MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016

MARCH 20, 2017

ABOUT THIS MD&A

This Management Discussion and Analysis ("MD&A") discusses the consolidated financial condition and operating performance for Carmanah Technologies Corporation (the "Company") and should be read together with our audited consolidated financial statements for the year ended December 31, 2016. References to the "Company", "Carmanah", "we", "us" or "our" are to be taken as references to Carmanah Technologies Corporation. These documents, along with additional information about our Company, including the Company's Annual MD&A Report and Annual Information Form are available at www.carmanah.com and www.sedar.com. This document contains forward-looking information qualified by the forward-looking statements in the next section.

Unless otherwise indicated, all financial information presented in this MD&A is in our functional and presentation currency, United States of America ("US") dollars, and has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Section 8 outlines any relevant recent or pending accounting policy developments that may impact our financials.

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Carmanah Solar Power Corporation, Carmanah Technologies (US) Corporation, Sol, Inc. ("Sol"), Sabik Oy, Sabik Offshore GmbH, Sabik Pte Ltd, Sabik Limited, Sabik Offshore Limited, and Sabik Ou.

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to our senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. Our management determines if information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities in our Company would likely be influenced or changed if the information were omitted or misstated. The MD&A and the consolidated financial statements were reviewed by our Audit Committee and approved by our Board of Directors. This MD&A is prepared as of March 20, 2017.

Our management reports on certain non-IFRS measures which are used to evaluate financial performance. As non-IFRS measures generally do not have a standardized meaning and therefore may not be comparable to similar measures presented by other issuers, securities regulations require non-IFRS measures to be clearly defined, qualified and reconciled with their nearest IFRS measure. See Section 4 for the definition, calculation and reconciliation of these figures.

On October 11, 2016, we announced our intention to divest our Power business segment. As required under IFRS 5 – *Non Current Assets Held for Sale and Discontinued Operations,* the operations of this segment have been classified as discontinued operations for the three and twelve months ended December 31, 2016 and the associated comparative prior periods. For the purposes of discussing our operating results in this MD&A, we have presented our financial information based on our continuing operations unless otherwise noted. Although the Power business segment is treated in this MD&A as a discontinued operation, readers should understand that we currently still own the business and will continue to own it until we complete one or more divestiture transactions relating to this business segment. The discontinued operations do not impact our continuing operations and therefore have not been discussed in this MD&A. At this point, there can be no assurance that we will ultimately be successful in negotiating divestiture transactions for this business segment on acceptable terms.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are forward-looking statements that involve risks and uncertainties. Forward statements are often, but not always, identified by words such as "may", "would", "could", "will", "intend", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" and similar expressions. Forward-looking statements in this MD&A include, but are not limited to:

- statements relating to the expected growth opportunities and commercial acceptance and demand for our products;
- the successful development of new and innovative products to help penetrate new geographic markets;
- the future success of our recent restructuring initiative and our ability to produce positive net income;
- the outcome of claims and lawsuits;
- our intention to be a leader or top contender in each of our market segments;
- our belief that the signals industry is ready for consolidation;
- our plan to explore synergy opportunities that may exist in overlapping product lines, commercial efficiencies, research and development ("R&D") projects and potential manufacturing competencies;
- our belief that "connected" devices are likely to be data gateways that provide a variety of sensor data that will increase safety and further reduce operating costs;
- our expectation that the current installed base of signaling products will become obsolete and result in increases in growth rates for the signals industry;
- the amount and sufficiency of R&D spending;
- the goal that all strategic products have machine-to-machine capability by the end of 2018;
- our plans with respect to the divestiture of the Power business segment;
- the expansion of the number of top-tier partners over the next five years;
- our expectation of growth in solar LED illumination;
- the expected results of the acquisition from Cybernetica; and
- our expectation that manufacturing costs will continue to improve as solar becomes increasingly competitive with other forms of power generation and our positive outlook for solar power businesses.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and many factors could cause actual results or events to differ materially from those anticipated in such forward looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, prospective investors cannot be assured that actual results will be consistent with these forward-looking statements. Such assumptions include, but are not limited to: our assumptions regarding opportunities and availability of potential new projects; our assumption that we will be able to comply with current and future regulatory requirements; and our assumption that we will be able to compete and keep pace with the industry. In evaluating these statements, readers should specifically consider various factors, including, but not limited to, the risks discussed under the heading "Risk Factors" in our annual information form dated March 20, 2017, or included in section 9 of this MD&A. Additionally, factors that could cause or contribute to such differences include, but are not limited to, the following:

- actions of competitors, including competitors with greater name recognition and financial resources;
- our ability to keep pace with rapid changes in lighting technology and evolving industry standards;
- our ability to complete potential acquisitions;
- our ability to negotiate the divestitures of GoPower! and Carmanah Solar EPC on acceptable terms;
- slower than anticipated adoption of solar LED lighting technology;
- our ability to manage expansion effectively;
- fluctuation in foreign currency exchange rates;
- our reliance on third party manufacturers;
- our reliance on sales agents and third parties with whom we have developed strategic relationships to sell our products;
- our reliance on key employees;
- intellectual property risks;
- environmental and regulatory compliance;
- our reliance on government contracts and subsidies;
- problems with product quality or reliability;
- downturns in general economic and market conditions;
- our ability to maintain adequate liquidity or raise additional capital when needed;
- risk that we may become involved in disputes, litigation or arbitration proceedings; and
- geopolitical or other global or local events.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non- recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. We therefore, cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting its business.

Readers should not place undue reliance on forward-looking statements. The forward-looking statements in this MD&A are made as of the date hereof. We do not assume any obligation to update the forward-looking information contained in this MD&A other than as required by applicable laws (including without limitation Section 5.8(2) of National Instrument 51-102 Continuous Disclosure Obligations).

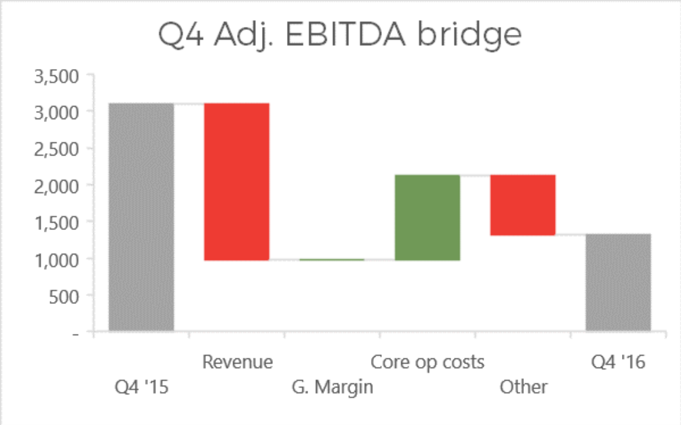
1. Financial Highlights

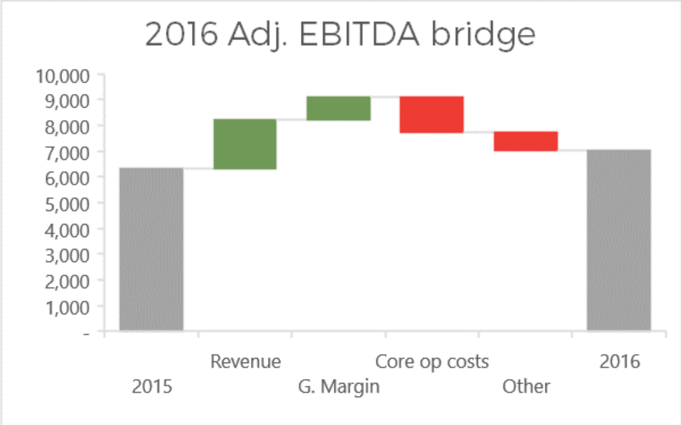
FINANCIAL HIGHLIGHTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	10,714	15,824	(32.3%)	47,742	43,090	10.8%
Gross margin %	41.6%	41.4%	0.2%	43.0%	41.2%	1.8%
Core operating expenditures *	(3,802)	(4,939)	(23.0%)	(16,531)	(15,168)	9.0%
Net income	80	1,288	(93.8%)	2,917	9,694	(69.9%)
Adjusted EBITDA *	1,316	3,089	(57.4%)	7,020	6,308	11.3%

**Adjusted EBITDA and Core operating expenditures are Non-IFRS measures which are discussed in section 4*

ADJUSTED EBITDA BRIDGES





BACKLOG RECONCILIATION

US$ thousands	**Q3 closing**	**Bookings**	**Revenue**	**Q4 closing**
Signals	3,495	11,163	8,837	5,821
Illumination	780	1,712	1,877	615
Total	**4,275**	**12,875**	**10,714**	**6,436**

FOURTH QUARTER

In the fourth quarter of 2016, we generated revenues of $10.7 million, down $5.1 million or 32% over the fourth quarter of 2015 revenues of $15.8 million. The overall decline in revenues was primarily attributable to (1) lower Marine and Offshore Wind revenues, both of which had unusually strong revenues in the fourth quarter of 2015 and together represent our two largest Signals verticals, (2) lower Aviation revenues due to project timing, and (3) lower Illumination sales due to a significant decline in international revenues. Offsetting these declines was stronger results from our Traffic vertical.

Gross margin percentage in the fourth quarter of 2016 was 41.6%, up 0.2%, over the same period in 2015.

Operating expenditures in the fourth quarter of 2016 were down $1.1 million over 2015. This decrease was due to reduced sales commissions due to lower revenue, lower product development spending and an overall reduction of G&A expenses. Net income in the fourth quarter of 2016 was $0.1 million, down from $1.3 million in the fourth quarter of 2015, principally due to the decline in revenue.

Our management relies on Adjusted EBITDA (a non-IFRS measure) to gauge financial performance. In the fourth quarter of 2016, our Adjusted EBITDA was $1.3 million or 12% of revenue, which is down from $3.1 million, or 19% of revenue in the same period in 2015. A table reconciling net income and Adjusted EBITDA is included in section 4.

BACKLOG RECONCILIATION

US$ thousands	December 31, 2015	Bookings	Revenue	December, 31,2016
Signals	7,048	38,688	39,915	5,821
Illumination	940	7,502	7,827	615
Total	**7,988**	**46,190**	**47,742**	**6,436**

FULL YEAR

For the year ended December 31, 2016, we generated revenues of $47.7 million, up $4.6 million or 11% over 2015 revenues of $43.1 million. The overall increase in revenues was primarily due to the inclusion of a full year of the Sabik Group of Companies in 2016, while 2015 only included the final two quarters. On an organic basis, our Traffic vertical delivered strong growth, our Obstruction vertical was stable, and our Airfield and Illumination verticals saw revenue declines. Our business is still largely project based and, as a result, we do experience lumpiness from period to period.

Gross margin percentage for the year was 43.0% up 1.8%, over the same period in 2015.

Our total operating expenses for the year were $16.5 million, up from $15.2 million in 2015. A large part of this increase was due to the inclusion of a full year of results from the Sabik Group of Companies in 2016, compared to just two quarters in 2015. Net income for the year was $2.9 million, down from $9.7 million in fiscal 2015. This decrease is mainly due to the recognition in 2015 of investment tax credits and deferred income tax assets which were previously unrecognized.

Carmanah's management relies on Adjusted EBITDA (a non-IFRS measure) to gauge financial performance. For the year ended December 31, 2016, Adjusted EBITDA was $7.0 million or 15% of revenue, which is up from $6.3 million, or 15% of revenue in the same period in 2015. A table reconciling net income and Adjusted EBITDA is included in section 4.

2. Overview - Vision, Strategy & Tactics

BUSINESS OVERVIEW

We design, develop and distribute a portfolio of products focused on energy optimized LED solutions for infrastructure. Since 1996, we have earned a global reputation for delivering durable, dependable, efficient and cost-effective solutions for industrial applications that perform in some of the world's harshest environments. We manage our business within two reportable segments: Signals and Illumination. The Signals segment serves the Airfield Lighting, Aviation Obstruction, Offshore Wind, Marine, Traffic and Telematics markets. Telematics is a new vertical created in 2016 that will focus on the design and manufacture of energy-efficient and/or solar-power connected (e.g. the Internet of things – "IoT") devices supporting data capture and transmission for mobile or remote assets. The Illumination segment provides solar powered LED outdoor lights for municipal and commercial customers.

Our Power segment, which provides solar and/or power solutions for on and off-grid applications. These businesses are separated into On-Grid and Off-Grid. During the year, we made the strategic decision to divest the Power segment. See further discussion below and in Section 5.

The tables below provide an overview of these segments and the verticals or businesses they serve.

Signals

Airfield

Our Airfield Lighting business specializes in solving airfield lighting challenges for clients in off-grid or weak-grid locations. Our self-contained solar airfield lights support daily flight operations at helipads and airstrips in demanding environments around the globe and include both military and civilian airports. Our main competitors for this business include Avlite Systems Pty Ltd and Metalite Aviation Lighting.

Obstruction

Our Aviation Obstruction business provides practical and cost-effective solutions for aviation hazard marking, barricade lighting, way-finding, railway blue flag protection, equipment marking and more by way of our solar powered self-contained LED lighting products. Our main competitors in our Obstruction sector include Avlite Systems Pty Ltd, Dialight PLC and Flash Technology LLC.

Offshore Wind

Our Offshore Wind business specializes in the provision of comprehensive safety and marking systems for offshore wind farms. Our main offshore wind competitors include Dialight BTI, Pintsch Aben BV, Sealite Pty Ltd, MSM Spain SLL, and Vega Industries Inc.

Marine

Our Marine business provides total marine aids-to-navigation products and systems for Coast Guards, marine authorities, navies and ports around the globe. Our main competitors in the Marine market include Sealite Pty Ltd, Vega Industries Inc, and Tideland Signals Corporation.

Traffic

We serve the North American traffic safety market through the provision of solar powered flashing beacons for pedestrian crosswalk signals, school zone flashers and 24-hr roadway beacons. Our main competitors in the Traffic vertical include JS Foster Corporation and TAPCO (Traffic & Parking Control Company Inc).

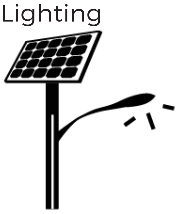
Telematics

Our Telematics business is currently focused on designing and manufacturing devices to enable remote monitoring of assets. This new vertical was created as we see an opportunity to utilize our knowledge and expertise in solar and energy management systems to build and/or design solar-powered engines to expand the capabilities of new or existing asset tracking devices. While Telematics is currently a vertical within the Signals segment, we anticipate it will become its own segment as it grows.

The product offerings across the verticals within the Signals segment are similar in nature and share common technology, form factor and components.

Illumination

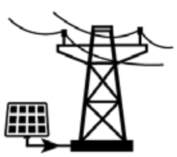
Outdoor Lighting



Our Outdoor Lighting business provides advanced solar powered LED illumination products for pathways, parking lots and streets. Our main competitors in the North American market within outdoor lighting are Solar Electric Power Company (SEPCO), First Light Technologies and Solar One Solutions Inc. Internationally we have a variety of competitors operating in different areas of the world.

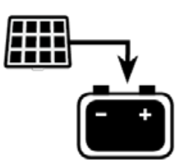
Power *

On-Grid



Our On-Grid power generation business constructs commercial solar grid-connected systems. Most of our customers are solar power developers that develop roof top and ground mount projects within the scope of the Government of Ontario's Feed-in-Tariff ("FIT") program. Our main competitors include Panasonic Eco Solutions Canada Inc., RESCo Energy Inc. and Deltro Electric Ltd.

Off-Grid



Our Off-Grid power business provides solar kits, solar panels, inverters, chargers, batteries and other power accessories for the RV, utility and fleet vehicles, and marine markets. Our sales are made through an established channel of dealers, distributors and agents throughout the US and Canadian markets, direct to consumer through online retailer Amazon, and on an OEM basis to major new motorhome manufacturers. Some of our Off-Grid competitors are Xantrex Technologies and Samlex America Inc.

* As noted in the "About this MD&A" and further described in section 5, we have made the strategic decision to divest the Power segment. Due to this decision, the operating results of this segment have been classified as a discontinued operation as required under IFRS 5 – *Non Current Assets Held for Sale and Discontinued Operations.* For the purposes of discussing our operating results in this MD&A, we have presented our financial information based on our continuing operations unless otherwise noted.

VISION – Global Leader of Signaling and Solar Lighting for Infrastructure

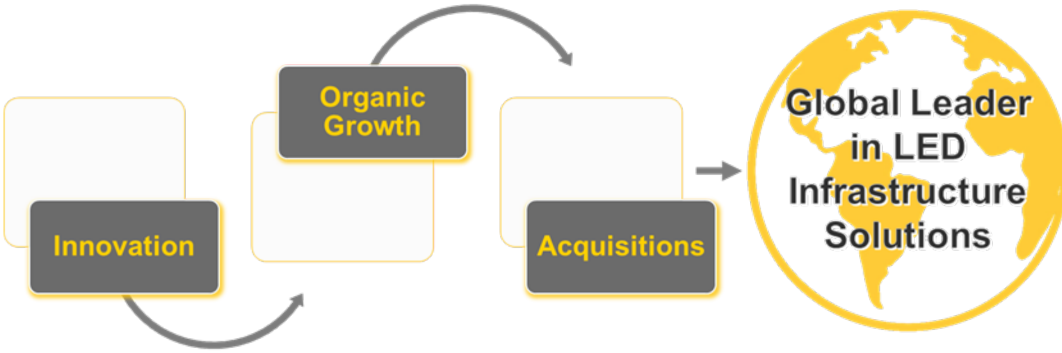
We aspire to be the global leader of signaling and solar lighting solutions for infrastructure through unique product and system solutions that allow us to attain and maintain high gross margins and great growth prospects.

STRATEGY – Provide Solutions that Combine Cost Savings with Environmental Sensitivity

We understand that while our customers are increasingly interested in environmentally sensitive solutions they are also motivated to make purchase decisions that are economically sound. We believe that our customers need not choose one of these important attributes over the other. Accordingly, our strategy is to provide solutions for our customers that combine the greatest cost savings with the highest environmental sensitivity.

TACTICS – Innovation, Organic Growth and Acquisitions

Tactically we plan to realize our strategy through innovation, organic growth and acquisitions.



INNOVATION

In 2016, our R&D expense was focused on product development and refinement and totaled $2.4 million, or about 5% of revenues. In each of the next three years we expect R&D to remain around 5% to 7% of revenues. We believe this level of spending is sufficient to meet our technology sustainment needs and fund our strategic initiatives. That said, compelling strategic projects may arise from time to time that management chooses to undertake that would temporarily result in a higher level of R&D expense. When these extraordinary projects are undertaken, we will report on these separately.

Our R&D is focused on technology innovation that keeps in mind our strategy to:

- provide the most environmentally sensitive signaling and lighting products for infrastructure; and equally
- to provide solutions that provide our customers with the greatest economic benefit.

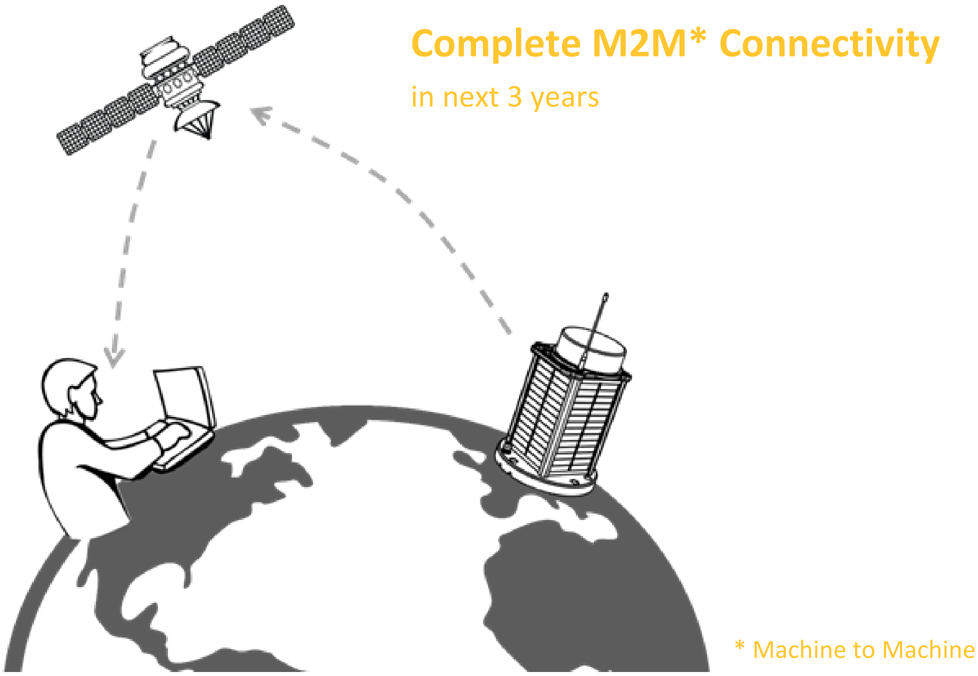
To help us realize on our strategy, our Sustainment Development Team is constantly improving our products to make them smaller, lighter and more energy efficient without performance compromise. These activities help us to maintain our market competitiveness as well as attractive product margins.

However, our overarching innovation goal is to develop solutions for our customers that help them to reduce ancillary costs – including maintenance and operating costs – while maintaining or enhancing efficacy. In this respect, our Strategic Development Team is working on new products designed with these goals in mind.

A resounding theme is our commitment to adding connectivity to all our devices so that every deployed device can be monitored, and in some cases controlled, in central locations. This "machine-to-machine" capability and remote monitoring provides a new range of benefits including:

- the ability to determine the need for preventative maintenance before outages occur, thereby reducing outage incidents;
- the ability of our customers to respond to damaged devices more quickly;
- our ability to monitor the functioning of products for performance enhancement and warranty administration; and
- the potential for new service based business models.

Currently, 8 of our 30 product platforms have machine-to-machine connection capability. Our goal is for all product platforms to have machine-to-machine communications capability by the end of 2018. We will continue to report on this important initiative and other strategic product development activities on a quarterly basis so that shareholders may evaluate our progress.



In early 2016, we started to ramp up R&D spending to help create our new solar LED lighting platform to take advantage of technology trends and lowering cost curves. Our expectation is that our new platform will become a viable economic competitor to grid connected lighting for new construction in a growing portion of the developed world and as such our addressable market will expand exponentially.

Over the next few quarters, culminating with the launch of our new solar LED platform, we will report separately on our progress with this project.

ORGANIC GROWTH

In all markets, and with few exceptions, we rely on some form of "last mile" partner to be the final interface with the end users of our products. Over the next five years, we expect to markedly improve our global distribution by working to appoint new last mile partners in parts of the world where our products are currently not represented. It is also our plan to work to improve the quality and capability of our last mile partners in all markets. We believe that these two initiatives can double the effectiveness of our distribution over the coming five-year period.

LAST MILE PARTNERS – SIGNALS AND ILLUMINATION

We currently have approximately 400 "last mile" partners with whom we work globally within our Signals and Illumination segments. Approximately 10% of these partners would be considered top-tier, which we define as having most of the following attributes:

- being fully trained as to our products and components;
- being capable of responding to customer needs with the optimal selection of our products and/or systems;
- having the financial capability to conduct business and realize on our sales potential without compromise;
- having an annual business development plan agreed to by us that sets out goals and activity commitments for both the partner and us; and
- the ability to use all our ERP solutions to actively record sales potential, forecast and execute order entry.

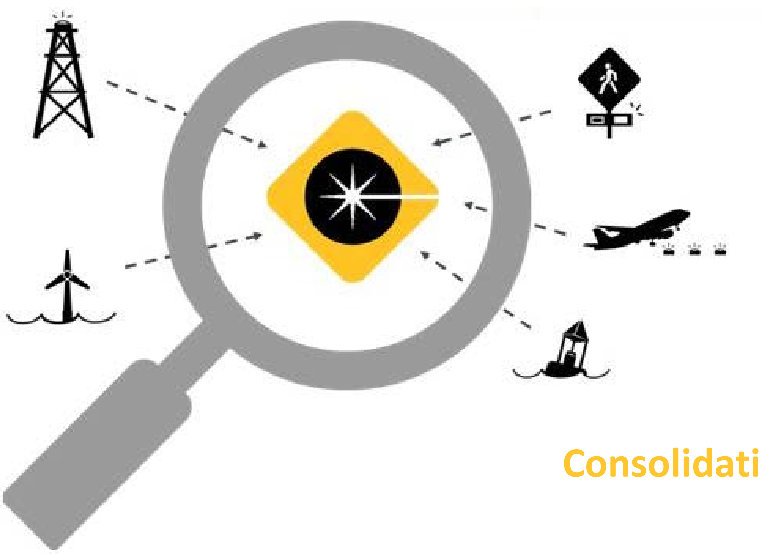
Our goal is to significantly expand the number of "top-tier" partners over the next five years and to ensure we cover all significant regions throughout the world. We began tracking this statistic during the second quarter of 2016. At initial outset, we had 300 recognized partners, of whom approximately 10% were considered top-tier.

ACQUISITIONS

We believe that there are signals competitor candidates that, if acquired prudently, can accelerate our ability to realize our vision of becoming the global industry leader. In this respect, we look for candidates that can deliver the following attributes:

- highly capable management teams that will be retained post-transaction;
- unique products or product line extensions that are complementary to our offering;
- market share or distribution that would enhance our partner network;
- transactions that meet or exceed minimum accretion levels; and,
- attractive synergies that can be realized reasonably promptly post-transaction.

We devote resources to identify and build relationships with potential acquisition candidates and, at any given time, we have multiple discussions underway. While we would like to add to our company by way of acquisitions we are committed to being very disciplined. Moreover, we only proceed with transactions that score highly against our attribute criteria and where attractive financing options are available. Proposed transactions, if any, that result from these efforts will be announced on a timely manner by way of news release.



Consolidation of Signals competitors

3. Performance Scorecard

KEY PERFORMANCE MEASURES

The financial performance scorecard highlights the key performance measures that we believe are critical to adding shareholder value. We believe this approach best tracks how efficiently we deploy and manage our assets.

US$ thousands	2016	2015
Average net assets from continuing operations *	28,099	17,942
Cash cycle **	68 days	54 days
Revenue	47,742	43,090
Adjusted EBITDA***	7,020	6,308
Adjusted EBITDA*** / Revenue	14.7%	14.6%
Adjusted EBITDA*** / Average Net Assets	25.0%	35.2%
Revenue/ Average Net Assets	1.70	2.40

* Average Net Assets excludes cash, tax assets/liabilities and bank debt

** Cash cycle = Average days' inventory outstanding plus average days' sales outstanding less average days' payable outstanding

*** Adjusted EBITDA is a Non-IFRS measure which is discussed in section 4

In line with our strategic initiatives we have set targets for profitability, asset efficiency and cash conversion. We believe these targets can be achieved through organic growth, continued focus on high margin product offering, operating leverage and a disciplined approach to cash management.

4. Non-IFRS Financial Measures

Non-IFRS financial measure, like EBITDA, Adjusted EBITDA and core operating expenditures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers.

EBITDA AND ADJUSTED EBITDA

For the three and twelve months ended December 31, 2016, we are disclosing EBITDA and Adjusted EBITDA, both of which are non-IFRS financial measures, as supplementary indicators of operating performance. We define EBITDA as net income or loss before interest, income taxes, amortization, and non-cash stock based compensation. Adjusted EBITDA removes unusual or non-operating items from EBITDA, such as merger and acquisition costs, restructuring charges, asset write offs, and foreign exchange gains and losses. We are presenting the non-IFRS financial measures in our filings because we use them internally to make strategic decisions, forecast future results and to evaluate our performance. We are also presenting these measures because we believe that our current and potential investors, and many analysts, use them to assess our current and future operating results and to make investment decisions. EBITDA and Adjusted EBITDA are not intended as a substitute for IFRS measures.

	Three months ended December 31,		Year ended December 31,	
US$ thousands	**2016**	**2015**	**2016**	**2015**
Net income from continuing operations	80	1,288	2,917	9,694
Add/(deduct):				
Interest	57	188	284	188
Income taxes expense/(recovery)	228	149	1,037	(6,062)
Amortization	426	546	1,623	2,052
Non-cash stock based compensation	151	243	700	815
EBITDA*	**942**	**2,414**	**6,561**	**6,687**
Merger and acquisition costs	294	3	666	1,218
Extraordinary legal costs/(recovery)	37	2	(161)	34
Fair value of acquired inventory	-	492	-	492
Investment tax credits – re-recognition	-	(182)	-	(4,502)
Restructuring and asset write offs	-	143	-	539
Other inventory write downs	-	15	-	383
Foreign exchange (gain)/loss	43	202	(46)	1,457
Adjusted EBITDA *	**1,316**	**3,089**	**7,020**	**6,308**

**A Non-IFRS measure defined above*

CORE OPERATING EXPENDITURES

For the three and twelve months ended December 31, 2016, we are presenting Core Operating expenditures, a non-IFRS financial measure, as a supplementary indicator of operating performance. We define Core Operating expenditures as Operating expenditures excluding anomalies, such as the recognition of previously unrecognized investment tax credits or restructuring charges. We are presenting the non-IFRS financial measures in our filings because we use them internally to make strategic decisions, forecast future results and to evaluate our performance. We are also presenting these measures because we believe that our current and potential investors, and many analysts, use them to assess our current and future operating results and to make investment decisions

5. Operational and Business Highlights

DISCONTINUED OPERATIONS

On October 11, 2016, we announced our intention to divest the Power business segment, which is comprised of our Off-Grid (or Go Power! business) and On-Grid (or Solar EPC business) verticals. We have retained Canaccord Genuity Corp. to advise on the divestiture of Go Power! Separately, Alexander Capital Group Inc. has been retained to advise on the divestiture of Carmanah Solar EPC. At this point, there can be no assurances that we will be successful in negotiating the divestitures for either or both businesses on acceptable terms. The decision to divest these businesses was made to allow the company to focus on its stated strategic vision, which is to become the global leader in signals and solar LED illumination for infrastructure. For more details regarding the accounting treatment, readers are encouraged to review the discontinued operations note disclosure in our December 31, 2016 year-end consolidated financial statements, which can be found on our website at www.carmanah.com/company/financial-reports.

CREDIT FACILITY CHANGE

As described in section 7.3, in June 2016 we signed an updated credit facility agreement with Canadian Imperial Bank of Commerce ("CIBC"). Under the previous agreement, one tranche of the term acquisition facility required Export Development Canada ("EDC") backing. The new agreement removed the need for that backing and reduced the overall interest rate to US LIBOR plus 3.0% for both tranches.

SHARE BUYBACK

On March 9, 2016, we announced that the Toronto Stock Exchange ("TSX") accepted our notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allowed us to repurchase up to 1,426,386 of our common shares, representing approximately 10% of our public float as of March 7, 2016. The program commenced on March 14, 2016 and concluded on March 13, 2017.

The average daily trading volume of our common shares over the six-month period ending February 29, 2016, as calculated per the TSX rules, was 39,836 common shares. Consequently, under TSX rules, we were allowed to purchase daily, through the facilities of the TSX, a maximum of 9,959 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. We paid the market price at the time of acquisition of any common shares in accordance with the rules and policies of the TSX and applicable securities laws. All common shares acquired under the NCIB were cancelled and purchases were funded out of our working capital.

We undertook the NCIB because, in the opinion of our board of directors, the market price of our common shares, from time to time, did not fully reflect the underlying value of our business. We believed that in such circumstances, the outstanding common shares represent an appealing investment for us since a portion of our excess cash generated on an annual basis can be invested for an attractive risk adjusted return on capital through the Bid.

There were no purchases made under this program in the first two quarters of 2016. However, during the third quarter, we purchased 29,877 shares at a volume weighted average price of $3.98 CAD per common share, and in the fourth quarter of 2016 we acquired a block of 300,000 shares which were purchased at a price of $4.00 CAD per common share.

AUDITOR CHANGE

On May 26, 2016, we announced the appointment of KPMG LLP ("KPMG") as our auditors, replacing Deloitte LLP ("Deloitte"). This decision was made based on the audit committee's recommendation to the board. Deloitte resigned as auditors at the board's request. There were no reservations in the report of Deloitte for the audit of the most recently completed fiscal period or at any point prior to the appointment of KPMG and there were no reportable events. A reportable event is a disagreement, consultation, or unresolved issue which, when present, may be viewed as a contributing factor in a change of auditor.

GLOBALSTAR STRATEGIC AGREEMENT

On August 30th, 2016, we announced the signing of a strategic agreement with Globalstar Inc ("Globalstar"). Under the terms of the agreement we will collaborate on the design and manufacturing of a new solar powered M2M (Machine to Machine) satellite solution for Globalstar. In addition, we will be selecting the Globalstar low earth orbiting satellite constellation for remote connectivity of all our strategic products. The agreement includes a multi-year supply agreement whereby we will design, develop, and supply the next generation of Globalstar devices incorporating solar power charging capabilities. The introduction of solar technology will support longer battery life which would support a significant increase in data transmission capability on a device by device basis. The first Globalstar products are expected to be ready for market in mid-2017.

The Agreement is also the next step in our advanced Internet of Things strategy utilizing the Globalstar low orbit satellite network to provide remote monitoring to each Carmanah LED infrastructure product. We intend to equip all strategic products with this capability over the next three years.

ACQUISITION OF ETKA ASSETS

In late 2016, we announced the signing of an asset purchase agreement to acquire certain marine aids-to-navigation assets from Cybernetica AS ("Cybernetica"), an Estonia company. This acquisition was completed in early January 2017. Under the agreement, we acquired the intellectual rights to a marine aids-to-navigation product line marketed under the EKTA brand, assignments of several sales and employment contracts, and some manufacturing assets. The purchase price was €1.35 million, with €1 million paid on closing and a further €0.35 million to be paid on the first anniversary of the closing date. The additional payment may be reduced in the event of a breach of certain warranties made in the agreement.

A new legal entity, Sabik Ou, was incorporated in Estonia to complete the acquisition. This entity will be managed as a part of our global Marine business vertical which is coordinated and controlled by managers and directors of our wholly owned subsidiary, Sabik Marine.

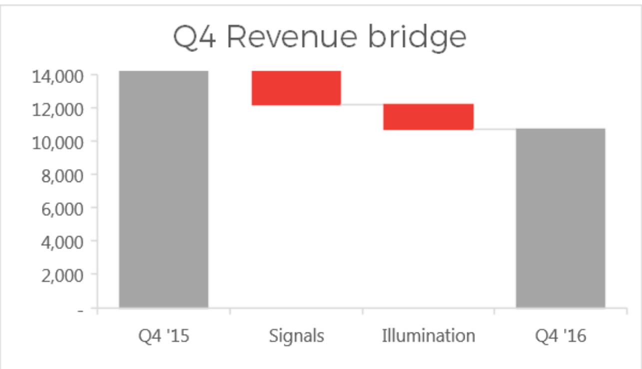
6. Financial Results

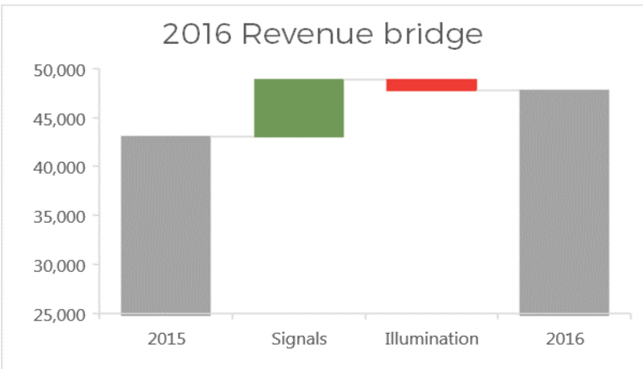
As previously noted, the information presented in the sections below have been derived from, and should be read in conjunction with our consolidated financial statements for the three and twelve months ended December 31, 2016.

6.1 THREE AND TWELVE MONTHS ENDING DECEMBER 31, 2016 AND 2015

REVENUE

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues						
Signals	8,837	12,502	(29.3%)	39,915	34,175	16.8%
Illumination	1,877	3,322	(43.5%)	7,827	8,915	(12.2%)
Total revenue	**10,714**	**15,824**	**(32.3%)**	**47,742**	**43,090**	**10.8%**





Revenues for the three months ended December 31, 2016 were down $5.1 million, or 32%, over the same period in 2015. Comparative declines by segment are attributable as follows:

- **Signals** - The decrease in our Signals segment was primarily due to comparatively lower period over period sales in our Marine, Offshore Wind and Aviation verticals. In each of these businesses there were exceptional fourth quarter revenues in 2015 with several large projects coming to fruition in the period.
- **Illumination** - The decrease in our quarter over quarter Illumination revenue was isolated to declines in the developing world. This was consistent with a change in sales focus by the Company which is now emphasizing the pursuit of markets in the developed world – principally in the United States. The Company has had limited success in the developing world where customers have challenging financing issues and procurement systems are less than transparent. At the same time, advances in solar LED technology have been such that the Company is now beginning to compete for traditional grid connected lighting on an economic basis. The Company expects this trend away from developing world revenues and towards revenue growth in the developed world to continue.

Full year revenues for the year ended December 31, 2016 were up $4.6 million, or 11%, over the same period in 2015 as follows:

- **Signals** – The Signals segment contributed to the overall comparative increase due to the inclusion of a full year of Sabik in 2016, while 2015 only included the final two quarters. At the same time, Sabik Marine's revenue modestly decreased on a full year basis primarily due to a large project in the fourth quarter 2015 and a slight decline in sales in the Ports and Harbors sector. The Company considers this decline to be temporary and not representative of long term industry issues or of business unit performance. Excluding Sabik Marine, the Signals segment had an increase in its Traffic vertical and a decrease in its Airfield Lighting vertical. Neither of these variations were significant or indicative of longer term market or competitive changes.

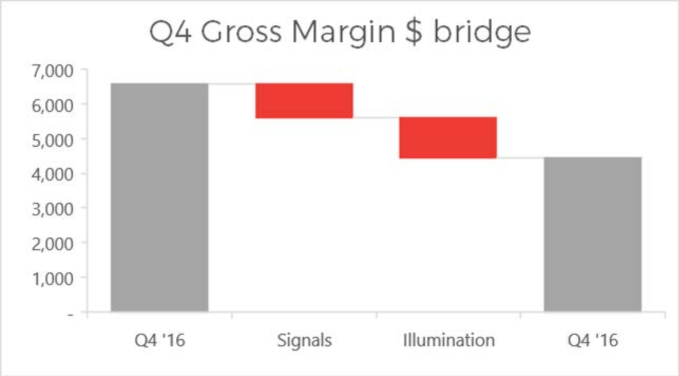
- **Illumination** - Illumination revenues also declined for the year ended December 31, 2016. As earlier noted, the decline was largely due to a changing emphasis away from the pursuit of revenue in the developing world (i.e. outside the US and Canada). The Company is increasingly focused on the United States as a market and especially those states within which there is a high degree of new development and high rates of solar irradiation and will continue to do so for the foreseeable future. To this end, and in 2017, the Company will release a new Illumination product platform designed specifically for these target markets.

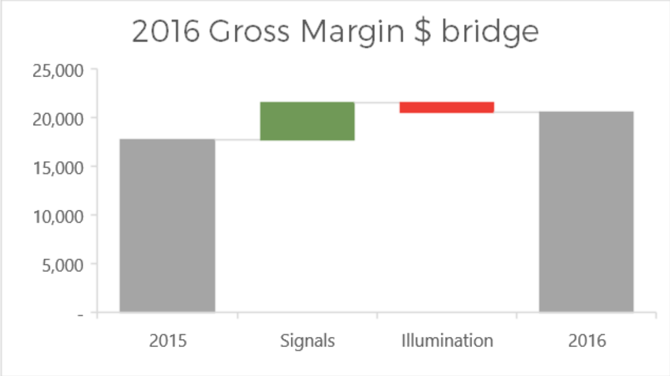
SALES BY GEOGRAPHIC REGION

Approximately 52.9% of our revenues for 2016 were from outside North America, up from 48.3% in 2015.

GROSS MARGINS

	Three months ended December 31,			Year ended December 31,		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Gross margin %						
Signals	47.3%	41.0%	6.3%	45.3%	42.1%	3.2%
Illumination	14.5%	43.0%	(28.5%)	31.3%	37.8%	(6.5%)
Total Gross margin %	**41.6%**	**41.4%**	**0.2%**	**43.0%**	**41.2%**	**1.8%**





Gross margin percentage for the three months to December 31, 2016 was 41.6%, up 0.2%, over the same period in 2015. Gross margin percentage for the year ended December 31, 2016 was 43.0% up 1.8%, over the same period in 2015. On a segmented basis, our Signals segment gross margin percentage increase was primarily due to a shift in sales mix. Our Illumination segment gross margin percentage decreased due to a $0.4 million write down for obsolete inventory in the fourth quarter of 2016 as we prepare for a new product release in 2017.

OPERATING EXPENSES

	Three months ended December 31,			Year ended December 31,		
US$ thousands	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Sales and marketing	1,194	1,439	(17.0%)	4,658	4,552	2.3%
Research and development	529	814	(35.0%)	2,388	2,058	16.0%
General and administration	2,079	2,686	(22.6%)	9,485	8,558	10.8%
Other operating recoveries	-	(182)	NA	-	(3,986)	NA
Total operating expenditures	**3,802**	**4,757**	**(20.1%)**	**16,531**	**11,182**	**47.8%**
Non-cash items:						
Amortization	*426*	*546*	(22.0%)	*1,623*	*2,052*	(20.9%)
Stock-based payments	*151*	*243*	(37.9%)	*700*	*815*	(14.1%)

	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16
Sales and marketing	13.3%	11.5%	10.3%	9.1%	9.4%	9.3%	9.3%	11.1%
Research and development	3.8%	3.9%	5.4%	5.1%	5.4%	4.6%	5.2%	4.9%
General and administration	15.9%	17.6%	27.2%	17.0%	19.8%	17.1%	23.8%	19.4%
Total core operating expenditures *	**33.0%**	**33.0%**	**42.9%**	**31.2%**	**34.6%**	**31.0%**	**38.3%**	**35.5%**

* Core operating expenditures is a Non-IFRS measure which is discussed in section 4.

Our total operating expenses for the year ended December 31, 2016 were $16.5 million, up 48% from $11.2 million in 2015. This increase is mainly due to (1) the inclusion of a full year of results from Sabik in 2016, compared to just two quarters in 2015, and (2) the 2015 recognition of previously unrecorded investment tax credits which are presented in the "Other operating recoveries" caption. Our operating expenditures for the fourth quarter of 2016 were $3.8 million, down from $4.8 million over the same period in 2015. The decrease was mostly attributable to an adjustment of previously accrued variable compensation.

SALES AND MARKETING

Our sales and marketing expenses for the year were $4.7 million, up from $4.6 million over the prior year. The increase is due to the inclusion of a full year of Sabik costs, offset by lower variable compensation. In the fourth quarter of 2016, these expenses were $1.2 million, down from $1.4 million in the same period of 2015. This decrease in the fourth quarter is due to lower variable compensation and marketing expenditures made in the quarter.

RESEARCH AND DEVELOPMENT

Our research and development expenses for the year were $2.4 million, up from $2.1 million in the prior year. The increase is due to the inclusion of a full year of Sabik costs, offset by lower development expenditures. The reduction of development expenditures is partly due to the timing of external expenditures on major projects and the nature of the work performed. In the fourth quarter of 2016, these expenses were $0.5 million, down from $0.8 million in the same period in 2015. The reason for this decrease is largely the same as the explanation for the full year.

GENERAL AND ADMINISTRATION

Our general and administration ("G&A") expenses for 2016 were $9.5 million, up from $8.6 million over the prior year. In the fourth quarter of 2016, these expenses were $2.1 million, down from $2.7 million in the same period of 2015. The significant decline in the fourth quarter expenses is primarily due to (1) an adjustment of previously accrued variable compensation, and (2) a $0.2 million recovery of bad debts recognized in the quarter. The increase in the year ended December 31, 2016 compared to the prior year is due to (1) the inclusion of a full year of Sabik's results, and (2) higher legal, audit and tax fees. These were offset by an adjustment of previously accrued variable compensation.

OTHER INCOME (EXPENSE)

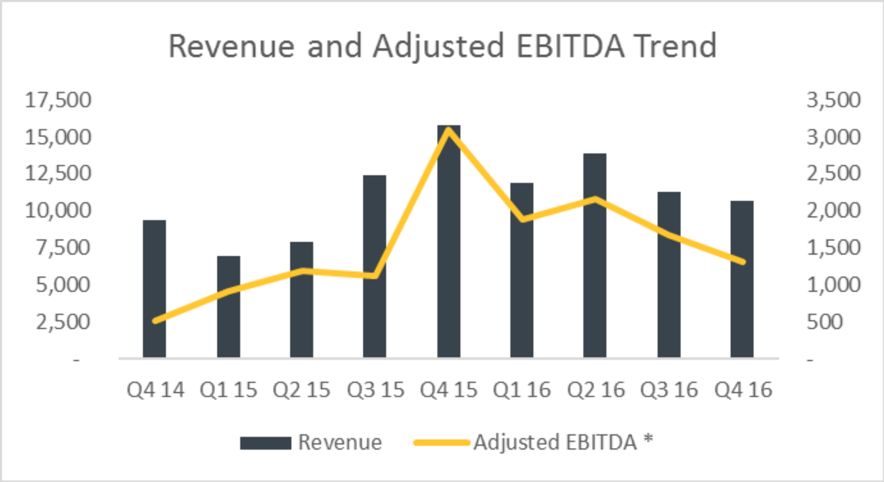
Other income or expenses include various non-operating expenditures, including merger and acquisition costs, foreign exchange, and restructuring charges. For the year ended December 31, 2016, we had other costs of about $0.06 million, compared to other expenses of $2.9 million in the same period in 2015. In 2016, we had a gain of $0.1 million on foreign exchange, a $0.4 million gain associated with a legal recovery described in section 7.5, offset by merger and acquisition costs of about $0.6 million. For the year ended December 31, 2015, the amounts primarily related to foreign exchange losses of $1.5 million and merger and acquisition expenditures of $1.2 million associated the Sabik acquisition.

INCOME TAXES

Income tax expense for the year was $1.0 million, compared to a recovery of $6.1 million in the same period in 2015. The significant recovery in 2015 related to the recognition of previously unrecognized tax assets. These assets relate to both investment tax credits and deferred income taxes, both of which will allow us to reduce taxes on current and future earnings realized within Canada. The decision to reinstate these assets was based on our financial performance which made it probable these assets will be utilized.

6.2 QUARTERLY TRENDS

REVENUE AND ADJUSTED EBITDA TREND



* *EBITDA and Adjusted EBTIDA are non-IFRS measures see section 4 for discussion.*

US$ thousands (unless noted)	**Q1 '15**	**Q2 '15**	**Q3 '15**	**Q4 '15**	**Q1 '16**	**Q2 '16**	**Q3 '16**	**Q4 '16**
Revenue	6,916	7,934	12,416	15,824	11,860	13,852	11,316	10,714
Gross margin %	39.1%	43.8%	40.5%	41.4%	44.4%	41.1%	45.3%	41.6%
Net income/(loss), cont ops	(196)	9,347	(745)	1,288	781	934	1,122	80
Net income/(loss), total ops	(57)	10,330	(410)	570	1,702	1,292	967	267
EPS – Basic, cont ops	(0.01)	0.44	(0.03)	0.05	0.03	0.04	0.05	0.00
EPS – Diluted, cont ops	(0.01)	0.42	(0.03)	0.05	0.03	0.04	0.05	0.00
EPS – Basic, total ops	0.00	0.48	(0.02)	0.02	0.07	0.05	0.04	0.01
EPS – Diluted, total ops	0.00	0.47	(0.02)	0.02	0.07	0.05	0.04	0.01
Adjusted EBITDA[(1)]	905	1,187	1,127	3,089	1,870	2,166	1,668	1,316

[(1)] *EBITDA and Adjusted EBTIDA are non-IFRS measures see section 4 for discussion.*

Our quarterly revenues fluctuate within our business segments primarily due to product mix and the nature of our sales within our market segments. A large portion of our revenues are derived from infrastructure projects that often have long tender processes and fluctuating timelines. This is most pronounced within our Airfield Lighting, Offshore Wind, and Illumination businesses and to a lesser extent within our Marine and Traffic verticals. Following are comments on quarter to quarter changes:

- Q4 2014 to Q1 2015 – The $2.5 million decrease in revenue was primarily due to lower Illumination sales which (a) came off a record Q4, and (b) had a dip in sales due to a reduction in product offering associated with the Sol integration.
- Q1 2015 to Q2 2015 – The significant spike in net income was largely attributable to the recognition of various tax assets.
- Q2 2015 to Q3 2015 – The $4.5 million increase in revenue over Q2 2015 was largely due to the inclusion of Sabik, which resulted in a $6.0 million increase in Signals sales. This was partially offset by a soft quarter in our Illumination segment, which suffered from a lack of large projects being delivered in the quarter. The $0.7 million net loss was largely attributable to the purchase price allocation of the Sabik acquisition, and more specifically the amortization associated with the significant order backlog which we initially estimated at $1.3 million, although that value was later reduced to $0.9 million.

- Q3 2015 to Q4 2015 – The $3.4 million increase in revenue over Q3 was largely attributable to a spike in sales in our Illumination Segment which rebounded from a soft third quarter. Net income rebounded due to a combination of higher overall sales and lower operating costs.
- Q4 2015 to Q1 2016 – The decrease in revenue was attributable to lower Signals and Illumination sales, both of which were primarily due to large project shipments in the quarter.
- Q1 2016 to Q2 2016 – Although overall revenue was up from Q1 to Q2 2016, we saw a substantial increase in our Illumination segment which rebounded from a soft first quarter.
- Q2 2016 to Q3 2016 – The decrease in revenue of $2.6 million was primarily due to the project nature of the Illumination segment. Although revenue was down, our net income increased by $0.2 million primarily relating to the recovery of legal expenses as described in note 7.5.
- Q3 2016 to Q4 2016 – The decrease in revenue of $0.6 million was primarily due to lower comparative Signals business revenues. There was no change in market or competitive activity in this period. Rather, we regard this change as a normal fluctuation due to the project nature of these businesses. The reduction in net income resulted from lower sales and gross margins.

6.3 SELECT ANNUAL INFORMATION

US$ thousands (unless noted)	**2016**	**2015**	**2014**
Revenue	47,742	43,090	27,287
Gross Margin	20,541	17,759	10,578
Net Income/(Loss) from continuing operations	2,917	9,694	124
Net Income/(Loss) per share (Basic / continuing operations)	0.12	0.44	0.01
Net Income/(Loss) per share (Diluted / continuing operations)	0.12	0.43	0.01
Net Income/(Loss)	4,228	10,433	994
Net Income/(Loss) per share (Basic)	0.17	0.48	0.07
Net Income/(Loss) per share (Diluted)	0.17	0.46	0.07
Total assets	86,907	89,976	33,367
Total long-term financial liabilities	-	-	-
Cash dividend	-	-	-
Adjusted EBITDA*	7,020	6,308	3,263

The revenue growth between 2014 and 2015 was due to a combination of acquired businesses (non-organic) and organic growth. The non-organic growth was associated with the acquisition of the Sabik Group of Companies, which was acquired on July 2, 2015. The organic growth was spread amongst various verticals within our Signals segment. The exact breakdown between these two is not readily determinable given the mixing of the businesses. This growth was offset by a decline in our Illumination segment of about $1.6 million. The revenue growth between 2015 and 2016 was primarily due to the inclusion of a full year of Sabik results in 2016, compared to one half of a year in 2015.

The increase in net income between 2014 and 2015 is largely attributable to the recognition of various tax assets which were previously unrecognized. There were no similar amounts in 2016 which resulted in lower earnings.

7. Liquidity, Capital Resources and Other Disclosures

7.1. SUMMARY OF CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,		
US$ thousands	**2016**	**2015**	**CHANGE**
Net cash provided/(used) in operating activities	6,445	(4,198)	NA
Net cash used in investing activities	(815)	(17,407)	(95.3%)
Net cash (used)/provided from financing activities	(2,610)	33,566	NA
Net effect of exchange rate changes on cash	(18)	(121)	(85.1%)
Total increase in cash from continuing operations	3,002	11,840	(74.6%)

CASH USED IN OPERATING ACTIVITIES

During the year ended December 31, 2016, cash provided by our operating activities, excluding changes in non-cash working capital, was $6.0 million, up from $1.5 million in the same period in 2015. This is largely due to stronger earnings before taxes and investment tax credit in 2016 compared to 2015. We actively manage our working capital by monitoring inventory turnover data, collection of accounts receivable, and taking advantage of trade discounts and/or extended payment terms granted by suppliers.

CASH USED BY INVESTING ACTIVITIES

During the year ended December 31, 2016, cash used for investing activities was $0.8 million, down from $17.4 million in the same period in 2015. The 2016 amounts primarily relate to investments in ERP, CRM and other supporting systems, as well as production assets. The 2015 amount also included the acquisition of The Sabik Group of Companies using $16.7 million in the third quarter of 2015.

CASH PROVIDED FROM FINANCING ACTIVITIES

During the year ended December 31, 2016, cash used in financing activities was $2.6 million, compared to cash generated of $33.6 million in the same period of 2015. The 2016 amounts relate to (1) proceeds from the exercise of broker warrants and employee stock options, which amounted to $1.1 million, (2) draws on an operating line of $0.4 million, (3) debt repayments of $3.1 million, and (4) share repurchases of $1.0 million related to the Normal Course Issuer Bid described in section 5. The 2015 amount is comprised of $24.7 million in proceeds on a share issuance completed in May of 2015 and $10.0 million drawn on a term acquisition loan. A significant portion of the 2015 funds raised were used to acquire The Sabik Group of Companies at the start of the third quarter of 2015.

7.2 LIQUIDITY AND CAPITAL RESOURCE MEASURES

On December 31, 2016, our overall working capital was $21.6 million, down from $28.3 million at December 31, 2015. A significant portion of this drop is due to the reclassification of the net assets (including working capital) associated with the Power segment to assets and liabilities held for sale.

At present, a large portion of our working capital is made up of cash, which stood at $21.9 million at December 31, 2016, up from $14.9 million at December 31, 2015. The increase is largely due to better management of non-cash working capital, especially within our Power segments which we intend to divest. If we are successful with the divestitures, our cash balance is expected to increase further. We hope to utilize this cash to make further strategic investments and acquisitions in the near to medium term.

In the past, our primary source of liquidity has been from equity issuances and, to a lesser extent, our credit facility, which is discussed in the section below. We believe we have ample capital resources and liquidity for our current business for the foreseeable future. However, depending on the size of future acquisitions and investments we may be required to raise additional equity or debt.

7.3 CREDIT FACILITIES

In early 2015, we signed a new credit facility (the "Facility") with Canadian Imperial Bank of Commerce ("CIBC"). The multifaceted Facility provides credit up to $25.75 million through (1) a $10 million 364-Day Revolving Credit, (2) a $10 million Term Acquisition Credit Facility, (3) $3.75 million for Letters of Credit, and (4) $2.0 million for trading room and other liabilities. Our ability to draw on the 364-Day revolver, 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 requires CIBC's review and approval of the specific acquisition transaction.

On June 25, 2015, we obtained approval from CIBC to draw on the term acquisition credit facility for the acquisition of The Sabik Group of Companies as outlined in Section 3. On June 30, 2015, a total of $10 million was drawn on the facility in anticipation of closing the acquisition. The associated debt is repayable monthly over a five-year term and is broken into two $5 million tranches, both of which are repayable on demand. The first tranche was supported by a 100% guarantee from Canada's Export Development Corporation ("EDC") and carried an interest rate of US LIBOR plus 1.5%. The EDC fees associated with their guarantee was approximately 4.5% per annum on the outstanding balance. The second tranche carried an interest rate of US LIBOR plus 3.5%. On June 16, 2016, we signed an updated credit facility agreement with CIBC which improved the terms of the Facility by eliminating the need for the first tranche to be supported by EDC, and setting the interest rate on both tranches to US LIBOR plus 3.0%.

The Facility is secured by a General Security Agreement and share pledges of the Company's subsidiaries. The Company is also subject to financial covenants and reporting requirements typical of a facility of this nature.

At December 31, 2016, the principal amount outstanding on the $10.0 million term acquisition loan was $7.0 million.

The Sabik Group of Companies has access to an operating line and loan with Nordea Bank Finland, a Finnish financial institution. This debt is secured by us through a letter of credit drawn from the CIBC credit facility noted above. In March 2016, our German subsidiary, Sabik Offshore GmbH, secured a new credit facility with the Deutsche Bank (the "Deutsche Facility"). The Deutsche Facility provides credit up to €3.0 million through €2.0 million of revolving credit and €1.0 million for guarantees and was secured to support ongoing working capital needs. Interest on the revolving credit facility is variable and is based on EURIBOR plus 1.5%. The Deutsche Facility has been guaranteed through a €2.0 million Letter of Credit issued on the CIBC Facility and a security over inventory within Sabik Offshore GmbH. At December 31, 2016, no amounts were drawn on the revolving credit facility, but €0.4 million was drawn on the Nordea operating line.

7.4 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We utilize several contract manufacturers who build and supply our manufactured products. Our agreements with these contract manufacturers generally require us to be liable for inventory and outstanding committed purchase orders required to support our business. If one of these agreements is terminated, we would be required to purchase the associated underlying inventory or arrange for a new contract manufacturer to acquire and hold it in a similar capacity. At present, we have relationships with two significant contract manufacturers. Under the terms of the contract manufacturing agreements, we are required to purchase excess raw inventory in situations where our demand forecasts for individual products is less than actual purchases. At December 31, 2016, our contract manufacturers held approximately $2.4 million (December 31, 2015 - $1.5 million) in inventory and $0.7 million (December 31, 2015 - $0.7 million) in outstanding committed purchase orders.

We have several 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 as at December 31, 2016:

US$ thousands	Facility leases	Equipment leases	Vehicle leases	IT and other contracts	Total
Not later than 1 year	591	102	46	43	782
2 year to 3 years	962	173	34	15	1,184
Greater than 3 years	346	24	-	13	383
Total	1,899	299	80	71	2,349

7.5 CLAIMS AND LAWSUITS

On July 18, 2013, we were named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used in our solar powered flashing beacons for the traffic safety market and other claims relating to advertising and business practices. Various actions were taken in regards to this matter, including a successful application to have the underlying patents reexamined by the U.S patent office which resulted in many aspects of the patents being rejected. The Plaintiff has appealed this judgment. Pending that action, the original court proceedings have been stayed.

In early March 2015, we filed a civil lawsuit in the Supreme Court of British Columbia against Royal & Sun Alliance Insurance Company of Canada ("RSA") and Integro (Canada) Ltd. ("Integro") operating as Integro Insurance Brokers. The lawsuit has been filed against RSA to obtain coverage of the claims brought in the US and indemnity of defence costs incurred in the US litigation. The lawsuit against Integro alleges negligence for failing to notify RSA of the above-noted US claims in a timely manner. The lawsuit seeks a declaration of coverage and to recover legal defence costs with respect to the US litigation. In late April 2016, we reached a settlement with the defendants during mediation as described in section 3. Under the settlement, we received CAD $0.5 million for past defense costs and damages. These funds were received in late July 2016. Within the settlement agreement, RSA has agreed to cover 70% of future defense costs incurred on a go forward basis. However, if the underlying action proceeds to trial and a verdict is rendered, a reallocation of the go forward defense costs may occur.

In June 2016, we were named in another lawsuit filed in a United States District Court filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. alleging additional patent infringement of a patent which was granted in September 2015. The outcome of this and the previous case are not certain and we intend to continue to defend ourselves and file additional responses to the Court as required. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. At December 31, 2016, no provision has been made as we believe this latest lawsuit to be without merit.

7.6 CONTINGENT LIABILITY

We have entered into agreements with third parties that include indemnification provisions that are customary in the industry. These indemnification provisions generally require us to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. The maximum amount of potential future indemnification is unlimited; however, we currently hold commercial and product liability insurance. This insurance limits our exposure and may enable us to recover a portion of any future amounts paid. Historically, we have not made any indemnification payments under such agreements and we believe that the fair value of these indemnification obligations is minimal. Accordingly, we have not recognized any liabilities relating to these obligations for any period presented.

7.7 OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any off balance sheet arrangements other than standard office/facility lease agreements and vendor managed inventory as noted under section 7.4, Contractual obligations and commitments.

7.8 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The fair value of our accounts receivable, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

We are exposed to foreign exchange risks as we transact business and have working capital denominated in multiple currencies. We attempt to minimize our exposure through managing our working capital and entering foreign exchange products or contracts when are where appropriate.

7.9 RELATED PARTY TRANSACTIONS

None other than noted below.

We purchase components from a vendor of which our Chairman of the Board has significant ownership interest. The relationship with the vendor existed prior to the Chairman's appointment and there are no special terms because of this relationship. In total, we purchased approximately $0.9 million from this vendor during the year ended December 31, 2016 ($1.0 million in 2015).

7.10 PROPOSED TRANSACTION

None.

7.11 SUBSEQUENT EVENTS

As outlined and discussed in section 5, on January 1, 2017 we completed the acquisition of the ETKA assets.

OUTSTANDING SHARE DATA

Our common shares trade on the Toronto Stock Exchange ("TSX") (TSX: CMH), and as at December 31, 2016 we had 24,602,504 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options and other outstanding stock units stated in CAD.

	MARCH 20, 2017	DECEMBER 31, 2016	SEPTEMBER 30, 2016	JUNE 30, 2016	MARCH 31, 2016
Share price – closing (CAD$)	4.06	3.92	4.55	3.99	5.42
Market capitalization (CAD$ in thousands)	99,886	96,442	113,132	99,305	134,865
Outstanding					
Shares	24,602,504	24,602,504	24,864,070	24,888,543	24,882,904
Options	1,928,710	1,942,985	1,991,141	1,863,781	1,999,868
Warrants	-	-	-	-	79,860

8. Critical Accounting Estimates and Accounting Policy Developments

8.1 CRITICAL ACCOUNTING ESTIMATES

Our financial statements are prepared in accordance with IFRS. The application of IFRS requires that we make estimates that affect our reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates. Unless otherwise noted the estimates are inclusive of all our reportable market segments described in section 2.

The significant accounting policies and estimates are discussed below:

ACCOUNTING POLICY	ESTIMATES
Forfeiture rates associated with share-based payments	In determining share-based payments expense, we make 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 income (loss) and total comprehensive income (loss) in the year that they occur. Current forfeiture rates applied to grants range from 14% to 26% and vary depending upon the employee make-up of the associated grants.

ACCOUNTING POLICY	ESTIMATES
Impairment of assets	Each year we make significant judgments in assessing if goodwill, tangible or intangible assets have suffered an impairment loss. Our 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. There were no impairment losses recognized in either 2016 or 2015. Our impairment analysis at December 31, 2016 involved the use of 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 2017 through 2021. For the assessment of the Goodwill and intangibles acquired in the Sabik acquisition, key drivers included anticipated sales growth, estimated at 17% in 2017 and between 2-4% a year thereafter, a terminal growth rate of 2% and a weighted average cost of capital of 14.5%. The results of the analysis indicated an excess over carrying value of $19.2 million. For the assessment of the Goodwill and intangibles acquired in the Sol acquisition, key drivers included anticipated sales growth, estimated at 28% in 2017 and 12.5% a year thereafter, a terminal growth rate of 2% and a weighted average cost of capital of 15.5%. The results of the analysis indicated an excess over carrying value of $3.4 million.

8.2 FUTURE CHANGES IN ACCOUNTING POLICIES

Certain pronouncements have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that will become effective in future accounting periods. The following is a summary of significant standards that may have an impact on our future financial statements.

- IFRS 9, Financial Instruments ("IFRS 9") – replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. It is anticipated that these changes would be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. It is anticipated this changes will be effective for annual periods beginning on or after January 1, 2017, although this was tentatively pushed back to January 1, 2018 at the IASB's meeting on April 28, 2015.
- IFRS 16, Leases ("IFRS 16"). IFRS 16 replaces IAS 17. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the Statement of Financial Position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15.

We are assessing the impact that these standards will have on our consolidated financial statements**.**

8.3 DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Internal control over financial reporting ("ICFR") have been designed to provide reasonable assurance regarding the reliability of financial reporting. Pursuant to Multilateral Instrument 52-109, the Chief Executive Officer and Chief Financial Officer, collectively referred to as Officers, are responsible for over- seeing the establishment and maintenance of disclosure controls and procedures as well as internal controls over financial reporting.

DISCLOSURE CONTROLS

Our officers and management have evaluated the effectiveness of our DC&P as at December 31, 2016 as required by Canadian securities laws. The evaluation approach involved looking at the size, nature and state of development of the business and thus used a top down risk-based approach to focus evaluation on areas that were deemed to provide the greatest risk to a material misstatement. Our evaluation also considered our corporate disclosure procedures and the functioning of our Officers, other executive officers, management, Board of Directors, and Audit Committee. Based on this evaluation, our Officers concluded that the Company's DC&P were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the MD&A and the Consolidated financial statements contained in this report were being prepared.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate ICFR. ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Due to its inherent limitations, ICFR may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's ICFR using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that the Company's ICFR was effective as of December 31, 2016.

LIMITATION ON SCOPE OF DESIGN

Prior to the third quarter of 2016, the scope of DC&P and ICFR was limited to exclude controls, policies and procedures associated with the acquisition of Sabik which we completed on July 2, 2015. During the second quarter of 2016 we completed our initial assessment of Sabik's processes, procedures and associated controls and as a result this scope limitation has been removed.

9. Risks and Risk Management

In the course of our operations, we are exposed to various business risks and uncertainties that can affect our financial condition. While some financial exposures are reduced through insurance, hedging and other risk management measures we have in place, there are certain cases where the market and operating risks are driven by external factors beyond our influence and control. A discussion of certain risks that may affect us is included in our MD&A and annual information form for the year ended December 31, 2015 filed on SEDAR at www.sedar.com.

Area of Risk	Description
Competitive Environment	The competitive environment varies between our different business segments and thus includes companies who (1) manufacture, sell and install off-grid lighting devices and signals, (2) engineer, procure and install roof top grid connected solar systems, and (3) provide off-grid power solutions. We compete based on product performance, product features, price, quality and post-installation product support. Our ability to compete successfully depends on factors within and beyond our control, including successful and timely development of new products, product performance and quality, product availability, intellectual property protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends. We anticipate that certain competitors may transition to solar lighting in the future. If and/or when this transition occurs, the greater name recognition and financial resources of these competitors may make it difficult for us to compete. To be successful, we will need to keep pace with rapid changes in lighting technology, changing customer requirements, new product introductions by competitors and evolving industry standards, any of which could render our existing products obsolete if we fail to respond in a timely manner. Development of new products incorporating advanced technology is a complex process subject to numerous uncertainties. We have in the past experienced, and could in the future experience, delays in introduction of new products. If others develop superior innovative proprietary lighting technology our competitive position may be harmed and it may not achieve sufficient growth in revenue to attain, or sustain, profitability.
Competition with Other Energy Sources	Off-grid LED lighting products compete with products powered by conventional energy and other sources of renewable energy. There is a risk that similar products with alternative power sources will enjoy greater policy support or provide a more cost-effective alternative to conventional lighting than our products.

Technological Changes	Our products rely on us keeping pace with technological changes. Failure to keep pace with state-of-the-art technologies and methodologies may have a materially adverse effect on our results. Evolving industry standards and/or customer needs may influence demand for our products. Our products may be rendered obsolete or less marketable due to technological advances made by competitors. To maintain our current market share, we may have to make substantial investments in product innovation and development.
Anticipated Adoption Rates for Solar LED Lighting	While we have invested heavily in the development of solar LED lighting products, this technology is still in its early stages. If the rate of solar LED lighting adoption is slower than the anticipated commercial trends and we are unable to meet the forecasted sales volumes, we may not generate sufficient revenues to sustain profitability. In addition, demand for solar LED lighting products in our targeted markets may not develop or may develop to a lesser extent than anticipated.
Ability to Manage Expansion Effectively	We expect to expand our business in the future to meet the anticipated growth in demand for solar LED lighting products. If we are unable to manage growth effectively, we may not be able to take advantage of market opportunities, execute our business strategy or respond to competitive pressures. To manage the potential growth of our operations, we may be required to improve operational systems and procedures and expand our relationships with suppliers, manufacturers, distributors and customers. There can be no assurance that the current and planned operations, personnel, systems and internal procedures will be adequate to support future growth.
Foreign Exchange	We have exposures to foreign currency fluctuations, most significantly between the US and Canadian dollar and the US dollar and the Euro. At present our functional and reporting currency is the US dollar, as a significant portion of our sales and cost of sales is denominated in US dollars. However, a significant portion of our operating costs are denominated in Canadian dollars and we generally finance in Canadian dollars as well. As a result, we are exposed to US/Canadian dollar fluctuations which may negatively impact our results. At present a lower Canadian dollar positively impacts our results. We are also exposed to fluctuations in the Euro relative to the US dollar as a large portion of our wholly owned subsidiaries business is transacted in Euro. In the past we have entered foreign exchange contracts to manage exchange rate risks, none of which occurred in the past two years. On a regular basis, we evaluate our foreign exchange exposures and determine if any action is required. We have not, and do not intend to use foreign exchange contracts, or any other financial instruments, for speculative purposes.
Reliance on Third Party Manufacturers	We rely upon third party manufacturers and suppliers to provide certain underlying components and finished goods. While we try to maintain good relationships with suppliers and contractors, economic, political or other outside factors or changes in our demand may lead to an inability for the providers to fulfill our needs. This may include products not meeting specifications, a failure to meet demand could harm our operations and profitability. Should a manufacturer or supplier suffer financial difficulties or any other disruption in manufacturing capacity, we may not be able to secure adequate substitute manufacturing sources for our products in a timely manner. While we believe we have sufficient access to manufacturing capacity to meet current and expected future requirements, it is possible that future capacity needs will not be available. Additionally, as we rely on third party manufacturers, we are subject to risks associated with limited control over delivery schedules, reductions in capacity, the possibility of defects, the possibility of increased products costs and variable product quality. Additional risks in this area also occur when we transition between manufacturers or when we close any manufacturing facility we may acquire through an acquisition.

Reliance on Outside Agents and Distributors	Market penetration of our products heavily depends on the success levels of our distributors and sales agents. There can be no assurances that we will successfully develop and maintain such alliances or that the sales efforts of our distributors and sales agents will be successful. To increase sales and margins, we are in the process of developing additional and more direct routes to market. These plans may result in channel conflict which could negatively impact our sales.
Reliance on Key Employees	Our success depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. To a significant extent, our success will depend on our senior management team. Competition for these individuals is intense and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. We may encounter difficulties in recruiting and retaining enough qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers and affect our future growth and profitability.
Intellectual Property Risks	Many our products employ new and innovative technologies. Although we are careful to ensure we have the right to the technology utilized in our products we face the risk of infringing on the patents of others. We pursue a strategy of protecting the technology we develop through a combination of patent, copyright, trademark and trade secret laws, employee and third party nondisclosure agreements and similar means. Despite our efforts, other parties may attempt to disclose, obtain or use our technologies. Competitors may also be able to independently develop products that are substantially equivalent or superior to our products or design around our patents. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of Canada. As a result, we may not be able to protect our proprietary rights adequately in Canada or abroad. Because our patent position involves complex legal, scientific, and factual questions, the issuance, scope, validity and enforceability of our patents cannot be predicted with certainty. Our issued patents may be invalidated or their enforceability challenged, they may be designed around, and they may not provide us with competitive advantages against others with similar products and technology. Furthermore, others may independently develop similar products or technology or duplicate or design around any technologies that we have developed. We may receive notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs and could materially harm our business. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. An adverse outcome in litigation or any similar proceedings could subject us to significant liabilities to third parties, require us to license disputed rights from others or require us to cease marketing or using certain products or technologies. We may not be able to obtain any licenses on acceptable terms, if at all. We also may have to indemnify certain customers if it is determined that we have infringed upon or misappropriated another party's intellectual property. Any of these results could adversely affect our business, financial condition and results of operations.
Environmental and Regulatory Compliance	We are subject to a variety of environmental laws, rules and regulations in each of the jurisdictions in which we conduct our business, with which we believe we comply. In certain cases, the cost of compliance with regulations can be substantial. Failure to comply with present or future regulations could result in legal claims, fines, operation suspensions or cessation of operations. Compliance often requires incurring costs and capital expenditures. We face few, if any, of these issues directly as we rely on third party manufacturers.

Government Contracts and Subsidies	A significant portion of our revenues are derived from government and military agencies. Consequently, any disruption in government funding or in the relationship with those agencies could adversely affect our business. Additionally, there are many government subsidies and economic incentives for solar energy related businesses, including the FIT Program established by the Government of Ontario. There is no guarantee that these incentives and subsidies will remain in place or that other countries, states, provinces or municipalities will adopt similar programs. The elimination of such subsidies and incentives, or the failure of additional countries, states, provinces or municipalities to adopt similar programs, may have an adverse impact on the solar market, and may result in rapid changes in demand and pricing. Such changes may have an adverse impact on our business and financial condition.
Product Quality and Reliability and Warranty Liability Risk	Problems with product quality and/or performance, including defects in products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share. We cannot test for all defects, and occasionally defects may be detected after products have been shipped or installed. These defects could cause us to incur significant costs, including product replacement, and may adversely affect our customer relations and business reputation. Additionally, because we source many of our components from third party manufacturers, our ability to control product quality is limited. We operate in a market where product reliability is essential as our products are often used as safety devices. A significant product failure could expose us to liability claims. While we maintain insurance to cover these risks, the adequacy of this coverage may be insufficient and litigation may extend beyond coverage held by the Company. Our grid-tie business strategy is to focus on securing EPC contracts. By their nature, these contracts include construction industry agreement terms including, amongst others, liquidated damages and indemnification obligations. We try to use our commercial best efforts to minimize our liability on such exposure. If negative factors occur that are beyond our control or if disputes arise and are not settled favorably, they may have an adverse impact on our business, financial condition and results of operations.
Downturn in Economic and Market Conditions	The lighting industry is susceptible to downturns related to declines in general economic conditions. Demand for solar lighting products and components are adversely impacted by the global financial crisis and corresponding decreases in or postponement of infrastructure spending budgets. We may be adversely impacted by downturns in general economic and market conditions, both nationally and internationally. Economic downturns generally, or in our markets specifically, could have a material adverse effect on our, cash flows, financial condition and results of operations. Our future results of operations may experience substantial fluctuations from period to period because of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders. As we sell to governments who continue to suffer from deficit spending and may need to cut spending further, we may experience a softening demand for our products. Economic adversity coupled with a decline in our revenue could adversely affect our ability to meet capital requirements, support working capital requirements and growth objectives, or otherwise adversely affect our business, financial condition and results of operations.
Liquidity and Capital Requirements	Although we have had some recent success in growing our sales in a profitable manner, we face a variety of challenges to maintain this in the coming periods. To do so, we must be prudent in adding operating costs and ensure we have sufficient liquidity as our working capital needs grow. There can be no assurance that we will be able to maintain adequate liquidity without additional capital.

Our future growth may also come from mergers and acquisitions, which may require us to raise additional capital. There is no guarantee we will be able to raise the necessary capital, and we may be forced to do so on terms that significantly dilute existing holders of our common shares.

Litigation Risk

We may in the future become involved in disputes, litigation or arbitration proceedings. The results of these proceedings cannot be predicted with certainty. If we are unable to resolve these disputes favorably, it may have an adverse impact on our business, financial condition and results of operations.

Acquisitions or other Business Transactions

We may, when and if the opportunity arises, acquire other products, technologies or businesses with activities or product lines that are complementary to our business. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies and products of the acquired companies the diversion of management's attention from other business concerns, risks associated with entering new markets or conducting operations in industry segments in which we have no or limited experience and the potential loss of key employees of the acquired company. There can be no assurances that any anticipated benefits of an acquisition will be realized. Future acquisitions could result in potentially dilutive issuances of equity securities, the use of cash, the incurrence of debt and contingent liabilities, and write-off of acquired R&D costs, all of which could materially adversely affect our financial condition, results of operations and cash flows.

Potential Reorganization of Operations or Product Offerings

We routinely review our operations for additional efficiency opportunities or to reduce costs. That analysis may lead to the determination to close, eliminate, rationalize or reduce operations and divisions and/or alter the sales, manufacturing or distribution structure. Should we decide to pursue any such changes it may incur additional charges and losses which may be material. In addition, we could experience difficulties, disruptions or delays in the implementation of any such changes and there can be no assurance that we will be able to implement these programs successfully or on a timely basis.

Geopolitical and other Global or Local Events

Geopolitical and other global or local events may have a significant effect on our operations as we operate in numerous foreign countries. Various events, including natural disasters, extreme weather conditions, labour disputes, civil unrest, war, political instability, terrorism, and contagious illness outbreaks, or the perceived threat of these events, may cause a disruption of our normal operations and may disrupt the domestic and international travel of our distributors and sales agents.

The new U.S. administration has called for changes to domestic and foreign policy. We cannot predict the impact, if any, of the policies adopted by the new administration will have on our business. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.