CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2014 and 2013
(Amounts in thousands of U.S. dollars unless otherwise stated)
(Unaudited)

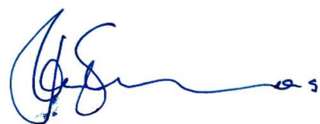
CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	March 31, 2014	December 31, 2013
ASSETS			
Cash		5,101	5,197
Restricted cash		30	45
Trade and other receivables		6,415	5,614
Inventories	3	2,115	2,967
Prepaid and other current assets		484	303
Total current assets		14,145	14,126
Equipment and leasehold improvements	4	615	682
Intangible assets	5	321	149
Total assets		**15,081**	**14,957**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		4,911	4,763
Provisions		850	850
Deferred revenue		324	416
Current liabilities		6,085	6,029
Equity			
Share capital	7	42,870	42,870
Equity reserve	8	2,983	2,966
Accumulated other comprehensive loss		(102)	(76)
Deficit		(36,755)	(36,832)
Total equity		8,996	8,928
Total liabilities and equity		**15,081**	**14,957**

Commitments and contingencies – note 6
Subsequent events – note 15

Approved and authorized for issue by the Board of Directors on May 7, 2014



____
John Simmons, Chief Executive Officer

____
Terry Holland, Director

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Three months ended March 31, 2014	2013
Revenues	10	9,119	6,965
Cost of sales	10	6,134	4,858
Gross profit	10	2,985	2,107
Operating expenditures			
Sales and marketing	9	993	954
Research and development	9	304	593
General and administrative	9	1,167	1,254
Total operating expenditures		2,464	2,801
Operating Income/(loss)		521	(694)
Other income/(expenses)			
Gain on disposal of assets		-	2
Other expenses	14	(275)	17
Foreign exchange loss		(170)	(35)
		(445)	(16)
Income/(loss) before taxes		76	(710)
Income tax recovery/(expense)		1	(2)
Net income/(loss) attributable to shareholders		77	(712)
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustments		(26)	(14)
Total comprehensive income/(loss)		51	(726)
Net income/(loss) per share			
Basic and diluted		0.00	(0.01)
Weighted average number of shares outstanding:			
Basic and diluted		100,612,011	50,031,533

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Share capital		Equity reserve	Subtotal	Accumulated other comprehensive loss	Deficit	Total equity
		# of shares	Amount					
		('000)						
Balance, January 1, 2013		*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.		*2,222*	607	-	607			607
Shares issued under stock compensation plans	7	*42*	13	(13)	-	-	-	-
Foreign currency translation adjustments		-	-	-	-	*(14)*	-	*(14)*
Balance, March 31, 2013		*50,134*	37,602	3,014	40,616	(14)	(31,980)	8,622
Net loss		-	-	-	-	-	(4,852)	(4,852)
Share-based payments	8	-	-	1	1	-	-	1
Shares issued under stock compensation plans		*184*	49	(49)	-	-	-	-
Shares issued in rights offering, net of issuance costs of $491	7	*50,294*	5,219	-	5,219	-	-	5,219
Foreign currency translation adjustments		-	-	-	-	(62)	-	(62)
Balance, December 31, 2013		*100,612*	42,870	2,966	45,836	(76)	(36,832)	8,928
Net income		-	-	-	-	-	77	77
Share-based payments		-	-	17	17	-	-	17
Foreign currency translation adjustments		-	-	-	-	(26)	-	(26)
Balance, March 31, 2014		*100,612*	42,870	2,983	45,853	(102)	(36,755)	8,996

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Three months ended March 31, 2014	2013
OPERATING ACTIVITIES			
Net income/(loss)		77	(712)
Add back (deduct) items not involving cash:			
Amortization	4	89	235
Gain on disposal of assets		-	(2)
Share-based payments	8	17	45
Unrealized foreign exchange gain		(104)	(23)
Changes in working capital and other items:			
Trade and other receivables		(801)	(859)
Inventories		852	278
Prepaids and other current assets		(181)	(118)
Trade and other payables		148	280
Provisions		-	215
Deferred revenue		(92)	78
Restricted cash		15	154
Net cash provided by (used in) operating activities		20	(429)
INVESTING ACTIVITIES			
Proceeds from disposal of assets		-	6
Purchase of equipment and leasehold improvements	4	(7)	(79)
Purchase of intangible assets	5	(187)	(25)
Net cash used in investing activities		(194)	(98)
Foreign exchange effect on cash		78	23
Decrease in cash		(96)	(504)
Cash at beginning of period		5,197	2,533
Cash at end of period		5,101	2,029

1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION

1.1. General business description

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

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

1.2. Basis of preparation and statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34 – Interim financial reporting* (International Account Standard) which is in accordance with International Financial Reporting Standards ("IFRS"). 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, 2013. 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 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, 2013 and 2012. There have also been no significant changes in judgements or estimates from those disclosed in the consolidated financial statements for the years ended December 31, 2013 and 2012.

2. NEW ACCOUNTING STANDARDS

2.1. Accounting standards adopted in 2014

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 was effective January 1, 2014 and was applied retrospectively. The adoption of this interpretation did not have a significant impact on the Company's condensed interim consolidated financial statements.

2.2. Future Accounting standards

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

3. INVENTORIES

	March 31, 2014	December 31, 2013
Finished goods	1,941	2,830
Raw materials	1,108	1,123
Provision for obsolescence	(934)	(986)
Net inventories	2,115	2,967

For the three months ended March 31, 2014, inventory recognized as an expense in cost of sales amounted to $6.0 million (March 31, 2013 - $4.5 million). Included in the above amounts were inventory write downs of $0.1 milllion for the three months ended March 31, 2014 (March 31, 2013 – Nil). There were no reversals of previously recorded inventory write downs. As at March 31, 2014, 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 at January 1, 2013	982	621	108	768	525	3,004
Additions	12	-	8	184	-	204
Disposals	(480)	(22)	(37)	-	(56)	(595)
Balance at December 31, 2013	**514**	**599**	**79**	**952**	**469**	**2,613**
Additions	3	-	4	-	-	7
Balance at March 31, 2014	**517**	**599**	**83**	**952**	**469**	**2,620**
Accumulated amortization						
Balance at January 1, 2013	852	170	56	441	387	1,906
Amortization for the year	58	124	12	159	94	447
Impairment loss recognized	-	-	-	158	-	158
Disposals	(477)	(21)	(32)	-	(50)	(580)
Balance at December 31, 2013	**433**	**273**	**36**	**758**	**431**	**1,931**
Amortization for the period	11	30	2	13	18	75
Balance at March 31, 2014	**444**	**303**	**38**	**771**	**449**	**2,006**
Carrying amounts						
At December 31, 2013	81	326	43	194	38	682
At March 31, 2014	73	296	45	181	20	615

During 2013, the Company recognized an impairment loss of $0.2 million associated with production equipment relating to the Company's Outdoor Lighting segment. These production assets primarily relate to the higher end product offered within this market segment. Revenues from these higher priced systems have been declining recently due to competitive and cost pressures, with many customers switching to the Company's lower cost systems. Management expects this trend to continue and therefore has recognized an impairment loss.

5. INTANGIBLE ASSETS

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

	Patents and trademarks	Software	License rights	Product development assets	Spot acquired intangibles	Total
Cost						
Balance at January 1, 2013	729	2,160	450	545	-	3,884
Additions	72	12	450	-	623	707
Disposals	-	(394)	-	-	-	(394)
Balance at December 31, 2013	**801**	**1,778**	**450**	**545**	**623**	**4,197**
Additions	6	181	-	-	-	187
Balance at March 31, 2014	**807**	**1,959**	**450**	**545**	**623**	**4,384**
Accumulated amortization						
Balance at January 1, 2013	450	1,578	63	545	-	2,636
Impairment losses recognized	140	212	342	-	623	1,317
Disposals	-	(394)	-	-	-	(394)
Amortization for the year	81	363	45	-	-	489
Balance at December 31, 2013	**671**	**1,759**	**450**	**545**	**623**	**4,048**
Amortization for the period	11	4	-	-	-	15
Balance at March 31, 2014	**682**	**1,763**	**450**	**545**	**623**	**4,063**
Carrying amounts						
At December 31, 2013	130	19	-	-	-	149
At March 31, 2014	125	196	-	-	-	321

During 2013, the Company recognized an impairment loss of $0.1 million associated with certain patents assets, and $0.2 million associated with software assets. The patent impairment was the result of recent and pending changes to the Company's product offering. The software impairment relates to the Company's ERP system which will be replaced during 2014. Management decided to replace the ERP system as it was determined to be too expensive and inefficient based on the size and complexity of the Company's operations.

During 2013, the Company recognized an impairment loss of $0.3 million associated with its license rights asset. The license rights asset related to a five year exclusive world-wide marketing license with Laser Guidance Inc ("LG") which was signed in May 2012. Under this agreement, the Company had access to a portfolio of tactical (e.g. mobile) aviation related precision mobile laser guidance approach systems that were designed and manufactured by LG. The Company had made fixed payments to LG totaling $0.45 million and had been amortizing this amount over the term of the agreement. As of December 31, 2013, no sales had been made as a result of this agreement. Previous impairment analysis indicated a meaningful volume of sales opportunities, with most underlying projects having longer sales cycles. During 2013, a detailed review of the sales opportunities found that they were related to non-tactical (e.g. fixed) approach systems, which were not covered by this agreement. As a result of this and continued uncertainties surrounding the success of the Company's sales efforts associated with products covered under this agreement, this asset was impaired.

As detailed in note 11, intangible assets of approximately $0.6 million were recognized on the acquisition of Spot Devices Inc. ("Spot"). At closing, the "acquired intangibles" were primarily related to customer lists, sales backlogs, product and associated regulatory certifications, and license rights to a proprietary software system referred to as System Infrastructure Management Application ("SIMA"). An impairment of $0.6 million was recognized in the second quarter of 2013, as a result of factors outlined in note 11.

6. COMMITMENTS AND CONTINGENCIES

6.1. Commitments

Carmanah has agreements with contract manufacturers to build and supply its manufactured products. Under these agreements, the Company will be liable for inventory and outstanding committed purchase orders. Carmanah's largest contract manufacturer, Flextronics, requires Carmanah to purchase excess raw inventory which arises in situations where the Company's demand forecasts for particular product is less than actual use or sales in a given period. At March 31, 2014, the contract manufacturer held approximately $1.1 million (December 31, 2013 - $0.9 million) in inventory and $1.3 million (December 31, 2013 - $1.8 million) in outstanding committed purchase orders.

6.2. Contingent liabilities

On July 18, 2013, the Company was named in a United States District Court lawsuit filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. (all of which are related parties – collectively the "Plaintiffs") alleging patent infringement with respect to a specific flash pattern used with respect to Carmanah's solar powered flashing beacons for the traffic safety market and other claims relating to advertising and business practices. Various actions have been taken in regards to this matter, including an unsuccessful application by the Plaintiff for a temporary restraining order and a motion for a preliminary injunction and a countersuit against the Plaintiffs with respects to a similar patent held by the Company. In early 2014, the Company's application to re-examine a number of aspects of the Plaintiffs patent was accepted by the US patent office. The outcome of this review was positive, with the examiner agreeing with the Company's position. The Plaintiff can still appeal this decision. The outcome of this case is not certain and the Company intends to continue to defend itself and file additional responses to the Court as required to do so. As the outcome of these matters is not currently determinable, no provision has been made at March 31, 2014. During the three months ended March 31, 2014 the company has incurred legal fees of approximately $0.2 million relating to this lawsuit.

6.3. Credit facilities

The Company does not currently have access to a credit facility. Any credit extended to Carmanah by the Company's bank, Royal Bank of Canada ("RBC"), for products such as letters of credits, credit cards, and foreign exchange hedges are on a cash secured basis.

7. SHARE CAPITAL

All shares are fully paid common shares which have no par value.

In September 2013, the Company announced a plan to raise approximately $6.0 million (CAD) through a Shareholders Rights Offering (the "Offering"). Under the Offering, each shareholder was given one right for each share held on the applicable record date. Each right was exercisable for one common share at a subscription price of $0.12 (CAD). In connection with the Offering, the Company entered into a binding standby purchase agreement with a group of investors, who had committed, subject to certain conditions, to purchase up to $5.5 (CAD) million of the rights shares not otherwise subscribed for by other holders. The rights offering closed on November 19, 2013 without the need to engage the standby group of investors. The Company raised gross proceeds of $6.0 million (CAD) less issuance costs of $0.5 million (CAD). A total of 50,294,200 shares were issued under the offering.

On March 31, 2014, the Company announced a private placement offering to raise approximately $4.2 million (CAD) through the issuance of 19,300,000 shares. The details of this transaction are described under subsequent events in note 15.

8. SHARE-BASED PAYMENTS

The total compensation expense associated with share-based payment plans are outlined in the table below:

Three months ended March 31,	2014	2013
Stock options	17	20
Share units	-	25
Total compensation expense	17	45

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 March 31, 2014:

Available shares (10% of outstanding shares at March 31, 2014)	10,061,201
Less:	
Stock options outstanding at March 31, 2014	(3,772,000)
Share units outstanding at March 31, 2014	-
Number of shares issuable under stock-based compensation plans	6,289,201

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

Subsequent to March 31, 2014, the Company granted 6,629,500 stock options to its employees as apart of its long term compensation program. Details of this grant are outlined in note 15.

8.1. Stock options

The following is a reconciliation of stock options outstanding between January 1, 2013 through March 31, 2014. The weighted average exercise price is stated in Canadian dollars.

	Number of options	Weighted average exercise price
Balance, January 1, 2013	1,445,800	0.65
Granted	1,580,000	0.29
Forfeited	(215,800)	0.99
Balance, March 31, 2013	2,810,000	0.42
Granted	3,200,000	0.17
Forfeited	(1,896,000)	0.45
Balance, December 31, 2013	4,114,000	0.21
Granted	-	-
Forfeited	(342,000)	0.46
Balance, March 31, 2014	3,772,000	0.19

The following table summarizes the stock options outstanding and exercisable at March 31, 2014 and December 31, 2013. The weighted average exercise price is stated in Canadian dollars:

	Options outstanding			Options exercisable		
Range (exercise price)	Number	WA[1] remaining life[2]	WA[1] exercise price	Number	WA[1] remaining life[2]	WA[1] exercise price
At December 31, 2013						
$0.15 to $0.25	3,000,000	6.9	$0.15	-	-	-
$0.26 to $0.50	780,000	4.2	$0.29	163,294	4.2	$0.29
$0.51 to $1.00	334,000	2.7	$0.60	284,000	2.4	$0.57
	4,114,000	6.0	$0.21	447,294	3.0	$0.47
At March 31, 2014						
$0.15 to $0.25	3,000,000	6.6	$0.15	-	-	-
$0.26 to $0.50	580,000	4.0	$0.29	193,268	4.0	$0.29
$0.51 to $1.00	192,000	1.7	$0.53	192,000	1.7	$0.53
	3,772,000	6.0	$0.19	385,268	2.9	$0.41

1 - WA – weighted average / 2 – Life in years

The Company uses the Black-Scholes option pricing model to calculate the weighted average fair value of options granted. There were no options granted during the three months ended March 31, 2014. For options granted in the three months ended March 31, 2013, the weighted average fair value was $0.14 per share and was determined using the following weighted average assumptions:

	Period ended March 31, 2014	2013
Risk-free interest rate	NA	1.2%
Expected dividend yield	NA	0%
Forfeiture rate	NA	14.1%
Stock price volatility	NA	68.5%
Expected life of options	NA	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)

During the three months ended March 31, 2014, Carmanah granted no RSUs. During the three months ended March 31, 2013, Carmanah granted 136,114 RSUs with a weighted average fair value per unit $0.27 CDN.

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

	Restricted share units	Performance share units	Total share units
Balance January 1, 2013	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
Granted	65,159	-	65,159
Forfeited	(45,053)	(10,216)	(55,269)
Vested and issued	(173,524)	(10,216)	(183,740)
Balance December 31, 2013	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested and issued	-	-	-
Balance March 31, 2014	-	-	-

9. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended March31,	
	2014	2013
Salaries, commissions and other direct compensation	1,537	1,744
Professional fees, insurance and public company costs	396	170
Telecom and IT expenses	126	152
Travel and related expenses	88	120
Occupancy costs	87	103
Marketing, advertising and other related expenses	80	109
Amortization	76	200
Bank charges and bad debts	25	36
Share-based payments	17	45
Development expenses	16	99
Other expenses	16	23
Total operating expenditures	2,464	2,801

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

10. SEGMENTED INFORMATION

In January 2014 the Company realigned its reportable segments to better reflect the strategic nature of its underlying businesses and how they will be managed going forward. As a result, the Company's reportable segments are now broken into "Signals" and "Power". The Signals segment includes results from the Company's Traffic, Marine, Aviation and Obstruction verticals. The Power segment includes results from the Company's Outdoor Lighting, GoPower! and Solar EPC Services verticals. The 2013 results have been restated to reflect this new alignment. The following table provides an overview of these segments and underlying verticals.

Reporting Segment and Underlying Products/Verticals	Products offered/Markets served
Signals	
Traffic	Solar LED flashing beacons for various roadway applications, mainly focused on the North American market.
Marine	A complete range of marine lighting solutions sold worldwide, including a variety of products manufactured by Sabik under a partnership arrangement.
Aviation	LED aviation lighting sold worldwide - the Company offers total airfield solutions, from approach lightings to apron lighting, and both solar to hybrid power systems.
Obstruction	LED obstruction lighting sold worldwide - the Company offers simple and self-contained obstruction marking lights which provide a range of solutions for marking towers and other obstruction to aerial and ground navigation.
Power	
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, the segments share certain inventory and other assets, therefore the Company cannot disclose assets on a segmented basis.

	Signals	Power	Total
For the three months ended March 31, 2014			
Revenue	4,058	5,061	9,119
Gross margin	1,566	1,419	2,985
Gross margin %	38.6%	28.0%	32.7%
Total operating expenses			(2,464)
Other expenses			(445)
Income before taxes			76
For the three months ended March 31, 2013			
Revenue	3,136	3,829	6,965
Gross margin	1,129	978	2,107
Gross margin %	36.0%	25.5%	30.3%
Total operating expenses			(2,801)
Other expenses			(16)
Loss before taxes			(710)

Geographic

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

	Three months ended March 31,	
	2014	2013
North America	6,568	6,302
Europe	1,796	446
South America	491	142
Middle East and Africa	132	46
Asia Pacific	132	29
Total revenues	9,119	6,965

As at March 31, 2014, substantially all of the assets related to the Company's operations were located in Canada except for inventory on hand in the United States of $0.7 million (December 31, 2013 - $1.0 million).

11. ACQUISITION OF SPOT DEVICES INC.

On January 4, 2013 ("Acquisition Date"), the Company signed an asset purchase agreement to acquire the pedestrian and school zone traffic device systems business assets of Spot Devices Inc ("Spot"). This agreement provided for the transfer of various business assets to Carmanah and a royalty free right to license a proprietary SIMA software from an associated company of Spot, Cirrus Systems, LLC ("Cirrus"). The license agreement for SIMA was not signed on January 4, 2013 as certain terms had not been finalized. In early July 2013, Carmanah concluded that it would not be able to sign an agreement as it was unable to secure economically viable license terms for a service that underpinned a number of Spot's acquired traffic products.

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

An initial payment was made through the issuance of 2,222,222 common shares of Carmanah issued upon closing. The share price on January 4, 2013 was CDN $0.27. The agreement also included 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 $17.5 million. Actual traffic revenues from 2013 and current forecasted revenues for 2014 fall below this threshold, therefore no amounts have been recorded.

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

	$
Consideration	
Fair value of shares issued	607
Identifiable assets acquired and liabilities assumed	
Inventory	216
Equipment	18
Customer list and other intangibles	623
Product warranty liability	(250)
Identifiable net assets acquired	607

This acquisition contributed approximately $1.2 million in revenues and $0.6 million in gross margins during the year ended December 31, 2013, most of which was recognized in the first two quarters of 2013. This amount solely related to Spot products sold during the period, and excluded sales of existing traffic products to their customers and incremental operating costs associated with supporting this business, as these were not tracked or practically determinable.

Due to a variety of events that have occurred subsequent to the acquisition, management has concluded the underlying intangibles acquired are impaired. Of the events, most significant was the inability to secure an economically viable SIMA license agreement. This resulted in a large reduction in the number of Spot products that can be sold going forward as SIMA was highly integrated and has resulted in a higher than expected churn rate with legacy customers. Going forward the Company is working to mitigate these factors. However, the Company is uncertain if significant future cash flows will continue to be generated from this acquisition or if it will be able to adequately identify these cash flows. Consequently, management had recognized an impairment of its intangibles assets of approximately $0.6 million in 2013.

12. RESTRUCTURING CHARGES

In the fourth quarter of 2013, the Company presented a restructuring plan designed to restore profitability and position the Company for future growth. Under the plan, Carmanah would terminate 14 employees to help reduce fixed salary costs to more sustainable levels. The Company also closed its remote development office in Burnaby, reorganized its internal departments, and started to execute a plan to replace its current ERP and CRM system with a more cost effective and efficient solution. As a result of the decision to replace the Company's ERP system, Carmanah has recognized an impairment loss of $0.2 million as described in note 5. This amount was presented as an intangible impairment rather than a restructuring cost. The following table summarizes the costs incurred and balances outstanding at March 31, 2014.

	Severance and related benefits	Other exit and other costs	Total
Balance at January 1, 2013	-	-	-
Charges	518	34	552
Cash payments	(312)	(12)	(324)
Balance at December 31, 2013	206	22	228
Cash payments	(67)	-	(67)
Balance at March 31, 2014	139	22	161

13. 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, 2014	December 31, 2013
Loans and receivables		
Cash and restricted cash	5,131	5,242
Trade and other receivables	6,415	5,614
Other financial liabilities		
Trade and other payables	4,911	4,763

Fair value

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

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

The Company does not have any financial instruments at fair value at March 31, 2014 or 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.

14. OTHER EXPENSES

Other expenses primarily relate to merger and acquisition activities, and include legal, due diligence costs, and other related expenditures. During the quarter ended March 31, 2014, the majority of these costs were related to the potential acquisition of SOL Inc ("Sol") as decribed in note 15.

15. SUBSEQUENT EVENTS

Private placement

On March 31, 2014, the Company announced plans for a non-brokered private placement ("Placement") to raise approximately $4.2 million CDN. This Placement closed April 4, 2014 and resulted in the issuance of 19,300,000 common shares at a price of $0.22 a share of which 10,000,000 of common shares were purchased by insiders of the Company. The following insiders with holdings around or above 10% participated in the Private Placement:

- Michael Sonnenfeldt, Carmanah's largest shareholder and Chairman of the Board, subscribed for 3,500,000 Shares under the Private Placement. Subsequent to the Placement, Mr. Sonnenfeldt holds 28,037,778 common shares, representing approximately 23.4% of Carmanah's issued and outstanding common shares.
- Jim Meekison subscribed for 3,000,000 Shares under the Private Placement. Mr. Meekison sits on the Company's Board of Directors and subsequent to the Placement holds 13,178,000 common shares, representing approximately 11.0% of Carmanah's issued and outstanding common shares.

Subsequent to the acquisition, insiders of the Company held approximately 44% of the issued and outstanding common shares. The proceeds from this Placement are to be used for general corporate purposes, specifically working capital.

Acquisition of Sol Inc

On March 21, 2014, the Company announced that it has entered into a binding letter of intent ("LOI") to acquire SOL Inc ("Sol"), a competitor and a related party (see below) in the Company's outdoor lighting segment. Under the terms of the LOI, Carmanah will acquire all of the shares of Sol for the following consideration:

- 38,163,176 common shares of Carmanah, which will be issued from treasury; and
- A royalty or earn-out payable to electing former shareholders of Sol equal to 3% of total revenues received by Carmanah in respects of certain specified prospective sales by Sol provided each identified project results in revenues of at least $5.0 million and are subject to certain conditions.

Michael Sonnenfeldt, a director of Carmanah and Chairman of the Board, currently owns 84.5% of the outstanding shares of Sol as well as 23.4% of the outstanding common shares of Carmanah. As a result, the Acquisition will be considered a "related party transaction" for purposes of applicable Canadian securities laws. As apart of the deal, Mr. Sonnenfeldt will waive receipt of the royalty or earn-out payment which will be then provided on a proportional basis to the other Sol Shareholders.

The acquisition is subject to the successful sign off on a definitive purchase agreement and a variety of approvals, including a vote by shareholders and various regulatory approvals. The Company's shareholders will be voting on the proposed acquisition at the next Annual General Meeting, which is currently scheduled for June 23, 2014. As a result of Mr. Sonnenfeldt's conflict of interest, he is not eligible to vote on the transaction.

This acquisition will be a business combination. The values associated with preliminary purchase price allocation will depend upon the Company's share price upon closing. The primary driver behind the acquisition is to gain economies of scale in the outdoor lighting market.

Stock option grant

On April 10, 2014, the Company's Board of Dirctors approved a grant of 6,629,500 stock options to its employees. These options are apart of the Company's long term compensation strategy and carry an exercise price of $0.25, vest over four years at 25% per year, and expiry after ten years.