CARMANAH TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 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	September 30, 2016	December 31, 2015
ASSETS			
Cash		20,879	14,880
Trade and other receivables		8,388	18,428
Inventories	3	6,398	12,667
Prepaid and other current assets		398	1,068
Income tax receivable		262	-
Unbilled receivables	4	-	3,033
Cost of uncompleted contracts		-	1,593
Total current assets		36,325	51,669
Equipment and leasehold improvements	5	1,383	1,337
Intangible assets	6	8,196	8,700
Goodwill	6.1	17,571	17,249
Deferred income tax asset		7,602	7,473
Investment tax credits		2,331	3,548
Assets held for sale	12	15,447	-
Total assets		**88,855**	**89,976**
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		5,061	11,117
Bank debt	7.3	7,495	10,093
Provisions		788	1,221
Income taxes payable		113	367
Deferred revenue		718	549
Current liabilities		14,175	23,347
Deferred income tax liability		1,919	1,996
Liabilities held for sale	12	1,985	-
Total liabilities		**18,079**	**25,343**
Equity			
Share capital		87,329	86,118
Equity reserve	9	4,783	4,487
Accumulated other comprehensive loss		(139)	(814)
Deficit		(21,197)	(25,158)
Total equity		70,776	64,633
Total liabilities and equity		**88,855**	**89,976**

Commitments and contingencies – note 7
Subsequent event – note 14

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

"John Simmons" *"Michael Sonnenfeldt"*

John Simmons, Chief Executive Officer
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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues		11,316	12,416	37,028	27,266
Cost of sales		6,191	7,393	20,940	16,066
Gross profit	11	5,125	5,023	16,088	11,200
Operating expenditures					
Sales and marketing		1,057	1,283	3,464	3,113
Research and development		583	674	1,859	1,244
General and administrative		2,696	3,374	7,406	5,872
		4,336	5,331	12,729	10,229
Other inventory write downs		-	-	-	442
Investment tax credits recognized		-	-	-	(4,320)
Restructuring expenses		-	-	-	74
Total operating expenditures/(recovery)	10	4,336	5,331	12,729	6,425
Operating Income/(loss)		789	(308)	3,359	4,775
Other income/(expenses)					
Gain/(loss) on disposal of assets		-	(1)	1	(12)
Other income/(expenses)		399	(522)	197	(1,313)
Foreign exchange (loss)/gain		56	(181)	89	(1,255)
		455	(704)	287	(2,580)
Income/(loss) before taxes		1,244	(1,012)	3,646	2,195
Income tax (expense)/recovery		(122)	267	(809)	6,211
Net income/(loss) from continuing operations		1,122	(745)	2,837	8,406
Net income/(loss) from discontinued operations, net of tax	12	(155)	335	1,124	1,457
Net income/(loss) attributable to shareholders		967	(410)	3,961	9,863
Other comprehensive loss, net of tax					
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustments		244	39	675	39
Total comprehensive income		1,211	(371)	4,636	9,902
Net income per share					
Basic - Continuing operations		*0.05*	*(0.03)*	*0.11*	*0.40*
Basic - Discontinued operations		*(0.01)*	*0.01*	*0.05*	*0.07*
Total		**0.04**	**(0.02)**	**0.16**	**0.47**
Diluted - Continuing operations		*0.05*	*(0.03)*	*0.11*	*0.39*
Diluted - Discontinued operations		*(0.01)*	*0.01*	*0.04*	*0.07*
Total		**0.04**	**(0.02)**	**0.15**	**0.46**
Weighted average number of shares outstanding:					
Basic		24,872,705	24,577,721	24,794,256	20,999,222
Diluted		25,350,896	25,296,549	25,315,979	21,566,860

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 *# of shares (‘000)*	Share capital Amount	Equity reserve	Subtotal	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance, January 1, 2015		*16,977*	56,539	3,292	59,831	(180)	(35,838)	23,813
Net income		-	-	-	-	-	10,079	10,079
Share-based payments		-	-	634	634	-	-	634
Shares issued on stock option exercise		10	34	(12)	22	-	-	22
Shares issued from warrant exercise		13	75	(20)	55	-	-	55
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
Sabik acquisition		*1,180*	4,513	-	4,513	-	-	4,513
Foreign currency translation adjustments		-	-	-	-	(181)	-	(181)
Balance, September 30, 2015		*24,580*	86,061	4,264	90,325	(361)	(25,759)	64,205
Net income		-	-	-	-	-	601	601
Share-based payments		-	-	267	267	-	-	267
Shares issued on stock option exercise		*36*	133	(44)	89	-	-	89
Tax on bought deal issuance		-	(76)	-	(76)	-	-	(76)
Foreign currency translation adjustments		-	-	-	-	(453)	-	(453)
Balance, December 31, 2015		*24,616*	86,118	4,487	90,605	(814)	(25,158)	64,633
Net income		-	-	-	-	-	3,961	3,961
Share-based payments	9	-	-	599	599	-	-	599
Shares issued on stock option exercise		38	117	(41)	76	-	-	76
Shares issued from warrant exercise		240	1,186	(262)	924	-	-	924
Shares acquired and cancelled		(30)	(92)	-	(92)	-	-	(92)
Foreign currency translation adjustments		-	-	-	-	675	-	675
Balance, September 30, 2016		*24,864*	87,329	4,783	92,112	(139)	(21,197)	70,776

CARMANAH TECHNOLOGIES CORPORATION

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

	Notes	Nine months ended September 30, 2016	2015
OPERATING ACTIVITIES			
Net income from continuing operations		2,837	8,406
Add back (deduct) items not involving cash:			
Amortization	5,6	1,197	1,506
(Gain)/Loss on disposal of assets		(1)	12
Share-based payments	9	549	572
Utilization/(recognition) of investment tax credits		1,217	(4,320)
Unrealized foreign exchange gain		(140)	(330)
Deferred income tax recovery		(206)	(5,920)
Changes in working capital and other items:			
Trade and other receivables		1,525	642
Inventories		144	(1,331)
Prepaids and other current assets		45	(82)
Trade and other payables		(2,379)	(889)
Provisions		(238)	(257)
Deferred revenue		179	(436)
Income tax payable		(516)	375
Net cash provided/(used) by operating activities of continuing operations		4,213	(2,052)
INVESTING ACTIVITIES			
Acquisitions, net of cash		-	(16,743)
Proceeds from disposal of assets		-	54
Purchase of equipment and leasehold improvements	5	(482)	(345)
Purchase of intangible assets	6	(204)	(218)
Change in restricted cash		-	45
Net cash used in investing activities of continuing operations		(686)	(17,207)
FINANCING ACTIVITIES			
Proceeds from share issuance		-	24,710
Proceeds from exercised warrants		924	22
Proceeds from exercised stock options		76	54
Proceeds from debt issuance		-	10,000
Debt repayments		(2,598)	(580)
Net cash provided/(used) by financing activities of continuing operations		(1,598)	34,206
Foreign exchange effect on cash		76	(221)
Increase in cash from continuing operations		2,005	14,726
Cash provided from/(used) by discontinued operations	12	3,994	(5,899)
Cash at beginning of period		14,880	8,707
Cash at end of period		20,879	17,534

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.

These statements follow the same accounting policies from those disclosed in the consolidated financial statements for the years ended December 31, 2015 and 2014 except for the following policy which was disclosed in Q3 2016:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. A discontinued operation is a component of the Company's business which can be clearly distinguished from the rest of the components in the company which is part of a single plan to dispose of a major business line. Classification of discontinued operations occurred as the Company met the criteria to be classified as held-for-sale. The Company has re-stated the Statement of Income and Loss and Total Comprehensive Income and the Statement of Cash Flows for the comparative period.

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

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

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 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

	September 30, 2016	December 31, 2015
Finished goods	3,523	8,361
Work in progress	132	563
Raw materials	3,000	4,068
Provision for obsolescence	(257)	(325)
Net inventories	6,398	12,667

For the three months ended September 30, 2016, inventory recognized as an expense amounted to $5.7 million (September 30, 2015 - $6.6 million), which includes inventory write downs of $0.1 million (September 30, 2015 – $0.1 million). For the nine months ended September 30, 2016, inventory recognized as an expense amounted to $18.4 million (September 30, 2015 - $14.5 million), which includes inventory write downs of $0.2 million (September 30, 2015 – $0.2 million). There were no reversals of previously recorded inventory write downs. As at September 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:

	September 30, 2016	December 31, 2015
Loans and receivables		
Cash	20,879	14,880
Trade and other receivables	8,388	18,428
Unbilled receivables	-	3,033
Other financial liabilities		
Trade and other payables	5,061	11,117
Bank debt	7,495	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	66	163	10	222	21	482
Disposals	-	-	-	(53)	-	(53)
Reclassification to assets held for sale	(35)	(78)	(19)	(38)	(7)	(177)
Foreign exchange adjustment	-	3	-	18	-	21
Balance at September 30, 2016	**367**	**887**	**217**	**1,217**	**441**	**3,129**
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	61	60	21	172	6	320
Disposals	-	-	-	(53)	-	(53)
Reclassification to assets held for sale	(13)	(21)	(4)	(3)	(2)	(43)
Foreign exchange adjustment	-	1	(1)	3	-	3
Balance at September 30, 2016	**220**	**604**	**70**	**443**	**409**	**1,746**
Carrying amounts						
At December 31, 2015	164	235	172	744	22	1,337
At September 30, 2016	147	283	147	774	32	1,383

(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	-	204	-	-	-	-	-	-	204
Disposals	-	(1,533)	-	-	-	-	-	-	(1,533)
Reclassification to assets held for sale	-	(24)	-	-	-	-	-	-	(24)
Foreign exchange adjustment	-	1	-	-	132	44	55	25	257
Balance September 30, 2016	**739**	**1,177**	**450**	**623**	**4,860**	**1,620**	**2,325**	**912**	**12,706**
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	22	146	-	-	431	242	63	-	904
Disposals	-	(1,533)	-	-	-	-	-	-	(1,533)
Reclassification to assets held for sale	-	(4)	-	-	-	-	-	-	(4)
Foreign exchange adjustment	-	-	-	-	10	5	-	25	40
Balance September 30, 2016	**703**	**444**	**450**	**623**	**722**	**405**	**251**	**911**	**4,509**
Carrying amounts									
At December 31, 2015	58	694	-	-	4,447	1,418	2,082	1	8,700
At September 30, 2016	36	733	-	-	4,138	1,215	2,074	-	8,196

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

6.1. Goodwill

	September 30, 2016	December 31, 2015
Opening goodwill	17,249	5,746
Sabik acquisition (note 13)	-	11,677
Foreign exchange adjustment	322	(174)
	17,571	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 September 30, 2016, the contract manufacturers held approximately $1.7 million (December 31, 2015 - $1.5 million) in inventory and $0.7 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, the Company 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 September 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 September 30, 2016, no amounts had been drawn on the 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, September 30, 2016	-	-

9. SHARE-BASED PAYMENTS

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

Nine months ended September 30,	2016	2015
Stock options	549	572
Total compensation expense	549	572

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.

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

The following table provides a reconciliation of the maximum shares issuable under stock-based compensation plans as at September 30, 2016:

Available shares (10% of outstanding shares at September 30, 2016)	2,486,407
Less:	
Stock options outstanding at September 30, 2016	(1,991,141)
Number of shares issuable under stock-based compensation plans	495,266

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 September 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	888,950	$5.86
Forfeited	(50,782)	$2.74
Exercised	(9,682)	$2.95
Balance, September 30, 2015	2,164,183	$3.79
Granted	54,000	$5.68
Forfeited	(129,369)	$3.32
Exercised	(36,194)	$5.06
Balance, December 31, 2015	2,052,620	$3.76
Granted	148,000	$3.97
Forfeited	(165,712)	$5.43
Exercised	(37,767)	$2.63
Cancelled	(6,000)	$5.30
Balance, September 30, 2016	1,991,141	$3.66

The following table summarizes the stock options outstanding and exercisable at September 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 September 30, 2016						
$1.45 to $1.45	300,000	4.1	$1.45	150,000	4.1	$1.45
$1.46 to $2.50	576,433	7.6	$2.50	272,165	7.6	$2.50
$2.51 to $2.90	299,270	7.5	$2.72	94,416	5.9	$2.77
$2.91 to $6.39	815,438	8.9	$5.63	157,515	8.7	$5.98
	1,991,141	7.6	$3.66	674,096	6.8	$3.11

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 nine months ended September 30, 2016 was $2.05 CAD per share (2005 - $3.09 CAD). The option valuations were determined using the following weighted average assumptions:

	Nine months ended September 30,	
	2016	2015
Risk-free interest rate	0.74%	1.14%
Expected dividend yield	0%	0%
Forfeiture rate	16.9%	17.5%
Stock price volatility	54.6%	55.0%
Expected life of options	6.3 years	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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Salaries, commissions and other direct compensation	2,023	2,103	6,368	5,012
Share-based payments	174	323	549	572
Marketing, advertising and other related expenses	198	274	538	391
Development expenses	111	262	446	492
Travel and related expenses	174	238	558	472
Occupancy costs	233	272	691	471
Telecom and IT expenses	242	215	621	613
Professional fees, insurance and public company costs	373	331	1,236	694
Amortization	376	1,202	1,084	1,406
Bad debts	255	45	315	38
Bank charges and interest	37	33	112	78
Other expenses	140	33	211	506
Investment tax credits recognized	-	-	-	(4,320)
Total operating expenditures	4,336	5,331	12,729	6,425

The amortization expense as noted in the statement of cash flows includes amortization classified under cost of sales. It excludes amortization associated with discontinued operations as outlined in note 12.

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 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.

**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.

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

	Signals	Illumination	Total
For the three months ended September 30, 2016			
Revenue	10,006	1,310	11,316
Gross margin	4,603	522	5,125
Gross margin %	46.0%	39.8%	45.3%
Total operating expenses			(4,336)
Other income			455
Income before taxes			1,244
For the three months ended September 30, 2015			
Revenue	11,426	990	12,416
Gross margin	4,789	234	5,023
Gross margin %	41.9%	23.6%	40.5%
Total operating expenses			(5,331)
Other expenses			(704)
Loss before taxes			(1,012)
For the nine months ended September 30, 2016			
Revenue	31,078	5,950	37.028
Gross margin	13,909	2,179	16,088
Gross margin %	44.8%	36.6%	43.4%
Total operating expenses			(12,729)
Other income			287
Income before taxes			3,646
For the nine months ended September 30, 2015			
Revenue	21,673	5,593	27,266
Gross margin	9,254	1,946	11,200
Gross margin %	42.7%	34.8%	41.1%
Total operating expenses			(6,425)
Other expenses			(2,580)
Income before taxes			2,195

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,	
	2016	2015	2016	2015
North America	5,387	5,424	15,452	16,362
Europe	4,494	6,009	19,167	6,858
South America	126	174	205	437
Middle East and Africa	303	212	813	2,410
Asia Pacific	1,006	597	1,391	1,199
Total revenues	11,316	12,416	37,028	27,266

As at September 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 $1.9 million (December 31, 2015 - $5.4 million), and $4.1 million (December 31, 2015 - $3.5 million) of assets related to the Sabik entities which is mainly split between Germany and Finland.

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

12. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the third quarter of 2016, management committed to a plan to sell its Power segment. Sales efforts began in September 2016 and it is anticipated that the sale will occur within the next few quarters.

Results of discontinued operations

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	6,785	7,433	20,012	19,613
Cost of sales	5,850	5,821	16,192	14,796
Gross profit	935	1,612	3,820	4,817
Operating expenditures	950	677	2,733	2,044
Other expenses (income)	200	297	(434)	485
Tax expense (recovery)	(52)	171	409	611
Other comprehensive income	(8)	132	(12)	220
Net earnings (loss)	(155)	335	1,124	1,457

Effect of disposal on the financial position of the company

As part of management's plan to sell the Company's Power segment, assets and liabilities associated with the segment have been presented as held for sale. The following are the associated details:

	As at September 30, 2016
Trade and other receivables	3,815
Unbilled receivables	5,678
Inventories	4,584
Prepaid and other current assets	1,171
Cost of uncompleted contracts	43
Capital and intangible assets	156
Net assets classified as held for sale	15,447
Deferred revenue	18
Trade and other payables	1,709
Provisions	258
Net liabilities classified as held for sale	1,985

Cash flow from (used in) discontinued operation

	Nine months ended September 30,	
	2016	2015
Cash provided by (used in) operating activities	3,994	(5,899)
Net cash flow from discontinued operations	3,994	(5,899)

13. 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 nine months ended September 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.

14. SUBSEQUENT EVENT

On October 20, 2016, the Company acquired 300,000 a block of its common shares under a Normal Course Issuer Bid ("NCIB") program, which was announced on March 9, 2016. The average price of the share block was $4.00 CAD per common share.