CARMANAH TECHNOLOGIES CORPORATION

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Amounts in thousands of U.S. dollars unless otherwise stated)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Carmanah Technologies Corporation

We have audited the accompanying consolidated financial statements of Carmanah Technologies Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of income and total comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Carmanah Technologies Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

March 23, 2018
Vancouver, Canada

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents	5.1	11,823	21,921
Trade and other receivables	5.2	9,458	6,560
Inventories	6	8,504	6,215
Prepaid and other current assets		1,576	405
Income taxes receivable		416	148
Non-trade receivables	14.3, 21	5,410	-
Total current assets		37,187	35,249
Property and equipment	7	3,640	1,218
Intangible assets	8	10,070	7,531
Goodwill	9	18,654	16,838
Deferred income tax asset	19	6,661	7,165
Investment tax credits	19	945	2,512
Assets held for sale	21	-	16,394
Total assets		**77,157**	**86,907**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		6,265	4,612
Bank debt	11	7,383	7,414
Provisions	10	1,125	780
Income taxes payable		230	95
Deferred revenue		741	719
Non-trade payables	21	277	-
Total current liabilities		16,021	13,620
Deferred income tax liability	19	966	1,714
Liabilities held for sale	21	-	2,782
Total liabilities		**16,987**	**18,116**
Equity			
Share capital	12	66,242	86,376
Equity reserve	13	2,326	5,065
Accumulated other comprehensive gain/(loss)		1,181	(1,720)
Deficit		(9,579)	(20,930)
Total equity		**60,170**	**68,791**
Total liabilities and equity		**77,157**	**86,907**

Commitments and contingencies – note 14
Subsequent events – note 23

Approved and authorized for issue by the Board of Directors on March 23, 2018

"John Simmons"

John Simmons, Chief Executive Officer

"James Meekison"

James Meekison, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Years ended December 31, 2017	2016
Revenues		51,939	47,742
Cost of sales		30,342	27,201
Gross profit	17	**21,597**	**20,541**
Operating expenditures			
Sales and marketing		4,872	4,658
Research and development		3,125	2,388
General and administrative		10,646	9,485
Restructuring expenses		530	-
Total operating expenditures	16	19,173	16,531
Operating Income		**2,424**	**4,010**
Other expenses/(income)			
Loss on disposal of assets		20	17
Other expense	20	744	85
Foreign exchange gain		(90)	(46)
Total other expenditures		674	56
Income before taxes		**1,750**	**3,954**
Income tax expense	18	358	1,037
Net income from continuing operations		**1,392**	**2,917**
Net income from discontinued operations, net of tax	21	9,959	1,311
Net Income attributable to shareholders		**11,351**	**4,228**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		3,036	(949)
Foreign currency translation adjustments – discontinued operations		(135)	43
Total comprehensive income		**14,252**	**3,322**
Net income per share			
Basic - Continuing operations		*0.06*	*0.12*
Basic - Discontinued operations		*0.42*	*0.05*
Total		**0.48**	**0.17**
Diluted - Continuing operations		*0.06*	*0.12*
Diluted - Discontinued operations		*0.41*	*0.05*
Total		**0.47**	**0.17**
Weighted average number of shares outstanding (note12.2)			
Basic		23,823,787	24,756,558
Diluted		24,244,371	25,259,610

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Share capital		Equity reserve	Accumulated other comprehensive loss	Deficit	Total equity
		# of shares	Amount				
		('000)					
Balance, January 1, 2016		***24,616***	**86,118**	**4,487**	**(814)**	**(25,158)**	**64,633**
Net income		-	-	-	-	4,228	4,228
Share-based payments	13	-	-	767	-	-	767
Shares issued on stock option exercise	13	*76*	218	(70)	-	-	148
Shares issued from warrant exercise	12	*240*	1,186	(262)	-	-	924
Shares acquired and cancelled		*(330)*	(1,146)	143	-	-	(1,003)
Foreign currency translation adjustments		-	-	-	(906)	-	(906)
Balance, December 31, 2016		***24,602***	**86,376**	**5,065**	**(1,720)**	**(20,930)**	**68,791**
Net income		-	-	-	-	11,351	11,351
Share-based payments	13	-	-	589	-	-	589
Shares issued on stock option exercise	13	*320*	870	(293)	-	-	577
Shares acquired and cancelled	12.1	*(6,000)*	(21,004)	(3,035)	-	-	(24,039)
Foreign currency translation adjustments			-	-	2,901	-	2,901
Balance, December 31, 2017		***18,922***	**66,242**	**2,326**	**1,181**	**(9,579)**	**60,170**

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Years ended December 31, 2017	2016
OPERATING ACTIVITIES			
Net income		1,392	2,917
Add back (deduct) items not involving cash:			
Amortization		2,044	1,623
Loss on disposal of assets		20	17
Share-based payments	13	609	700
Unrealized foreign exchange loss/(gain)		278	(278)
Recognition of investment tax credits	19	1,567	1,036
Deferred income tax recovery	18	(244)	26
Changes in working capital and other items:			
Trade and other receivables		(576)	3,353
Inventories		21	327
Prepaids and other current assets		(1,014)	38
Income tax receivable		(268)	(148)
Trade and other payables		1,030	(2,828)
Provisions		345	(246)
Deferred revenue		(262)	180
Income tax payable		135	(272)
Net cash provided by operating activities from continuing operations		**5,077**	**6,445**
INVESTING ACTIVITIES			
Proceeds from sale of On-Grid	21	2,003	-
Initial proceeds from sale of Off-Grid	21	17,693	-
Purchase of property and equipment	7	(271)	(547)
Purchase of intangible assets	8	(187)	(268)
Acquisition of Vega, net of cash	22	(8,672)	-
Acquisition of EKTA	22	(1,412)	-
Net cash provided/(used) in investing activities from continuing operations		**9,154**	**(815)**
FINANCING ACTIVITIES			
Proceeds from exercised warrants		-	924
Proceeds from exercised stock options	13	577	148
Proceeds from credit facility draw	11	-	420
Debt Financing		7,000	-
Debt repayments		(7,031)	(3,099)
Share repurchase	12.1	(24,039)	(1,003)
Net cash used in financing activities from continuing operations		**(23,493)**	**(2,610)**
Foreign exchange effect on cash		519	(18)
(Decrease)/increase in cash from continuing operations		**(8,743)**	**3,002**
Cash (used in)/provided by discontinued operations	21	(1,355)	4,039
Cash at beginning of year		21,921	14,880
Cash at end of year		**11,823**	**21,921**

1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION

1.1 General Business Description

Carmanah Technologies Corporation (the “Company” or “Carmanah”) was incorporated under the provisions of the Business Corporations Act (Alberta) on March 26, 1996 and was continued under the provisions of the Business Corporations Act (British Columbia) on August 24, 2009. The Company is in the business of designing, developing and distributing a portfolio of products focused on energy optimized LED solutions for infrastructure.

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

1.2 Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Consolidation

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

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

These consolidated financial statements include the following subsidiaries:

Name	Current principal activity	Place of incorporation and operation	Ownership/voting interest held by the Company at December 31, 2017
Carmanah Technologies (US) Corporation	Employed sales representatives whom were based in the United States	United States - Nevada	100%
Sol, Inc	Holds a portion of the Company's Illumination segment	United States - Florida	100%
Sabik Oy	Holds a portion of the Company's Signals segment	Finland	100%
Sabik Ou	Holds a portion of the Company's Signals segment	Estonia	100%
Sabik Offshore GmbH *(Formally Sabik GmbH)*	Holds a portion of the Company's Signals segment	Germany	100%
Sabik PTE Ltd	Holds a portion of the Company's Signals segment	Singapore	100%
Sabik Ltd	Holds a portion of the Company's Signals segment	United Kingdom	100%
Sabik Offshore Ltd	Holds a portion of the Company's Signals segment	United Kingdom	100%
Vega Industries Limited	Holds a portion of the Company's Signals business	New Zealand	100%
Vega Navigations Americas Inc	Employed sales representatives whom were based in the United States	United States - Texas	100%

2.2 Business Combinations and Goodwill

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are

recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

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

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

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

2.3 Foreign Currencies

The presentation currency for the consolidated financial statements is the U.S. dollar. The functional currency of Carmanah Technologies Corporation, Sol Inc, Carmanah Technologies (US) Corporation and Sabik PTE Ltd. is the U.S. dollar. The functional currency of Carmanah Solar Power Corporation is the Canadian dollar. The functional currency of Sabik Oy, Sabik Offshore GmbH and Sabik Ou is the Euro. The functional currency of Sabik Ltd. and Sabik Offshore Ltd. is the British Pound. The functional currency of Vega Industries Limited is the New Zealand dollar. The functional currency of Vega Navigations Americas is the U.S. dollar. The assets and liabilities of subsidiary entities that have a different functional currency from that of the Company are translated at the exchange rate prevailing at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognized directly in accumulated other comprehensive income (loss).

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

2.4 Discontinued operation

A discontinued operation is a component of the Company’s business, the operations and cashflows of which can be clearly distinguished from the rest of the Company and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with the view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When the operations is classified as a discontinued operation, the Consolidated Statements of Income and Total Comprehensive Income is re-presented as if the operation has been discontinued from the start of the comparative year.

2.5 Financial Instruments

Recognition and initial measurement

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

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

Financial assets at FVTPL are measured at fair value with any changes recognised in profit or loss. Held-to-maturity financial assets and loans and receivables are measured at amortised cost using the effective interest method. Available-for-sale assets are measured at fair value with any changes recognised in other comprehensive income or loss.

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial assets

Cash and cash equivalents

Cash comprises of cash on hand and on demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value.

For the purposes of the Consolidated Statements of Cash Flows, total cash include cash at banks and on hand.

Trade and other receivables

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

Impairment of financial assets (including receivables)

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Trade and other payables

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

Debt

Debt is initially measured at fair value and subsequently measured at amortized cost using the effective interest method

Derecognition of financial assets and financial liabilities

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

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

Offsetting financial assets and liabilities

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

2.6 Inventories

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

2.7 Property and Equipment

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

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

Asset	Years
Computer hardware	3-5
Leasehold improvements	lesser of useful life or initial term of lease
Building	50
Building improvements	10
Office equipment	3-8
Production equipment	3-10
Research and tradeshow equipment	5

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

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

2.8 Intangible Assets

Intangible assets consist of computer software, license rights, trademarks, patents, a domain name and product development assets recognized from the acquisition of Sol, Inc and the Sabik Group of Companies. Customer lists, order backlog and brand name have been recognized related to the acquisition of Sabik. Product development assets have been recognized related to the acquisition of EKTA. Customer lists, brand name and product development assets have been recognized related to the acquisition of Vega Industries Limited. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each year end.

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

Patent and trademark assets consist of professional fees incurred for the filing of patents and the registration of trademarks for product marketing purposes. Patent and trademark registration and maintenance fees paid are amortized on a straight line basis over 4 years.

The domain name recognized from the acquisition of Sol, Inc and brand names recognized from the acquisition of Sabik and Vega have an indefinite life and thus are not amortized but are subject to annual impairment analysis.

The customer list asset recognized from the acquisition of Sabik relates to customer relationships that have useful lives between 3 and 10 years.

The product development assets from the acquisition of EKTA related to technologies that have useful lives of 5 years.

The customer list asset recognized from the acquisition of Vega has a useful life of 10 years and product development assets from the acquisition of Vega Industries Limited have useful lives of 5 years.

2.9 Impairment of Non-Financial Assets

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

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

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent

of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the Consolidated Statements of Income and Total Comprehensive Income.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the Consolidated Statements of Income and Total Comprehensive Income. An impairment loss with respect to goodwill is never reversed.

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

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

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

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

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

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

2.11 Share-Based Payments
For equity-settled share-based compensation, expense is based on the grant date fair value of the awards expected to vest over the vesting period. The Company maintains several share based compensation plans for certain employees and directors that may be settled in cash and/or equity. At December 31, 2017 there were no awards outstanding which are cash settled. The expense is recognized over the vesting period, which is the period over which all the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the Consolidated Statements of Income and Total Comprehensive Income.

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

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

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

- title and risk involving the products are transferred to the buyer;

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

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

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

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

2.14 Investment Tax Credits
Carmanah is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development activities. The associated investment tax credits ("ITCs") are available to the Company to reduce actual income taxes payable and are recorded when it is probable that such credits will be utilized. The utilization is dependent upon the generation of future taxable income. Management assesses the probability of usage based upon forecasted results utilizing a sensitivity analysis on various factors that impact profitability.
The Company's policy is to net ITCs against the associated expense, which are usually captured within the Research and development caption under operating costs in the Consolidated Statements of Income and Comprehensive Income. Any impairments or initial recognition of the ITCs are recognized under a separate caption within Operating expenditures, as was the case in 2016. This separate presentation is to highlight the unusual nature of these types of adjustments.

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

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

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

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

Deferred tax assets:
- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and

- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

2.16 Earnings Per Share
The Company presents basic and diluted per share data for its common shares, calculated by dividing the income attributable to common shareholders of Carmanah by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which are comprised of restricted shares and share options granted to employees and directors of the Company and warrants.

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

2.18 Assets Held for Sale
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

3.1 Critical Accounting Estimates and Judgments

Share-based payments
In determining share-based payments expense, Carmanah makes estimates related to forfeiture rates, volatility and expected term for each specific grant. Forfeiture rates are used to estimate the number of awards that are expected to vest considering employee turnover rates. Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period that commensurate with the expected

term. The expected term of the instruments is estimated based on historical experience and general option holder behavior. The changes in estimates are recognized in the Consolidated Statements of Income and Total Comprehensive Income 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.

Income taxes
Carmanah calculates income tax provisions in each of the jurisdictions in which it operates. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax returns, earnings would be affected in a subsequent period.

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

Impairment of assets
Each year the Company makes significant judgments in assessing if goodwill, tangible or intangible assets have suffered an impairment loss. The Company's impairment analysis involves the determination of identification of cash generating unit (CGU). The use of an income approach is applied 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 sales, operating and administrative expense, capital expenditures, an appropriate discount rate, and in some situations, the cost of disposal. Non-current assets classified as held to sale are recorded at the lower of its carrying value or fair value less costs to sell. Management judgment is necessary to evaluate the fair value less costs to sell and critical assumptions include market opportunities and costs to sell. During the fiscal years ended December 31, 2017 and 2016, there were no impairment losses.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- IFRS 9, Financial Instruments ("IFRS 9") – replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. It is anticipated that these changes would be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. It is anticipated this change will be effective for annual periods beginning on or after January 1, 2018.

- 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.

With respect to IFRS 9 and IFRS 15, the Company has undertaken a project to assess the impact of these two new standards on each of its subsidiaries. Although the work under this project continues, at this time, the Company has determined that neither of these standards is expected to have a material impact on the Company's statement of financial position or statement of income. The Company does not intend to adopt IFRS 16 early and will be completing an analysis of this standard during 2018.

5. FINANCIAL INSTRUMENTS

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

	Loans and receivables	Other financial liabilities	Fair value through profit or loss	December 31, 2017
Financial Assets				
Cash and cash equivalents	11,805	-	18	11,823
Trade and other receivables	9,458	-	-	9,458
Non-trade receivables	5,410	-	-	5,410
Financial Liabilities				
Trade and other payables	-	(6,265)	-	(6,265)
Bank Debt	-	(7,383)	-	(7,383)
Non-trade payables	-	(277)	-	(277)

	Loans and receivables	Other financial liabilities	Fair value through profit or loss	December 31, 2016
Financial Assets				
Cash and cash equivalents	21,921	-	-	21,921
Trade and other receivables	6,560	-	-	6,560
Financial Liabilities				
Trade and other payables	-	(4,612)	-	(4,612)
Bank Debt	-	(7,414)	-	(7,414)

Fair value
The following fair value measurement hierarchy is used for financial instruments that are measured in the Consolidated Statements of Financial Position at fair value:

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

The carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of bank debt is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Foreign currency risk management
Carmanah transacts business in multiple currencies, which gives rise to market risks exposure associated with fluctuating foreign currency values. Most significantly, the Company has potential exposure to currency fluctuations between the U.S. dollar and Canadian dollar, the U.S. dollar and Euro, and the U.S. dollar and New Zealand dollar. As of December 31, 2017, Carmanah entered into foreign currency forward contracts to purchase a total amount of $1.85 million Canadian dollars at any time during 2018 at guaranteed rates in exchange for $1.46 million U.S. dollars. These contracts were entered into for the purpose of meeting operational needs and not used as speculative investments. These foreign currency forward contracts were recorded at fair value and the mark-to-market gain of $0.02 million as of December 31, 2017 has been included as cash equivalents on the Statement of Financial Position.

A breakdown of Carmanah's financial instruments by currency, presented in U.S. dollar, is provided below:

	U.S. dollar	Canadian dollar	Euro	New Zealand dollar	Other	Total
Balance at December 31, 2017						
Cash	6,922	226	4,686	(63)	52	11,823
Trade and other receivables	4,275	-	4,283	690	210	9,458
Non-trade receivables	1,950	3,460	-	-	-	5,410
Trade and other payables	(2,738)	-	(2,644)	(631)	(252)	(6,265)
Bank debt	(7,000)	-	(383)	-	-	(7,383)
Non-trade payables	-	(277)	-	-	-	(277)
Balance at December 31, 2016						
Cash	16,358	1,592	3,935	-	36	21,921
Trade and other receivables	2,956	-	3,390	-	214	6,560
Trade and other payables	(2,489)	-	(1,885)	-	(238)	(4,612)
Bank debt	(6,994)	-	(420)	-	-	(7,414)

Carmanah estimates a five percent increase or decrease in the Canadian dollar relative to the U.S. dollar would result in a $0.3 million loss or gain to operating income given the currency mix of the Company's financial instruments. The Euro amounts are held at the Company's subsidiaries which have a Euro functional currency so there would be no impact to net income. The New Zealand dollar amounts are held at the Company's subsidiary which has a New Zealand dollar functional currency so there would be no impact to net income.

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

Interest rate risk management
Carmanah is exposed to interest rate risk on the debt held with financial institutions based on the floating interest rates. Carmanah estimates that a 1% increase or decrease in interest rates would result in a $0.1 million loss or gain to net income before tax.

Credit risk management
The carrying amount of financial assets represents the maximum credit exposure.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. This risk is mainly associated with trade and other receivables and is discussed in detail within note 5.2.

Liquidity risk management
Liquidity refers to the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities.

5.1 Cash and Cash Equivalents

Cash represents cash in banks, cash on hand and cash in foreign currency forward contracts. At December 31, 2017, there was $0.02 million of foreign currency forward contracts included in cash equivalents (December 31, 2016 - $Nil).

5.2 Trade and Other Receivables

Trade and other receivables are comprised of the following:

	December 31, 2017	December 31, 2016
Trade receivables	7,568	6,447
Allowance for doubtful accounts	(119)	(225)
Other receivables	2,009	338
Total trade and other receivables	**9,458**	**6,560**

5.2.1 Net Trade Receivables

Trade receivables
Trade receivables generally carry 30 day terms, although this can vary for certain customers. Generally, no interest is charged on trade receivables. At December 31, 2017, $2.1 million (December 31, 2016 - $1.7 million) was due from the five largest accounts.

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

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

Reconciliation of the allowance for doubtful accounts	December 31, 2017	December 31, 2016
Balance, beginning of year	225	146
Write offs of specific accounts	(14)	(78)
Reclassification of discontinued operations	(5)	(1)
Change in provision	(87)	158
Balance, end of year	**119**	**225**

At December 31, 2017, approximately 99% (December 31, 2016 - 97%) of the trade receivables were either current or are past due but were not impaired.

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

Accounts overdue but not impaired	December 31, 2017	December 31, 2016
1-30 days	1,718	1,035
31-90	1,190	534
90+	132	215
Total	**3,040**	**1,784**

5.2.2 Other receivables

As of December 31, 2017, other receivables primarily relate to amounts held in escrow related to the Vega acquisition of $1.4 million (note 22) as contingent consideration receivable.

5.3 Capital Management

Carmanah defines capital that it manages as the aggregate of short-term and long-term debt and total equity. Changes are made to the capital structure upon approval from the Company's Board of Directors or shareholders as required. Carmanah has outstanding debt as described in note 11. The Company's overall strategy with respect to management of capital is to use debt for the purpose of acquisition and ongoing operations. The Company is required to meet certain covenants as a result of the outstanding debt. As of December 31, 2017, the Company was in compliance with all covenants.

6. INVENTORIES

	December 31, 2017	December 31, 2016
Finished goods	4,709	1,548
Work in progress	837	668
Raw materials	3,975	4,370
Provision for obsolescence	(1,017)	(371)
Net inventories	**8,504**	**6,215**

For the year ended December 31, 2017, inventory recognized as an expense in cost of sales amounted to $24.2 million (2016 - $23.6 million). Included in the above amounts were inventory write downs of $1.1 million (2016 - $0.4 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2017, the Company anticipates the net inventory will be realized within one year.

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. At present, Carmanah is dealing with two significant contract manufacturers. Under the terms of the contract manufacturing agreements, Carmanah is required to purchase excess raw material inventory which arises in situations where the Company's demand forecasts for a product are less than actual use or sales in each period. At December 31, 2017, the contract manufacturers held approximately $1.5 million (December 31, 2016 - $2.4 million) in inventory and $1.2 million (December 31, 2016 - $0.7 million) in outstanding committed purchase orders.

7. PROPERTY AND EQUIPMENT

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

	Computer hardware	Land and building*	Leasehold improvements	Office equipment	Production equipment	Research and tradeshow equipment	Vehicle	Total
Cost								
Balance January 1, 2016	**335**	**-**	**799**	**227**	**1,068**	**427**	**-**	**2,856**
Additions	103	-	167	8	246	23	-	547
Disposals	(42)	-	-	(4)	(70)	(15)	-	(131)
Reclassification held for sale	(35)	-	(78)	(19)	(60)	(14)	-	(206)
Foreign exchange adjustments	-	-	(2)	(5)	(19)	-	-	(26)
Balance December 31, 2016	**361**	**-**	**886**	**207**	**1,165**	**421**	**-**	**3,040**
Additions	85	-	-	18	153	15	-	271
Disposals	(33)	-	(36)	(7)	-	(4)	-	(80)
Acquisition	46	2,398	-	85	204	-	8	2,741
Reclassification held for sale	-	-	-	-	-	-	-	-
Foreign exchange adjustments	(2)	(123)	27	9	99	-	-	10
Balance at December 31, 2017	**457**	**2,275**	**877**	**312**	**1,621**	**432**	**8**	**5,982**
Accumulated amortization								
Balance January 1, 2016	**172**	**-**	**564**	**54**	**324**	**405**	**-**	**1,519**
Amortization for the period	83	-	129	27	225	9	-	473
Disposals	(30)	-	-	(1)	(50)	(15)	-	(96)
Reclassification held for sale	(10)	-	(19)	(4)	(10)	(6)	-	(49)
Foreign exchange adjustments	(9)	-	(1)	(2)	(11)	(2)	-	(25)
Balance December 31, 2016	**206**	**-**	**673**	**74**	**478**	**391**	**-**	**1,822**
Amortization for the period	84	24	65	43	264	7	1	488
Disposals	(11)	-	(7)	(2)	(6)	(2)	-	(28)
Reclassification held for sale	**-**	-	-	-	-	-	-	-
Foreign exchange adjustments	**-**	1	10	4	45	-	-	60
Balance December 31, 2017	**279**	**25**	**741**	**119**	**781**	**396**	**1**	**2,342**
Carrying amounts								
At December 31, 2016	155	-	213	133	687	30	-	1,218
At December 31, 2017	178	2,250	136	193	840	36	7	3,640

* At December 31, 2017, land and building with a carrying value of $2.3 million (December 31, 2016 – nil) have been pledged as security for the CIBC credit facility (see Note 11 Bank Debt).

8. INTANGIBLE ASSETS

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

	Patents and trademarks	Software	Customer Lists	Product development	Brand and domain name	Backlog	Total
Cost							
Balance January 1, 2016	**739**	**2,529**	**4,728**	**1,826**	**2,020**	**886**	**12,728**
Additions	-	268	-	-	-	-	268
Disposals	-	(1,539)	-	-	-	-	(1,539)
Reclassification held for sale	-	(32)	-	-	-	-	(32)
Foreign exchange adjustments	-	-	(169)	(56)	(71)	(32)	(328)
Balance December 31, 2016	**739**	**1,226**	**4,559**	**1,770**	**1,949**	**854**	**11,097**
Additions	-	187	-	-	-	-	187
Disposals	(3)	(54)	-	-	-	-	(57)
Acquisition	-	-	638	2,215	123	-	2,976
Foreign exchange adjustments	-	14	602	366	255	119	1,356
Balance December 31, 2017	**736**	**1,373**	**5,799**	**4,351**	**2,327**	**973**	**15,559**
Accumulated amortization							
Balance January 1, 2016	**681**	**1,834**	**281**	**346**	**-**	**886**	**4,028**
Amortization for the period	29	196	542	368	-	-	1,135
Disposals	-	(1,539)	-	-	-	-	(1,539)
Reclassification held for sale	-	(9)	-	-	-	-	(9)
Foreign exchange adjustments	-	-	(11)	(6)	-	(32)	(49)
Balance December 31, 2016	**710**	**482**	**812**	**708**	-	**854**	**3,566**
Amortization for the period	18	269	606	663	-	-	1,556
Disposals	(2)	-	-	-	-	-	(2)
Foreign exchange adjustments	-	5	148	97	-	119	369
Balance December 31, 2017	**726**	**756**	**1,566**	**1,468**	-	**973**	**5,489**
Carrying amounts							
At December 31, 2016	29	744	3,747	1,062	1,949	-	7,531
At December 31, 2017	10	617	4,233	2,883	2,327	-	10,070

9. GOODWILL

	Illumination	Signals	Total
Balance, January 1, 2016	5,746	11,503	17,249
Foreign exchange adjustment	-	(411)	(411)
Balance, December 31, 2016	**5,746**	**11,092**	**16,838**
Vega acquisition (note 22)	-	288	288
Foreign exchange adjustment	-	1,528	1,528
Balance, December 31, 2017	**5,746**	**12,908**	**18,654**

The Company performs an impairment test annually on December 31 each year or if there is an indication of impairment. No impairment of goodwill was identified as a result of the Company's most recent impairment test as December 31, 2017, nor at December 31, 2016. The goodwill impairment testing is based on a value in use approach and is completed for two cash generating units, one within the Signals reportable operating segment and the other being the Illumination segment as a whole.

The key assumptions used in performing the impairment tests were as follows:

	5-year revenue growth rate		Discount rate		Terminal growth rate	
Segment	2017	2016	2017	2016	2017	2016
Signals	5.0%	2.4-17.6%	13.3%	14.5%	2.0%	2.0%
Illumination	7.1%-16.7%	12.5-28.1%	12.3%	15.5%	2.0%	2.0%

The recoverable amount is determined by management's past experience and future expectations of the business performance are used to make a best estimate of the expected revenue, earnings before interest, taxes, amortization and operating cash flows for a five-year period. The revenue growth rate in that period is based upon management's current and long term forecasts for each business is a key driver within the test.

Other key assumptions in the analysis, include the discount and terminal growth rate. The discount rate applied in the model is a pre-tax rate that reflects the time value of money and risk associated with the business. The terminal growth rate is based on the long-term growth prospect of the businesses beyond a 5-year term. The December 31, 2017 impairment assessments showed an excess over carrying value of $1.9 million for Illumination, and $5.0 million for Signals. A sensitivity analysis was also completed on both models and it was determined reasonable changes to key assumptions would not result in an impairment loss.

10. PROVISIONS

	December 31, 2017	December 31, 2016
Warranty provisions	1,082	737
Provision relating to Sol, Inc acquisition	43	43
Total	**1,125**	**780**

Outstanding provisions

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

In the acquisition of Sol, it was determined that there could be additional liabilities on historical sales. A provision remains until we can obtain resolutions for these liabilities.

The following is a reconciliation of the provisions during the year:

	December 31, 2017	December 31, 2016
Opening provision	780	1,221
Warranty costs incurred	(477)	(354)
Warranty provision additions/changes	779	188
Reclassification of discontinued operations	-	(258)
Foreign exchange adjustment	43	(17)
Closing provision	**1,125**	**780**

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

11. BANK DEBT

	December 31, 2017	December 31, 2016
CIBC facility	7,000	6,994
Nordea facility	383	420
Total	**7,383**	**7,414**

On July 24, 2017, the Company amended the credit facility with Canadian Imperial Bank of Commerce (the "CIBC Facility"). The CIBC Facility provided up to $25.5 million through: a) a $10.0 million 364-Day Revolving Credit Facility, expiring June 15, 2018; b) a $15.0 million revolving Term Acquisition Credit Facility; and c) $0.5 million for trading room on contingent liabilities. The Company's ability to draw on the 364-Day Committed Revolving Credit, Revolving Term Acquisition Credit, and Credit for Trading Room Contingent Liabilities is subject to borrowing covenants and conditions typical to these credits. Each of the credits have separately applicable interest rates. On July 31, 2017, the Company repaid in full the balance of term acquisition loan with cash on hand. At December 31, 2017, $7.0 million was drawn on the 364-Day Revolving Credit Facility. At December 31, 2017, there was a) $3.0 million available under the 364-Day Revolving Credit Facility; b) $15.0 million available under the revolving Term Acquisition Credit Facility; and c) $0.5 million available for trading room on contingent liabilities.

Sabik has access to an operating line and loan with Nordea Bank Finland, a Finnish financial institution. This debt is secured by Carmanah through a letter of credit drawn from the CIBC Facility noted above and is repayable on demand. In March 2016, the Company's German subsidiary, Sabik Offshore GmbH, secured a new credit facility with the Deutsche Bank (the "Deutsche Facility"). The Deutsche Facility provides credit up to $3.6 million (€3.0 million) through $2.4 million (€2.0 million) of revolving credit and $1.2 million (€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 $2.4 million (€2.0 million) Letter of Credit issued on the CIBC Facility and a security over inventory within Sabik Offshore GmbH. At December 31, 2017 and 2016, no amounts were drawn on the revolving credit facility, but $0.4 million (€0.3 million) was drawn on the Nordea operating line.

12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. All shares are fully paid common shares which have no par value.

12.1 Substantial Issuer Bid

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

Approximately 14,862,667 Shares were tendered to the Offer. The Shares were taken up on a prorated basis in accordance with the terms of the Offer. Payment for the purchased Shares was completed by Computershare Investor Services Inc. in accordance with the Offer.

12.2 Diluted Share Reconciliation

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

	December 31, 2017	December 31, 2016
Basic weighted average shares outstanding	23,823,787	24,756,558
Effect of dilutive securities:		
Stock options and warrants	420,584	503,052
Diluted weighted average shares outstanding	24,244,371	25,259,610

For the year ended December 31, 2017, 851,350 stock options were not included because the exercise price of those options were higher than the estimated average market price of the common shares during the periods.

13. SHARE-BASED PAYMENTS

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

Type of award	Term and vesting period	Fair Value Measurement	Equity settled	Cash settled
			Compensation expense based on	
Stock options	Expiry is typically 10 years. Vesting is typically 4 years	Black-Scholes option pricing model	Fair value on next business day after grant date	Fair value at reporting date
Stock units (RSU, PSU, DSU) (none outstanding)	Typical vesting period is between 0 to 3 years. Maximum term for RSUs is 3 years.	Closing share price	Fair value on next business day after grant date	Fair value at reporting date
SARs (none outstanding)	Maximum term is 10 years	Closing share price	Fair value at reporting date	Fair value at reporting date

At present, the Company only has stock options outstanding. The total compensation expense, for continuing operations for these share-based payment plans are outlined in the table below:

Years ended December 31,	2017	2016
Stock options	609	700

Currently, all outstanding awards issued under these plans are equity settled, although the plans do allow for cash settlement if elected by the Board of Directors. The following table provides a reconciliation of the maximum shares issuable under stock-based compensation plans as at December 31, 2017:

Available shares (10% of outstanding shares at December 31, 2017)	1,892,221
Less:	
Stock options outstanding at December 31, 2017	(1,686,129)
Number of shares issuable under stock-based compensation plans	206,092

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

13.1 Stock Options

The following is a summary of the status of the stock options outstanding and exercisable at December 31, 2017 and 2016. The weighted average exercise price is stated in Canadian dollars.

	Number of options	Weighted average exercise price
Balance, January 1, 2016	**2,052,620**	**$3.76**
Granted	200,000	$3.93
Exercised	(76,201)	$2.58
Expired	(6,000)	$5.30
Cancelled/Forfeited	(227,434)	$4.67
Balance, December 31, 2016	**1,942,985**	**$3.72**
Granted	218,000	$4.46
Exercised	(319,704)	$2.23
Expired	-	-
Cancelled/Forfeited	(155,152)	$3.76
Balance, December 31, 2017	**1,686,129**	**$4.09**

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

	Options outstanding			Options exercisable		
Range (exercise price)	Number	WA[1] remaining life[2]	WA[1] exercise price	Number	WA[1] remaining life[2]	WA[1] exercise price
At December 31, 2016						
$1.45 to $1.45	300,000	3.9	$1.45	225,000	3.9	$1.45
$1.46 to $2.50	502,807	7.3	$2.50	233,113	7.3	$2.50
$2.51 to $2.90	281,965	7.2	$2.72	156,675	6.6	$2.74
$2.91 to $6.39	858,213	8.7	$5.55	167,977	8.5	$5.98
	1,942,985	7.4	$3.72	782,765	6.4	$2.99
At December 31, 2017						
$1.45 to $1.45	200,000	2.9	$1.45	200,000	2.9	$1.45
$1.46 to $2.50	269,710	6.3	$2.50	187,644	6.3	$2.50
$2.51 to $2.90	237,569	6.7	$2.71	179,535	6.6	$2.71
$2.91 to $6.39	978,850	8.1	$5.40	394,676	7.6	$5.91
	1,686,129	7.0	$4.09	961,855	6.2	$3.72

1 - WA – weighted average

2 - Life in years

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the year ended December 31, 2017 is $2.27 CAD per share and $2.04 CAD per share for the year ended December 31, 2016. The option valuations were determined using the following weighted average assumptions:

	Year ended December 31,	
	2017	2016
Risk-free interest rate	1.48%	0.91%
Expected dividend yield	0%	0%
Forfeiture rate	16.9%	16.6%
Stock price volatility	52%	55%
Expected life of options	6.3 years	6.2 years
Term of options	10 years	10 years

Stock price volatility was determined solely using the historical volatility of the Company's share price using the same period as the expected life of the options.

14. COMMITMENTS AND CONTINGENCIES

14.1 Operating Lease and Committed Service Arrangements

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

	Facility Leases	Insurance	IT Services	Vehicle Leases	Equipment Leases	Total
Not later than 1 year	638	79	45	38	90	890
2 years to 3 years	990	-	28	4	116	1,138
Greater than 3 years	176	-	7	-	14	197
Total	**1,804**	**79**	**80**	**42**	**220**	**2,225**

Lease payments recognized as expenses in 2017 amounted to $0.8 million (2016 - $0.8 million).

14.2 Other Commitments
See note 6 Inventories.

14.3 Contingent Liabilities
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 Plaintiffs have 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 the Plaintiffs alleging additional patent infringement of a patent which was granted in September 2015. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. On March 20, 2018, the Company has agreed to purchase the patents in question from R.D. Jones for a total price of $2.4 million to be paid over a 4-year period. As a result of this purchase, this matter is considered closed with no further obligations by either party.

The Company's wholly owned subsidiary, Carmanah Solar Power Corp. ("CSPC"), whose assets were sold along with the On-Grid vertical as described in note 21 of the audited consolidated financial statements for the year ended December 31, 2017, contracted with Hydro Ottawa Holding Inc. ("Hydro Ottawa") for the design and build of eight solar power projects totaling $4.8 million. These contracts were largely completed and invoiced when on January 3, 2017 Hydro Ottawa served notice to terminate the contract citing project delays. Subsequently, on June 21, 2017, Hydro Ottawa provided notice that it would incur costs of between $0.9 million and $1.0 million to fully complete the contracts. CSPC is disputing these amounts. CSPC believes that the work required to complete and test the projects is inconsequential. Hydro Ottawa is also seeking an additional amount for liquidated damages in the amount of $0.9 million and an additional amount for lost revenue in the amount of $0.7 million. This receivable, along with several others was not sold along with the rest of the assets of CSPC and has been retained by the Company. On March 14, 2018, CSPC entered into a settlement with Hydro Ottawa. As a result of the resolution, Carmanah incurred a one-time charge of $1.7 million, negatively impacting the net income from discontinued operations in the fourth quarter of 2017, this matter is considered closed with no further obligations by either party.

In June 2017, the Company was named in an Ontario Supreme Court claim filed by Ameico Enterprise under the Construction Lien Act stating a breach of trust for failure to pay contracts for change orders in the amount of $0.7 million. The lawsuit seeks to recover legal expenses, interest on amounts owing and damages. As at December 31, 2017, the Company has recorded a provision of $0.2 million as this represents the Company's best estimate as to the likely amount that will be paid in order to settle this claim, including legal costs.

14.4 Credit Facilities
See note 11 Bank Debt above.

14.5 Indemnifications in Contracts

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

15. RELATED PARTY TRANSACTIONS

During the first quarter the company settled an outstanding receivable of $0.08 million from a director of the company which originally arose from a warranty indemnity related to the acquisition of Sol Inc. The settlement resulted in the write-off in the amount of $0.04 million of the receivable balance, with the remaining $0.04 million collected on April 24, 2017.

In relation to the change of Carmanah's board of directors, the Company has agreed to pay $0.1 million of the associated legal costs incurred by a former director.

Compensation of key management personnel

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

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

(in thousands of Canadian dollars)	Years ended December 31,	
	2017	2016
Short-term benefits	1,086	776
Share-based compensations	614	719
Total	**1,700**	**1,495**

The values noted above are in Canadian dollars. They also exclude the value of certain health benefits which the Company is not able to attribute to individual employees due to privacy standards preventing us from obtaining this information. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive's employment is terminated, either without cause or due to a change in control of the Company. Under a termination without cause (1) the CEO is entitled to 12 months base salary plus applicable cash-based incentives, and (2) the CFO is entitled to 12 months base salary plus applicable cash-based incentives.

Inventory purchases

The Company purchased $1.0 million (December 31, 2016 - $0.9 million) of inventory from a vendor in which the previous Chairman of the Board has significant influence. The relationship with this vendor existed prior to the Chairman's appointment and there are no special terms because of this relationship. At year ended December 31, 2017, the associated amounts owing in trade and other payables was nil (December 31, 2016 - $0.03 million).

16. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Years ended December 31, 2017	2016
Salaries, commissions and other direct compensation	10,437	8,672
Professional fees, insurance and public company costs	1,596	1,509
Amortization	1,985	1,489
Telecom and IT expenses	803	826
Travel and related expenses	738	744
Occupancy costs	1,067	918
Bank charges	155	150
Marketing, advertising and other related expenses	820	665
Development expenses	411	327
Other expenses	134	487
Share-based payments	609	700
Bad debts (recovery)/expense	(112)	104
Development credits	-	(60)
Restructuring costs	530	-
Total operating expenditures	**19,173**	**16,531**

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

17. SEGMENTED INFORMATION

The Company’s reportable segments are broken into “Signals” and “Illumination”. The following table provides an overview of these segments and underlying verticals.

Reporting Segment and Underlying Products/Verticals	Products offered/Markets served
Signals	
Traffic	Solar LED flashing beacons for various roadway applications, mainly focused on the North American market.
Marine	A complete range of marine lighting solutions sold worldwide, including a variety of products manufactured by Sabik and Vega which are subsidiaries of Carmanah.
Airfield Lighting	LED aviation lighting sold worldwide - the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems.
Aviation/Obstruction	LED obstruction lighting sold worldwide - the Company offers self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Offshore	Aid to navigation solutions on Offshore wind farms for temporary and permanent marking. These products are sold under Sabik Offshore GmbH which is a wholly owned subsidiary of Carmanah. Sales are mainly focused on the European market.
Telematics	Telematics is currently focused on designing and manufacturing devices to enable remote monitoring of assets.

Illumination	
Outdoor Lighting	LED lighting systems for off-grid lighting applications, including street, parking lot, park, and pathway applications. Products are sold worldwide using a variety of distribution models
Power*	
Off-Grid	Mobile power solutions for the North American market sold under the Go Power! brand. Built for the hard demands of RV, utility, and fleet vehicles, as well as marine applications, Go Power!'s complete line of solar chargers, inverters, regulators and power accessories deliver electricity where grid-power is inaccessible or unavailable.
On-Grid	The design, procurement and construction of grid-connected solar power systems in the Canadian industrial market. Previously referred to as Solar EPC Services.

*Discontinued Operations

Management evaluates each segment's performance based on gross margin which factors in directly attributable segment revenues, cost of goods sold, and gross margins. Segment profit represents profits without allocation of operating expenses as these costs are not included in the measures that the chief operating decision marker uses to evaluate and assess segment performance. Operating expenditures such as sales and marketing, research, engineering and development as well as general and administrative expenses, which cannot accurately be attributed between various segments, have not been allocated between segments.

	Signals	Illumination	Total
For the year ended December 31, 2017			
Revenue	48,000	3,939	51,939
Gross margin	21,603	(6)	21,597
Gross margin %	45.0%	(0.2)%	41.6%
Total operating expenses (including restructuring)			(19,173)
Other expenses			(674)
Income before taxes			**1,750**
For the year ended December 31, 2016			
Revenue	39,915	7,827	47,742
Gross margin	18,090	2,451	20,541
Gross margin %	45.3%	31.3%	43.0%
Total operating expenses (including restructuring)			(16,531)
Other expenses			(56)
Income before taxes			**3,954**

Geographic

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

	Years ended December 31,	
	2017	2016
North America	22,080	22,504
Europe	25,381	21,923
South America	1,423	420
Middle East and Africa	1,103	862
Asia Pacific	1,952	2,033
Total revenues	**51,939**	**47,742**

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

	December 31, 2017	December 31, 2016
North America	3,124	3,633
Europe	4,652	3,800
Asia Pacific	4,368	-
Total equipment and inventories	**12,144**	**7,433**

18. INCOME TAXES

Income tax expense/(recovery) is comprised of the following:

	Years ended December 31, 2017	2016
Current tax expense/(recovery):		
Current year	1,085	1,491
Adjustments for prior periods	(22)	(98)
	1,063	1,393
Deferred tax expense/(recovery)		
Origination and reversal of temporary differences	(558)	(286)
Adjustments for prior periods	(147)	(70)
	(705)	(356)
Total income tax expense / (recovery)	**358**	**1,037**

The following is a reconciliation of income taxes calculated at the Canadian statutory corporate tax rate to tax expense/(recovery):

	Years ended December 31, 2017	2016
Income before taxes	1,750	3,954
Computed tax expense at 26% (2016 – 26%)	457	1,028
Adjusted for the effects of:		
Expenses not deductible for tax purposes	250	281
Non-taxable portion of capital gains	(1,087)	-
Change in unrecognized deferred tax assets	229	-
Adjustments for prior periods	(170)	(196)
Foreign rate differences	476	(98)
Effects of tax rate changes	(95)	-
Other	298	22
Income tax expense / (recovery)	**358**	**1,037**

Non-deductible expenses consist primarily of share-based compensation expense, certain expenditures made in relation to the acquisitions, and meals and entertainment costs. The valuation adjustments associated with the unused tax losses are described in financial statement note 19.

19. INVESTMENT TAX CREDITS AND DEFERRED TAXES

The tables below outline the movement in temporary tax differences attributable to deferred assets and liabilities. The Company has recorded deferred income tax assets available as it is probable that the benefits of these assets will be realized.

December 31, 2017	Opening balance	Recognized in income tax expense	Recognized in discontinued operations	Recognized in foreign exchange gain (loss)	Ending balance
Deferred Income tax assets					
Scientific research & experimental development expenditures	2,430	(6)	-	-	2,424
Losses available for future periods	2,783	(456)	(509)	64	1,882
Tangible assets	1,303	(154)	-	-	1,149
Warranty and other provisions	154	113	-	(19)	248
Intangible assets	-	1,059	-	3	1,062
Inventory	-	275	-	-	275
Share issuance costs	318	(114)	-	-	204
Other	45	(38)	-	-	7
	7,033	**679**	**(509)**	**48**	**7,251**
Deferred income tax liabilities					
Intangible assets	(936)	296	-	-	(640)
Inventory	(16)	16	-	-	-
Warranty and other provisions	-	(139)	-	-	(139)
Undistributed earnings	-	(312)	-	-	(312)
Investment tax credits	(630)	165	-	-	(465)
	(1,582)	**26**	**-**	**-**	**(1,556)**

December 31, 2016	Opening balance	Recognized in income tax expense	Acquired in a business combination	Recognized in foreign exchange gain (loss)	Ending balance
Deferred Income tax assets					
Scientific research & experimental development expenditures	2,508	(78)	-	-	2,430
Losses available for future periods	2,461	322	-	-	2,783
Tangible assets	1,345	(42)	-	-	1,303
Warranty and other provisions	431	(204)	(65)	(8)	154
Share issuance costs	441	(123)	-	-	318
Other	19	26	-	-	45
	7,205	**(99)**	**(65)**	**(8)**	**7,033**
Deferred income tax liabilities					
Intangible assets	(964)	(18)	-	45	(936)
Inventory	(16)	-	-	-	(16)
Investment tax credits	(748)	118	-	-	(630)
	(1,728)	**100**	**-**	**45**	**(1,582)**

In the Consolidated Statements of Financial Position, deferred income tax assets have been presented as $$6,661 (2016 - $7,165) and deferred income tax liabilities have been presented as $966 (2016 - $1,714).

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

	December 31, 2017	December 31, 2016
Temporary differences and unused tax losses available to reduce taxable income		
Unrealized foreign exchange loss	-	414
Losses available for future periods	985	-
Total	**985**	**414**

The Company has approximately $1.0 million of tax losses in various jurisdictions that can be applied to reduce future taxable income in the respective jurisdictions but no deferred tax asset has been recognized in respect of them. Capital losses of $0.5 million relate to Canada and begin to expire in 2023. Tax losses of $0.5 million relate to a foreign subsidiary and have an unlimited carry forward period.

During the December 31, 2017 fiscal year, the Company recognized $nil (2016 - $60) of investment tax credits as a reduction to operating expenditures. The investment tax credits are available to reduce Canadian federal and provincial taxes otherwise payable.

20. OTHER EXPENSES

Other expenses primarily relate to merger and acquisition activities, and include legal, due diligence costs, and other related expenditures. During the year ended December 31, 2017, the majority of these costs were related to the Vega acquisition as described in note 22.

21. DISCONTINUED OPERATIONS

During the third quarter of 2016, management committed to a plan to sell its Power segment to focus on the Company's Signals and Illumination segments. Sales efforts began in September 2016 and the Company completed the sale of the On-Grid division of the Power Segment on April 3, 2017 and the Off-Grid division on August 1, 2017. The comparative Consolidated Statement of Income and Total Comprehensive Income has been reclassified to present the discontinued operations separately from continuing operations.

Results of discontinued operations

	Year ended December 31, 2017	2016
Revenues	12,967	26,879
Cost of sales	9,150	21,705
Gross profit	**3,817**	**5,174**
Operating expenditures	(4,168)	(3,483)
Other income	597	90
Income before taxes	**246**	**1,781**
Tax expense	(31)	(470)
Net income from discontinued operations, before gain/(loss) on disposal	**215**	**1,311**
Net loss on disposal of discontinued operations, On-Grid	(300)	-
Net income from gain on disposal of discontinued operations, Off-Grid	10,044	-
Net income from discontinued operations, net of tax	**9,959**	**1,311**
Other comprehensive (loss)/income	(135)	43
Total comprehensive income	**9,824**	**1,354**

Assets and liabilities held for sale

As part of the disposal of the Company's Off-Grid and On-Grid divisions, assets and liabilities associated with these divisions have been presented as held for sale. The following are the associated details:

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

Effect of the disposal of the On-Grid division

On April 3, 2017, Carmanah completed the sale of the assets of Carmanah Solar Power Corp. ("CSPC") which held the Company's solar power engineering, procurement and construction business. The proceeds of the asset sale were $2.0 million.

In addition to these proceeds, CSPC will retain responsibility for four solar power construction portfolios that are at, or close to substantially complete. While most of the revenue related to these portfolios has been recognized, CSPC retained approximately $6.1 million of accounts and notes receivable, of which $1.0 million has since been collected, due on final completion. The Company also incurred a $1.7million one-time charge resulting from a mediated settlement agreement over a terminated project. On December 31, 2017 the net receivable is $3.4 million and presented as non-trade receivables. The Company also retained $0.3 million in liabilities relating to these outstanding projects which have been classed as non-trade payables. Once the requirements of the remaining portfolios are complete, CSPC will permanently cease its solar power EPC business.

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

	December 31, 2017
Cash Proceeds	2,008
Accounts receivable	(1,462)
Inventories	(481)
Deposits and prepaid expenses	(286)
Property and equipment	(142)
Accounts payable and accrued liabilities	176
Net assets disposed	**(2,195)**
Professional fees and other	(177)
Working capital adjustment	(5)
Loss on disposal of discontinued operations, On-Grid, before tax	**(369)**
Tax recovery	69
Net loss on disposal of discontinued operations, On-Grid	**(300)**

Effect of the disposal of the Off-Grid division

On August 1, 2017, Carmanah completed the sale of the Power segment of the Company, selling the Off-Grid Power division. The proceeds of the asset sale were negotiated to be $19.5 million subject to adjustments and holdbacks. Beyond the customary final adjustments and holdbacks, $1.0 million of the $19.5 million proceeds to be received by the Company was held back and excluded from the cash proceeds below, as there is a high probability of this amount not ultimately being collected by the Company due to a tariff obligation that will likely need to be satisfied by the purchaser using these funds. If there is no tariff implemented by January 31, 2019, the Company will recognize this $1.0 million as additional proceeds from this transaction. At December 31, 2017, an escrow receivable of $2.0 million has been recorded under non-trade receivables.

The gain on the disposal of Off-Grid on August 1, 2017 is as follows:

	December 31, 2017
Cash Proceeds	16,550
Amounts held in Escrow	1,950
Total proceeds	**18,500**
Accounts receivable	(3,093)
Inventories	(4,894)
Deposits and prepaid expenses	(442)
Property and equipment	(67)
Accounts payable and accrued liabilities	867
Provisions	173
Deferred revenue	22
Net assets disposed	**(7,434)**
Professional fees and other	(609)
Working capital adjustment	1,075
Gain on disposal of discontinued operations, Off-Grid, before taxes	**11,532**
Tax expense	(1,488)
Net income from gain on disposal of discontinued operations, Off-Grid	**10,044**

Cash flow provided by discontinued operations

	December 31, 2017	December 31, 2016
Cash (used in)/provided by operating activities	(1,355)	4,039
Net cash flow from discontinued operations	**(1,355)**	**4,039**

22. ACQUISITIONS

EKTA purchase

On January 2, 2017, the Company acquired the Intellectual rights for a marine aids to navigation product line marketed under the EKTA brand from Cybernetica AS (“Cybernetica”), an Estonian company, which includes assignments to a number of sales and employment contracts, and some manufacturing assets. The purchase price totaled €1.35 million (USD $1.42 million), with €1.0 million paid on closing and a further €0.35 million paid in January 2018.

A new legal entity, Sabik Ou, was incorporated in Estonia to complete the acquisition. The rationale for the acquisition was to strengthen our (1) worldwide product portfolio and to allow us to provide more comprehensive single-source solutions to our marine customers, and (2) increase our market presence in Europe through the acquired/assigned sales contracts.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective January 2, 2017 and has contributed incremental revenues of $0.8 million and a net loss of $0.4 million throughout 2017. The total cost

related to this acquisition was approximately $0.2 million, with the expenses included under the caption "Other expenses".

Below is the final purchase price allocation:

	Allocation
Cash consideration	1,420
Identifiable assets acquired and liabilities assumed	
Inventories	203
Equipment and other similar assets	21
Trade and other payables	(7)
Intangibles	1,203
Total	**1,420**

Vega Industries acquisition

On August 1, 2017, the Company acquired the shares of Vega Industries Limited ("Vega"). Vega is a manufacturer in the worldwide marine aids-to-navigation market. The purchase price was NZD $12.0 million (USD $9.0 million) subject to adjustments and holdbacks. The purchase price is reduced by NZD $2.0 million (USD $1.5 million) if the acquiree does not meet certain operating revenue targets for its fiscal year ending March 31, 2018. This is considered contingent consideration receivable and is recorded at its fair value at the date of acquisition, based on the likelihood the revenue target will not be met, and is included as an identifiable asset acquired.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective August 1, 2017 and has contributed incremental revenues of $2.2 million and a net loss of $0.8 million since acquisition in 2017. If the acquisition had occurred on January 1, 2017, Vega would have contributed revenue of $5.3 million and a net loss of $1.2 million. Total restructuring costs related to this acquisition totals $0.5 million. Total year-to-date costs related to this acquisition were approximately $0.5 million, with the expenses included under the caption "Other expenses".

The below purchase price allocation for the transaction at December 31, 2017 is final except for the working capital adjustment and the resulting change to goodwill.

	Preliminary Allocation
Cash consideration	8,982
Contingent consideration receivable	(1,497)
Working capital adjustment	(247)
Total consideration	**7,238**
Identifiable assets acquired and liabilities assumed	
Trade and other receivables	902
Inventories	2,310
Other assets	156
Property, plant and equipment	2,720
Bank indebtedness	(4)
Trade and other payables	(623)
Deferred revenue	(284)
Intangibles	1,773
Goodwill	288
Total	**7,238**

Vega Restructuring

With the acquisition of Vega, as described above, a restructuring plan was developed in the latter half of 2017 to complete the integration of Vega into the rest of the Marine division. Under this plan, the company will eliminate Vega's administrative, back office, and manufacturing functions and will migrate its manufacturing facility to Finland and Estonia. We have identified restructuring related costs in accordance with IFRS - IAS 37. The following table summarizes the costs incurred and balances outstanding and therefore accrued for with respects to restructuring for the year ending December 31, 2017. A total of 46 employees are to be terminated under this plan, with 9 employees terminated prior to December 31, 2017. A further 37 employees will be terminated in 2018.

	Severance and related benefits	Other exit costs	Total
Balance at January 1, 2017	-	-	-
Charges	171	159	330
Cash payments	195	5	200
Balance at December 31, 2017	**366**	**164**	**530**

23. SUBSEQUENT EVENTS

See note 14.3 Contingent Liabilities.