# CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(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, except number of share and per share amounts)
(Unaudited)

| | Notes | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 18,932 | 14,880 |
| Trade and other receivables | | 14,941 | 18,428 |
| Inventories | 3 | 10,109 | 12,667 |
| Prepaid and other current assets | | 1,611 | 1,068 |
| Unbilled receivables | 4 | 4,493 | 3,033 |
| Cost of uncompleted projects | | 792 | 1,593 |
| Total current assets | | 50,878 | 51,669 |
| Equipment and leasehold improvements | 5 | 1,457 | 1,337 |
| Intangible assets | 6 | 8,346 | 8,700 |
| Goodwill | 6.1 | 17,458 | 17,249 |
| Deferred income tax asset | | 7,186 | 7,473 |
| Investment tax credits | | 2,952 | 3,548 |
| **Total assets** | | **88,277** | **89,976** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Trade and other payables | | 6,441 | 11,117 |
| Bank debt | 7.3 | 8,668 | 10,093 |
| Provisions | | 1,159 | 1,221 |
| Income taxes payable | | 365 | 367 |
| Deferred revenue | | 260 | 549 |
| Current liabilities | | 16,893 | 23,347 |
| Deferred income tax liability | | 1,933 | 1,996 |
| **Total liabilities** | | **18,826** | **25,343** |
| **Equity** | | | |
| Share capital | | 87,403 | 86,118 |
| Equity reserve | 9 | 4,599 | 4,487 |
| Accumulated other comprehensive loss | | (379) | (814) |
| Deficit | | (22,172) | (25,158) |
| Total equity | | 69,451 | 64,633 |
| **Total liabilities and equity** | | **88,277** | **89,976** |

Commitments and contingencies – note 7
Subsequent event – note 13

Approved and authorized for issue by the Board of Directors on August 9, 2016

*"John Simmons"*

John Simmons, Chief Executive Officer

*"Michael Sonnenfeldt"*

Michael Sonnenfeldt, Chair of the Board

## CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|---|
| Revenues | | 19,490 | 15,715 | 38,939 | 27,029 |
| Cost of sales | | 12,444 | 10,303 | 25,091 | 17,648 |
| Gross profit | 11 | 7,046 | 5,412 | 13,848 | 9,381 |
| Operating expenditures | | | | | |
| Sales and marketing | | 1,682 | 1,223 | 3,308 | 2,505 |
| Research and development | | 872 | 475 | 1,775 | 925 |
| General and administrative | | 2,603 | 1,558 | 5,091 | 2,835 |
| | | 5,157 | 3,256 | 10,174 | 6,265 |
| Other inventory write downs | | - | 132 | - | 442 |
| Investment tax credits recognized | | - | (4,320) | - | (4,320) |
| Restructuring expenses | | - | - | - | 74 |
| Total operating expenditures/(recovery) | 10 | 5,157 | (932) | 10,174 | 2,461 |
| Operating Income | | 1,889 | 6,344 | 3,674 | 6,920 |
| Other income/(expenses) | | | | | |
| Gain/(loss) on disposal of assets | | - | 27 | 1 | (11) |
| Other expenses | | (6) | (726) | (208) | (791) |
| Foreign exchange (loss)/gain | | 1 | (818) | 667 | (1,261) |
| | | (5) | (1,517) | 460 | (2,063) |
| Income before taxes | | 1,884 | 4,827 | 4,134 | 4,857 |
| Income tax (expense)/recovery | | (595) | 5,505 | (1,148) | 5,505 |
| Net income attributable to shareholders | | 1,289 | 10,332 | 2,986 | 10,362 |
| Other comprehensive loss, net of tax | | | | | |
| Items that may be reclassified subsequently to net income: | | | | | |
| Foreign currency translation adjustments | | (560) | (2) | 435 | (88) |
| Total comprehensive income | | 729 | 10,330 | 3,421 | 10,274 |
| Net income per share | | | | | |
| Basic | | 0.05 | 0.48 | 0.12 | 0.54 |
| Diluted | | 0.05 | 0.47 | 0.12 | 0.53 |
| Weighted average number of shares outstanding: | | | | | |
| Basic | | 24,885,501 | 21,384,945 | 24,755,899 | 19,193,360 |
| Diluted | | 25,385,957 | 22,025,030 | 25,299,380 | 19,695,503 |

# 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<br>*# of shares* | Share capital<br>Amount | Equity reserve | Subtotal | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | *('000)* | | | | | | |
| Balance, January 1, 2015 | | *16,977* | 56,539 | 3,292 | 59,831 | (180) | (35,838) | 23,813 |
| Net income | | - | - | - | - | - | 10,362 | 10,362 |
| Share-based payments | | - | - | 291 | 291 | - | - | 291 |
| Shares issued on stock option exercise | | 1 | 2 | (1) | 1 | - | - | 1 |
| Shares issued from warrant exercise | | 13 | 74 | (20) | 54 | - | - | 54 |
| Shares issued under bought deal, net of issuance costs of $2,230 offset by tax of $560 | | *6,400* | 24,900 | 370 | 25,270 | - | - | 25,270 |
| Foreign currency translation adjustments | | - | - | - | - | (88) | - | (88) |
| Balance, June 30, 2015 | | *23,391* | 81,515 | 3,932 | 85,447 | (268) | (25,476) | 59,703 |
| Net income | | - | - | - | - | - | 318 | 318 |
| Share-based payments | | - | - | 610 | 610 | - | - | 610 |
| Shares issued on stock option exercise | | *45* | 166 | (55) | 111 | - | - | 111 |
| Sabik acquisition | | *1,180* | 4,513 | - | 4,513 | - | - | 4,513 |
| Tax on bought deal issuance | | - | (76) | - | (76) | - | - | (76) |
| Foreign currency translation adjustments | | - | - | - | - | (546) | - | (546) |
| Balance, December 31, 2015 | | *24,616* | 86,118 | 4,487 | 90,605 | (814) | (25,158) | 64,633 |
| Net income | | - | - | - | - | - | 2,986 | 2,986 |
| Share-based payments | 9 | - | - | 409 | 409 | - | - | 409 |
| Shares issued on stock option exercise | | 32 | 99 | (35) | 64 | - | - | 64 |
| Shares issued from warrant exercise | | 240 | 1,186 | (262) | 924 | - | - | 924 |
| Foreign currency translation adjustments | | - | - | - | - | 435 | - | 435 |
| Balance, June 30, 2016 | | *24,888* | 87,403 | 4,599 | 92,002 | (379) | (22,172) | 69,451 |

# CARMANAH TECHNOLOGIES CORPORATION

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

| | Notes | Six months ended June 30, 2016 | 2015 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income | | 2,986 | 10,362 |
| Add back (deduct) items not involving cash: | | | |
| Amortization | 5,6 | 820 | 301 |
| (Gain)/Loss on disposal of assets | | (1) | 11 |
| Share-based payments | 9 | 409 | 291 |
| Utilization/(recognition) of investment tax credits | | 596 | (4,320) |
| Unrealized foreign exchange (gain)/loss | | (42) | 332 |
| Deferred income tax expense/(recovery) | | 224 | (5,570) |
| Changes in working capital and other items: | | | |
| Trade and other receivables | | 3,487 | (6,719) |
| Unbilled receivables | | (1,460) | 2,809 |
| Inventories | | 2,558 | (1,386) |
| Cost of uncompleted contracts | | 801 | 384 |
| Prepaids and other current assets | | (543) | (592) |
| Trade and other payables | | (4,676) | 585 |
| Provisions | | (62) | (398) |
| Deferred revenue | | (289) | 23 |
| Income tax payable | | (2) | 65 |
| Net cash provided/(used) by operating activities | | 4,806 | (3,822) |
| | | | |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of assets | | - | 54 |
| Purchase of equipment and leasehold improvements | 5 | (301) | (236) |
| Purchase of intangible assets | 6 | (130) | (170) |
| Change in restricted cash | | - | 45 |
| Net cash used in investing activities | | (431) | (307) |
| | | | |
| FINANCING ACTIVITIES | | | |
| Proceeds from share issuance | | - | 24,710 |
| Proceeds from exercised warrants | | 924 | 1 |
| Proceeds from exercised stock options | | 64 | 54 |
| Proceeds from debt issuance | | - | 10,000 |
| Debt repayments | | (1,425) | - |
| Net cash provided/(used) by financing activities | | (437) | 34,765 |
| | | | |
| Foreign exchange effect on cash | | 114 | (404) |
| | | | |
| Increase in cash | | 4,052 | 30,232 |
| Cash at beginning of period | | 14,880 | 8,707 |
| Cash at end of period | | 18,932 | 38,939 |

## 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 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 *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 years ended December 31, 2015. 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, 2015 and 2014. 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, 2015 and 2014.

## 2. NEW ACCOUNTING STANDARDS

### 2.1. Future Accounting standards

Certain International Financial Reporting Standard ("IFRS") 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 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 Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- 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 Company

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

intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

The Company is assessing the impact that these standards will have on the Company's consolidated financial statements.

## 3. INVENTORIES

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Finished goods | 7,354 | 8,361 |
| Work in progress | 210 | 563 |
| Raw materials | 2,830 | 4,068 |
| Provision for obsolescence | (285) | (325) |
| Net inventories | 10,109 | 12,667 |

For the six months ended June 30, 2016, inventory recognized as an expense amounted to $22.2 million (June 30, 2015 - $16.2 million), which include inventory write downs of $0.1 million (June 30, 2015 – $0.2 million). There were no reversals of previously recorded inventory write downs. As at June 30, 2016, the Company anticipates the net inventory will be realized within one year.

## 4. FINANCIAL INSTRUMENTS

**Classification and carrying value**

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Loans and receivables** | | |
| Cash | 18,932 | 14,880 |
| Trade and other receivables | 14,941 | 18,428 |
| Unbilled receivables | 4,493 | 3,033 |
| **Other financial liabilities** | | |
| Trade and other payables | 6,441 | 11,117 |
| Bank debt | 8,668 | 10,093 |

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

## 5. 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, 2015 | **600** | **602** | **119** | **996** | **472** | **2,789** |
| Additions | 81 | 131 | 71 | 212 | 17 | 512 |
| Sabik acquisition | - | 135 | 94 | 466 | - | 695 |
| Disposals | (345) | (68) | (56) | (596) | (62) | (1,127) |
| Foreign exchange adjustment | - | (1) | (2) | (10) | - | (13) |
| **Balance December 31, 2015** | **336** | **799** | **226** | **1,068** | **427** | **2,856** |
| Additions | 30 | 149 | 8 | 103 | 11 | 301 |
| Disposals | - | - | - | (53) | - | (53) |
| Foreign exchange adjustment | - | 2 | - | 14 | 2 | 18 |
| **Balance at June 30, 2016** | **366** | **950** | **234** | **1,132** | **440** | **3,122** |
| **Accumulated amortization** | | | | | | |
| Balance January 1, 2015 | **417** | **393** | **47** | **813** | **459** | **2,129** |
| Amortization for the year | 87 | 173 | 34 | 97 | 7 | 398 |
| Disposals | (332) | (2) | (27) | (584) | (61) | (1,006) |
| Foreign exchange adjustment | - | - | - | (2) | - | (2) |
| **Balance December 31, 2015** | **172** | **564** | **54** | **324** | **405** | **1,519** |
| Amortization for the period | 40 | 28 | 14 | 112 | 4 | 198 |
| Disposals | - | - | - | (53) | - | (53) |
| Foreign exchange adjustment | - | 1 | (1) | 1 | - | 1 |
| **Balance at June 30, 2016** | **212** | **593** | **67** | **384** | **409** | **1,665** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| At December 31, 2015 | 164 | 235 | 172 | 744 | 22 | 1,337 |
| At June 30, 2016 | 154 | 357 | 167 | 748 | 31 | 1,457 |

(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 | License rights | Acquired intangibles | Customer Lists | Product development | Brand and Domain name | Backlog | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance January 1, 2015 | **833** | **2,428** | **450** | **623** | **-** | **250** | **50** | **-** | **4,634** |
| Additions | 7 | 244 | - | - | - | - | - | - | 251 |
| Sabik acquisition | - | 31 | - | - | 4,800 | 1,350 | 2,250 | 900 | 9,331 |
| Disposals | (101) | (174) | - | - | - | | - | - | (275) |
| Foreign exchange adjustment | - | - | - | - | (72) | (24) | (30) | (13) | (139) |
| **Balance December 31, 2015** | **739** | **2,529** | **450** | **623** | **4,728** | **1,576** | **2,270** | **887** | **13,802** |
| Additions | - | 130 | - | - | - | - | - | - | 130 |
| Disposals | - | (1,533) | - | - | - | - | - | - | (1,533) |
| Foreign exchange adjustment | - | - | - | - | 84 | 28 | 35 | 15 | 162 |
| **Balance June 30, 2016** | **739** | **1,126** | **450** | **623** | **4,812** | **1,604** | **2,305** | **902** | **12,561** |
| **Accumulated amortization** | | | | | | | | | |
| Balance January 1, 2015 | **729** | **1,795** | **450** | **623** | **-** | **62** | **-** | **-** | **3,659** |
| Amortization for the year | 37 | 172 | - | - | 284 | 97 | 188 | 897 | 1,675 |
| Disposals | (85) | (132) | - | - | - | - | - | - | (217) |
| Foreign exchange adjustment | - | - | - | - | (3) | (1) | - | (11) | (15) |
| **Balance December 31, 2015** | **681** | **1,835** | **450** | **623** | **281** | **158** | **188** | **886** | **5,102** |
| Amortization for the period | 15 | 96 | - | - | 287 | 161 | 63 | - | 622 |
| Disposals | - | (1,533) | - | - | - | - | - | - | (1,533) |
| Foreign exchange adjustment | - | - | - | - | 5 | 3 | - | 16 | 24 |
| **Balance June 30, 2016** | **696** | **398** | **450** | **623** | **573** | **322** | **251** | **902** | **4,215** |
| **Carrying amounts** | | | | | | | | | |
| At December 31, 2015 | 58 | 694 | - | - | 4,447 | 1,418 | 2,082 | 1 | 8,700 |
| At June 30, 2016 | 43 | 728 | - | - | 4,239 | 1,282 | 2,054 | - | 8,346 |

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

### 6.1. Goodwill

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Opening goodwill | 17,249 | 5,746 |
| Sol acquisition | - | - |
| Sabik acquisition (note 12) | - | 11,677 |
| Foreign exchange adjustment | 209 | (174) |
| | 17,458 | 17,249 |

## 7. COMMITMENTS AND CONTINGENCIES

### 7.1. 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. At present, Carmanah is dealing with two significant contract manufacturers, Creation Technologies LP and Star Precision Fabricating Ltd. 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 particular product are less than actual use or sales in a given period. At June 30, 2016, the contract manufacturers held approximately $1.8 million (December 31, 2015 - $1.5 million) in inventory and $0.9 million (December 31, 2015 - $0.7 million) in outstanding committed purchase orders.

### 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 – 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 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 Plaintiff has appealed this judgment in court. 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 in an effort to obtain coverage under one or more of the Company's insurance policies with respects to the above lawsuit. The decision to file a lawsuit against RSA and Integro was made after negotiations with RSA failed to produce an acceptable settlement for repayment of the costs incurred by the Company. The lawsuit seeks to recover legal expenses and damages. In late April 2016, the Company reached a settlement with the defendants during mediation. Under the settlement, we received CAD $0.5 million for past defense costs and damages. These funds were received and recognized in late July 2016 once all of the terms of the settlement agreement were finalized. According to the agreement, RSA has agreed to cover 70% of future defense costs incurred on a go forward basis. However, in the event that 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 the same Plaintiffs above alleging additional patent infringement with respect to the same specific flash pattern used within the Company's solar powered flashing beacons. This lawsuit revolves around a new patent that was granted in September of 2015. Management believes this patent will not withstand a re-examination. The outcome of this and the previous case are not certain and management intends to continue to defend the Company and file additional responses to the Court as required. As the outcome of these matters is not currently determinable, no provision has been made at June 30, 2016.

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

### 7.3. Credit facilities

In 2015, the Company signed a credit facility (the "Facility") with the Canadian Imperial Bank of Commerce ("CIBC"). The multifaceted Facility provided up to $24.5 million through: a) a $10 million 364-Day Revolving Credit Facility; b) a $10 million Term Acquisition Credit Facility; c) $3.75 million for Letters of Credit; and d) $0.75 million for trading room and other liabilities. The Company's ability to draw on the 364-Day revolver, letters of credit, and credit for trading room contingent liabilities is subject to certain covenants.

In June of 2015, the Company drew $10 million on the term acquisition facility to fund the acquisition of Sabik Group of Companies. This debt is repayable on a monthly basis over a 5-year term and was broken into two $5 million tranches both of which are repayable on demand. The first tranche was supported by a 100% guarantee from Export Development Canada ("EDC") and carries an interest rate of US LIBOR plus 1.5%. The EDC fees associated with their guarantee was approximately 4.5% per annum on the outstanding balance. The second tranche carried an interest rate of US LIBOR plus 3.5%. In late June 2016, the Company signed an updated credit facility agreement with CIBC which eliminated the need for the first tranche to be supported by EDC, and set the interest rate on both tranches to US LIBOR plus 3.0%.

In late March 2016, the Company's German subsidiary, Sabik Offshore GmbH, signed a new credit facility with Deutsche Bank (the "Deutsche Facility"). The Deutsche Facility provides credit up to €3.0 million through €2.0 million (USD $3.3 million through $2.2 million) of revolving credit and €1.0 million (USD $1.1 million) for guarantees and was secured to support ongoing working capital needs. Interest on the revolving credit facility is variable and is based on EURIBOR plus 1.5%. The Deutsche Facility has been guaranteed through a €2.0 million (USD $2.2 million) Letter of Credit issued on the Company's CIBC Facility and a security over inventory within Sabik Offshore GmbH. At June 30, 2016, approximately $0.7 million had been drawn on the new revolving credit facility.

## 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.

The total outstanding warrants are outlined in the table below:

| | # of Warrants | Weighted average exercise price |
|---|---|---|
| Balance, January 1, 2015 | - | - |
| Granted | 332,750 | $5.00 |
| Exercised | (13,310) | $5.00 |
| Balance, December 31, 2015 | 319,440 | $5.00 |
| Exercised | (239,580) | $5.00 |
| Expired | (79,860) | $5.00 |
| Balance, June 30, 2016 | - | - |

## 9. SHARE-BASED PAYMENTS

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

| Six months ended June 30, | 2016 | 2015 |
|---|---|---|
| Stock options | 409 | 291 |
| Share units | - | - |
| Total compensation expense | 409 | 291 |

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

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 June 30, 2016:

| | |
|---|---|
| Available shares (10% of outstanding shares at June 30, 2016) | 2,488,854 |
| *Less:* | |
| Stock options outstanding at June 30, 2016 | (1,863,781) |
| Number of shares issuable under stock-based compensation plans | 625,073 |

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, 2015 through June 30, 2016. The weighted average exercise price is stated in Canadian dollars.

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance, January 1, 2015 | 1,335,697 | $2.36 |
| Granted | 765,600 | $5.82 |
| Forfeited | (34,738) | $2.69 |
| Forfeited | (501) | $2.90 |
| Balance, June 30, 2015 | 2,066,058 | $3.65 |
| Granted | 177,350 | $5.97 |
| Forfeited | (145,413) | $3.27 |
| Exercised | (45,375) | $4.63 |
| Balance, December 31, 2015 | 2,052,620 | $3.76 |
| Forfeited | (150,476) | $5.65 |
| Exercised | (32,363) | $2.60 |
| Cancelled | (6,000) | $5.30 |
| Balance, June 30, 2016 | 1,863,781 | $3.63 |

The following table summarizes the stock options outstanding and exercisable at June 30, 2016 and December 31, 2015. 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, 2015 | | | | | | |
| $1.45 to $1.45 | 300,000 | 4.9 | $1.45 | 150,000 | 4.9 | $1.45 |
| $1.46 to $2.50 | 611,034 | 8.3 | $2.50 | 143,801 | 8.3 | $2.50 |
| $2.51 to $2.90 | 311,086 | 8.2 | $2.72 | 94,973 | 7.0 | $2.76 |
| $2.91 to $6.39 | 830,500 | 9.4 | $5.92 | 6,000 | 0.4 | $5.30 |
| | 2,052,620 | 8.2 | $3.76 | 394,774 | 6.6 | $2.21 |
| At June 30, 2016 | | | | | | |
| $1.45 to $1.45 | 300,000 | 4.4 | $1.45 | 150,000 | 4.4 | $1.45 |
| $1.46 to $2.50 | 582,195 | 7.8 | $2.50 | 255,140 | 7.8 | $2.50 |
| $2.51 to $2.90 | 301,998 | 7.7 | $2.72 | 97,144 | 6.2 | $2.77 |
| $2.91 to $6.39 | 679,588 | 8.9 | $5.96 | 133,715 | 8.9 | $5.92 |
| | 1,863,781 | 7.7 | $3.63 | 635,999 | 6.9 | $3.01 |

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

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

Using the Black-Scholes option pricing model, the weighted average fair value of the options granted during the six months ended June 30, 2015 was $3.06 CAD per share. The option valuations were determined using the following weighted average assumptions:

| | Six months ended June 30, 2015 |
|---|---|
| Risk-free interest rate | 1.16% |
| Expected dividend yield | 0% |
| Forfeiture rate | 17.8% |
| Stock price volatility | 55.0% |
| Expected life of options | 6.3 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.

## 10. OPERATING EXPENDITURES

The components of operating expenditures by nature are outlined below:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Salaries, commissions and other direct compensation | 2,808 | 1,984 | 5,577 | 3,831 |
| Share-based payments | 141 | 155 | 410 | 291 |
| Marketing, advertising and other related expenses | 238 | 136 | 497 | 302 |
| Development expenses | 169 | 149 | 338 | 279 |
| Travel and related expenses | 249 | 140 | 448 | 294 |
| Occupancy costs | 252 | 115 | 500 | 245 |
| Telecom and IT expenses | 210 | 175 | 394 | 411 |
| Professional fees, insurance and public company costs | 463 | 217 | 885 | 377 |
| Amortization | 387 | 109 | 725 | 214 |
| Bank charges and interest | 42 | - | 93 | (7) |
| Bad debts | 103 | 37 | 102 | 68 |
| Other expenses | 95 | 171 | 205 | 476 |
| Investment tax credits recognized | - | (4,320) | - | (4,320) |
| Total operating expenditures/(recovery) | 5,157 | (932) | 10,174 | 2,461 |

The amortization expense as noted in the statement of cash flows includes amortization of 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 variet of products manufactured by Sabik which is a subsidiary 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. |
| **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. |

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.

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

| | Signals | Illumination | Power | Total |
|---|---|---|---|---|
| **For the three months ended June 30, 2016** | | | | |
| Revenue | 10,672 | 3,180 | 5,638 | 19,490 |
| Gross margin | 4,573 | 1,125 | 1,348 | 7,046 |
| Gross margin % | 42.9% | 35.4% | 23.9% | 36.2% |
| Total operating expenses | | | | (5,157) |
| Other income | | | | (5) |
| Income before taxes | | | | 1,884 |
| **For the three months ended June 30, 2015** | | | | |
| Revenue | 5,421 | 2,514 | 7,780 | 15,715 |
| Gross margin | 2,370 | 1,107 | 1,935 | 5,412 |
| Gross margin % | 43.7% | 44.0% | 24.9% | 34.4% |
| Total operating recovery | | | | 932 |
| Other expenses | | | | (1,517) |
| Income before taxes | | | | 4,827 |
| **For the six months ended June 30, 2016** | | | | |
| Revenue | 21,072 | 4,640 | 13,227 | 38,939 |
| Gross margin | 9,307 | 1,657 | 2,884 | 13,848 |
| Gross margin % | 44.2% | 35.7% | 21.8% | 35.6% |
| Total operating expenses | | | | (10,174) |
| Other income | | | | 460 |
| Income before taxes | | | | 4,134 |
| **For the six months ended June 30, 2015** | | | | |
| Revenue | 10,247 | 4,603 | 12,179 | 27,029 |
| Gross margin | 4,465 | 1,712 | 3,204 | 9,381 |
| Gross margin % | 43.6% | 37.2% | 26.3% | 34.7% |
| Total operating expenses | | | | (2,461) |
| Other expenses | | | | (2,063) |
| Income before taxes | | | | 4,857 |

**Geographic**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| North America | 12,087 | 13,045 | 24,737 | 23,042 |
| Europe | 6,788 | 520 | 12,877 | 990 |
| South America | 74 | 166 | 121 | 343 |
| Middle East and Africa | 182 | 1,692 | 479 | 2,210 |
| Asia Pacific | 359 | 292 | 725 | 444 |
| Total revenues | 19,490 | 15,715 | 38,939 | 27,029 |

As at June 30, 2016, 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 $4.8 million (December 31, 2015 - $5.4 million), and $3.8 million (December 31, 2015 - $3.5 million) of assets related to the Sabik entities which is mainly split between Germany and Finland.

## 12. SABIK ACQUISITION

On July 2, 2015, the Company completed an acquisition of the Sabik Group of Companies. The acquired group consists of the following companies: Sabik Oy, based in Finland, Sabik Offshore GmbH (formally Sabik GmbH), based in Germany, Sabik PTE Ltd, based in Singapore, and Sabik Ltd and Sabik Offshore Ltd, both based in the United Kingdom. Sabik is a manufacturer in the worldwide marine aids-to-navigation market. Carmanah and Sabik had a collaborative sales, marketing and development partnership since 2010. Sabik also provides sophisticated lighting and monitoring solutions for the offshore wind industry. The offshore wind industry is a new business endeavor for Carmanah. The acquisition was announced on June 10, 2015 with the signing of a Share Purchase Agreement (the “Agreement”). Under the Agreement, the Company acquired 100% of the shares of each of the companies within the group, with the exception of Sabik Ltd and Sabik Offshore Ltd, where the Company acquired 81% and 80% respectively. Of the entities acquired, approximately 90% of the revenues are generated by Sabik Oy and Sabik Offshore GmbH. The non-controlling interests were acquired during the fourth quarter of 2015 and the first quarter of 2016 for a nominal amount. Due to the nominal value of non-controlling interest, no amounts were recorded at December 31, 2015.

The purchase price outlined in the agreement consisted of €17.0 million in cash and the issuance of 1,180,414 shares of Carmanah. The value of the consideration issued amounted to $23.3 million, $18.8 million attributable to the cash outlay of €17.0 million (utilizing a Euro to US dollar exchange rate of 1.1072) and $4.5 million to the shares issued. However, all of the shares issued were subject to an escrow or hold period, with approximately 147,550 shares being released from the hold period every 3 months over a 2-year period. As a result, the fair value of these shares have been discounted utilizing a Black Scholes option pricing model. The major assumptions for this calculation mainly related to an estimate of the Company’s share price volatility, which ranged from 59.5% to 85.8% in the calculations utilized.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3 – Business Combinations, with the results of operations consolidated with those of the Company effective July 2, 2015.

The fair values of the assets acquired and liabilities assumed in the acquisition at July 2, 2015 was finalized during the second quarter of 2016. No changes were made during the three and six months ended June 30, 2016. The allocation was held open while management completed an assessment of Sabik’s warranty provisions. The following table outlines the final purchase price allocation:

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

| | Current Allocation |
|---|---|
| **Consideration** | |
| Cash | 18,827 |
| Shares issued | 4,513 |
| **Total consideration** | **23,340** |
| | |
| **Identifiable assets acquired and liabilities assumed** | |
| Cash | 2,084 |
| Trade and other receivables | 2,546 |
| Inventories | 3,432 |
| Equipment and other similar assets | 726 |
| Trade and other payables | (973) |
| Income taxes payable | (441) |
| Deferred revenue | (847) |
| Bank debt | (1,403) |
| Provisions | (278) |
| Deferred tax assets | 25 |
| Deferred tax liabilities | (2,508) |
| Acquired intangibles | 9,300 |
| Goodwill | 11,677 |
| **Total** | **23,340** |

The primary driver behind the acquisition is to gain economies of scale in the worldwide marine aids-to-navigation market and to gain a foothold in the offshore wind market.

Among other things, the goodwill recognized reflects the potential incremental cash flows management expects to generate through efficiencies obtained through combined operations, growth in sales to existing and new customers through cross selling opportunities, and expected growth in the underlying markets which Sabik should be well positioned to capitalize on. The goodwill is not tax deductible.

## 13. SUBSEQUENT EVENT

On March 9, 2016, Carmanah announced that the Toronto Stock Exchange (“TSX”) accepted the Company’s notice of intention to commence a Normal Course Issuer Bid (“NCIB”), which allows the Company to purchase up to 1,426,386 of its common shares, representing approximately 10% of its public float as of March 7, 2016. The program commenced on March 14, 2016 and will continue until March 13, 2017 or an earlier date should the Company complete its purchases.

The average daily trading volume of Carmanah's common shares over the six month period ending February 29, 2016, as calculated per the TSX rules, was 39,836 common shares. Consequently, under TSX rules, Carmanah is allowed to purchase daily, through the facilities of the TSX, a maximum of 9,959 common shares representing 25% of such average daily trading volume, subject to certain exceptions for block purchases. Carmanah will pay the market price at the time of acquisition of any common shares in accordance with the rules and policies of the TSX and applicable securities laws. All common shares acquired by the Company under the Bid will be cancelled and purchases will be funded out of Carmanah’s working capital. Although the Company has a present intention to acquire its common shares pursuant to the Bid, it is not obligated to make any purchases. No purchases were made under this program during the quarter ended June 30, 2016.

Subsequent to June 30, 2016, 29,877 shares were purchased for $0.1 million at a volume weighted average price paid of $3.98 CAD per common share.