah may acquire the assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets (e.g. technology, brand, order backlog, etc.) acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including estimates surrounding costs to acquire or reproduce a similar asset, expected cash flows, discount rates, etc. Contingent consideration resulting from business combinations is recorded at fair value at the acquisition date as part of the business combination based on expected discounted cash flows, and is subsequently remeasured to fair value at each reporting date with any subsequent change in fair value recognized in the Consolidated Statements of Income and Loss and Total Comprehensive Income and Loss.

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

Impairment of assets

Each year the Company makes significant judgments in assessing if goodwill, tangible or intangible assets have suffered an impairment loss. The Company's impairment analysis involves the use of an income approach that relies on estimating the future net cash flows and applying the appropriate discount rate to those future cash flows. Significant management judgment is necessary to evaluate the impact of operating and economic changes on each CGU or underlying asset. Critical assumptions include projected sales growth and market opportunities, future profitability of system sales, operating and administrative expense, capital expenditures, an appropriate discount rate, and in some situations the cost of disposal. In 2014, there were no impairment losses.

## 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, 2014.

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

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. In February 2014, the IASB tentatively determined that the revised effective date would be January 1, 2018, with earlier adoption still permitted.

Effective for annual periods beginning on or after January 1, 2017:

- IFRS 15, Revenue from Contracts with Customers ("IFRS15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

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, 2014 | December 31, 2013 |
|---|---|---|
| **Loans and receivables** | | |
| Cash and restricted cash | 8,752 | 5,242 |
| Trade and other receivables | 10,983 | 5,614 |
| | | |
| **Other financial liabilities** | | |
| Trade and other payables | 8,095 | 4,763 |

**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).

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

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.

The Company does not have any financial instruments, other than those listed above, reported at fair value at December 31, 2014 or 2013

**Offset financial instruments**
Carmanah offsets and settles all of its trade receivables due from its contract manufacturer against associated trade payables. At December 31, 2014, trade receivables of $0.2 million (December 31, 2013 - $0.6 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, 2014** | | | | |
| Cash and restricted cash | 4,590 | 3,809 | 353 | 8,752 |
| Trade and other receivables | 6,809 | 3,993 | 181 | 10,983 |
| Trade and other payables | 5,620 | 2,475 | - | 8,095 |
| **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 |

Carmanah estimates a five percent increase or decrease in the Canadian dollar relative to the U.S. dollar would result in a $0.3 million gain or loss to operating income given the currency mix of the Company's financial instruments.

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, 2014 (December 31, 2013 - $Nil). Restricted cash is cash used to secure corporate credit cards.

### 5.2. Derivative Financial Assets

The Company had no outstanding derivative financial instruments at December 31, 2014 or 2013.

(Unless otherwise noted 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, 2014 | December 31, 2013 |
|---|---|---|
| Trade receivables | 7,523 | 4,220 |
| Allowance for doubtful accounts | (150) | (132) |
| Net trade receivables | 7,373 | 4,088 |
| Unbilled receivables | 2,958 | 812 |
| Other receivables | 652 | 714 |
| **Total trade and other receivables** | **10,983** | **5,614** |

#### 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, 2014 | December 31, 2013 |
|---|---|---|
| Balance, beginning of year | 132 | 113 |
| Write offs of specific accounts | (75) | (187) |
| Recoveries | (1) | - |
| Change in provision | 94 | 206 |
| **Balance, end of year** | **150** | **132** |

At December 31, 2014, approximately 92% (December 31, 2013 - 95%) of the trade receivables were either current or are past due but were not impaired, and $1.8 million (December 31, 2013 - $1.5 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:

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

| **Accounts overdue but not impaired** | December 31, 2014 | December 31, 2013 |
|---|---|---|
| 1-30 days | 1,272 | 1,576 |
| 31-90 | 784 | 682 |
| 90+ | 83 | 53 |
| **Total** | **2,139** | **2,311** |

### 5.3.2. Other Receivables

Other receivables primarily relate to statutory holdbacks on major EPC 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, 2014 | December 31, 2013 |
|---|---|---|
| Trade payables | 5,563 | 3,645 |
| Accrued liabilities | 2,532 | 1,118 |
| | 8,095 | 4,763 |

### 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 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, 2013. 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, 2014 | December 31, 2013 |
|---|---|---|
| Finished goods | 4,628 | 2,830 |
| Raw materials | 2,383 | 1,123 |
| Provision for obsolescence | (1,455) | (986) |
| Net inventories | 5,556 | 2,967 |

For the year ended December 31, 2014, inventory recognized as an expense in cost of sales amounted to $26.9 million (2013 - $17.6 million). Included in the above amounts were inventory write downs of $0.2 million (2013 - $0.5 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2014, the Company anticipates the net inventory will be realized within one year.

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

## 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, 2013 | 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** |
| Additions | 163 | 3 | 15 | 29 | 3 | 213 |
| Sol acquisition (note 22) | 1 | - | 25 | 15 | - | 41 |
| Disposals | (78) | - | - | - | - | (78) |
| **Balance December 31, 2014** | **600** | **602** | **119** | **996** | **472** | **2,789** |
| **Accumulated amortization** | | | | | | |
| Balance January 1, 2013 | **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** |
| Amortization for the year | 62 | 120 | 11 | 55 | 28 | 276 |
| Disposals | (78) | - | - | - | - | (78) |
| **Balance December 31, 2014** | **417** | **393** | **47** | **813** | **459** | **2,129** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| At December 31, 2013 | 81 | 326 | 43 | 194 | 38 | 682 |
| At December 31, 2014 | 183 | 209 | 72 | 183 | 13 | 660 |

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 products that have been discontinued.

(Unless otherwise noted 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 | Acquired intangibles | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance January 1, 2013 | **729** | **2,160** | **450** | **-** | **3,884** |
| Additions | 72 | 12 | - | 623 | 707 |
| Disposals | - | (394) | - | - | (394) |
| **Balance December 31, 2013** | **801** | **1,778** | **450** | **623** | **3,652** |
| Additions | 32 | 654 | - | - | 686 |
| Sol acquisition (note 22) | - | - | - | 300 | 300 |
| Disposals | - | (4) | - | - | (4) |
| **Balance December 31, 2014** | **833** | **2,428** | **450** | **923** | **4,634** |
| **Accumulated amortization** | | | | | |
| Balance January 1, 2013 | **450** | **1,578** | **63** | **-** | **2,091** |
| 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** | **623** | **4,048** |
| Amortization for the year | 58 | 40 | - | 62 | 161 |
| Impairment losses recognized | - | (4) | - | - | (4) |
| **Balance December 31, 2014** | **729** | **1,795** | **450** | **685** | **3,659** |
| **Carrying amounts** | | | | | |
| At December 31, 2013 | 130 | 19 | - | - | 149 |
| At December 31, 2014 | 104 | 633 | - | 238 | 975 |

In 2014, as detailed in Note 22, Intangible Assets of approximately $0.3 million were recognized on the acquisition of Sol. Two specific assets met the criteria for recognition and are described below.

- Sol's designs and technology related to its charge controller utilized in its core products. The Company's management determined Sol's charge controller was better designed and more cost effective then the Company's and as a result is being integrated into Carmanah's products. A value of $0.25 million was attributed to this asset based on the company's estimate to engineering a similar controller. This amount will be amortized over 2 years as this is management's best estimate of its useful life.
- Sol's rights to the domain name (solarlighting.com) for its main website. This website generates a significant number of sales opportunities and leads which helps to drive some of the sales for the entity. Sol had never tracked the value of revenue derived from these leads so fair value has been calculated by looking at comparable transactions of similar domain names. Based on this, the Company has estimated the fair value of this asset at $0.05 million.

As detailed in Note 22, 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 22.

During the fourth quarter of 2013, the Company recognized an impairment loss of $0.1 million associated with certain patent assets and $0.2 million associated with software assets. The patent impairment was the result of changes to the Company's product offering at that time. The software impairment relates to the replacement of the Company's ERP system thereby rendering the legacy system obsolete.

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

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.

## 9. GOODWILL

| | Total |
|---|---|
| Balance at January 1, 2014 | - |
| Sol acquisition (note 22) | 5,746 |
| Balance at December 31, 2014 | 5,746 |

The Company recognized goodwill on the acquisition of Sol Inc. as described in Note 22. Management has determined all of the Goodwill is associated with the Company's Illumination segment which is also a CGU for impairment purposes. The Company completed an impairment analysis at December 31, 2014 and concluded there was no impairment.

As described in Note 2.8, the impairment analysis involved the use of an income approach that relied on estimating the future net cash flows and applying an appropriate discount rate to those future cash flows. This approach employed the following key assumptions: anticipated sales growth in key markets, changes in gross margins due to pricing changes for materials and the cost of manufacturing, changes in operating and administrative expenses, anticipated capital expenditures, and an appropriate discount rate. The forecast period utilized in the analysis covered 2015 through 2019. Key drivers in this assessment include anticipated overall sales growth, estimated to be 10% a year, a terminal growth rate of 5% and a weighted average cost of capital of 20%. The analysis indicated an excess over carrying value of $6.7 million. Management considers the future sales growth rate a key factor in this analysis. Using a sensitivity analysis a 1% decline in sales growth reduces the overall excess value by $0.9 million.

## 10. PROVISIONS

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Warranty provisions | 952 | 550 |
| Provision relating to Spot Devices Inc. acquisition | 110 | 300 |
| Provision relating to Sol acquisition (note 22) | 103 | - |
| | 1,165 | 850 |

**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.

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

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

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Opening provision | 550 | 550 |
| Warranty costs incurred | (333) | (207) |
| Warranty provision recognized on acquisition of Sol (note 22) | 351 | - |
| Warranty provision additions/changes | 384 | 207 |
| **Closing provision** | **952** | **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 22 outlines the details of the acquisition.

Spot Product Warranty

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 amounted to $0.1 million in 2013 and almost nil in 2014. Due to minimal warranty costs the company has reversed the remaining provision and recognized a recovery of $0.1 million in 2014.

SIMA Services Provision and SIMA Product Replacement Offer

As described in Note 22, the Company did not 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. Cirrus stopped providing monitoring services to all SIMA enabled products in July 2014.

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. In early 2014, a notice was released by Cirrus (the provider of the monitoring) indicating the service was to be discontinued in July of 2014. The Company anticipated that customers may begin to request solutions to overcome the lack of connectivity sometime during the third quarter of 2014. This provision was released after it became apparent customers were not taking the Company up on this offer and were resolving the lack of connectivity through other means – often with third party solutions.

## 11. CREDIT FACILITIES

In 2012, the Company secured a $5.0 million (CAD) revolving demand and a $0.5 million (CAD) term credit 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 term credit facility. On July 16, 2013, the Facility was cancelled by RBC. In early 2015, the Company signed a new credit facility (the "Facility") with the Canadian Imperial Bank of Commerce ("CIBC"). The multifaceted Facility provides credit up to $24.5 million through (1) a $10 million 364-Day Revolving Credit, a $10 million term acquisition credit, $3.75 million credit of Letters of Credit, and $0.75 million for trading room and other liabilities. The Company's ability to draw on the 364-Day revolving credit, the credit for the letters of credit, and credit for trading room contingent liabilities is subject to certain covenants. Access to the term acquisition credit facility will require CIBCs review and approval of the specific acquisition transaction.

## 12. 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.

### 12.1. Share Consolidation

On July 18, 2014, the Company announced its intention to complete a consolidation of its common shares on the basis of one (1) post-consolidation Common Share for every ten (10) pre-consolidation Common Shares (the "Consolidation"). The Consolidation received approval from the TSX in early August and the post-consolidation shares began trading on the Toronto Stock Exchanges on August 14, 2014. Prior to the consolidation the Company had 169,770,617 shares outstanding. Fractional shares that might have been created by the consolidation were rounded down and as a result the total post consolidation shares outstanding on August 14, 2014 was 16,977,000. All outstanding stock options and share amounts in these consolidated financial statements have been adjusted to reflect this consolidation.

### 12.2. Equity Issuances

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 $1.20 (CAD) post consolidation. 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 million (CAD) 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 15. The Company raised gross proceeds of $6.0 million (CAD) less issuance costs of $0.5 million (CAD). A total of 5,029,420 post consolidation shares were issued under the offering.

On April 3, 2014, the Company closed a private placement which raised approximately $4.2 million CAD from the issuance of 1,930,000 post consolidated shares at a price of $2.20 a share. 1,000,000 of these were purchased by insiders of the Company. Insiders who participated in this placement with holdings around or above 10% are noted below:

- Michael Sonnenfeldt, Carmanah's largest shareholder and Chairman of the Board, subscribed for 350,000 shares under the private placement through MUUS Lending Inc., an entity that is beneficially owned by Mr. Sonnenfeldt.
- Jim Meekison, a member of the Board of Directors of the Company, subscribed for 300,000 shares under the private placement through JDM Investment Holdings Inc., an entity that is beneficially owned by Mr. Meekison.

Issuance costs for this private placement were approximately $0.03 million.

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

On July 17, 2014, the Company closed a further private placement which raised approximately $3.0 million CAD from the issuance of 1,200,000 post consolidated shares at a price of $2.50 a share. The private placement was subscribed by insiders of the Company as noted below:

- Jim Meekison, a member of the Board of Directors of the Company, subscribed for 1,000,000 shares under the private placement through JDM Investment Holdings Inc., an entity that is beneficially owned by Mr. Meekison.
- Terry Holland, a member of the Board of Directors of the Company, subscribed for 200,000 shares under the private placement through TMH Capital Corporation, an entity controlled by Terry Holland.

Issuance costs for this private placement were approximately $0.01 million.

### 12.3. Diluted Share Reconciliation

The following is a reconciliation between basic and diluted weighted average shares for the periods:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Basic weighted average shares outstanding | 13,936,172 | 5,597,808 |
| Effect of dilutive securities: | | |
| Stock options | 50,489 | - |
| Diluted weighted average shares outstanding | 13,986,661 | 5,597,808 |

For the year ended December 31, 2014, 1,035,697 stock options were not included because the exercise price of those options were higher than the estimated average market price of the commons shares during the periods.

## 13. 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.

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

| 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.<br><br>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, | 2014 | 2013 |
|---|---|---|
| Stock options | 326 | 10 |
| Stock units | - | 36 |
| Total compensation expense | 326 | 46 |

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, 2014:

| | |
|---|---|
| Available shares (10% of outstanding shares at December 31, 2014) | 1,697,700 |
| *Less:* | |
| Stock options outstanding at December 31, 2014 | (1,335,697) |
| Share units outstanding at December 31, 2014 | - |
| Number of shares issuable under stock-based compensation plans | 362,003 |

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

**13.1. Stock Options**

The following is a summary of the status of the stock options outstanding and exercisable at December 31, 2014 and 2013. The weighted average exercise price is stated in Canadian dollars.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, January 1 | 411,400 | 2.10 | 144,578 | 6.49 |
| Granted | 1,021,046 | 2.56 | 478,000 | 2.09 |
| Forfeited | (96,749) | 3.34 | (211,178) | 5.09 |
| Expired | - | - | - | - |
| Balance, December 31 | 1,335,697 | 2.36 | 411,400 | 2.10 |

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

The following table summarizes the stock options outstanding and exercisable at December 31, 2014 and 2013. 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, 2013 | | | | | | |
| $1.45 to $1.45 | 300,000 | 6.9 | $1.45 | - | - | - |
| $1.46 to $2.90 | 78,000 | 4.2 | $2.90 | 16,352 | 4.2 | $2.90 |
| $2.91 to $5.30 | 23,400 | 2.0 | $5.30 | 23,400 | 2.0 | $5.30 |
| $5.31 to $7.70 | 10,000 | 4.3 | $7.70 | 5,000 | 4.3 | $7.70 |
| | 411,400 | 6.0 | $2.10 | 44,752 | 3.1 | $4.69 |
| At December 31, 2014 | | | | | | |
| $1.45 to $1.45 | 300,000 | 5.9 | $1.45 | 75,000 | 5.9 | $1.45 |
| $1.46 to $2.50 | 682,950 | 9.3 | $2.50 | - | - | - |
| $2.51 to $2.90 | 335,947 | 8.9 | $2.73 | 25,537 | 3.2 | $2.90 |
| $2.91 to $5.30 | 16,800 | 1.0 | $5.30 | 16,800 | 1.0 | $5.30 |
| | 1,335,697 | 8.3 | $2.36 | 117,337 | 4.6 | $2.32 |

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, 2014 is $1.40 CAD per share and $0.91 CAD per share for the year ended December 31, 2013. The option valuations were determined using the following weighted average assumptions:

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.72% | 1.45% |
| Expected dividend yield | 0% | 0% |
| Forfeiture rate | 23.8% | 21.1% |
| Stock price volatility | 59% | 59% |
| Expected life of options | 6.2 years | 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.

**13.2. Share Units (RSU/PSU)**

During the year ended December 31, 2014, Carmanah granted no Restricted Share Units ("RSUs") or Performance Share Units ("PSUs). During the year ended December 31, 2013, Carmanah granted 20,126 RSUs with a weighted average fair value of $2.50 CAD per unit and no PSUs.

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

| | Restricted share units | Performance share units | Total share units |
|---|---|---|---|
| Balance January 1, 2013 | 5,434 | 2,493 | 7,927 |
| Granted | 20,127 | - | 20,127 |
| Forfeited | (4,505) | (1,472) | (5,977) |
| Vested and issued | (21,056) | (1,021) | (22,077) |
| Balance December 31, 2013 and 2014 | - | - | - |

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

## 14. COMMITMENTS AND CONTINGENCIES

### 14.1. Operating Lease and Committed Service Arrangements

Carmanah has a number of operating leases that cover facilities and equipment as well as 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 | 354 | 35 | - | 389 |
| 2 year to 3 years | 330 | 41 | - | 371 |
| Total | 684 | 76 | - | 760 |

Lease payments recognized as expenses in 2014 amounted to $0.4 million (2013 - $0.6 million).

### 14.2. 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, 2014, Flextronics held approximately $1.8 million (December 31, 2013 - $0.9 million) in inventory and $1.2 million (December 31, 2013 - $1.8 million) in outstanding committed purchase orders. Inventory held at other contract manufacturers is approximately $0.2 million in aggregate.

### 14.3. Contingent Liabilities

From time to time, provisions are set up to cover potential legal settlements. There are no provisions recorded at December 31, 2014 or 2013. No settlement amounts were paid out in the years ended December 31, 2014 or 2013.

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 and other claims relating to advertising and business practices. 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. In early 2014, the Company's application to re-examine a number of aspects of the Plaintiffs patent was accepted by the U.S. patent office. The U.S patent office review of the Plaintiffs patent resulted in many of the aspects of the patents being rejected. The Plaintiff has appealed this judgment. Pending that review the court proceedings have been stayed. 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, 2014. The Company has been pursuing its insurance company for coverage of associated defense costs.

In early March 2015, the Company filed a civil lawsuit in the Supreme Court of British Columbia against Royal & Sun Alliance Insurance Company of Canada ("RSA") and Integro (Canada) Ltd. ("Integro") operating as Integro Insurance Brokers. The lawsuit has been filed in an effort to obtain coverage under one or more of the Company's insurance policies with respects to the above lawsuit. The decision to file a lawsuit against RSA and Integro was made after negotiations with RSA failed to produce an acceptable settlement for repayment of the costs incurred by the Company. The lawsuit seeks to recover legal expenses and damages. To the end of December 31, 2014, the Company has incurred approximately $1.1 million defending the underlying lawsuit.

## 15. 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:

| *(in thousands of Canadian dollars)* | Years ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Short-term benefits | 894 | 620 |
| Termination benefits | - | 150 |
| Share-based compensations | 575 | 357 |
| Total | 1,469 | 1,127 |

The values noted above are in Canadian dollars. They also exclude the value of certain health benefits which the company is not able to attribute to individual employees due to privacy standards preventing us from obtaining this information. 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 board members were part of the investor group involved in the two separate private placements previously described in Note 12.2.

**Inventory purchases**

The Company purchased $0.7 million ($0.4 million – 2013) of inventory from a vendor in which the Chairman of the Board has significant influence. The relationship with this vendor existed prior to the Chairman's appointment and there are no special terms because of this relationship. At year December 31, 2014 the associated amounts owing in trade and other payables was $0.1 million (nil – 2013).

## 16. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

| | Years ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Salaries, commissions and other direct compensation | 8,011 | 6,267 |
| Professional fees, insurance and public company costs | 1,641 | 1,206 |
| Amortization | 319 | 776 |
| Telecom and IT expenses | 579 | 588 |
| Travel and related expenses | 538 | 456 |
| Occupancy costs | 426 | 397 |
| Bank charges and bad debts | 117 | 355 |
| Marketing, advertising and other related expenses | 533 | 328 |
| Development expenses | 149 | 294 |
| Other expenses | 153 | 90 |
| Share-based payments | 326 | 46 |
| Total operating expenditures | 12,792 | 10,803 |

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

## 17. SEGMENTED INFORMATION

During 2014 the Company realigned its reportable segments to better reflect the strategic nature of its underlying businesses and how they will be managed. As a result, the Company's reportable segments are now broken into "Signals", "Illumination" and "Power". The Signals segment includes results from the Company's Traffic, Marine, Aviation and Obstruction verticals. The Illumination segment includes results from the Company's Outdoor Lighting segment and incorporates the results from the recent acquisition of Sol Inc. which is outlined in Note 22. The Power segment includes results from the Company's GoPower! and Solar EPC Services verticals. The 2013 results have been restated to reflect this new alignment. 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 under a partnership arrangement. |
| Aviation | LED aviation lighting sold worldwide - the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems. |
| 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. |
| 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 | |
| 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 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. In addition, the segments share certain inventory and other assets, therefore the Company cannot disclose assets on a segmented basis.

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

| | Signals | Illumination | Power | Total |
|---|---|---|---|---|
| **For the year ended December 31, 2014** | | | | |
| Revenue | 16,798 | 10,489 | 16,445 | 43,732 |
| Gross margin | 7,661 | 2,917 | 4,584 | 15,162 |
| Gross margin % | 45.6% | 27.8% | 27.9% | 34.7% |
| Total operating expenses (including restructuring) | | | | (12,982) |
| Other expenses | | | | (1,221) |
| Income before taxes | | | | 959 |
| **For the year ended December 31, 2013** | | | | |
| Revenue | 12,940 | 1,942 | 11,020 | 25,902 |
| Gross margin | 4,486 | 119 | 2,779 | 7,384 |
| Gross margin % | 34.7% | 6.1% | 25.2% | 28.5% |
| Total operating expenses (including restructuring and impairment) | | | | (12,830) |
| Other expenses | | | | (113) |
| Loss before taxes | | | | (5,559) |

**Geographic**

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

| | Years ended December 31, 2014 | 2013 |
|---|---|---|
| North America | 34,172 | 21,535 |
| Europe | 4,475 | 2,256 |
| South America | 2,991 | 898 |
| Middle East and Africa | 992 | 795 |
| Asia Pacific | 1,102 | 432 |
| Total revenues | 43,732 | 25,902 |

As at December 31, 2014, 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 $2.6 million (December 31, 2013 - $1.0 million).

**18. INCOME TAXES**

The components of tax expense for 2014 and 2013 were as follows:

| | Years ended December 31, 2014 | 2013 |
|---|---|---|
| Current tax expense | (446) | (5) |
| Deferred tax recovery | 481 | - |
| Total income tax recovery/(expense) | 35 | (5) |

(Unless otherwise noted 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 2014 and 2013:

| | Years ended December 31, 2014 | 2013 |
|---|---|---|
| Income/(loss) before taxes | 959 | (5,559) |
| | | |
| Computed tax (expense) recovery at 26% (2013 – 25.75%) | (249) | 1,432 |
| Adjusted for the effects of: | | |
| Expenses not deductible for tax purposes | (283) | (51) |
| Current year unused tax losses and deductible temporary differences not recognized as deferred tax assets | 322 | (1,766) |
| True-up of prior year differences | 324 | - |
| Effects of tax rate changes | (73) | 241 |
| Non-capital losses applied | 85 | - |
| Share issuance costs | - | 105 |
| Other | (91) | 34 |
| Income tax recovery (expense) | 35 | (5) |

The applicable federal and provincial statutory income tax rate used for the 2014 and 2013 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 Sol, 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 19.

## 19. INVESTMENT TAX CREDITS AND DEFERRED TAXES

Temporary differences give rise to the following deferred income tax assets and liabilities as at:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **Deferred income tax assets** | | |
| Warranty and other provisions | 342 | - |
| Losses available for future periods | 15 | - |
| Tangible assets | 20 | - |
| Other | 15 | - |
| | 392 | - |
| | | |
| **Deferred income tax liabilities** | | |
| Intangibles | 109 | - |
| | 109 | - |
| | | |
| **Net deferred income tax asset** | **283** | **-** |

The Company has recorded deferred income tax assets to the extent that it is probable that the benefits of these assets will be realized. Unrealized tax assets will be recognized once the probability of usage is higher which should occur once a trend of profitability has been established.

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

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

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **Temporary differences and unused tax losses available to reduce taxable income** | | |
| Scientific research & experimental development expenditures | 9,827 | 9,827 |
| Losses available for future periods | 9,566 | 8,656 |
| Equipment and leasehold improvements | 5,998 | 5,198 |
| Intangible assets | 1,629 | 2,145 |
| Eligible capital expenditures for tax | 961 | 1,033 |
| Warranty and other provisions | 776 | 850 |
| Other | 294 | 900 |
| | 29,051 | 28,609 |
| **Tax credits available to reduce taxes payable** | | |
| Investment tax credits | 4,205 | 4,610 |

The Investment tax credits expire between 2025 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.

**Temporary differences associated with investment in subsidiaries**
As at December 31, 2014, temporary differences of $803 (2013 – $151) 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.

## 20. RESTRUCTURING CHARGES

**2013 Corporate restructuring**
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 would terminate 14 employees to help reduce fixed salary costs to more sustainable levels. The Company also closed its remote development office in Burnaby, BC, Canada, 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. The following table summarizes the costs incurred and balances outstanding with respects to restructuring over the periods.

| | 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 |
| Cash payments | (84) | (30) | (114) |
| Adjustments | (122) | 8 | (114) |
| Balance at December 31, 2014 | - | - | - |

A few positions which were to be eliminated under the plan were ultimately kept due to changes in the Company's business plans. As a result of this, a recovery of $0.1 million was recognized in the second quarter of 2014. The portion related to a cancelation fee associated with the Company's old ERP system was paid in the last quarter and was the final expense associated with the restructuring charges.

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

**Sol restructuring**
With the acquisition of Sol, as described in Note 22, a restructuring plan was developed in the latter half of 2014 to complete the integration of the two companies. Under this plan, the company will eliminate Sol's administrative, back office, and manufacturing functions and will close its manufacturing facility. The following table summarizes the costs incurred and balances outstanding with respects to restructuring over 2014.

| | Severance and related benefits |
|---|---|
| Balance at January 1, 2014 | - |
| Charges | 304 |
| Cash payments | (141) |
| Balance at December 31, 2014 | 163 |

Approximately 15 employees are to be terminated under this plan, with 6 employees being terminated prior to December 31, 2014. A further 9 employees will be terminated in 2015.

## 21. OTHER EXPENSES

Other expenses primarily relate to merger and acquisition activities, and include legal, due diligence costs, and other related expenditures. During the year ended December 31, 2014, the majority of these costs were related to the acquisition of Sol, Inc. ("Sol") as described in Note 22.

## 22. ACQUISITIONS

**Sol Inc.**
On July 2, 2014, the Company completed the acquisition of Sol, Inc. ("Sol"), a competitor in the Company's Power business segment. Sol is a manufacturer of solar powered outdoor lights and is based in Palm City, Florida. The primary driver behind the acquisition was to gain economies of scale in the solar outdoor lighting market.

This acquisition was announced on March 21, 2014 with signing of a Binding Letter of Intent ("LOI"), an Agreement and Plan of Merger (the "Merger Agreement") was signed on May 26, 2014, and the transaction was approved by eligible Carmanah shareholders at the Company's Annual General and Special meeting held on June 23, 2014. The acquisition was a related party transaction as, Michael Sonnenfeldt, the Chairman of the Company's Board of Directors (the "Board") and its largest shareholder was also the majority shareholder of Sol. Prior to the transaction Mr. Sonnenfeldt beneficially held (1) approximately 84.5% of Sol's outstanding shares and (2) was due a note receivable from Sol of approximately $5.3 million.

The Company acquired 100% of the outstanding shares of Sol and an outstanding note receivable due from Sol which was beneficially owned by Mr. Sonnenfeldt. Consideration paid upon close included the issuance of 3,785,860 common shares of Carmanah issued from treasury, and a $0.06 million cash payment to certain minority shareholders of Sol. The aggregate value of the shares issued on July 2, 2014 amounted to approximately $7.1 million based on the closing share price of $2.00 CAD (post consolidation) and a US/CAD exchange rate of 0.938. The agreement also provides an earn-out of 3% of certain revenues received by Carmanah and is available to electing former shareholders of Sol. This earn-out applies to specifically identified prospective sales opportunities brought forth by Sol and is subject to various conditions. Most significantly, each of these projects must result in revenues of at least $5.0 million and the sales order must be received and accepted by Carmanah prior to December 31, 2015, although cash and delivery can occur after that date. Mr. Sonnenfeldt and certain of his affiliates have elected to waive their right to receive all earn-out payments should they accrue. Accordingly any earn-out payment will be payable to the remaining Sol shareholders on a proportional basis. As of the date of these financial statements, no amount has been allocated to the consideration associated with this earn-out due to substantial uncertainty surrounding the Company's ability to secure the underlying contracts.

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

The acquisition was determined to be a business combination and was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective July 2, 2014 and has contributed incremental revenues of $5.5 million and a net loss of $0.5 million. If the acquisition had occurred on January 1, 2014, the Company's revenue would have been approximately of $48.0 million and the Company would have had a loss of approximately $0.6 million. Within Sol's 2014 loss is approximately $0.5 million of costs related to the transaction. Total acquisition related costs incurred by Carmanah was approximately $0.7 million and are included under the caption "Other (expenses)/income" and as described in Note 21.

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

| | Preliminary | Measurement Period Adjustments | Final |
|---|---|---|---|
| **Consideration** | | | |
| Shares issued | 7,098 | - | 7,098 |
| Cash | 56 | - | 56 |
| Contingent consideration based on certain future revenues | - | - | - |
| **Total consideration** | **7,154** | **-** | **7,154** |
| | | | |
| **Identifiable assets acquired and liabilities assumed** | | | |
| Cash | 729 | - | 729 |
| Receivables | 825 | - | 825 |
| Inventory | 1,351 | (60) | 1,291 |
| Other assets | 220 | - | 220 |
| Equipment | 35 | 6 | 41 |
| Deferred income taxes | - | 206 | 206 |
| Indemnification asset | - | 40 | 40 |
| Trade and other payables | (1,515) | - | (1,515) |
| Provisions | (351) | (143) | (494) |
| Deferred revenue | (235) | - | (235) |
| Intangibles | 400 | (100) | 300 |
| Goodwill | 5,695 | 51 | 5,746 |
| **Total** | **7,154** | **-** | **7,154** |

The goodwill recognized primarily reflects the potential incremental cash flows management expects to generate through efficiencies obtain through combined operation and growth in sales to existing and new customers through cross selling opportunities. The goodwill is not tax deductible.

As a part of the purchase agreements, Mr. Sonnenfeldt provided a number of different indemnifications associated with various potential liabilities. At December 31, 2014, the company has recorded a liability of approximately $0.1 million related to potential exposures relating to historical sales.

**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.

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

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 pre-consolidation common shares of Carmanah issued upon closing. The share price on January 4, 2013 was CAD $0.27 pre-consolidation. The agreement also included a conditional payment payable in cash which was based upon cumulative Gross Revenues earned over the calendar years 2013 and 2014. It was 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 2014 fell below this threshold, therefore no amounts were 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 first 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 concluded that the underlying intangibles acquired were 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 could be sold going forward as SIMA was highly integrated and this resulted in a higher than expected churn rate with legacy customers. Although the Company tried to mitigate these factors, the Company was uncertain if significant future cash flows would continue to be generated from this acquisition or if it would be able to adequately identify these cash flows. Consequently, management recognized an impairment of the associated intangibles assets of approximately $0.6 million in 2013.

A variety of provisions have been recorded as a result of this acquisition which have been described and disclosed in Note 10.