CARMANAH TECHNOLOGIES CORPORATION

# Consolidated Financial Statements

For the years ended December 31, 2018 and 2017 (Amounts in thousands of U.S. dollars unless otherwise stated)

carmanah®

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# INDEPENDENT AUDITORS’ REPORT

To the Shareholders of Carmanah Technologies Corporation

## *Opinion*

We have audited the consolidated financial statements of Carmanah Technologies Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of income/(loss) and total comprehensive income/(loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

## *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.

- the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in the Annual Report is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is
Konstantin Polyakov.

Vancouver, Canada
March 27, 2019

## CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 10,775 | 11,823 |
| Trade and other receivables | 5 | 5,849 | 9,458 |
| Inventories | 6 | 2,694 | 8,504 |
| Prepaid and other current assets | | 310 | 1,576 |
| Income taxes receivable | | 202 | 416 |
| Assets held for sale | 18 | 31,699 | - |
| Non-trade receivables | 5 | 488 | 5,410 |
| Total current assets | | 52,017 | 37,187 |
| Property and equipment | 7 | 651 | 3,640 |
| Intangible assets | 8 | 2,779 | 10,070 |
| Goodwill | 8.2 | 8,072 | 18,654 |
| Deferred income tax asset | | 5,840 | 6,661 |
| Investment tax credits | | 1,234 | 945 |
| Other non-current assets | | 244 | - |
| **Total assets** | | **70,837** | **77,157** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Trade and other payables | 5 | 4,815 | 6,265 |
| Bank debt | 5 | - | 7,383 |
| Provisions | 9 | 716 | 1,125 |
| Income taxes payable | | 37 | 230 |
| Contract liability | | 1,332 | 741 |
| Non-trade payables | 5 | - | 277 |
| Liabilities held for sale | 18 | 2,163 | - |
| Total current liabilities | | 9,063 | 16,021 |
| Other non-current payables | 5, 11.2(a) | 1,080 | - |
| Deferred income tax liability | | 735 | 966 |
| **Total liabilities** | | **10,878** | **16,987** |
| **Equity** | | | |
| Share capital | 12 | 65,953 | 66,242 |
| Equity reserve | 13 | 2,313 | 2,326 |
| Accumulated other comprehensive gain | | 329 | 1,181 |
| Deficit | | (8,636) | (9,579) |
| **Total equity** | | **59,959** | **60,170** |
| **Total liabilities and equity** | | **70,837** | **77,157** |

Commitments and contingencies – note 11
Subsequent events – note 20

Approved and authorized for issue by the Board of Directors on March 27, 2019

“John Simmons”

John Simmons, Chief Executive Officer

“James Meekison”

James Meekison, Chair of the Board

# CARMANAH TECHNOLOGIES CORPORATION

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

| | | Years ended December 31, | |
|---|---|---|---|
| | Notes | 2018 | 2017 |
| Revenues | | 30,719 | 27,313 |
| Cost of sales | | 19,380 | 17,666 |
| **Gross profit** | 16 | **11,339** | **9,647** |
| | | | |
| Operating expenditures | | | |
| Sales and marketing | | 2,969 | 2,912 |
| Research and development | | 1,818 | 1,540 |
| General and administrative | | 7,409 | 6,737 |
| Total operating expenditures | 15 | 12,196 | 11,189 |
| | | | |
| **Operating loss** | | **(857)** | **(1,542)** |
| | | | |
| Other (income)/expenses | | | |
| Loss on disposal of assets | | 19 | 20 |
| Other (income)/expenses | | (247) | 209 |
| Foreign exchange (gain)/loss | | 279 | (91) |
| Total other expenditures | | 51 | 138 |
| | | | |
| **Loss before taxes** | | **(908)** | **(1,680)** |
| | | | |
| Income tax recovery | | 133 | 148 |
| **Net loss from continuing operations** | | **(775)** | **(1,532)** |
| | | | |
| Net income from discontinued operations, net of tax | 18 | 1,718 | 12,883 |
| **Net income attributable to shareholders** | | **943** | **11,351** |
| | | | |
| Other comprehensive income/(loss) | | | |
| Items that will not be reclassified subsequently to net income: | | | |
| Foreign currency translation adjustments | | (445) | 895 |
| | | | |
| Items that will be reclassified subsequently to net income: | | | |
| Foreign currency translation adjustments from discontinued operations | | (830) | 2,006 |
| Reclassification of foreign currency translation adjustments on disposal, On-Grid | 18 | 423 | - |
| **Total comprehensive income** | | **91** | **14,252** |
| | | | |
| Net income/(loss) per share | | | |
| *Basic - Continuing operations* | | (0.04) | (0.06) |
| *Basic - Discontinued operations* | | 0.09 | 0.54 |
| **Total** | | **0.05** | **0.48** |
| *Diluted - Continuing operations* | | (0.04) | (0.06) |
| *Diluted - Discontinued operations* | | 0.09 | 0.53 |
| **Total** | | **0.05** | **0.47** |
| | | | |
| Weighted average number of shares outstanding: | | | |
| Basic | | 18,975,622 | 23,823,787 |
| Diluted | | 19,287,553 | 24,244,371 |

**CARMANAH TECHNOLOGIES CORPORATION**

## Consolidated Statements of Changes in Equity

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

| | | Share capital | | Equity reserve | Accumulated other comprehensive (loss)/gain | Deficit | Total equity |
|---|---|---|---|---|---|---|---|
| | **Notes** | ***# of shares*** | **Amount** | | | | |
| | | *(‘000)* | | | | | |
| **Balance, January 1, 2017** | | ***24,602*** | **86,376** | **5,065** | **(1,720)** | **(20,930)** | **68,791** |
| Net income | | - | - | - | - | 11,351 | 11,351 |
| Share-based payments | 12 | - | - | 589 | - | - | 589 |
| Shares issued on stock option exercise | 12 | 320 | 870 | (293) | - | - | 577 |
| Shares acquired and cancelled | | (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** |
| Net income | | - | - | - | - | 943 | 943 |
| Share-based payments | 13 | - | - | 377 | - | - | 377 |
| Shares issued on stock option exercise | 12 | *178* | 552 | (199) | - | - | 353 |
| Shares acquired and cancelled | | *(241)* | (841) | (191) | - | - | (1,032) |
| Reclassification of foreign currency translation adjustments on disposal, On-Grid | 18 | - | - | - | 423 | - | 423 |
| Foreign currency translation adjustments | | - | - | - | (1,275) | - | (1,275) |
| **Balance, December 31, 2018** | | ***18,859*** | **65,953** | **2,313** | **329** | **(8,636)** | **59,959** |

## Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

| | | Years ended December 31, | |
|---|---|---|---|
| | Notes | 2018 | 2017 |
| **OPERATING ACTIVITIES** | | | |
| Net income | | (775) | (1,532) |
| Add back (deduct) items not involving cash: | | | |
| Amortization | | 1,303 | 935 |
| Loss on disposal of assets | | 19 | 20 |
| Share-based payments | 13 | 366 | 566 |
| Unrealized foreign exchange (gain)/loss | | (224) | 288 |
| Use/(Recognition) of investment tax credits | | (289) | 1,567 |
| Deferred income tax expense | | 578 | 774 |
| Changes in working capital and other items: | | | |
| Trade and other receivables | | (6,689) | (551) |
| Inventories | | (127) | 1,658 |
| Prepaids and other current assets | | (261) | (115) |
| Income tax receivable | | (202) | 147 |
| Trade and other payables | | 830 | (124) |
| Provisions | | (141) | 163 |
| Contract liability | | 768 | (75) |
| Income tax payable | | (236) | 188 |
| **Net cash (used)/provided in operating activities** | | **(5,080)** | **3,909** |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of EKTA, net of cash | 19 | - | (1,412) |
| Acquisition of Vega Industries Ltd., net of cash | 19 | - | (8,672) |
| Acquisition of IDC, net of cash | 19 | (1,497) | - |
| Proceeds from sale of On-Grid | 18 | - | 2,003 |
| Initial proceeds from sale of Off-Grid | 18 | - | 17,693 |
| Proceeds from sale of assets | 7 | 11 | - |
| Purchase of equipment and leasehold improvements | 7 | (222) | (249) |
| Purchase of intangible assets | 8 | (987) | (174) |
| Escrow payment from the acquisition of Vega Industries | 19 | 1,497 | - |
| Escrow payment from sale of Off-Grid | 18 | 1,462 | - |
| **Net cash provided in investing activities** | | **264** | **9,189** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from exercised stock options | 13 | 353 | 577 |
| Debt financing | | - | 7,000 |
| Debt repayments | | (7,000) | (7,031) |
| Share repurchase | | (1,032) | (24,039) |
| **Net cash used in financing activities** | | **(7,679)** | **(23,493)** |
| Foreign exchange effect on cash | | (68) | 417 |
| (Decrease)/increase in cash from continuing operations | | **(12,563)** | **(9,978)** |
| Cash provided/(used) from discontinued operations, net of cash | 18 | 14,136 | (120) |
| Cash at beginning of period | | 11,823 | 21,921 |
| Cash at end of period | | **10,775** | **11,823** |

# 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, |
|---|---|---|---|
| | | | 2018 |
| Carmanah Technologies (US) Corporation | Employed sales representatives whom were based in the United States | United States - Nevada | 100% |
| Carmanah Solar Power Corporation** | Holds a portion of the Company's Power segment | Canada - Ontario | 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<br>*(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% |
| Information Display Company ("IDC") | Holds a portion of the Company's Signals segment | United States - Oregon | 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% |

* Discontinued operations
** Discontinued operations and Company dissolved

## 2.2. ADOPTION OF NEW ACCOUNTING STANDARDS

### IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") – replaces IAS 18, Revenue, IAS 11 Construction Contract and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods. Determining the timing of the transfer of control, at a point in time, over time, requires judgement.

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much, and when revenue is recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The standard became effective for annual periods beginning on or after January 1, 2018, which is the date the Company adopted IFRS 15.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard at the date of initial application. Accordingly, the information presented for 2017 has not been restated. It is presented, as previously reported, under IAS 18. The adoption of the new standard does not have a material impact on the Company's financial statements, however disclosures have been updated to reflect the requirements of the standard.

### IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9, Financial Instruments ("IFRS 9") – replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39. The standard became effective for annual periods beginning on or after January 1, 2018, which is the date the Company adopted IFRS 9.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it provides more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgement to assess the effectiveness of a hedging relationship.

The adoption of this standard did not have a material impact on the measurement of the Company's financial instruments, however additional disclosures have been provided.

## 2.3. 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.

## 2.4 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, Information Display Company 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). When a subsidiary with a different functional currency than the Company is disposed of, the cumulative amount of other comprehensive income related to foreign currency translation for this entity is reclassified to profit or 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.

## 2.5 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 are classified as a discontinued operation, the Consolidated Statement of Cash Flows and 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.

## 2.6 FINANCIAL INSTRUMENTS

### FINANCIAL ASSETS

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

**Financial assets at amortized cost:** Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement.

### FINANCIAL LIABILITIES

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company completed an assessment of its financial instruments as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| | Original classification under IAS 39 | New classification under IFRS 9 |
|---|---|---|
| Cash | Loans and receivables – amortized cost | Amortized cost |
| Foreign currency forward contracts | Fair value through profit or loss | Fair value through profit or loss |
| Trade and other receivables | Loans and receivables – amortized cost | Amortized cost |
| Bank debt | Loans and receivables – amortized cost | Amortized cost |
| Trade and other payables | Other financial liabilities – amortized cost | Amortized cost |

### IMPAIRMENT OF FINANCIAL ASSETS AT AMORTIZED COST

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company’s receivables, the Company has no material loss allowance at adoption or as at December 31, 2018.

### 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.

## 2.7 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.

## 2.8 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.

## 2.9 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, IDC and the Sabik Group of Companies. Customer lists, order backlog and brand name have been recognized related to the acquisition of Sabik. Included in assets held for sale at December 31, 2018 are product development assets which have been recognized and related to the acquisition of EKTA Customer lists and brand name. Also included in assets held for sale at December 31, 2018 are product development assets which have been recognized relating to the acquisition of Vega Industries Limited. Intangible assets also consistent of patents directly purchased during the year (note 11.2 (a)).

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 (Sabik Ou) 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.

## 2.10 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.

## 2.11 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.

## 2.12 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, 2018 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.

## 2.13 REVENUE RECOGNITION

Carmanah measures revenue based on the consideration specified in a contract with a customer.

### SALE OF GOODS:

Revenue from the sale of products is recognized when Carmanah transfers control over the goods to the customer. Depending on the individual contract terms, this either occurs at the time shipment is made or when goods are delivered and have been accepted by the customer at their premises. For contracts that permit the customer to return an item, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of revenue recognized will not occur. The amount if revenue recognized is therefore adjusted for expected returns based on historical experience for the product. Payments received in advance of the satisfaction of the Company's revenue recognition criteria are recorded as a contract liability.

### 2.14 RESEARCH AND DEVELOPMENT COSTS

Carmanah is engaged in research and development activities. Research costs are expensed as incurred. Development costs are capitalized only if the cost can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the assets. Otherwise, the costs are expensed as incurred. All research and development costs were expensed as incurred in the current period.

### 2.15 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 Total Comprehensive Income. Any impairments or initial recognition of the ITCs are recognized under a separate caption within Operating expenditures. This separate presentation is to highlight the unique nature of these types of adjustments.

### 2.16 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.

### 2.17 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.

### 2.18 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.

### 2.19 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 JUDGEMENTS

### 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 units (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, 2018 and 2017, 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 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.

IFRS 16 can be applied using one of the following methods:
- Retrospectively to each prior reporting period presented applying IAS 8, Accounting Policies, Changes in accounting estimates and errors; or
- Retrospectively with the cumulative effect of initially applying IFRS 16 recognized in retained earnings at the date of initial application (the "Modified Retrospective Approach").

The Company has elected to apply IFRS 16 using the Modified Retrospective Approach. Under this approach, the comparative information will not be restated and the cumulative effect of initially applying IFRS 16 will be recognized in retained earnings at the date of initial application.

The Company will use the following practical expedients permitted by the standard:

- the use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, the Company has elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- the election not to recognize leases for which the underlying asset is of low value.

Where the Company is the lessee for leases that are considered operating leases under IAS 17, the adoption of IFRS 16 on January 1, 2019 will result in the recognition of a right of use asset and liability on the Consolidated Statement of Financial Position. The change to the recognition, measurement and presentation requirements from the adoption of this standard will result in a decrease of the Company's operating lease expense and an increase of its finance and amortization expenses. At December 31, 2018, the Company estimates that the anticipated impact of the adoption of this standard will be less than a $1 million increase to assets and liabilities as a result of the creation of a new right-of-use asset and lease liability.

# 5. FINANCIAL INSTRUMENTS

### CLASSIFICATION AND CARRYING VALUE

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

| | Financial assets at amortized cost | Financial liabilities at amortized cost | Fair value through profit or loss | December 31, 2018 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash equivalents | 10,775 | - | - | 10,775 |
| Trade and other receivables | 5,849 | - | - | 5,849 |
| Non-trade receivables | 488 | - | - | 488 |
| **Financial Liabilities** | | | | |
| Trade and other payables | - | (4,734) | (81) | (4,815) |
| Non-current payables | - | (1,080) | - | (1,080) |

The Company has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated.

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

## 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, 2018, Carmanah entered into foreign currency forward contracts to purchase a total amount of $1.85 million Canadian dollars at any time during 2019 at guaranteed rates in exchange for $1.44 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 loss of $0.01 million as of December 31, 2018 has been included as cash equivalents on the Consolidated Statement of Financial Position.

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

| | U.S. | Canadian | Euro | New Zealand | Other | Total |
|---|---|---|---|---|---|---|
| | dollar | dollar | | dollar | | |
| **Balance at December 31, 2018** | | | | | | |
| Cash | 9,104 | 962 | 678 | - | 31 | 10,775 |
| Trade and other receivables | 2,715 | - | 3,136 | - | (2) | 5,849 |
| Non-trade receivables | - | 488 | - | - | - | 488 |
| Trade and other payables | 4,117 | - | 660 | - | 38 | 4,815 |
| Non-trade payables | 1080 | - | - | - | - | 1,080 |
| **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 | - | 5,410 | - | - | - | 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 |

Carmanah estimates a five percent increase or decrease in the Canadian dollar relative to the U.S. dollar would result in a $0.1 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 Company attempts to manage the exposure to foreign currency fluctuations by managing the amount of foreign denominated working capital held. The success of these efforts is often limited due to the uncertainty surrounding the timing and magnitude of foreign currency sales and associated cash flows.

**Credit risk management**

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 and cash on hand

## 5.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---:|---:|
| Trade receivables | 5,867 | 7,568 |
| Allowance for doubtful accounts | (25) | (119) |
| Other receivables | 7 | 2,009 |
| Total trade and other receivables | 5,849 | 9,458 |

### 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, 2018, $2.9 million (December 31, 2017 - $2.1 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, 2018 | December 31, 2017 |
|---|---:|---:|
| Balance, beginning of year | 119 | 225 |
| Write offs of specific accounts | (3) | (14) |
| Reclassification of discontinued operations | (74) | (5) |
| Change in provision | (17) | (87) |
| Balance, end of year | 25 | 119 |

At December 31, 2018, approximately 99% (December 31, 2017 - 99%) 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, 2018 | December 31, 2017 |
|---|---:|---:|
| 1-30 days | 793 | 1,718 |
| 31-90 | 386 | 1,190 |
| 90+ | 171 | 132 |
| Total | 1,350 | 3,040 |

### 5.2.2 Non-trade receivables

As of December 31, 2018, other receivables relate to amounts held in escrow related to the Go Power! divestiture of $0.5 million (December 31, 2017: $1.4 million and includes Vega acquisition escrow) as contingent consideration receivable (note 18).

### 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 no outstanding debt as at December 31, 2018 as described in note 10. 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.

## 6. INVENTORIES

| | December 31, 2018 | December 31, 2017 |
|---|---:|---:|
| Finished goods | 865 | 4,709 |
| Work in progress | - | 837 |
| Raw materials | 1,893 | 3,975 |
| Provision for obsolescence | (64) | (1,017) |
| Net inventories | **2,694** | **8,504** |

For the year ended December 31, 2018, inventory recognized as an expense in cost of sales amounted to $17.0 million (December 31, 2017 - $13.7 million). Included in the above amounts were inventory write downs of $0.06 million (December 31, 2017 - $1.1 million). There were no reversals of previously recorded inventory write downs. As at December 31, 2018, the Company anticipates the net inventory will be realized within one year.

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. At present, Carmanah is dealing with two significant contract manufacturers. Under the terms of the contract manufacturing agreements, Carmanah is required to purchase excess raw material inventory which arises in situations where the Company's demand forecasts for a product are less than actual use or sales in each period. At December 31, 2018, the contract manufacturers held approximately $1.0 million (December 31, 2017 - $1.5 million) in inventory and $1.0 million (December 31, 2017 - $1.2 million) in outstanding committed purchase orders.

# 7. PROPERTY AND EQUIPMENT

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

| | Computer hardware | Land and building | Leasehold improvements | Office equipment | Production equipment | Research and tradeshow equipment | Vehicle | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **Balance January 1, 2017** | **361** | **-** | **886** | **207** | **1,165** | **421** | **-** | **3,040** |
| Additions | 85 | - | - | 18 | 153 | 15 | - | 271 |
| Disposals | (33) | - | (36) | (7) | - | (4) | - | (80) |
| Acquisition | 46 | 2,398 | - | 85 | 204 | - | 8 | 2,741 |
| Foreign exchange adjustments | (2) | (123) | 27 | 9 | 99 | - | - | 10 |
| **Balance December 31, 2017** | **457** | **2,275** | **877** | **312** | **1,621** | **432** | **8** | **5,982** |
| Additions | 19 | - | 61 | 12 | 267 | 10 | - | 369 |
| Disposals | (125) | (2,042) | (2) | (76) | (223) | (8) | (8) | (2,484) |
| Write-down of property and equipment | - | (125) | - | - | - | - | - | (125) |
| Reclassification held for sale | - | - | (254) | (45) | (882) | (3) | - | (1,184) |
| Foreign exchange adjustments | (2) | (108) | (11) | (8) | (62) | - | - | (191) |
| **Balance at December 31, 2018** | **349** | **-** | **671** | **195** | **721** | **431** | **-** | **2,367** |
| | | | | | | | | |
| **Accumulated amortization** | | | | | | | | |
| **Balance January 1, 2017** | **206** | **-** | **673** | **74** | **478** | **391** | **-** | **1,822** |
| Amortization for the period | 84 | 24 | 65 | 43 | 264 | 7 | 1 | 488 |
| Disposals | (11) | - | (7) | (2) | (6) | (2) | - | (28) |
| Foreign exchange adjustments | **-** | 1 | 10 | 4 | 45 | - | - | 60 |
| **Balance December 31, 2017** | **279** | **25** | **741** | **119** | **781** | **396** | **1** | **2,342** |
| Amortization for the period | 56 | - | 86 | 33 | 234 | 8 | 1 | 418 |
| Disposals | (85) | (23) | (1) | (12) | (56) | (7) | (1) | (185) |
| Reclassification held for sale | - | - | (175) | (29) | (607) | (3) | - | (814) |
| Foreign exchange adjustments | (1) | (2) | (7) | (4) | (30) | - | (1) | (45) |
| **Balance December 31, 2018** | **249** | **-** | **644** | **107** | **322** | **394** | **-** | **1,716** |
| | | | | | | | | |
| **Carrying amounts** | | | | | | | | |
| At December 31, 2017 | 178 | 2,250 | 136 | 193 | 840 | 36 | 7 | 3,640 |
| At December 31, 2018 | 100 | - | 27 | 88 | 399 | 37 | - | 651 |

# 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, 2017 | **739** | **1,226** | **4,559** | **1,770** | **1,949** | **854** | **11,097** |
| Additions | - | 187 | - | - | - | - | 187 |
| Disposals | (3) | (54) | - | - | - | - | (57) |
| Acquisition | - | - | 638 | 2,215 | 123 | - | 2,976 |
| Foreign exchange adjustments | - | 14 | 602 | 366 | 255 | 119 | 1,356 |
| **Balance December 31, 2017** | **736** | **1,373** | **5,799** | **4,351** | **2,327** | **973** | **15,559** |
| Acquisition | **-** | **-** | **-** | 32 | - | - | 32 |
| Additions | 2,463 | 124 | - | - | - | - | 2,587 |
| Disposals | - | (86) | - | - | - | - | (86) |
| Reclassification held for sale | - | (38) | (5,210) | (2,720) | (2,174) | (310) | (10,452) |
| Foreign exchange adjustments | - | (7) | (258) | (180) | (102) | (43) | (590) |
| **Balance December 31, 2018** | **3,199** | **1,366** | **331** | **1,483** | **51** | **620** | **7,050** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| Balance January 1, 2017 | **710** | **482** | **812** | **708** | - | **854** | **3,566** |
| Amortization for the period | 18 | 269 | 606 | 663 | - | - | 1,556 |
| Disposals | (2) | - | - | - | - | - | (2) |
| Foreign exchange adjustments | - | 5 | 148 | 97 | - | 119 | 369 |
| **Balance December 31, 2017** | **726** | **756** | **1,566** | **1,468** | - | **973** | **5,489** |
| Amortization for the period | 519 | 297 | 538 | 807 | - | - | 2,161 |
| Disposals | - | (86) | - | - | - | - | (86) |
| Reclassification held for sale | - | (20) | (1,684) | (1,070) | - | (310) | (3,084) |
| Foreign exchange adjustments | - | (4) | (89) | (73) | - | (43) | (209) |
| **Balance December 31, 2018** | **1,245** | **943** | **331** | **1,132** | **-** | **620** | **4,271** |
| | | | | | | | |
| **Carrying amounts** | | | | | | | |
| At December 31, 2017 | 10 | 617 | 4,233 | 2,883 | 2,327 | - | 10,070 |
| At December 31, 2018 | 1,954 | 423 | - | 351 | 51 | - | 2,779 |

## 8.1 PURCHASE OF INTANGIBLE ASSETS

During the current year, intangible assets purchased and included in Trade and other payables and Other non-current payables at December 31, 2018 amounts to $1.5 million (2017: $nil) (Note 11.2(a))

## 8.2 GOODWILL

| | Illumination | Signals | Offshore | Total |
|---|---|---|---|---|
| Balance, December 31, 2017 | 5,746 | 12,908 | - | 18,654 |
| New reporting segment identified* | - | (1,540) | 1,540 | - |
| IDC acquisition (note 19) | - | 860 | - | 860 |
| Reclassified to discontinued operations | - | (10,857) | - | (10,857) |
| Foreign exchange adjustment | - | (512) | (73) | (585) |
| **Balance, December 31, 2018** | **5,746** | **859** | **1,467** | **8,072** |

* Due to the identification of the Marine, Aviation Obstruction and Airfield Ground Lighting businesses as discontinued operations as described in Note 18, the Company determined that its Offshore business (Sabik Offshore GmbH) now meets the definition of a reportable segment in accordance with IFRS 8. A new reportable segment was therefore recognized within continued operations as presented at December 31, 2018.

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, 2018, nor at December 31, 2017. The goodwill impairment testing is based on a value in use approach and is completed for three segments as a whole: Signals, Offshore and Illumination.

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

| | 5-year revenue growth rate | | Discount rate | | Terminal growth rate | |
|---|---|---|---|---|---|---|
| **Segment** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Signals | 5.00% | 5.00% | 12.20% | 13.30% | 2.00% | 2.00% |
| Offshore | 1.00%-66.20% | - | 20.00% | - | 1.00% | - |
| Illumination | 14.6%-18.7% | 1.7%-16.7% | 12.20% | 12.30% | 2.00% | 2.00% |

The recoverable amount is determined by management's 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, 2018 impairment assessments showed an excess over carrying value of $1.0 million for Illumination, $6.3 million for Offshore and $13.5 million for Signals. A sensitivity analysis was also completed on these models and it was determined that reasonable changes to key assumptions would not result in an impairment loss, however, for the Illumination segment, an increase of 1.3% in the discount rate or a decrease of 2% in the terminal growth rate would result in the recoverable amount being equal to the carrying amount.

# 9. PROVISIONS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Warranty provisions | 673 | 1,082 |
| Provision relating to Sol, Inc acquisition | 43 | 43 |
| **Total** | **716** | **1,125** |

**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 10 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.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening provision | 1,125 | 780 |
| Warranty costs incurred | (140) | (477) |
| Warranty provision additions/changes | 14 | 779 |
| Reclassification of discontinued operations | (257) | - |
| Foreign exchange adjustment | (26) | 43 |
| **Closing provision** | **716** | **1,125** |

# 10. BANK DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| CIBC facility | - | 7,000 |
| Nordea facility | - | 383 |
| **Total** | **-** | **7,383** |

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. At December 31, 2018, there was a) $3.8 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.

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, 2018 and 2017, no amounts were drawn on the revolving credit facility.

# 11. COMMITMENTS AND CONTINGENCIES

## 11.1. COMMITMENTS

See Note 6 Inventories.

## 11.2. CONTINGENT LIABILITIES

a) On July 18, 2013, the Company was named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used in our solar powered flashing beacons for the traffic safety market and other claims relating to advertising and business practices. On March 20, 2018, the Company purchased the patents in question from R.D. Jones for a total price of $2.4 million to be paid over a 4-year period. The unpaid portion of this payable has been treated as a non-cash transaction in the Company's Consolidated Statement of Cash Flows. As a result of this purchase, this matter is considered closed with no further obligations by either party

b) The Company's wholly owned subsidiary, Carmanah Solar Power Corp. ("CSPC"), of which assets were sold along with the On-Grid vertical as described in Note 18, contracted with Hydro Ottawa Holding Inc. ("Hydro Ottawa") for the design and build of eight solar power projects totaling $4.8 million. These contracts were largely completed and invoiced when on January 3, 2017 Hydro Ottawa served notice to terminate the contract citing project delays. Subsequently, on June 21, 2017, Hydro Ottawa provided notice that it would incur costs of between $0.9 million and $1.0 million to fully complete the contracts. CSPC disputed these amounts as it believed that the work required to complete and test the projects was inconsequential. Hydro Ottawa was also seeking an additional amount for liquidated damages in the amount of $0.9 million and an additional amount for lost revenue in the amount of $0.7 million. This receivable, along with several others was not sold along with the rest of the assets of CSPC and was retained by the Company. On March 14, 2018, CSPC entered into a settlement with Hydro Ottawa. As a result of the resolution, Carmanah incurred a one-time charge of $1.7 million, negatively impacting the net income from discontinued operations in the fourth quarter of 2017. This matter is considered closed with no further obligations by either party

c) In June 2017, the Company was named in an Ontario Supreme Court claim filed by Ameico Enterprise under the Construction Lien Act stating a breach of trust for failure to pay contracts for change orders in the amount of $0.7 million. The lawsuit seeks to recover legal expenses, interest on amounts owing and damages. As at December 31, 2018, the Company has recorded a provision of $0.3 million (December 31, 2017 - $0.2 million) as this represents the Company's best estimate as to the likely amount that will be paid in order to settle this claim, including legal costs.

d) In August 2018, the Company was served with a legal claim in which it was named as a defendant in a case filed in the Circuit Court of Cook County, Illinois by the administrator of the estate of an individual who was killed in a boating accident in 2016. The plaintiff alleges, among other things, that the Company was negligent in the design, manufacture or sale of a marine lantern that was installed near the site of the accident. The Company denies any liability and is defending the case in cooperation with its insurers. The Company has concluded no provision is required as at December 31, 2018

e) In the ordinary course of our business, we may become involved in various claims and legal proceedings seeking monetary damages and other relief in addition to those matters outlined above. Due to the inherent risks and uncertainties of the litigation process, we cannot predict the final outcome or timing of claims and legal proceedings. Based on information currently available, and following consultation with our legal advisors and insurance providers and management's assessment of the merits of the claims and legal proceedings pending at December 31, 2018, management believes that the ultimate resolution of these claims and legal proceedings is not likely to have a material and negative effect on our financial statements or operations. No provision is or will be included in the Company's financial statements for such claims and legal proceedings until such time as management determines that it is probable that a claim will result in an outflow of economic resources.

### 11.3. 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 | IT Services | Vehicle Leases | Equipment Leases | Total |
|---|---|---|---|---|---|
| Not later than 1 year | 307 | 41 | 52 | 7 | 407 |
| 2 years to 3 years | 353 | - | 45 | 15 | 413 |
| Greater than 3 years | - | - | 4 | 6 | 10 |
| **Total** | **660** | **41** | **101** | **28** | **830** |

Lease payments recognized as expenses in 2018 amounted to $0.4 million (2017 - $0.3 million).

### 11.4. INDEMNIFICATIONS IN CONTRACTS

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

# 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") whereby, under the Offer, the Company took 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.

## 12.2 NORMAL COURSE ISSUER BID

On June 8, 2018, Carmanah announced that the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which would allow the Company to purchase up to 1,264,446 of its common shares, representing approximately 10% of its public float as of June 8, 2018. The program commenced on June 13, 2016 and can continue until June 12, 2019 or an earlier date should the Company complete its purchases.

Under this program, during the year ended December 31, 2018, the Company acquired 240,592 of its common shares at prevailing market prices at the time of the transaction. A total of $1.4 million CAD ($1.0 million USD) was used to acquire these shares. All shares repurchased under the bid were cancelled.

## 12.2 DILUTED SHARE RECONCILIATION

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Basic weighted average shares outstanding | 18,975,622 | 23,823,787 |
| Effect of dilutive securities: | | |
| Stock options and warrants | 311,931 | 420,584 |
| Diluted weighted average shares outstanding | 19,287,553 | 24,244,371 |

# 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.<br>Maximum term for RSUs is 3 years. | Closing share price | Fair value on next business day after grant date | Fair value at reporting date |
| SARs (none outstanding) | Maximum term is 10 years | Closing share price | Fair value at reporting date | Fair value at reporting date |

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

| Year ended December 31, | 2018 | 2017 |
|---|---|---|
| Stock options | 366 | 566 |

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, 2018:

| | |
|---|---|
| Available shares (10% of outstanding shares at December 31, 2018) | 1,885,987 |
| *Less:* | |
| Stock options outstanding at December 31, 2018 | (1,491,294) |
| Number of shares issuable under stock-based compensation plans | 394,693 |

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

### 13.1. STOCK OPTIONS

The following is a reconciliation of stock options outstanding and exercisable at December 31, 2018. The weighted average exercise price is stated in Canadian dollars.

| | Number of options | Weighted average exercise price |
|---|---|---|
| **Balance, January 1, 2017** | **1,942,985** | **$3.72** |
| Granted | 218,000 | $4.46 |
| Exercised | (319,704) | $2.23 |
| Cancelled/Forfeited | (155,152) | $3.76 |
| **Balance, December 31, 2017** | **1,686,129** | **$4.09** |
| Exercised | (178,259) | $2.60 |
| Cancelled/Forfeited | (9,000) | $4.12 |
| Expired | (7,576) | $4.17 |
| **Balance, December 31, 2018** | **1,491,294** | **$4.20** |

The following table summarizes the stock options outstanding and exercisable at December 31, 2018 and December 31, 2017. The weighted average exercise price is stated in Canadian dollars:

| | Options outstanding | | | Options exercisable | | |
|---|---|---|---|---|---|---|
| Range (exercise price) | Number | WA[1] remaining life[2] | WA[1] exercise price | Number | WA[1] remaining life[2] | WA[1] exercise price |
| At December 31, 2017 | | | | | | |
| $1.45 to $1.45 | 200,000 | 2.9 | $1.45 | 200,000 | 2.9 | $1.45 |
| $1.46 to $2.50 | 269,710 | 6.3 | $2.50 | 187,644 | 6.3 | $2.50 |
| $2.51 to $2.90 | 237,569 | 6.7 | $2.71 | 179,535 | 6.6 | $2.71 |
| $2.91 to $6.39 | 978,850 | 8.1 | $5.40 | 394,676 | 7.6 | $5.91 |
| | 1,686,129 | 7.0 | $4.09 | 961,855 | 6.2 | $3.72 |
| At December 31, 2018 | | | | | | |
| $1.45 to $1.45 | 200,000 | 1.9 | $1.45 | 200,000 | 1.9 | $1.45 |
| $1.46 to $2.50 | 115,061 | 5.3 | $2.50 | 115,061 | 5.3 | $2.50 |
| $2.51 to $2.90 | 218,383 | 5.9 | $2.70 | 218,383 | 5.9 | $2.70 |
| $2.91 to $6.39 | 957,850 | 7.1 | $5.43 | 600,513 | 6.8 | $5.72 |
| | 1,491,294 | 6.1 | $4.20 | 1,133,957 | 5.6 | $4.06 |

[1] – WA – weighted average

[2]- Life in years

There were no options granted during the year ended December 31, 2018.

# 14. RELATED PARTY TRANSACTIONS

During the first quarter of 2017, the company settled an outstanding receivable of $0.08 million from a former 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 in 2017, the Company agreed to pay $0.1 million of the associated legal costs incurred by a former director.

### INVENTORY PURCHASES

In 2017, the Company purchased $1.0 of inventory from a vendor in which the previous Chairman of the Board had significant influence. The relationship with this vendor existed prior to the Chairman's appointment and there were no special terms because of this relationship. At December 31, 2018, the associated amounts owing in trade and other payables was nil (December 31, 2017: $ nil).

### 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,** | |
|---|---:|---:|
| | **2018** | **2017** |
| Short-term benefits | 1,078 | 1,086 |
| Share-based compensations | 318 | 614 |
| **Total** | **1,396** | **1,700** |

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.

# 15. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

| | Years ended December 31, | |
|---|---:|---:|
| | 2018 | 2017 |
| Salaries, commissions and other direct compensation | 6,905 | 6,347 |
| Professional fees, insurance and public company costs | 1,200 | 1,283 |
| Amortization | 1,276 | 880 |
| Telecom and IT expenses | 639 | 621 |
| Travel and related expenses | 457 | 424 |
| Occupancy costs | 535 | 498 |
| Bank Charges | 139 | 103 |
| Marketing, advertising and other related expenses | 274 | 467 |
| Development expenses | 126 | 50 |
| Other (income)/expenses | 256 | 42 |
| Share-based payments | 366 | 566 |
| Bad debts/(recoveries) | 23 | (92) |
| Total operating expenditures | 12,196 | 11,189 |

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

# 16. SEGMENTED INFORMATION

Due to the identification of the Marine, Aviation and Airfield Ground Lighting businesses as discontinued operations as described in Note 18, the Company determined that its Offshore business (Sabik Offshore GmbH) now meets the definition of a reportable segment in accordance with IFRS 8. A new reportable segment was therefore recognized within continued operations as presented at December 31, 2018. The Company's reportable segments are now broken into "Offshore", "Signals" and "Illumination". The following table provides an overview of these segments and underlying verticals.

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

| | Offshore | Signals | Illumination | Total |
|---|---|---|---|---|
| **For the year ended December 31, 2018** | | | | |
| Revenue | 11,771 | 14,763 | 4,185 | 30,719 |
| Gross margin | 3,846 | 5,847 | 1,647 | 11,339 |
| Gross margin % | 32.67% | 39.60% | 39.35% | 36.91% |
| Total operating expenses | | | | (12,196) |
| Other expenses | | | | (51) |
| Income before taxes | | | | (908) |
| **For the year ended December 31, 2017** | | | | |
| Revenue | 12,472 | 10,902 | 3,939 | 27,313 |
| Gross margin | 4,667 | 4,986 | (6) | 9,647 |
| Gross margin % | 37.41% | 45.73% | (0.15%) | 35.32% |
| Total operating expenses | | | | (11,189) |
| Other expenses | | | | (138) |
| Income before taxes | | | | (1,680) |

## GEOGRAPHIC

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

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| North America | 18,325 | 14,586 |
| Europe | 11,382 | 12,477 |
| South America | 96 | 117 |
| Middle East and Africa | 546 | 86 |
| Asia Pacific | 370 | 47 |
| Total revenues | 30,719 | 27,313 |

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

| | December 31, 2018 | December 31, 2017 |
|---|---:|---:|
| North America | 2,059 | 3,124 |
| Europe | 1,286 | 4,652 |
| Asia Pacific | - | 4,368 |
| **Total equipment and inventories** | **3,345** | **12,144** |

# 17. INCOME TAXES

Income tax recovery is comprised of the following:

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Current tax expense/(recovery): | | |
| Current year | 7 | 56 |
| Adjustments for prior periods | - | (27) |
| | 7 | 29 |
| Deferred tax expense/(recovery): | | |
| Origination and reversal of temporary differences | (297) | (47) |
| Adjustments for prior periods | 157 | (130) |
| | (140) | (177) |
| Total income tax recovery | (133) | (148) |

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

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Loss before taxes | 908 | 1,680 |
| Computed tax recovery at 27% (2017 – 26%) | (245) | (437) |
| Adjusted for the effects of: | | |
| Expenses not deductible for tax purposes | 104 | 170 |
| Change in unrecognized deferred tax assets | (64) | - |
| Adjustments for prior periods | 157 | (157) |
| Foreign rate differences | (12) | 57 |
| Effects of tax rate changes | 16 | (89) |
| Other | (89) | 308 |
| Income tax expense recovery | (133) | (148) |

Non-deductible expenses consist primarily of share-based compensation expense and meals and entertainment costs. The valuation adjustments associated with the unused tax losses are described below.

## 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, 2018 | 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 | 2,424 | (274) | - | - | 2,150 |
| Losses available for future periods | 1,882 | 491 | (705) | (51) | 1,617 |
| Tangible assets | 1,149 | (189) | 2 | - | 962 |
| Warranty and other provisions | 248 | 110 | 38 | (4) | 392 |
| Intangible assets | 1,062 | 42 | (238) | (6) | 860 |
| Inventory | 275 | (256) | - | - | 19 |
| Share issuance costs | 204 | (103) | - | - | 101 |
| Other | 7 | (11) | 68 | 18 | 82 |
| | 7,251 | (190) | (835) | (43) | 6,183 |
| Deferred income tax liabilities | | | | | |
| Intangible assets | (640) | 69 | - | 22 | (549) |
| Warranty and other provisions | (139) | 54 | - | - | (85) |
| Undistributed earnings | (312) | 65 | - | 16 | (231) |
| Investment tax credits | (465) | 142 | - | - | (323) |
| | (1,556) | 330 | - | 38 | (1,188) |

| 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) |

In the Consolidated Statements of Financial Position, deferred income tax assets have been presented as $5,840 (2017 - $6,661) and deferred income tax liabilities have been presented as $735 (2017 - $966). Included in assets held for sale are deferred tax assets of $223 (2017- nil) and included in liabilities held for sale are deferred tax liabilities of $333 (2017 – nil).

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

| | December 31, 2018 | December 31, 2017 |
|---|---:|---:|
| Temporary differences and unused tax losses available to reduce taxable income | | |
| Losses available for future periods | 2,167 | 985 |
| **Total** | **2,167** | **985** |

The Company has approximately $7.96 million of tax losses in various jurisdictions that can be applied to reduce future taxable income in the respective jurisdictions; no deferred tax asset has been recognized in respect of $2.2 million related to a foreign subsidiary. Non-capital losses of $5.663 million relate to Canada and begin to expire in 2033. Capital losses of $0.5 million relate to Canada and have an unlimited carry forward period. Tax losses of $2.2 million relate to a foreign subsidiary and have an unlimited carry forward period.

# 18. DISCONTINUED OPERATIONS

### a) Power Segment

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.

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 October 2018, the Company dissolved Carmanah Solar Power Corporation and settled all outstanding balances within the entity. As a result, the Company reclassified the cumulative amount of other comprehensive income related to foreign currency translation of $423 thousand for this entity to profit from discontinued operations.

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 |
| 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. At December 31, 2018, an escrow receivable of $0.5 million has been recorded under non-trade receivables (2017: $2.0 million). This escrow receivable was received by the Company in February 2019.

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) |
| Income from gain on disposal of discontinued operations, Off-Grid | 10,044 |

**b) Marine, Aviation and Airfield Ground Lighting**

During the fourth quarter of 2018, management announced and entered into a purchase agreement regarding the sale of a significant portion of the assets of the Company including all of the issued and outstanding equity interests of Sabik Oy, Sabik Ou, Sabik PTE Ltd and their respective assets (collectively, “Carmanah’s Marine business”), the business and assets of the Company’s Airfield Ground Lighting business, its Aviation Obstruction Lighting business as well as some miscellaneous business assets that support the businesses to be sold. The sale was completed in January 2019 (see Note 20).

The comparative Consolidated Statement of Income and Total Comprehensive Income and Statement of Cash Flows has been reclassified to present discontinued operations separately from continuing operations and includes items that met the definition of held for sale in 2017 and 2018.

## RESULTS OF DISCONTINUED OPERATIONS

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Revenues | 27,770 | 37,594 |
| Cost of sales | 14,388 | 21,826 |
| **Gross profit** | **13,382** | **15,768** |
| | | |
| Operating expenditures | 8,262 | 11,622 |
| Other expenditures/(income) | 1,836 | (949) |
| **Income before taxes** | **3,284** | **5,095** |
| | | |
| Tax expense | 1,143 | 1,956 |
| **Net income from discontinued operations, before gain/(loss) on disposal** | **2,141** | **3,139** |
| Reclassification of foreign currency translation adjustments on disposal, On-Grid | (423) | **-** |
| Loss on disposal of discontinued operations, On-Grid | - | (300) |
| Income from gain on disposal of discontinued operations, Off-Grid | - | 10,044 |
| **Net income from discontinued operations, net of tax** | **1,718** | **12,883** |
| | | |
| Other comprehensive (loss)/income | (407) | 2,006 |
| **Total comprehensive income** | **1,311** | **14,889** |

**Assets and liabilities held for sale**

As part of the disposal of the subsidiaries and divisions disclosed above, assets and liabilities associated with these businesses have been presented as held for sale. The following are the associated details:

| | Year ended December 31, 2018 |
|---|---|
| Trade and other receivables | 4,637 |
| Cash | 1,178 |
| Inventories | 5,280 |
| Prepaid and other current assets | 1,609 |
| Income tax receivable | 177 |
| Goodwill | 10,857 |
| Capital and intangible assets | 7,738 |
| Deferred tax asset | 223 |
| Assets held for sale | 31,699 |
| | |
| Deferred revenue | 137 |
| Trade and other payables | 1,424 |
| Income tax payable | 10 |
| Deferred tax liability | 333 |
| Provisions | 259 |
| Liabilities held for sale | 2,163 |

## CASH FLOW FROM (USED IN) DISCONTINUED OPERATIONS

| | Years ended December 31, 2018 | 2017 |
|---|---|---|
| Cash provided/(used) by operating activities | 14,136 | (120) |
| Net cash flow from discontinued operations | 14,136 | (120) |

# 19. ACQUISITIONS AND RESTRUCTURING

## EKTA ACQUISITION

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. 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 |

## HELD-FOR-SALE ASSETS

It was announced on December 12, 2018 that Sabik Ou was one of the subsidiaries for which all of the issued and outstanding equity interests would be sold. Therefore, all assets and liabilities of this subsidiary have been classified as held for sale at December 31, 2018 and comparative disclosures adjusted.

## VEGA INDUSTRIES ACQUISITION

On August 1, 2017, the Company acquired the shares of Vega Industries Limited ("Vega"). Vega is a manufacturer in the worldwide marine aids-to-navigation market. The purchase price was NZD $12.0 million (USD $9.0 million) subject to adjustments and holdbacks. The purchase price was reduced by NZD $2.0 million (USD $1.5 million) if the acquiree did not meet certain operating revenue targets for its fiscal year ended March 31, 2018. This is considered contingent consideration receivable and was recorded at its fair value at the date of acquisition, based on the likelihood the revenue target would not be met, and was included as an identifiable asset acquired. As at June 30, 2018, Vega did not meet those targets and we received the full amount held in escrow.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations. The below purchase price allocation for the transaction is final.

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

## HELD-FOR-SALE ASSETS

With the acquisition of Vega, as described above, a restructuring plan was developed in the latter half of 2017 to complete the integration of Vega into the rest of the Marine division.  Under this plan, the Company would eliminate Vega's administrative, back office, and manufacturing functions and migrate its manufacturing facility to Finland and Estonia. This transfer was completed in the fourth quarter of 2018 and all remaining assets and liabilities have been classified as held for sale along with the assets and liabilities of the Marine, Aviation Obstruction and Airfield Ground Lighting verticals as described in Note 18.

### IDC ACQUISITION

On October 2, 2018, the Company acquired the shares of Information Display Company ("IDC"). IDC is a U.S manufacturer of radar speed signs and other speed displays. The purchase price totaled $1.5 million and IDC's results have been included within the Company's Signals segment.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations. The below purchase price allocation for the transaction at December 31, 2018, represents management's best estimates of these values.

| | Preliminary Allocation |
|---|---:|
| Cash consideration | 1,521 |
| **Total consideration** | **1,521** |
| | |
| Identifiable assets acquired and liabilities assumed | |
| Cash | 24 |
| Trade and other receivables | 469 |
| Inventories | 257 |
| Other assets | 31 |
| Intangible assets | 33 |
| Trade and other payables | (153) |
| Goodwill | 860 |
| **Total** | **1,521** |

## 20. SUBSEQUENT EVENTS

On February 1, 2019, the Company completed the sale of its Marine business, the business and assets of the Company's Airfield Ground Lighting business, its Aviation Obstruction business as well as some miscellaneous assets that support these businesses to SPX Corporation ("SPX"). The proceeds of the sale were $77.6 million subject to finalizing working capital adjustments.

Management is in the process of determining the financial effect of the sale.