# CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2013 and 2012
(Amounts in thousands of U.S. dollars unless otherwise stated)

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | March 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 2,029 | 2,533 |
| Restricted cash | | - | 154 |
| Trade and other receivables | | 5,360 | 4,501 |
| Inventories | 3 | 2,948 | 3,226 |
| Prepaid and other current assets | | 534 | 416 |
| Total current assets | | 10,871 | 10,830 |
| Equipment and leasehold improvements | 4 | 1,080 | 1,098 |
| Intangible assets | 5 | 1,724 | 1,248 |
| **Total assets** | | **13,675** | **13,176** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Trade and other payables | | 4,141 | 3,861 |
| Provisions | | 765 | 550 |
| Deferred revenue | | 147 | 69 |
| Current liabilities | | 5,053 | 4,480 |
| **Equity** | | | |
| Share capital | | 37,602 | 36,982 |
| Equity reserve | 8 | 3,014 | 2,982 |
| Accumulated other comprehensive loss | | (14) | - |
| Deficit | | (31,980) | (31,268) |
| Total equity | | 8,622 | 8,696 |
| **Total liabilities and equity** | | **13,675** | **13,176** |

Commitments and contingencies – note 7

Approved and authorized for issue by the Board of Directors on May 14, 2013

Bruce Cousins, Chief Executive Officer

Robert Cruickshank, Chair of the Board

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Three months ended March 31, 2013 | 2012 |
|---|---|---|---|
| Revenues | | 6,965 | 5,357 |
| Cost of sales | | 4,858 | 3,364 |
| Gross profit | | 2,107 | 1,993 |
| | | | |
| Operating expenditures | | | |
| Sales and marketing | 0 | 954 | 999 |
| Research, engineering and development | 0 | 593 | 506 |
| General and administrative | 0 | 1,254 | 1,434 |
| Total operating expenditures | | 2,801 | 2,939 |
| | | | |
| Operating (loss)/income | | (694) | (946) |
| | | | |
| Other income/(expenses) | | | |
| Gain on disposal of assets | | 2 | - |
| Other income | | 17 | 1 |
| Foreign exchange (loss)/gain | | (35) | 34 |
| | | (16) | 35 |
| | | | |
| Loss before taxes | | (710) | (911) |
| | | | |
| Income tax expense | | (2) | - |
| | | | |
| **Net loss** | | **(712)** | **(911)** |
| | | | |
| Other comprehensive loss | | | |
| Foreign currency translation adjustments | | (14) | - |
| | | (14) | - |
| | | | |
| **Total comprehensive loss** | | **(726)** | **(911)** |
| | | | |
| Net loss per share | | | |
| Basic | | (0.01) | (0.02) |
| Diluted | | (0.01) | (0.02) |
| | | | |
| Weighted average number of shares outstanding: | | | |
| Basic | | 50,031,533 | 43,295,097 |
| Diluted | | 50,031,533 | 43,295,097 |

# CARMANAH TECHNOLOGIES CORPORATION
Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in thousands of U.S. dollars, except number of shares)
(Unaudited)

| | Notes | Issued capital *# shares* | Issued capital Amount | Equity reserve | Subtotal | Deficit | Accumulated other comprehensive loss | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | *('000)* | | | | | | |
| Balance, January 1, 2012 | | *43,074* | 34,742 | 3,204 | 37,946 | (27,347) | - | 10,599 |
| Net loss | | - | - | - | - | (911) | - | (911) |
| Share-based payments | 8 | - | - | 61 | 61 | - | - | 61 |
| Shares issued under stock compensation plans | | *254* | 175 | (175) | - | - | - | - |
| Balance, March 31, 2012 | | *43,328* | 34,917 | 3,090 | 38,007 | (28,258) | - | 9,749 |
| Net loss | | - | - | - | - | (3,010) | - | (3,010) |
| Share-based payments | | - | - | 196 | 196 | - | - | 196 |
| Shares issued under stock compensation plans | | *560* | 304 | (304) | - | - | - | - |
| Shares issued in private placement, net of issuance cost of $48 | | *3,982* | 1,761 | - | 1,761 | - | - | 1,761 |
| Balance, December 31, 2012 | | *47,870* | 36,982 | 2,982 | 39,964 | (31,268) | - | 8,696 |
| Net loss | | - | - | - | - | (712) | - | (712) |
| Share-based payments | 8 | - | - | 45 | 45 | - | - | 45 |
| Shares issued to acquire Spot Devices Inc. | 11 | *2,222* | 607 | - | 607 | | | 607 |
| Shares issued under stock compensation plans | | *42* | 13 | (13) | - | - | - | - |
| Foreign currency translation adjustments | | - | - | - | - | - | *(14)* | *(14)* |
| Balance, March 31, 2013 | | *50,134* | 37,602 | 3,014 | 40,616 | (31,980) | (14) | 8,622 |

# CARMANAH TECHNOLOGIES CORPORATION

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

| | | Three months ended March 31, | |
|---|---|---|---|
| | Notes | 2013 | 2012 |
| OPERATING ACTIVITIES | | | |
| Net loss | | (712) | (911) |
| Add back (deduct) items not involving cash: | | | |
| Amortization | | 235 | 277 |
| Gain on disposal of assets | | (2) | - |
| Share-based payments | | 45 | 61 |
| Unrealized foreign exchange (gain) loss | | (23) | 34 |
| Changes in working capital and other items: | | | |
| Trade and other receivables | | (859) | 1,326 |
| Inventories | | 278 | (157) |
| Prepaids and other current assets | | (118) | (72) |
| Trade and other payables | | 280 | (1,171) |
| Provisions | | 215 | (60) |
| Deferred revenue | | 78 | 174 |
| Net cash used in operating activities | | (583) | (499) |
| | | | |
| INVESTING ACTIVITIES | | | |
| Proceeds from sale of assets | | 6 | - |
| Purchase of equipment and leasehold improvements | | (79) | (52) |
| Purchase of intangible assets | | (25) | (19) |
| Net cash used in investing activities | | (98) | (71) |
| | | | |
| Foreign exchange effect on cash | | 23 | (34) |
| Decrease in cash | | (658) | (604) |
| Cash and restricted cash at beginning of period | | 2,687 | 4,934 |
| Cash and restricted cash at end of period | | 2,029 | 4,330 |

## 1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION

### 1.1. General business description

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

Carmanah is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company’s shares are listed on the Toronto Stock Exchange (“TSX”). The Company’s head office is located at 250 Bay Street, Victoria, British Columbia, Canada, V9A 3K5. The Company’s registered and records office is located at Farris, Vaughan, Wills & Murphy LLP, 25th floor, 700 West Georgia Street, Vancouver British Columbia V7Y 1B3.

### 1.2. Basis of preparation and statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim financial reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2012 and 2011. These condensed consolidated interim 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 market value

There have been no significant changes to the Company’s accounting policies from those disclosed in the consolidated financial statements for the years ended December 31, 2012 and 2011.

Effective January 1, 2013, we adopted the following new or amended accounting standards as issued by the IASB: IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities) and IFRS 13 (Fair Value Measurement), IAS 19 (Employee Benefits) and the amendments to IAS 1 (Presentation of Financial Statements) and IFRS 7 (Financial Instruments - Disclosures). The adoption of these standards and amendments did not have a material impact on the unaudited interim condensed consolidated financial statements except IFRS 23. The Company has provided additional disclosures as a result of this standard (refer to Note 12).

## 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods after March 31, 2013. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the below.

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

- IFRS 9, Financial Instruments (“IFRS 9”) – replaces IAS 39, Financial Instruments: Recognition and measurement (“IAS 39”). IFRS 9 simplifies the classification and measurement requirements for financial instruments, which replaces the multiple classification and measurement models in IAS 39.

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

## 3. INVENTORIES

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Finished goods | 2,131 | 2,319 |
| Raw materials | 1,641 | 1,613 |
| Provision for obsolescence | (824) | (706) |
| Net inventories | 2,948 | 3,226 |

For the three months ended March 31, 2013, inventory recognized as an expense in cost of sales amounted to $4.5 million (March 31, 2012 - $3.2 million). Included in the above amounts were inventory write downs of Nil (March 31, 2012 - $0.1 million). There were no reversals of previous recorded inventory write downs. As at March 31, 2013, the Company anticipates the net inventory will be realized within one year.

## 4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

| | Computer hardware | Leasehold improvements | Office equipment | Production equipment | Research and tradeshow equipment | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance January 1, 2012 | 898 | 621 | 129 | 806 | 542 | 2,996 |
| Additions | 84 | - | - | 30 | 16 | 130 |
| Disposals | - | - | (21) | (68) | (33) | (122) |
| **Balance December 31, 2012** | **982** | **621** | **108** | **768** | **525** | **3,004** |
| Additions | 3 | - | - | 76 | - | 79 |
| Acquisition of Spot (note 11) | - | - | - | 18 | - | 18 |
| Disposals | (1) | - | (6) | - | - | (7) |
| **Balance March 31, 2013** | **984** | **621** | **102** | **862** | **525** | **3,094** |
| **Accumulated amortization** | | | | | | |
| Balance January 1, 2012 | 774 | 46 | 62 | 361 | 322 | 1,565 |
| Amortization for the year | 78 | 124 | 15 | 143 | 97 | 457 |
| Disposals | - | - | (21) | (63) | (32) | (116) |
| **Balance December 31, 2012** | **852** | **170** | **56** | **441** | **387** | **1,906** |
| Amortization for the period | 17 | 31 | 3 | 35 | 25 | 111 |
| Disposals | (1) | - | (2) | - | - | (3) |
| **Balance March 31, 2013** | **868** | **201** | **57** | **476** | **412** | **2,014** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| At December 31, 2012 | 130 | 451 | 52 | 327 | 138 | 1,098 |
| At March 31, 2013 | 116 | 420 | 45 | 386 | 113 | 1,080 |

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

## 5. INTANGIBLE ASSETS

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

| | Patents and trademarks | Software | License rights | Spot (Note 11) | Product development assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance, January 1, 2012 | 669 | 2,159 | - | - | 545 | 3,373 |
| Additions | 60 | 1 | 450 | - | - | 511 |
| **Balance, December 31, 2012** | **729** | **2,160** | **450** | **-** | **545** | **3,884** |
| Additions | 25 | | | 575 | | 600 |
| **Balance, March 31, 2013** | **754** | **2,160** | **450** | **575** | **545** | 4,484 |
| **Accumulated amortization** | | | | | | |
| Balance, January 1, 2012 | 364 | 1,217 | - | - | 413 | 1,994 |
| Amortization for the year | 86 | 361 | 63 | | 132 | 642 |
| **Balance, December 31, 2012** | **450** | **1,578** | **63** | **-** | **545** | **2,636** |
| Amortization for the period | 19 | 83 | 22 | | | 124 |
| **Balance, March 31, 2013** | 469 | 1,661 | 85 | - | 545 | 2,760 |
| **Carrying amounts** | | | | | | |
| At December 31, 2012 | 279 | 582 | 387 | - | - | 1,248 |
| At March 31, 2013 | 285 | 499 | 365 | 575 | - | 1,724 |

Refer to note 11 for further details on the Spot acquisition.

## 6. CREDIT FACILITIES

In 2012, the Company secured a new CDN $5.0 million revolving demand and a CDN $0.5 million term credit facility with Royal Bank of Canada ("RBC"). This new facility replaces a prior credit facility with Bank of Montreal which expired in July 2012. The RBC credit facility carries certain covenants such as earnings and liquidity thresholds that may limit the amount available to the Company. Specifically, the terms of the agreement requires the Company to maintain positive EBITDA in the preceding rolling 4 quarters. As the Company is not currently in compliance, it is prevented from drawing on the facility.

## 7. COMMITMENTS AND CONTINGENCIES

### 7.1. Commitments

Carmanah has an agreement with a contract manufacturer to build and supply a large portion of its manufactured products. Under this agreement, the Company provides demand forecasts to the contract manufacturer outlining expected sales levels. The contract manufacturer utilizes these demand forecasts to acquire raw materials and inventory to support that demand. If sales are below the forecast, the Company will be required to purchase the excess inventory. At March 31, 2013, the contract manufacturer held approximately $1.2 million (December 31, 2012 - $1.1 million) in inventory and $2.0 million (December 31, 2012 - $2.2 million) in outstanding committed purchase orders.

Other than the potential conditional payment outlined in note 11, there have been no significant changes in other contractual obligations since those reported in the financial statements for the year ended December 31, 2012.

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

## 8. SHARE-BASED PAYMENTS

The total compensation expense for the period is outlined in the table below:

| | Notes | Three months March 31, 2013 | 2012 |
|---|---|---|---|
| Stock options | 8.1 | 20 | 29 |
| Share units | 8.2 | 25 | 32 |
| Total compensation expense | | 45 | 61 |

Currently, all outstanding awards issued are equity settled, although the current plan does 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 March 31, 2013:

| | |
|---|---|
| Available shares (10% of outstanding shares at March 31, 2013) | 5,013,407 |
| *Less:* | |
| Stock options outstanding at March 31, 2013 | 2,810,000 |
| Share units outstanding at March 31, 2013 | 173,850 |
| Number of shares issuable under stock based compensation plans | 2,029,557 |

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

### 8.1. Stock options

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, January 1 | 1,445,800 | 0.65 | 2,094,156 | 0.78 |
| Granted | 1,580,000 | 0.29 | - | - |
| Forfeited | (215,800) | (0.99) | - | - |
| Balance, March 31 | 2,810,000 | 0.42 | 2,094,156 | 0.78 |

The following table summarizes the stock options outstanding and exercisable at March 31, 2013 and December 31, 2012. The weighted average exercise price is stated in Canadian dollars:

| | Options outstanding | | | Options exercisable | | |
|---|---|---|---|---|---|---|
| Range (exercise price) | Number | WA[1] remaining life[2] | WA[1] exercise price | Number | WA[1] remaining life[2] | WA[1] exercise price |
| At March 31, 2013 | | | | | | |
| $0.28 to $0.52 | 2,330,000 | 4.5 | $0.36 | 250,000 | 3.5 | $0.50 |
| $0.53 to $0.72 | 276,000 | 2.7 | $0.53 | 184,000 | 2.7 | $0.53 |
| $0.73 to $1.00 | 204,000 | 0.7 | $1.00 | 204,000 | 0.7 | $1.00 |
| | 2,810,000 | 4.0 | $0.42 | 638,000 | 2.4 | $0.67 |
| At December 31, 2012 | | | | | | |
| $0.50 to $0.52 | 750,000 | 3.8 | $0.50 | 250,000 | 3.8 | $0.50 |
| $0.53 to $0.72 | 282,000 | 3.0 | $0.53 | 188,000 | 3.0 | $0.53 |
| $0.73 to $1.03 | 413.800 | 1.0 | $1.00 | 413,800 | 1.0 | $1.00 |
| | 1,445,800 | 2.8 | $0.65 | 851,800 | 2.3 | $0.75 |

1 WA – weighted average

2 – Life in years

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

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the period ended March 31, 2013 was $0.14 CDN per share. There were no options granted during the same period in the prior year. The option valuations were determined using the following weighted average assumptions:

| | Period ending March 31, 2013 |
|---|---|
| Risk-free interest rate | 1.16% |
| Expected dividend yield | 0% |
| Stock price volatility | 68.5% |
| Expected life of options | 3.5 years |

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

**8.2. Share units (RSU/PSU/DSU)**

During the three months ended March 31, 2013, the Company granted 136,114 Restricted Share Units ("RSUs") (2012 – 63,335) with a weighted average fair value of $0.27 CDN per unit (2011 - $0.49 CDN). During the three months ended March 31, 2012, the Company modified the vesting terms of 20,000 RSUs previously granted, with no incremental value associated with the modification. The Company issued no Performance Share Units ("PSUs") during the three months ended March 31, 2013 or 2012.

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

| | Restricted share units | Performance share units | Total share units |
|---|---|---|---|
| Balance January 1, 2013 | 54,340 | 24,932 | 79,272 |
| Granted | 136,114 | - | 136,114 |
| Vested and issued | (37,036) | (4,500) | (41,536) |
| Balance March 31, 2013 | 153,418 | 20,432 | 173,850 |
| | | | |
| Balance, January 1, 2012 | 404,737 | 323,633 | 728,370 |
| Granted | 63,335 | - | 63,335 |
| Vested and issued | (173,921) | (79,768) | (244,951) |
| Balance March 31, 2012 | 294,151 | 243,865 | 538,016 |

Of the share units outstanding at March 31, 2013, 27,781 RSUs were vested but not issued. All of these units vested on March 31, 2013 but were issued in early April 2012 as the markets were closed on the vesting date. Of the share units outstanding at March 31, 2012, 20,831 RSUs were vested but not issued.

There are no performance criteria for any of the share units outstanding at March 31, 2013 other than continued employment within the Company.

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

## 9. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Salaries, commissions and other direct compensation | 1,744 | 1,882 |
| Share-based payments | 45 | 61 |
| Marketing, advertising and other related expenses | 109 | 64 |
| Development expenses | 99 | 48 |
| Travel and related expenses | 120 | 163 |
| Occupancy costs | 103 | 107 |
| Telecom and IT expenses | 152 | 143 |
| Professional fees, insurance and public company costs | 170 | 179 |
| Amortization | 200 | 240 |
| Bank charges and bad debts | 36 | 25 |
| Other expenses | 23 | 27 |
| Total operating expenditures | 2,801 | 2,939 |

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

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

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

## 10. SEGMENTED INFORMATION

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

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

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

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

**For the three months ended March 31, 2013**

| Segment | Revenue | Gross margin | Gross margin % |
|---|---|---|---|
| Traffic | 1,298 | 597 | 46.0% |
| Marine | 825 | 205 | 24.8% |
| Aviation/Obstruction | 1,013 | 327 | 32.3% |
| Outdoor Lighting | 448 | 86 | 19.2% |
| GoPower! | 2,191 | 681 | 31.1% |
| Solar EPC Services | 1,190 | 211 | 17.7% |
| Consolidated | 6,965 | 2,107 | 30.3% |
| | | | |
| Total operating expense | | (2,801) | |
| Other income / (expenses) | | (16) | |
| Loss before taxes | | (710) | |

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

**For the three months ended March 31, 2012**

| Segment | Revenue | Gross margin | Gross margin % |
|---|---|---|---|
| Traffic | 540 | 203 | 37.6% |
| Marine | 1,449 | 555 | 38.3% |
| Aviation/Obstruction | 945 | 443 | 46.9% |
| Outdoor Lighting | 776 | 221 | 28.5% |
| GoPower! | 1,593 | 575 | 36.1% |
| Solar EPC Services | 54 | (4) | (7.40)% |
| Consolidated | 5,357 | 1,993 | 37.2% |
| | | | |
| Total operating expense | | (2,939) | |
| Other income / (expenses) | | 35 | |
| | | | |
| Loss before taxes | | (911) | |

**Geographic**

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

| | Three months ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| North America | 6,302 | 4,347 |
| South America | 142 | 203 |
| Europe | 446 | 531 |
| Middle East and Africa | 46 | 108 |
| Asia Pacific | 29 | 168 |
| Total revenues | 6,965 | 5,357 |

As at March 31, 2013, substantially all of the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of America of $1.6 million (December 31, 2012 - $1.2 million).

## 11. ACQUISITION OF SPOT DEVICES INC.

On January 4, 2013, the Company signed an asset purchase agreement to acquire the business assets of Spot Devices Inc ("SDI" or "Spot"). This agreement provided for the transfer of various business assets to Carmanah, and a royalty free right to license a proprietary System Infrastructure Management Application ("SIMA") software from an associated company of Spot, Cirrus Systems, LLC ("Cirrus"). The license agreement for SIMA was not signed on January 4th, and as of the date of these condensed consolidated interim financial statements, management is still negotiating the terms of this agreement. The outcome of these negotiations may impact the preliminary purchase price allocation noted below.

Spot is a US manufacturer of a complete line of pedestrian and school zone traffic device systems that have an available unique remote monitoring and management system (SIMA) which was exclusive to Spot.

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

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

The initial payment was made through the issuance of 2,222,222 common shares of Carmanah issued upon closing. The share price on January 4, 2013 was CDN $0.27. The agreement also includes a conditional payment payable in cash which is based upon cumulative Gross Revenues earned over the calendar years 2013 and 2014. It is calculated as 12.5% of the portion of cumulative 2013 and 2014 Gross Revenues from the sale of the combined Traffic products exceeding $17,500,000. The current forecasted revenues for 2013 and 2014 within the Traffic vertical fall below the threshold. There was no value attributed to this conditional payment at acquisition.

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

| | $ |
|---|---|
| **Consideration** | |
| Fair-value of shares issued | 607 |
| | |
| **Identifiable assets acquired and liabilities assumed** | |
| Inventory | 265 |
| Equipment | 18 |
| Customer list and other intangibles | 574 |
| Product warranty liability | (250) |
| Identifiable net assets acquired | 607 |

This acquisition contributed approximately $0.6 million in revenues and $0.3 million in gross margins during the first quarter of 2013. This amount solely relates to Spot products sold during the period, and would exclude sales of existing traffic products to their customers and incremental operating costs associated with supporting this business, as these are not tracked or practically determinable.

As at the date these consolidated financial statements were issued, the allocation of the purchase price is based on preliminary estimates and has not been finalized. The Company is currently in the process of assessing the fair values of identifiable assets acquired and liabilities assumed and measuring the potential goodwill. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary purchase price allocation and are subject to change.

## 12. FINANCIAL INSTRUMENTS

### Classification and carrying value

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Loans and receivables** | | |
| Cash and restricted cash | 2,029 | 2,687 |
| Trade and other receivables | 5,360 | 4,501 |
| | | |
| **Other financial liabilities** | | |
| Trade and other payables | 4,141 | 3,861 |

**Fair value**

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

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

The Company does not have any financial instruments at fair value at March 31, 2013.

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