CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Financial Statements
For the three months ended March 31, 2018 and 2017
(Amounts in thousands of U.S. dollars unless otherwise stated)

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	March 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	3	8,216	11,823
Trade and other receivables	3	11,158	9,458
Inventories	4	8,094	8,504
Prepaid and other current assets		543	1,576
Income taxes receivable		-	416
Non-trade receivables	3, 7.2(b)	4,293	5,410
Total current assets		32,304	37,187
Property and equipment	5	3,696	3,640
Intangible assets	6	12,211	10,070
Goodwill	6.1	19,020	18,654
Deferred income tax asset		6,385	6,661
Investment tax credits		1,246	945
Other non-current assets		1,447	-
Total assets		**76,309**	**77,157**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	3	6,243	6,265
Bank debt	3	3,394	7,383
Provisions		1,149	1,125
Income taxes payable		555	230
Deferred revenue		777	741
Non-trade payables		146	277
Total current liabilities		12,264	16,021
Other non-current payables		1,440	**-**
Deferred income tax liability	7.2(a)	957	966
Total liabilities		**14,661**	**16,987**
Equity			
Share capital	8	66,242	66,242
Equity reserve	9	2,448	2,326
Accumulated other comprehensive gain		2,063	1,181
Deficit		(9,105)	(9,579)
Total equity		**61,648**	**60,170**
Total liabilities and equity		**76,309**	**77,157**

Commitments and contingencies – note 7

Approved and authorized for issue by the Board of Directors on May 10, 2018

"John Simmons"

John Simmons, Chief Executive Officer

"James Meekison"

James Meekison, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Three months ended March 31, 2018	2017
Revenues		14,942	11,127
Cost of sales		8,606	6,131
Gross profit	11	**6,336**	**4,996**
Operating expenditures			
Sales and marketing		1,285	1,103
Research and development		736	633
General and administrative		3,265	2,333
Restructuring expenses recovery	13	(53)	-
Total operating expenditures	10	5,233	4,069
Total operating income		**1,103**	**927**
Other expenses/(income)			
Loss on disposal of assets		5	-
Other expenses		162	48
Foreign exchange loss/(gain)		45	(1)
Total other expenditures		212	47
Income before taxes		**891**	**880**
Income tax expense		297	271
Net income from continuing operations		**594**	**609**
Net (loss)/income from discontinued operations, net of tax	12	(120)	493
Net income attributable to shareholders		**474**	**1,102**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to net income:			
Foreign currency translation adjustments		796	294
Foreign currency translation adjustments from discontinued operations		86	(16)
Total comprehensive income		**1,356**	**1,380**
Net income per share			
Basic - Continuing operations		*0.03*	*0.02*
Basic - Discontinued operations		*(0.01)*	*0.02*
Total		**0.02**	**0.04**
Diluted - Continuing operations		*0.03*	*0.02*
Diluted - Discontinued operations		*(0.01)*	*0.02*
Total		**0.02**	**0.04**
Weighted average number of shares outstanding (note 9)			
Basic		18,922,210	24,602,504
Diluted		19,255,247	25,033,769

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Share capital *# of shares*	Share capital Amount	Equity reserve	Accumulated other comprehensive (loss)/gain	Deficit	Total equity
		('000)					
Balance, January 1, 2017		***24,602***	**86,376**	**5,065**	**(1,676)**	**(20,974)**	**68,791**
Net income		-	-	-	-	1,102	1,102
Share-based payments	9	-	-	191	-	-	191
Shares issued on stock option exercise	9	-	1	-	-	-	1
Foreign currency translation adjustments		-	-	-	278	-	278
Balance, March 31, 2017		***24,602***	**86,377**	**5,256**	**(1,398)**	**(19,872)**	**70,363**
Net income		-	-	-	-	10,293	10,293
Share-based payments	9	-	-	398	-	-	398
Shares issued on stock option exercise	9	*320*	869	(293)	-	-	576
Shares acquired and cancelled		*(6,000)*	(21,004)	(3,035)	-	-	(24,039)
Foreign currency translation adjustments		-	-	-	2,579	-	2,579
Balance, December 31, 2017		***18,922***	**66,242**	**2,326**	**1,181**	**(9,579)**	**60,170**
Net income		-	-	-	-	474	474
Share-based payments	9	-	-	122	-	-	122
Foreign currency translation adjustments		-	-	-	882	-	882
Balance, March 31, 2018		***18,922***	**66,242**	**2,448**	**2,063**	**(9,105)**	**61,648**

CARMANAH TECHNOLOGIES CORPORATION
Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of U.S. dollars)

	Notes	Three months ended March 31, 2018	2017
OPERATING ACTIVITIES			
Net income		594	609
Add back (deduct) items not involving cash:			
Amortization		772	387
Loss on disposal of assets		5	-
Share-based payments	9	122	177
Unrealized foreign exchange loss		28	89
Recognition of investment tax credits		(301)	261
Deferred income tax expense		267	61
Changes in working capital and other items:			
Trade and other receivables		(1,700)	(858)
Inventories		410	(256)
Prepaids and other current assets		(414)	(213)
Income tax receivable		416	16
Trade and other payables		(502)	535
Provisions		23	(48)
Deferred revenue		36	267
Income tax payable		325	(1)
Net cash provided by operating activities		**81**	**1,026**
INVESTING ACTIVITIES			
Acquisitions, net of cash		-	(1,412)
Purchase of equipment and leasehold improvements	5	(138)	(110)
Purchase of intangible assets	6	(584)	(49)
Net cash used in investing activities		**(722)**	**(1,571)**
FINANCING ACTIVITIES			
Proceeds from exercised stock options	9	-	1
Debt repayments		(4,000)	(494)
Net cash used in financing activities		**(4,000)**	**(493)**
Foreign exchange effect on cash		108	54
Decrease in cash from continuing operations		(4,533)	(984)
Cash provided from discontinued operations	12	926	140
Cash at beginning of period		11,823	21,921
Cash at end of period		8,216	21,077

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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 – Interim financial reporting, as issued by the International Accounting Standards Board (“IASB”). 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 year ended December 31, 2017. 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.

This is the first set of the condensed consolidated interim financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 2.

These condensed consolidated interim financial statements were authorized for issue by the Company’s board of directors on May 10, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied, on a consistent basis, in the preparation of these condensed consolidated interim financial statements are included in the Company’s audited consolidated financial statements for the year ended December 31, 2017. Those accounting policies have been used throughout all periods presented in the condensed consolidated interim financial statements, except as noted below.

2.1 IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) – replaces *IAS 18, Revenue*. IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. 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. The adoption of the new standard does not have a material impact on the comparative information presented.

2.2 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.

2.2 IFRS 9 – Financial Instruments (continued)

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

The following are new accounting policies for financial instruments under IFRS 9.

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

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

2.2 IFRS 9 – Financial Instruments (continued)

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 March 31, 2018.

2.3 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 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is assessing the impact of adopting this standard on its consolidated financial statements.

3. FINANCIAL INSTRUMENTS

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

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	March 31, 2018
Financial Assets				
Cash and cash equivalents	8,250	-	(34)	8,216
Trade and other receivables	11,158	-	-	11,158
Non-trade receivables	4,293	-	-	4,293
Financial Liabilities				
Trade and other payables	-	(6,243)	-	(6,243)
Bank Debt	-	(3,394)	-	(3,394)
Non-trade payables	-	(1,586)	-	(1,586)

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

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)

4. INVENTORIES

	March 31, 2018	December 31, 2017
Finished goods	4,062	4,709
Work in progress	961	837
Raw materials	3,850	3,975
Provision for obsolescence	(779)	(1,017)
Net inventories	**8,094**	**8,504**

For the three months ended March 31, 2018, inventory recognized as an expense in cost of sales amounted to $7.4 million (March 31, 2017 - $5.3 million). Included in the above amounts were inventory write downs of $0.01 million (March 31, 2017 - $0.1 million). There were no reversals of previously recorded inventory write downs. As at March 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 March 31, 2018, the contract manufacturers held approximately $2.0 million (December 31, 2017 - $1.5 million) in inventory and $2.4 million (December 31, 2017 - $1.2 million) in outstanding committed purchase orders.

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

5. PROPERTY AND EQUIPMENT

The Company's 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	1	-	53	-	84	-	-	138
Disposals	(55)	-	-	(9)	-	(10)	-	(74)
Foreign exchange adjustments	5	49	7	6	55	-	1	123
Balance at March 31, 2018	**408**	**2,324**	**937**	**309**	**1,760**	**422**	**9**	**6,169**
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	20	15	21	11	69	2	1	139
Disposals	(51)	-	-	(6)	-	(6)	-	(63)
Foreign exchange adjustments	3	6	5	3	37	-	1	55
Balance March 31, 2018	**251**	**46**	**767**	**127**	**887**	**392**	**3**	**2,473**
Carrying amounts								
At December 31, 2017	178	2,250	136	193	840	36	7	3,640
At March 31, 2018	157	2,278	170	182	873	30	6	3,696

* At March 31, 2018, land and building with a carrying value of $2.3 million (December 31, 2017 – $2.3 million) have been pledged as security for the CIBC credit facility.

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

6. 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**
Additions	2,463	41	-	-	-	-	2,504
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	4	165	115	65	28	377
Balance March 31, 2018	**3,199**	**1,332**	**5,964**	**4,466**	**2,392**	**1,001**	**18,354**
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	55	73	140	365	-	-	633
Disposals	-	(86)	-	-	-	-	(86)
Foreign exchange adjustments	-	2	44	33	-	28	107
Balance March 31, 2018	**781**	**745**	**1,750**	**1,866**	-	**1,001**	**6,143**
Carrying amounts							
At December 31, 2017	10	617	4,233	2,883	2,327	-	10,070
At March 31, 2018	2,418	587	4,214	2,600	2,392	-	12,211

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

6.1. Goodwill

	Illumination	Signals	Total
Balance, December 31, 2017	5,746	12,908	18,654
Foreign exchange adjustment	-	366	366
Balance, March 31, 2018	5,746	13,274	19,020

7. COMMITMENTS AND CONTINGENCIES

7.1. Commitments

See Note 4 Inventories.

7.2. 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. Various actions were taken in regards to this matter, including a successful application to have the underlying patents reexamined by the U.S Patent Office which resulted in many aspects of the patents being rejected. The Plaintiffs have appealed this judgment. Pending that action, the original court proceedings have been stayed.

In early March 2015, the Company filed a civil lawsuit in the Supreme Court of British Columbia against Royal & Sun Alliance Insurance Company of Canada (“RSA”) and Integro (Canada) Ltd. (“Integro”) operating as Integro Insurance Brokers. The lawsuit has been filed against RSA to obtain coverage of the claims brought in the US and indemnity of defense costs incurred in the US litigation. The lawsuit against Integro alleges negligence for failing to notify RSA of the above-noted US claims in a timely manner. The lawsuit seeks a declaration of coverage and to recover legal defense costs with respect to the US litigation. In late April 2016, the Company reached a settlement with the defendants during mediation as described in section 3. Under the settlement, the Company received $0.4 million (CAD $0.5 million) for past defense costs and damages. These funds were received in late July 2016. Within the settlement agreement, RSA has agreed to cover 70% of future defense costs incurred on a go forward basis. However, if the underlying action proceeds to trial and a verdict is rendered, a reallocation of the go forward defense costs may occur.

In June 2016, the Company was named in another lawsuit filed in a United States District Court filed by R.D. Jones, Stop Experts, Inc., and RRFB Global, Inc. alleging additional patent infringement of a patent which was granted in September 2015. In early 2017, this case was stayed pending a Reissue Patent Application associated with the new patent involved in the second case. On March 20, 2018, the Company 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. 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”), whose assets were sold along with the On-Grid vertical as described in Note 21 of the audited consolidated financial statements for the year ended December 31, 2017, contracted with Hydro Ottawa Holding Inc. (“Hydro Ottawa”) for the design and build of eight solar power projects totaling $4.8 million. These contracts were largely completed and invoiced when on January 3, 2017 Hydro Ottawa served notice to terminate the contract citing project delays. Subsequently, on June 21, 2017, Hydro Ottawa provided notice that it would incur costs of between $0.9 million and $1.0 million to fully complete the contracts. CSPC is disputing these amounts. CSPC believes that the work required to complete and test the projects is inconsequential. Hydro Ottawa is also seeking an additional amount for liquidated damages in the amount of $0.9 million and an additional amount for lost revenue in the amount of $0.7 million. This receivable, along with several others was not sold along with the rest of the assets of CSPC and has been retained by the Company. On March 14, 2018, CSPC entered into a settlement with Hydro Ottawa. As a result of the resolution, Carmanah incurred a one-time charge of $1.7 million, negatively impacting the net income from discontinued operations in the fourth quarter of 2017, this matter is considered closed with no further obligations by either party.

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

(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 March 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.

7.3. Credit facilities

Sabik Oy has access to an operating line and a loan with Nordea (the "Nordea Facility"), a Finnish financial institution. The loan and operating line is secured by Carmanah through a letter of credit drawn from the CIBC credit facility and is repayable on demand. As of March 31, 2018, Sabik Oy had drawn €0.4 million (USD $0.4 million) from the operating line for short-term working capital needs. It carries and interest rate of EURIBOR plus 1.35% and was drawn upon for short term working capital needs.

7.4. 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.

8. 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.

9. SHARE-BASED PAYMENTS

The total compensation expense, for continuing operations for these share-based payment plans are outlined in the table below:

Three months ended March 31,	2018	2017
Stock options	122	177

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, 2018:

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

Available shares (10% of outstanding shares at March 31, 2018)	1,892,221
Less:	
Stock options outstanding at March 31, 2018	(1,680,053)
Number of shares issuable under stock-based compensation plans	212,168

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

9.1. Stock Options

The following is a reconciliation of stock options outstanding between January 1, 2017 through March 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
Cancelled	(14,275)	$3.68
Balance, March 31, 2017	1,928,710	$3.72
Granted	218,000	$4.46
Exercised	(319,704)	$2.23
Cancelled/Forfeited	(140,877)	$3.77
Balance, December 31, 2017	1,686,129	$4.09
Cancelled/Forfeited	(6,076)	$4.26
Balance, March 31, 2018	1,680,053	$4.09

The following table summarizes the stock options outstanding and exercisable at March 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 March 31, 2018						
$1.45 to $1.45	200,000	2.6	$1.45	200,000	2.64	$1.45
$1.46 to $2.50	269,710	6.0	$2.50	187,644	6.03	$2.50
$2.51 to $2.90	234,493	6.4	$2.71	176,459	6.36	$2.71
$2.91 to $6.39	975,850	7.9	$5.40	391,676	7.33	$5.91
	1,680,053	6.8	$4.09	955,779	5.92	$3.72

1 - WA – weighted average

2 - Life in years

There were no options granted during the three months ended March 31, 2018 or 2017.

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

10. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended March 31, 2018	2017
Salaries, commissions and other direct compensation	3,052	2,235
Professional fees, insurance and public company costs	457	313
Amortization	772	365
Telecom and IT expenses	221	206
Travel and related expenses	189	180
Occupancy costs	294	302
Bank charges	31	37
Marketing, advertising and other related expenses	140	182
Development (recoveries)/expenses	(25)	34
Other expenses	30	58
Share-based payments	122	177
Bad debts/(recoveries)	3	(20)
Restructuring (recoveries)/expenses	(53)	-
Total operating expenditures	5,233	4,069

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

11. SEGMENTED INFORMATION

The Company's reportable segments are broken into "Signals", "Illumination" and "Power". The following table provides an overview of these segments and underlying verticals.

Reporting Segment and Underlying Products/Verticals	Products offered/Markets served
Signals	
Traffic	Solar LED flashing beacons for various roadway applications, mainly focused on the North American market.
Marine	A complete range of marine lighting solutions sold worldwide, including a variety of products manufactured by Sabik and Vega which are subsidiaries of Carmanah.
Airfield 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	Aid to navigation solutions on Offshore wind farms for temporary and permanent marking. These products are sold under Sabik Offshore GmbH which is a wholly owned subsidiary of Carmanah. Sales are mainly focused on the European market.
Telematics	Telematics is currently focused on designing and manufacturing devices to enable remote monitoring of assets.

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

*Discontinued Operations

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

	Signals	Illumination	Total
For the three months ended March 31, 2018			
Revenue	13,548	1,394	14,942
Gross margin	5,686	650	6,336
Gross margin %	42.0%	46.6%	42.4%
Total operating expenses			(5,233)
Other expenses			(212)
Income before taxes			891
For the three months ended March 31, 2017			
Revenue	9,597	1,530	11,127
Gross margin	4,551	445	4,996
Gross margin %	47.4%	29.1%	44.9%
Total operating expenses			(4,069)
Other expenses			(47)
Income before taxes			880

Geographic

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

	Three months ended March 31,	
	2018	2017
North America	5,263	4,667
Europe	7,666	5,714
South America	299	106
Middle East and Africa	157	398
Asia Pacific	1,557	242
Total revenues	14,942	11,127

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

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

	March 31, 2018	December 31, 2017
North America	2,860	3,124
Europe	4,743	4,652
Asia Pacific	4,187	4,368
Total equipment and inventories	**11,790**	**12,144**

12. DISCONTINUED OPERATIONS

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

Results of discontinued operations

	Three months ended March 31,	
	2018	2017
Revenues	48	5,936
Cost of sales	-	4,168
Gross profit	48	1,768
Operating expenditures	172	(975)
Other expenses	(384)	(127)
(Loss)/income before taxes	(164)	666
Tax recovery/(expense)	44	(173)
Net (loss)/income from discontinued operations	(120)	493
Other comprehensive income/(loss)	86	(16)
Total comprehensive (loss)/income	(34)	477

Cash flow from (used in) discontinued operation

	Three months ended March 31,	
	2018	2017
Cash provided by operating activities	926	140
Net cash flow from discontinued operations	926	140

13. ACQUISITIONS AND RESTRUCTURING

Vega Industries acquisition

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

(Unless otherwise noted expressed in thousands of U.S. dollars, except number of share and per share amounts)

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 March 31, 2018 is final except for the working capital adjustment and the resulting change to goodwill.

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

Vega Restructuring

With the acquisition of Vega, as described above, a restructuring plan was developed in the latter half of 2017 to complete the integration of Vega into the rest of the Marine division. Under this plan, the company will eliminate Vega's administrative, back office, and manufacturing functions and will migrate its manufacturing facility to Finland and Estonia. We have identified restructuring related costs in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The following table summarizes the costs incurred and true-up of previous provision with respects to restructuring for the three months ending March 31, 2018. A total of 46 employees are to be terminated under this plan, with 9 employees terminated in 2017. A further 37 employees will be terminated in remaining nine months in 2018.

	Severance and related benefits	Other exit costs	Total
Balance at January 1, 2018	171	159	330
Charges/(recoveries)	3	(64)	(61)
Cash payments	-	8	8
Balance at March 31, 2018	**174**	**103**	**277**