CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2013 and 2012
(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	September 30, 2013	December 31, 2012
ASSETS			
Cash		1,439	2,533
Restricted cash		200	154
Trade and other receivables		3,640	4,501
Inventories	3	2,459	3,226
Prepaids and other current assets		251	416
Total current assets		7,989	10,830
Deferred financing costs	13	126	-
Equipment and leasehold improvements	4	927	1,098
Intangible assets	5	610	1,248
Total assets		**9,652**	**13,176**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		3,427	3,861
Provisions	11	958	550
Deferred revenue		592	69
Current liabilities		4,977	4,480
Equity			
Share capital		37,647	36,982
Equity reserve	8	2,957	2,982
Accumulated other comprehensive loss		(30)	-
Deficit		(35,899)	(31,268)
Total equity		4,675	8,696
Total liabilities and equity		**9,652**	**13,176**

Commitments and contingencies – note 7
Subsequent event – note 12

Approved and authorized for issue by the Board of Directors on November 13, 2013

John Simmons, Chief Executive Officer

Michael Sonnenfeldt, Chair of the Board

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
		$	$	$	$
Revenues	10	4,863	6,661	18,147	18,081
Cost of sales	10	3,711	4,591	13,346	12,253
Gross profit		1,152	2,070	4,801	5,828
Operating expenditures					
Sales and marketing		837	1,043	2,752	3,180
Research and development		404	503	1,465	1,591
General and administrative		1,358	1,407	4,222	4,311
Total operating expenditures	9	2,599	2,953	8,439	9,082
Impairment of intangible assets	5	-	-	(965)	-
Operating loss		(1,447)	(883)	(4,603)	(3,254)
Other income/(expenses)					
Gain/(loss) on disposal of assets		-	(6)	2	(6)
Other income/(expenses)		1	4	5	6
Foreign exchange gain/(loss)		7	47	(30)	54
		8	45	(23)	54
Loss before taxes		(1,439)	(838)	(4,626)	(3,200)
Income tax expense		(3)	-	(5)	-
Net loss		(1,442)	(838)	(4,631)	(3,200)
Other comprehensive loss					
Foreign currency translation adjustments		26	-	(30)	-
Total comprehensive loss		**(1,416)**	**(838)**	**(4,661)**	**(3,200)**
Net loss per share					
Basic and Diluted		(0.03)	(0.02)	(0.09)	(0.07)
Weighted average number of shares outstanding:					
Basic and Diluted (in thousands)		50,248	45,098	50,156	43,918

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 *# of 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		-	-	-	-	(3,200)	-	(3,200)
Share-based payments	8	-	-	212	212	-	-	212
Shares issued under stock compensation plans		*638*	390	(390)	-	-	-	-
Shares issued in private placement, net of issuance cost of $48		*3,982*	1,761	-	1,761	-	-	1,761
Balance, September 30, 2012		*47,694*	36,893	3,026	39,919	(30,547)	-	9,372
Net loss		-	-	-	-	(721)	-	(721)
Share-based payments		-	-	45	45	-	-	45
Shares issued under stock compensation plans		*176*	89	(89)	-	-	-	-
Balance, December 31, 2012		*47,870*	36,982	2,982	39,964	(31,268)	-	8,696
Net loss		-	-	-	-	(4,631)	-	(4,631)
Share-based payments	8	-	-	33	33	-	-	33
Shares issued to acquire Spot Devices Inc.	11	*2,222*	607	-	607			607
Shares issued under stock compensation plans		*202*	58	(58)	-	-	-	-
Foreign currency translation adjustments		-	-	-	-	-	(30)	(30)
Balance, September 30, 2013		50,294	37,647	2,957	40,604	(35,899)	(30)	4,675

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Nine months ended September 30, 2013	2012
OPERATING ACTIVITIES			
Net loss		(4,631)	(3,200)
Add back (deduct) items not involving cash:		-	
Amortization		692	853
(Gain) on disposal of assets		(2)	6
Impairment of intangible assets	5	965	-
Share-based payments		33	212
Unrealized foreign exchange (gain) loss		(97)	41
Changes in working capital and other items:			
Trade and other receivables		861	64
Inventories		767	(1,665)
Prepaids and other current assets		165	93
Trade and other payables		(434)	6
Provisions		408	(110)
Deferred revenue		523	370
Net cash used in operating activities		(750)	(3,330)
INVESTING ACTIVITIES			
Proceeds from sale of assets		6	-
Purchase of equipment and leasehold improvements	4	(149)	(101)
Purchase of intangible assets	5	(61)	(234)
Net cash used in investing activities		(204)	(335)
FINANCING ACTIVITIES			
Deferred financing costs	13	(126)	-
Private placement, net of issuance costs of $48		-	1,761
Net cash provided by financing activities		(126)	1,761
Foreign exchange effect on cash		32	(41)
Decrease in cash		(1,048)	(1,945)
Cash and restricted cash at beginning of period		2,687	4,934
Cash and restricted cash at end of period		1,639	2,989

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 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 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, 2012. 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, 2012 and 2011 except as noted below.

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 13. The Company has provided additional disclosures as a result of IFRS 13 in Note 14.

Other than noted below, there were no significant changes in the Company's significant judgments and estimates in the period.

The Company has made significant judgments in assessing an impairment loss associated with its intangible assets. The Company made significant estimates surrounding the provision for product warranties and replacements associated with the Spot Devices Inc. acquisition outlined in Note 11.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after September 30, 2013. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the below.

- 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 effective date of IFRS 9 has been deferred and the actual effective date is not yet known.

3. INVENTORIES

	September 30, 2013	December 31, 2012
Finished goods	1,897	2,319
Raw materials	1,453	1,613
Provision for obsolescence	(891)	(706)
Net inventories	2,459	3,226

For the nine months ended September 30, 2013, inventory recognized as an expense in cost of sales amounted to $12.2 million (September 30, 2012 - $11.5 million). Included in the above amounts were inventory write downs of $0.5 million (September 30, 2012 - $0.2 million). There were no reversals of previously recorded inventory write downs. As at September 30, 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	5	-	-	144	-	149
Acquisition of Spot (note 11)	-	-	-	18	-	18
Disposals	(1)	-	(6)	-	-	(7)
Balance September 30, 2013	**986**	**621**	**102**	**930**	**525**	**3,164**
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	45	93	9	116	72	335
Disposals	(1)	-	(3)	-	-	(4)
Balance September 30, 2013	**896**	**263**	**62**	**557**	**459**	**2,237**
Carrying amounts						
At December 31, 2012	130	451	52	327	138	1,098
At September 30, 2013	90	358	40	373	66	927

5. INTANGIBLE ASSETS

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

	Patents and trademarks	Software	License rights	Acquired intangibles (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	48	13	-	623	-	684
Balance, September 30, 2013	**777**	**2,173**	**450**	**623**	**545**	**4,568**
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	59	253	45	-	-	357
Impairment loss recognized	-	-	342	623	-	965
Balance, September 30, 2013	**509**	**1,831**	**450**	**623**	**545**	**3,958**
Carrying amounts						
At December 31, 2012	279	582	387	-	-	1,248
At September 30, 2013	268	342	-	-	-	610

During the second quarter of 2013, the Company recognized an impairment loss of $0.3 million associated with its license rights asset. The license rights asset relates 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 has access to a portfolio of tactical (e.g. mobile) aviation related precision mobile laser guidance approach systems that are designed and manufactured by LG. The Company had made fixed payments to LG totaling $0.45 million and was amortizing this amount over the term of the agreement. To date, no sales have 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 the second quarter of 2013, a detailed review of the sales opportunities found that they were related to non-tactical (e.g. fixed) approach systems, which are not covered by this agreement. As a result of this and continued uncertainties surrounding the success of our sales efforts associated with products covered under this agreement, this asset was impaired at June 30, 2013.

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" primarily relate 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. CREDIT FACILITIES

In 2012, the Company secured a new CDN $5.0 million revolving demand and a CDN $0.5 million term credit facility ("Facility") with Royal Bank of Canada ("RBC") which included certain covenants such as earnings and liquidity thresholds. As the Company has not been in compliance with the above covenants, it was prevented from drawing on the Facility. On July 16, 2013, the Facility was cancelled by RBC. In the foreseeable future, any borrowings (i.e. foreign exchange hedging; letters of credit etc.) with RBC will continue to be on a cash secured basis.

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 September 30, 2013, the contract manufacturer held approximately $1.5 million (December 31, 2012 - $1.1 million) in inventory and $1.2 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 consolidated financial statements for the year ended December 31, 2012.

7.2. 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) 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. The plaintiff has also sought a temporary restraining order and a motion for preliminary injunction to which Carmanah, through its US based attorneys, Dorsey & Whitney LLP, has filed opposition. Various actions have been taken in regards to this matter, including a countersuit against the plaintiffs and the filing of an application to reexamine the validity of the associated patent. Carmanah intends to continue to defend itself and will file additional appropriate responses to the Court as required to do so. The outcome of these matters are not currently determinable and no provision has been made at September 30, 2013.

8. SHARE-BASED PAYMENTS

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Stock options	8.1	(73)	31	(1)	94
Share units	8.2	(2)	30	34	118
Total compensation expense		(75)	61	33	212

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 September 30, 2013:

Available shares (10% of outstanding shares at September 30, 2013)	5,029,420
Less:	
Stock options outstanding at September 30, 2013	1,792,000
Share units outstanding at September 30, 2013	6,944
Number of shares issuable under stock based compensation plans	3,230,476

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 September 30, 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	1,780,000	0.32	-	-
Forfeited	(1,433,800)	(0.47)	(395,400)	(0.96)
Expired	-	-	(110,000)	(1.52)
Balance, September 30	1,792,000	0.46	1,588,756	0.78

The following table summarizes the stock options outstanding and exercisable at September 30, 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 September 30, 2013						
$0.28 to $0.52	1,230,000	4.2	$0.33	396,623	3.6	$0.42
$0.53 to $0.72	258,000	2.2	$0.53	215,000	2.2	$0.53
$0.73 to $1.00	304,000	1.7	$0.92	204,000	0.3	$1.00
	1,792,000	3.5	$0.46	815,623	2.4	$0.60
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

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the period ended September 30, 2013 was $0.13 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 September 30, 2013
Risk-free interest rate	1.14%
Expected dividend yield	0%
Forfeiture rate	14.1%
Stock price volatility	65.6%
Expected life of options	3.4 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 nine months ended September 30, 2013, the Company granted 184,606 Restricted Share Units ("RSUs") (2012 – 140,043) with a weighted average fair value of $0.26 CDN per unit (2012 - $0.44 CDN). The Company issued no Performance Share Units ("PSUs") during the nine months ended September 30, 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	184,606	-	184,606
Vested and issued	(186,949)	(14,716)	(201,665)
Forfeited	(45,053)	(10,216)	(55,269)
Balance September 30, 2013	6,944	-	6,944
Balance, January 1, 2012	404,737	323,633	728,370
Granted	140,043	-	140,043
Forfeited	-	(1,000)	(1,000)
Vested and issued	(401,743)	(236,297)	(638,040)
Balance September 30, 2012	143,037	86,336	229,373

There were no share units at September 30, 2013 that were vested but unissued. Of the share units outstanding at September 30, 2012, 53,095 RSUs were vested but not issued. These were unissued due to timing of market closures. There were no performance criteria for any of the performance share units outstanding at September 30, 2012 or December 31, 2012, other than continued employment within the Company.

9. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Salaries, commissions and other direct compensation	1,637	1,774	5,018	5,513
Share-based payments	(75)	61	33	212
Marketing, advertising and other related expenses	73	144	269	301
Development expenses	35	51	190	203
Travel and related expenses	103	152	372	498
Occupancy costs	97	107	294	320
Telecom and IT expenses	147	172	444	494
Professional fees, insurance and public company costs	358	172	884	584
Amortization	177	253	577	746
Bank charges and bad debts	28	37	299	126
Other expenses	19	30	59	85
Total operating expenditures	2,599	2,953	8,439	9,082

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, there was no impact on net loss, loss per share, cash flows or the statement of financial position for any periods presented.

	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. Last year the Company 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.

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.

	Traffic	Marine	Aviation Obstruction	Outdoor Lighting	GoPower!	Solar EPC Services	Total
For the three months ended September 30, 2013							
Revenue	978	1,038	446	113	1,863	425	4,863
Gross margin	312	300	155	(198)	520	63	1,152
Gross margin %	31.9%	28.9%	34.8%	(175.2)%	27.9%	14.8%	23.7%
Total operating expenses							(2,599)
Other income							8
Loss before tax							(1,439)
For the three months ended September 30, 2012							
Revenue	639	1,330	853	653	1,617	1,569	6,661
Gross margin	220	397	314	166	553	420	2,070
Gross margin %	34.4%	29.8%	36.8%	25.4%	34.2%	26.8%	31.1%
Total operating expenses							(2,953)
Other income							45
Loss before tax							(838)
For the nine months ended September 30, 2013							
Revenue	3,387	2,707	2,562	1,021	6,233	2,237	18,147
Gross margin	1,317	742	652	(39)	1,784	345	4,801
Gross margin %	38.9%	27.4%	25.4%	(3.8)%	28.6%	15.4%	26.5%
Total operating expenses							(8,439)
Other expenses							(988)
Loss before tax							(4,626)
For the nine months ended September 30, 2012							
Revenue	1,904	4,129	2,558	2,345	4,922	2,223	18,081
Gross margin	710	1,366	1,086	552	1,629	485	5,828
Gross margin %	37.2%	33.1%	42.5%	23.5%	33.1%	21.8%	32.2%
Total operating expenses							(9,082)
Other income							54
Loss before tax							(3,200)

Geographic

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
North America	4,129	6,092	16,018	15,236
South America	227	205	502	754
Europe	289	240	1,219	1,305
Middle East and Africa	103	47	178	253
Asia Pacific	114	77	231	553
Total revenues	4,863	6,661	18,147	18,081

As at September 30, 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 $1.3 million (December 31, 2012 - $1.2 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 ("SDI" or "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 4th 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 our 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 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 $17.5 million. 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.

At the Acquisition Date, 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 $0.5 million in gross margins during the nine months ended September 30, 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.

Due to a variety of events that have occurred subsequent to the acquisition, management has concluded the underlying intangibles acquired are now impaired. Of the events, most significantly 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 the second quarter of 2013.

During the third quarter, concerns about the reliability of SIMA enabled products were brought to management's attention. In some situations SIMA enable products can suddenly or unexpectedly fail which could result in a safety hazard. As a result, the Company has extended an offer to customers who purchased SIMA enabled product (since the acquisition date) the ability to obtain replacement products on a substantially discounted basis. The Company is also in negotiations surrounding SIMA services utilized by products sold post acquisition. A total liability of $0.2 million has been recorded under the caption "Provisions" to cover both the future potential product replacements and final payments associated with SIMA. Actual amounts paid out for these matters may materially differ from the provision.

12. SUBSEQUENT EVENT

During the third quarter, the Company began working on a restructuring plan in an effort to restore profitability and to position the Company for growth. The major details of the plans were not determined or communicated to staff until subsequent to quarter end. No restructuring provision was booked in the third quarter as the recognition criteria set out in IAS 37 had not yet been met.

Subsequent to quarter end, the Company has made several announcements surrounding the restructuring plans. This included changes to the organization reporting structure and the closure of the remote development office in Burnaby. The total employees to be impacted by this plan have not yet been determined. The restructuring charges associated with this plan are currently estimated at $0.9 million and relate primarily to severance payments.

13. RIGHTS OFFERING

In September 2013, the Company announced a plan to raise approximately $6.0 million (CDN) through a Shareholders Rights Offering (the "Offering"). Under the Offering, each shareholder is given one right for each share held on the applicable record date. Each right is exercisable for one common share at a subscription price of $0.12 (CDN). In connection with the Offering, the Company has entered into a binding standby purchase agreement with a group of investors, who have committed, subject to certain conditions, to purchase up to $5.5 million of the rights shares not otherwise subscribed for by other holders. The expiry date of the rights is November 18, 2013 and the offering will close on November 19, 2013. In the quarter ended September 30, 2013, the Company had incurred approximately $0.1 million in costs associated with the offering. These costs have been recorded as a non-current asset under the caption "Deferred financing costs".

14. FINANCIAL INSTRUMENTS

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

	September 30, 2013	December 31, 2012
Loans and receivables		
Cash and restricted cash	1,639	2,687
Trade and other receivables	3,640	4,501
Other financial liabilities		
Trade and other payables	3,427	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 September 30, 2013.

The carrying value of 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.

There were no significant changes in the Company's financial risk management compared to the Company's consolidated financial statements for the year ended December 31, 2012 except for the following:

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company tries to ensure there is sufficient capital in order to meet short-term business requirements by regularly forecasting and projecting future operating results and by managing its working capital. The Company faces significant challenges in order to achieve profitability and there can be no assurances that Carmanah will be able to maintain adequate liquidity. Management's ability to meet obligations in the ordinary course of business is dependent upon the Company's ability to establish profitable operations or raise capital as needed.

As described in note 13, the Company is currently in the process of raising additional capital. The net proceeds from the Offering will be used for general corporate purposes including, but not limited to: (1) funding restructuring costs and process improvement expenditures all of which will be directed at reducing operating costs; (2) investments in new product development activities to meet market demands and improve gross margins; (3) funding an increase in inventory to meet customer demands and, if required by a change in manufacturing strategy, to buy back parts inventory from the Company's contract manufacturer; and (4) funding operating losses until the results of (1) and (2) can be achieved. The Company anticipates the proceeds will be sufficient to meet its non-discretionary expenditures and necessary restructuring costs over the next several quarters as it develops and implements changes to help in longer term profitability and growth.

15. RELATED PARTY TRANSACTIONS

The Company's CEO and its Chairman of the Board, John Simmons and Michael Sonnenfeldt respectively, are a part of the investor group involved in the standby purchase agreement associated with the rights offering previously described in note 13. John Simmon is committed under the agreement to a maximum of $0.7 million. MUUS Holdings LLC, a company controlled by Michael Sonnenfeldt, is committed under the agreement to a maximum of $1.8 million.