

CARMANAH TECHNOLOGIES CORPORATION

Interim Financial Statements

Nine months ended September 30, 2009 and 2008
(Unaudited)

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Balance Sheets

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

September 30, 2009 and December 31, 2008
(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,876	\$ 5,831
Accounts receivable, net	7,305	10,320
Other receivables	1,147	1,562
Inventories	3,502	6,274
Prepaid expenses and deposits	285	439
Derivative asset	106	-
Assets related to discontinued operations (note 11)	-	1,606
	21,221	26,032
Equipment and leasehold improvements, net	1,195	1,322
Intangible assets, net (note 5)	2,895	156
Investment tax credits	2,029	1,321
Future income taxes	2,729	2,093
Assets related to discontinued operations (note 11)	-	418
	\$ 30,069	\$ 31,342
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 4,656	\$ 4,898
Accrued liabilities	1,604	2,546
Deferred revenue	75	180
Derivative liability	-	144
Liabilities related to discontinued operations (note 11)	-	747
	6,335	8,515
Shareholders' equity:		
Share capital (note 7 (b))	33,815	34,284
Contributed surplus (note 7 (f))	2,895	2,829
Accumulated other comprehensive income (note 2)	2,783	1,672
Deficit	(15,759)	(15,958)
	23,734	22,827
	\$ 30,069	\$ 31,342

Change in Functional and Reporting Currency (note 2)

See accompanying notes to consolidated financial statements.

On Behalf of the Board:

_____ Director

_____ Director

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Operations and Deficit
(Expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Sales	\$ 9,495	\$ 12,170	\$ 24,804	\$ 39,700
Cost of sales	6,385	7,541	16,010	26,016
	3,110	4,629	8,794	13,684
Operating expenses				
Sales and marketing	1,213	1,218	4,019	4,551
Research, development and engineering, net	498	669	1,410	1,982
General and administration	1,335	1,713	3,977	5,750
Amortization	165	459	470	904
	3,211	4,059	9,876	13,187
Restructuring costs (note 9)	-	466	452	1,007
Total operating expenses	3,211	4,525	10,328	14,194
Operating income/(loss)	(101)	104	(1,534)	(510)
Other income/(expense)				
Gain/(loss) on disposal of capital assets	(42)	-	(35)	(4)
Gain on sale of roadways assets (note 10)	-	-	653	-
Interest and other	121	13	181	68
Foreign exchange gain/(loss)	1,359	202	1,024	552
	1,438	215	1,823	616
Income before income taxes	1,337	319	289	106
Income tax recovery/(expense) (note 6)				
Current	-	182	(3)	(10)
Future	11	(222)	354	(438)
	11	(40)	351	(448)
Income/(loss) for the periods from continuing operations	1,348	279	640	(342)
Loss on sale of CSI (note 11)	(46)	-	(46)	-
Income/(loss) from discontinued operations, net of income tax (note 11)	(58)	467	(336)	825
Net income	\$ 1,244	\$ 746	\$ 258	\$ 483
Income/(loss) per share:				
Basic – continued operations	\$ 0.03	\$ 0.01	\$ 0.02	\$ (0.01)
Basic – discontinued operations	(0.00)	0.01	(0.01)	0.02
Basic - total	0.03	0.02	0.01	0.01
Diluted – continuing operations	0.03	0.01	0.01	(0.01)
Diluted – discontinued operations	(0.00)	0.01	(0.01)	0.02
Diluted - total	0.03	0.02	0.00	0.01
Weighted average number of shares outstanding:				
Basic	42,384,948	42,290,006	42,559,189	42,275,678
Diluted	42,965,389	42,475,734	43,139,630	42,293,275

See accompanying notes to consolidated financial statements

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net Income	\$ 1,244	\$ 746	\$ 258	\$ 483
Other comprehensive income/(loss):				
Cumulative translation adjustment relating to CSI (note 11)	141	-	141	-
Translation adjustment	-	(1,482)	970	(2,465)
Comprehensive income/(loss)	\$ 1,385	\$ (736)	\$ 1,369	\$ (1,982)

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Shareholders' Equity
(Expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008
(Unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2009	2008	2009	2008
Accumulated other comprehensive income				
Balance at beginning of period	\$ 2,642	\$ 7,828	\$ 1,672	\$ 8,811
Other comprehensive (loss)/income:				
Translation adjustment	-	(1,482)	970	(2,465)
Cumulative translation adjustment relating to CSI (note 11)	141	-	141	-
Balance at the end of period	2,783	6,346	2,783	6,346
Common shares				
Balance at beginning of period	34,568	34,138	34,284	34,881
Vested restricted share units	79	-	363	97
Exercise of options	-	-	-	11
Shares returned to treasury	(832)	-	(832)	(851)
Balance at the end of period	33,815	34,138	33,815	34,138
Contributed surplus				
Balance at beginning of period	2,795	2,610	2,829	2,399
Transfer to share capital on exercise of options/stock units	(70)	-	(359)	(102)
Cancellation of shares returned to treasury	-	-	-	(118)
Stock compensation	170	226	425	657
Balance at the end of period	2,895	2,836	2,895	2,836
Retained (deficit) earnings				
Balance at beginning of period	(16,944)	(8,682)	(15,958)	(8,419)
Net (loss) income	1,244	746	258	483
Excess of purchase price over assigned value of common shares	(59)	-	(59)	-
Balance at the end of period	(15,759)	(7,936)	(15,759)	(7,936)
Total Shareholders' equity	\$ 23,734	\$ 35,384	\$ 23,734	\$ 35,384

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Cash Flows

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

For the nine months ended September 30, 2009 and 2008

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operations:				
Net earnings	\$ 1,244	\$ 746	\$ 258	483
Items not involving cash:				
Amortization	201	717	713	1,195
Gain/(loss) on disposal of equipment and leasehold improvements	42	-	35	4
Gain on disposal of Roadway assets (note 10)	-	-	(653)	-
Loss on sale of CSI (note 11)	46	-	46	-
Stock-based compensation	170	229	425	659
Future income tax expense/(recovery)	(11)	222	(354)	438
Derivative instruments	(187)	-	(250)	-
Investment tax credits	-	(76)	-	(47)
Restructuring costs (note 8)	-	136	240	594
Foreign exchange (gain)/loss	(731)	(940)	64	345
Net changes in non-cash working capital	866	(2,517)	5,066	(3,703)
Cash provided by (used in) operating activities – continuing operations	1,640	(1,483)	5,590	(32)
Cash provided by (used in) operating activities – discontinued operations	42	595	(8)	455
	1,682	(888)	5,582	423
Investing:				
Purchase of equipment and leasehold improvements	(67)	(51)	(504)	(290)
Proceeds from CSI sale, net of cash disposed of \$355 (note 11)	136	-	136	-
Purchase of intangible assets	(698)	(72)	(1,104)	(90)
Development costs	(1,070)	-	(2,396)	-
Proceeds from the disposal of Roadway assets (note 10)	-	-	719	-
Proceeds from the disposal of equipment and leasehold improvements	-	-	70	-
	(1,699)	(123)	(3,079)	(380)
Financing:				
Proceeds on share issuance	-	-	-	11
	-	-	-	11
Foreign exchange effect on cash and cash equivalents	538	(109)	542	(75)
Increase/(decrease) in cash and cash equivalents	521	(1,120)	3,045	(21)
Cash and cash equivalents, beginning of period	8,355	5,192	5,831	4,093
Cash and cash equivalents, end of period	\$ 8,876	\$ 4,072	\$ 8,876	4,072

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Statements of Cash Flows

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

For the nine months ended September 30, 2009 and 2008

(Unaudited)

Supplemental cash flow information:

Cash during the period for:

Bank charges and interest paid	\$	31	\$	33	\$	112	\$	150
Income taxes paid	\$	-	\$	-	\$	3	\$	33
<hr/>								
Non cash transaction:								
Settlement of accounts receivable	\$	-	\$	-	\$	-	\$	980

See accompanying notes to consolidated financial statements

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

Nature of business

Carmanah Technologies Corporation (CTC, or the Company) 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, solar powered systems & equipment and LED illuminated signage.

1. Basis of presentation:

The interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2008 except as disclosed in Notes 2 and 3. The disclosures provided below are incremental to those included in the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereof for the year ended December 31, 2008.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. Changes in functional and reporting currency

Effective July 1, 2009, the Company determined that the functional currency had changed from the Canadian dollar to the U.S. dollar. This resulted from a change in the nature of the business as the majority of sales and expenses occur in U.S. dollars.

Concurrent with this change in functional currency, effective July 1, 2009, the Company adopted the U.S. dollar as its reporting currency. The change in reporting currency is to better reflect the Company's business activities and to improve financial statement users' ability to compare the Company's financial results with other publicly traded businesses in the solar technology industry. In accordance with Canadian GAAP, all prior year comparative asset and liability balances were translated at the respective period end U.S./Canadian dollar exchange rates; shareholders' equity balances were translated at historical exchange rates, and income statement balances were translated at the average exchange rate for the respective period. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. As at December 31, 2008, the resulting cumulative translation amount was \$1.7 million. For the period ended September 30, 2009, a gain due to the foreign currency translation adjustment in the amount of \$1.0 million was recorded as Other comprehensive income, and is included in the Balance Sheet in Accumulated Other Comprehensive Income. Accumulated other comprehensive gain as at September 30, 2009 is \$2.8 million (December 31, 2008 - \$1.7 million).

3. Adoption of new accounting standards:

Effective January 1, 2009, the Company adopted the new recommendations of revised CICA Handbook Section 1400, "*General Standards of Financial Statement Presentation*", to include requirements for management to assess and disclose the entity's ability to continue as a going concern. The Company has assessed the impact of adopting these new recommendations and has determined that it does not impact the Company's consolidated financial statements.

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

3. Adoption of new accounting standards (continued):

Effective January 1, 2009, the Company adopted the recommendations of CICA Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaced Section 3062, "Goodwill and Other Intangible Assets", and section 3450, "Research and Development Costs", established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company has assessed the impact of adopting this new section and determined that it does not impact the Company's consolidated financial statements. Independent to this change in the handbook section, the Company, as a result of a greater focus on technology and product development, has determined that certain development costs meet the criteria in Section 3064 for deferral. The Company's new policy on "internally-generated intangible assets – research and development expenditures", which follows the recommendations in Section 3064, is noted below:

Expenditures on research activities are recognized as an expense in the period which they are incurred.

An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above, less investment tax credits, if applicable. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. Internally-generated intangible assets will be amortized on a straight-line basis over their estimated useful lives.

4. Future changes in accounting standards:

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period ending on January 1, 2011. The Company has developed an implementation plan for the conversion and has started the training phase and the evaluation of the impact, which involves a high-level review of the differences between current GAAP and IFRS. Throughout fiscal year 2009, management has been and will continue to review the alternatives available on adoption and preparing a detailed impact assessment. As the implications of the conversion are identified, the impacts on the other key elements of the conversion plan will be assessed. These key elements include: accounting policy changes, information technology changes, training requirements, internal control over financial reporting and impacts on business activities.

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

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For the nine months ended September 30, 2009 and 2008

(Unaudited)

5. Intangible assets:

September 30, 2009	Cost	Accumulated amortization	Net book value
Patents, trademarks and other	\$ 411	\$ 189	\$ 222
Software	1,016	-	1,016
Product development assets	1,657	-	1,657
	<u>\$ 3,084</u>	<u>\$ 189</u>	<u>\$ 2,895</u>

December 31, 2008	Cost	Accumulated amortization	Net book value
Patents, trademarks and other	\$ 305	\$ 149	\$ 156
Product development assets	-	-	-
	<u>\$ 305</u>	<u>\$ 149</u>	<u>\$ 156</u>

During the nine months ended September 30, 2009, the Company capitalized \$1.7 million of development expenditures. This amount is net of applicable investment tax credits of \$0.7 million. The amounts capitalized relate to a number of development projects that are directly related to the Company's future strategic product offerings. Amortization will be recorded when the projects are completed, which generally will occur when the related product has been commercialized.

Also during the nine months ended September 30, 2009, the Company capitalized \$1.0 million of costs relating to the design and development of a new ERP system. Amortization will commence in the fourth quarter of 2009, as the system went into use in early October.

6. Income taxes:

Income tax recovery (expense) differs from the amounts computed by applying the combined federal and provincial tax rates of 29.8% (2008 - 31.0%) to pre-tax income from continuing operations as a result of the following:

September 30	Three months ended		Nine months ended	
	2009	2008	2009	2008
Earnings (loss) before income taxes	\$ 1,337	\$ 319	\$ 289	\$ 106
Computed expected recovery (expense)	\$ (398)	\$ (99)	\$ (86)	\$ (33)
Non-deductible expenses, primarily stock based compensation	(53)	(74)	(136)	(218)
Tax rate and other adjustments	462	133	573	(197)
Income tax recovery (expense)	<u>\$ 11</u>	<u>\$ (40)</u>	<u>\$ 351</u>	<u>\$ (448)</u>

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

7. Share capital:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued and outstanding:

	Number of common shares	Amount
Balance, December 31, 2008	42,448,651	\$ 34,284
Vested restricted share units	506,774	363
Shares returned to treasury (note 11)	(1,031,116)	(832)
Balance, September 30, 2009	41,924,309	\$ 33,815

During the nine months ended September 30, 2009, 506,774 restricted and performance shares units vested and were issued from treasury, resulting in a reallocation of \$0.4 million from contributed surplus to share capital.

(c) Stock options:

The Company maintains a fixed stock option plan that enables it to grant options to its directors, officers, employees and other service providers. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options.

The Company has reserved 2,850,000 common shares under the plan. The options vest between 18 and 36 months from the date of grant and have a maximum term of five years.

A summary of the status of the options outstanding and exercisable follows:

	Number of options	Weighted average exercise price (CND\$)
Balance, December 31, 2008	1,848,850	\$ 2.02
Granted	100,000	0.90
Cancelled	(176,650)	(2.46)
Balance, September 30, 2009	1,772,200	\$ 1.91

The following table summarizes the stock options outstanding and exercisable at September 30, 2009. The weighted average exercise price is stated in Canadian dollars:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at September 30, 2009	Weighted average exercise price
\$0.88 to \$1.99	1,045,200	2.93	\$ 1.36	584,865	\$ 1.44
\$2.00 to \$2.99	513,500	2.13	2.50	430,167	2.56
\$3.00 to \$3.61	213,500	1.57	3.14	213,500	3.14
	1,772,200	2.54	\$ 1.91	1,228,532	\$ 2.13

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

7. Share capital (continued):

During the nine months ended September 30, 2009, under the fair value method, \$0.1 million (2008 - \$0.3 million) in compensation expense was recorded in the consolidated statement of operations for options granted to employees.

The compensation costs for options granted during the nine months ended September 30, 2009 were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

Nine months ended September 30,	2009	2008
Risk free interest rate	1.71%	3.51%
Expected dividend yield	0%	0%
Stock price volatility	64%	47%
Expected life of options	3 years	3 years

The weighted average fair value of options granted during the nine months ended September 30, 2009 in Canadian dollars is \$0.39 (2008 - \$0.37) per share.

(d) Stock units:

In 2007, the Company set up a Restricted Stock Unit (RSU) Plan and a Performance Stock Unit (PSU) Plan. There are a combined 2,200,000 shares reserved under these plans. Each RSU and each PSU entitles the holder to receive one common share of the Company upon vesting. The RSU and the PSU vest between 0 and 36 months from the date of grant.

A summary of the status of the restricted share units and performance share units are as follows:

	Restricted share units	Performance share units
Balance, December 31, 2008	404,428	189,672
Granted	470,549	55,970
Cancelled	(33,404)	-
Issued	(317,102)	(189,672)
Balance, September 30, 2009	524,471	55,970

During the nine months ended September 30, 2009, the Company recorded compensation expense associated with these stock units of \$0.3 million (2008 - \$0.4 million). The compensation costs were calculated using fair market value of the units based on the common share price at the time of the grant. The weighted average fair value of the restricted share units granted during the nine months ended September 30, 2009 is \$0.59 CDN (2008 - \$1.15 CDN) per unit. The weighted average fair value of the performance share units granted during the nine months ended September 30, 2009 is \$0.49 CDN (2008 - \$1.07 CDN) per unit.

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

7. Share capital (continued):

(e) Warrants:

During 2005, the Company issued 300,000 warrants as contingent consideration to the principal vendors of Soltek Powersource Ltd. These warrants have an exercise price of \$2.79 CDN and expire September 30, 2010. Each warrant entitles the holder to purchase one common share of the Company.

	Number of warrants	Weighted average exercise price (CDN\$)
Balance, September 30, 2009 and December 31, 2008	300,000	\$ 2.79

(f) Contributed surplus:

Balance, December 31, 2008	\$ 2,829
Stock compensation	425
Transfer to share capital on exercise of options/stock units	(359)
Balance, September 30, 2009	\$ 2,895

8. Segmented information:

During the quarter ended September 30, 2009, the Company realigned its reporting segments to better reflect how management views and manages the business. The Company operates in two main industry segments: (a) Signals and Illumination, which consists of outdoor area lighting illumination and lanterns and beacons for marine, aviation and obstruction; and (b) Systems and Other, which consists of mobile systems, grid-tie systems, off-grid systems, and other miscellaneous products. The prior year segments have been revised to reflect this realignment.

Management evaluates segment performance based on gross profit, as other expenses are not generally allocated to the segments. The segments share certain inventory, equipment and leasehold improvements; therefore management does not classify net asset information on a segmented basis.

Three months ended September 30, 2009	Signals & Illumination	Systems & Other	Total
Sales	\$ 5,396	\$ 4,099	\$ 9,495
Cost of sales	3,418	2,967	6,385
Gross profit	\$ 1,978	\$ 1,132	3,110
Gross margin %	36.7%	27.6%	32.8%
Operating expenses			3,211
Operating loss			(101)
Other income			1,438
Income before income taxes			\$ 1,337

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

8. Segmented information (continued):

Three months ended September 30, 2008	Signals & Illumination	Systems & Other	Total
Sales	\$ 6,931	\$ 5,239	\$ 12,170
Cost of sales	3,439	4,102	7,541
Gross profit	\$ 3,492	\$ 1,137	4,629
Gross margin %	50.4%	21.7%	38.0%
Operating expenses			<u>4,525</u>
Operating income			104
Other income			<u>215</u>
Income before income taxes			<u>\$ 319</u>

Nine months ended September 30, 2009	Signals & Illumination	Systems & Other	Total
Sales	\$ 16,906	\$ 7,898	\$ 24,804
Cost of sales	10,098	5,912	16,010
Gross profit	\$ 6,808	\$ 1,986	\$ 8,794
Gross margin %	40.3%	25.1%	35.5%
Operating expenses			<u>10,328</u>
Operating loss			(1,534)
Other income			<u>1,823</u>
Income before income taxes			<u>\$ 289</u>

Nine months ended September 30, 2008	Signals & Illumination	Systems & Other	Total
Sales	\$ 19,507	\$ 20,193	\$ 39,700
Cost of sales	10,119	15,897	26,016
Gross profit	\$ 9,388	\$ 4,296	13,684
Gross margin %	48.1%	21.3%	34.5%
Operating expenses			<u>14,194</u>
Operating loss			(510)
Other income			<u>616</u>
Income before income taxes			<u>\$ 106</u>

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

8. Segmented information (continued):

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

ended September 30	Three months ended		Nine months	
	2009	2008	2009	2008
North America	\$ 7,479	\$ 9,582	\$ 19,532	\$ 31,217
South America	190	198	439	362
Europe	682	1,169	2,152	3,206
Middle East and Africa	853	889	1,972	3,841
Asia	237	205	494	567
South Pacific	54	127	215	507
	\$ 9,495	\$ 12,170	\$ 24,804	\$ 39,700

As at September 30, 2009 and December 31, 2008, substantially all of the assets related to the Company's operations were located in Canada except for \$2.1 million of on-hand inventory held in the United States (December 31, 2008 – \$1.0 million).

9. Restructuring costs:

In June 2008, the Company announced plans to streamline its operations by exiting some of its tactical businesses, reducing administrative staffing levels, and accelerating plans to outsource manufacturing. As part of this restructuring the Company closed its US and Calgary distribution warehouses and its Victoria based manufacturing facility.

During the nine months ended September 30, 2009, the Company recorded \$0.5 million in restructuring charges. A total of \$1.9 million of charges have been recorded to date. A breakdown of the costs is provided below:

	Severance and retention	Facility exit costs & related amortization	Asset write downs	Total
Restructuring charges				
Fiscal 2008	\$ 470	\$ 574	\$ 390	\$ 1,434
September 30, 2009	72	195	185	452
Total charges recorded to date	\$ 542	\$ 769	\$ 575	\$ 1,886

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

9. Restructuring costs (continued):

A reconciliation of the cash based expenditures and related liability for restructuring costs is as follows:

	Severance and retention	Facility exit costs	Total
Accrued liability - December 31, 2007	\$ -	\$ -	\$ -
Expenditure recognized	470	109	579
Cash disbursements	(397)	(109)	(506)
Accrued liability - December 31, 2008	\$ 73	\$ -	\$ 73
Expenditure recognized	72	48	120
Cash disbursements	(145)	(48)	(193)
Accrued liability - September 30, 2009	\$ -	\$ -	\$ -

All significant restructuring activities were completed during the second quarter of 2009.

10. Sale of roadway assets:

On February 6, 2009, the Company sold certain assets related to its illuminated road signs business to a distributor for proceeds of \$0.7 million. The assets disposed of primarily consisted of related inventory, customer & vendor lists, marketing collateral and manufacturing equipment. A gain of \$0.7 million was recognized on the sale.

11. Discontinued operations - Carmanah Signs Incorporated (CSI):

Effective August 17, 2009, the Company sold its wholly owned subsidiary, Carmanah Signs Inc. ("CSI"), to a former director of the Company for a total of \$1.9 million (\$1.0 million to acquire the outstanding shares and \$0.9 million to settle the outstanding inter-company debt). Under the terms of the agreement, upon closing the Company received \$0.5 million in cash and 999,956 of the Company's common shares. The 999,956 shares were subsequently cancelled and returned to treasury and settled \$0.8 million of the balance owed. A further 31,160 shares were received to settle performance bonuses paid to CSI employees prior to the transfer. On redemption of the related shares, a \$0.1 million adjustment to retained earnings was recorded to recognize the excess value of the redemption price over the assigned value of the common share. An additional gain of \$0.1 million was recognized on settlement of proceeds receivable and intercompany debt receivable.

An outstanding receivable of \$0.6 million, which is included in the "Other Receivables" caption, was collected on October 31, 2009. The Company has recognized a gain of \$0.1 million on the disposal and has recognized \$0.14 million related to the release of CSI's cumulative translation account balance. The net result of this transaction is a \$0.05 million loss.

The transaction is aligned with the Company's business strategy of focusing on strategic solar lighting and technology markets.

Selected financial information for the Discontinued Business is as follows:

CARMANAH TECHNOLOGIES CORPORATION

Consolidated Notes to Financial Statements

(Tabular amounts expressed in thousands of U.S. Dollars, except share and per share amounts)

For the nine months ended September 30, 2009 and 2008

(Unaudited)

11. Discontinued operations - Carmanah Signs Incorporated (CSI) (continued):

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue	\$ 1,276	\$ 4,322
Gross margin	381	1,502
Operating costs	921	1,254
Other income	97	150
Income tax recovery	107	427
Net income	\$ (336)	\$ 825

	Nine months ended September 30, 2009	Year-ended December 31, 2008
Cash	\$ -	\$ 667
Accounts receivable	-	482
Inventories	-	418
Prepaid expenses	-	39
Current assets	\$ -	\$ 1,606
Equipment and leasehold improvements, net	-	65
Intangibles	-	1
Future income taxes	-	352
Non-current assets	\$ -	\$ 418
Accounts payable	-	705
Deferred revenue	-	42
Current liabilities	\$ -	\$ 747



2009 Third Quarter Report

**Management's Discussion and Analysis
for the nine months ended September 30, 2009**

October 23, 2009

About this document

The following Management Discussion and Analysis (“MD&A”) is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with our Fiscal 2008 Consolidated Financial Statements and accompanying notes, and annual MD&A. These documents, along with additional information about our Company, including the Annual Report and Annual Information Form, are available at www.carmanah.com and www.sedar.com.

This MD&A is prepared as of October 23, 2009.

Forward-looking statements

This public communications and management discussion & analysis may contain forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “expects,” “plans,” “estimates,” “intends,” “believes,” “could,” “might,” “will” or variations of such words and phrases. Forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. These statements are based on our current expectations and beliefs and are subject to a number of risks and uncertainties. Readers should not place undue reliance on forward-looking statements. We do not assume any obligation to update the forward-looking information contained in this management discussion and analysis.

Change in reporting currency

Effective July 1, 2009, we changed our reporting currency to the US dollar. The following MD&A is therefore expressed in US dollars, with the exception of our share and per share amounts, which will continue to be expressed in Canadian dollars. The change was effected by translating assets and liabilities, at the end of prior periods, at the existing US/Canadian dollar foreign exchange spot rate at the respective dates, while earnings, losses, and shareholders’ equity were translated at historic rates through the respective dates.

Refer to the “Financial Highlights” section below for further information regarding this change.

Change in segmented reporting

During the third quarter of 2009, we realigned our reporting segments to better reflect how management views and manages the business. Effective July 1, 2009, we have changed our segmented reporting from Strategic and Tactical to Signals & Illumination and Systems & Other. The following MD&A has been prepared using these new segments, and prior year figures have been revised to reflect this realignment.

Business Overview

We are a designer and manufacturer of renewable and energy-efficient technologies. Our Signals & Illumination products include solar-powered beacons for marine, aviation, and defense applications, and solar-powered area lighting. Our Systems & Other products include mobile power systems, off-grid and grid-tie solar power systems for industrial applications.

Our goal is to set the standard for solar lighting innovation and performance. We see a period of growth where we will lead the market through research and development advancements and strategic partnerships.

Industry Outlook

For many businesses, 2009 has been and 2010 will continue to be a time of economic instability while countries re-establish their infrastructure and spending; however, the means by which many countries are planning to address the economic crisis, and the underlying issues about which they are concerned play strongly to our products and value proposition. Strong desires to reduce energy consumption and ties to the electrical grid; continued governmental, corporate and consumer desire to push for green solutions; and challenging fiscal times placing pressure on total cost of ownership all favor the growing demand for solar-LED lighting solutions and grid-tie solar systems.

Coupled with this market direction are continued gains in the underlying technology elements that go into our products. Improvements in the cost and efficiency of photovoltaic (PV) solar panels, combined with dramatic gains in the output efficiency of today's LED components are presenting unprecedented levels of opportunity, both for designers and end users of solar technology. Our own strong investment into research and development for 2009 and beyond also supports this direction with a commitment to optimizing energy management to maximize the gains of the PV and LED industry, and optimize energy conversion and usage throughout each stage in the process.

Financial Highlights

Effective July 1, 2009, we changed our functional currency from Canadian dollars to US dollars. Our business model has been significantly changed and this has affected the currencies in which we primarily transact our business.

These changes include the following:

- The outsourcing of our manufacturing to a US based facility. Our updated agreement and pricing with Flextronics, our manufacturing partner and key supplier, is stated in US dollars;
- The switch to a distribution sales model under which a majority of the distributor agreements are based in US dollars; and
- Our price lists and agreements are predominantly in US dollars.

Concurrent with this change in our functional currency, we also adopted the US dollar as our reporting currency effective July 1, 2009. The change in reporting currency is to better reflect our business activities and to improve financial statement users' ability to compare our financial results with other publicly traded businesses in similar industries.

<i>(in thousands US\$, except percentages)</i>	Quarter 3 2009	Quarter 3 2008	Year to date 2009	Year to date 2008
Sales – Signals & Illumination	5,396	6,931	16,906	19,507
Sales – Systems & Other	4,099	5,239	7,898	20,193
Sales – total	9,495	12,170	24,804	39,700
Gross margin % - Signals & Illumination	36.7%	50.4%	40.3%	48.1%
Gross margin % - Systems & Other	27.6%	21.7%	25.1%	21.3%
Gross margin % - total	32.8%	38.0%	35.5%	34.5%
Operating expenses	3,211	4,525	10,328	14,194
Net income	1,244	746	258	483
EBITDA (adjusted)	1,418	1,242	1,126	1,993

Cash and cash equivalents	8,876	4,072	8,876	4,072
Total assets	30,069	44,160	30,069	44,160
Shareholders' equity	23,734	35,384	23,734	35,384

Given the general global economic volatility and our continued investment in research and development, we view the results from our third quarter of 2009 as reasonable under the current economic conditions and at this stage of market development. Although overall sales declined \$2.7 million over 2008 to \$9.5 million in the third quarter, our gross margins have remained relatively consistent with those in 2008, and year to date, our gross margin percentage has increased 1% over 2008. The overall decline in sales, both for the three-months ended and nine-months ended September 30, 2009, was primarily due to lower Systems and Other group revenues that were caused by our decision to exit various low margin product lines. Signals & Illumination product sales decreased \$1.5 million over the same quarter of the prior year, and decreased \$2.6 million for the same period of the prior year. The decrease is primarily due to a reduction in aviation and obstruction.

We have also continued to closely monitor and control our operating costs and working capital. This has enabled us to strengthen our cash position which will help to fund our strategic initiatives.

Operational Highlights

Our focus during the third quarter of 2009 was on the completion of a series of development based field trials for the EverGEN™ 1500 series and the subsequent full release to manufacturing of the product at our manufacturing partner, Flextronics Inc., in Houston, Texas.

Continuing on our path to accelerate the adoption of solar LED lighting for outdoor industrial applications, our development teams established the basis for our next generation energy management system during the third quarter of 2009, which we will begin executing on in the fourth quarter of this year. This new generation will include a wireless footprint allowing us to migrate to an asset management model for our lighting products. Our teams are also engaged in the industrial design of new higher powered EverGEN™ models to add to our growing portfolio, and to satisfy the customer demands for power in an integrated and esthetically designed package.

During the third quarter 2009, we sold the shares of our subsidiary, Carmanah Signs Inc (“CSI”) to a company controlled by a former director. For the six months ended June 30, 2009, CSI sales represented 7% of total consolidated sales and its net loss was \$0.3 million. The sale resulted in a \$0.05 million loss recognized in the current quarter. Under the agreement, the former director paid a combined total of approximately \$2 million for the shares of CSI and for repayment of CSI’s inter-company debt to our company. The sale included a combination of cash payments and a common share buy-back by us of approximately 1 million of our shares owned by the former director. The final payment from this transaction is due on October 30, 2009.

The implementation of our new Oracle ERP infrastructure was substantially completed, on-time and on-budget, subsequent to the third quarter 2009. Included with our new infrastructure are the core elements for on-line iStore for product configuration and selection. These elements are expected to be utilized beginning in the fourth quarter of the current year. Internal efforts continue to refine our capability to provide on-demand and on-line simulation and configuration tools to streamline and improve our customer’s ordering experience. Our accomplishments with this system implementation improve our scalability and continue to make it easier for our customers to do business with us.

Business Outlook

Our expectations for the final quarter of 2009 remain relatively consistent with those expressed in both our recent and December 31, 2008 Management’s Discussion and Analysis. The outlook summarized our plan to grow organically and through strategic partnerships with customers, OEM’s (original equipment manufacturer) and suppliers. In addition to these expansion strategies, as we have substantially completed our restructuring activities, we are now also seeking growth by acquiring or making investments in businesses, products, or technologies that we believe are strategic to our business and will compliment our current and future operations.

Although the trend of softening in some of the economies in which we operate is expected to continue in the near future, we believe that we are seeing the initial signs of a global economic recovery. While our results may continue to fluctuate from quarter to quarter depending on the speed of recovery and the impact of government stimulus efforts, our business model focuses on mitigating risk by diversifying our sales across geographic regions, industries and customer profiles.

The current economic climate continues to also cause large fluctuations in foreign exchange rates, which historically has had a significant impact on our overall results. Although we currently have an active foreign exchange hedging program, it cannot entirely eliminate the impact of foreign exchange fluctuations on our bottom line. The change in our functional currency from Canadian dollars to US dollars will help to mitigate any significant fluctuations in foreign exchange gains and losses, as the translational effects of our Canadian dollar denominated working capital balances are less significant given that the majority of our business transactions are in US dollars.

Financial Performance Review & Analysis

Revenue and Gross Margin

(in thousands US\$, except percentages)

	Q3 Fiscal 2009	Q3 Fiscal 2008	Year to date 2009	Year to date 2008
Revenues				
Solar LED Lights	4,354	6,800	14,892	18,920
Illumination	1,042	131	2,014	587
Total Signals & Illumination	5,396	6,931	16,906	19,507
Solar Power Systems and Grid-tie	4,099	2,248	7,535	8,253
Other	-	2,991	363	11,940
Total Systems & Other	4,099	5,239	7,898	20,193
Total Revenue	9,495	12,170	24,804	39,700
Gross Margin %				
Solar LED Lights	38.2%	50.8%	38.7%	46.9%
Illumination	49.0%	29.8%	48.0%	23.8%
Total Signals & Illumination	36.7%	50.4%	40.3%	48.1%
Solar Power Systems and Grid-tie	27.6%	27.3%	34.0%	19.9%
Other	-%	30.2%	13.8%	33.8%
Total Systems & Other	27.6%	21.7%	25.1%	21.3%
Total Gross Margin %	32.8%	38.0%	35.5%	34.5%

Sales for the third quarter of 2009 declined \$2.7 million over 2008 to \$9.5 million and year-to-date they have declined \$14.9 million over 2008 to \$24.8 million. The majority of this decline is due to lower overall sales in our Systems & Other business lines, which declined 60.9% over 2008 to \$7.9 million year-to-date. The lower overall sales are primarily due to product/business lines sold or discontinued over the last year, including our roadway signage business and distribution business.

Our Signals & Illumination group sales in the third quarter of 2009, representing 56.8% of total sales, were down \$1.5 million comparable to 2008. The decline in sales for this segment primarily relates to lower sales of our Aviation/Obstruction products. Growth in our Signals and illumination businesses was anticipated, but was tempered by the general global economic slowdown, which has caused a number of large distributors and institutional customers to postpone orders and projects until there is more clarity surrounding the current economic picture.

Our efforts to diversify our sales globally began to show results in the first quarter of 2009, with 28% of our sales coming from outside North America, which is up 7% from the same quarter in 2008. This diversification declined slightly in the second quarter of 2009, with 15% of our sales coming from outside North America, which was down 2% from the same quarter in 2008. In the third quarter, sales to outside North America remained consistent with the prior year as 21.2% of total sales for the 3 months ended and 9 nine months ended September 30, 2009. Sales to outside North America continue to represent a significant area for growth for our business.

The overall gross margin in the third quarter of 2009 decreased 5.2% to 32.8% over the prior year same period. Year-to-date, the overall gross margin increased 1.0% to 35.5%. This increase in the year-to-date gross margin was primarily due to a greater ratio of total sales coming from our higher margin Signals & Illumination group.

The actual margins in our Signals & Illumination group declined in the third quarter by 13.7% to 36.7%. This decline was primarily due to reduced margin on sales of our Marine and Aviation/Obstruction product lines as a result of higher sales to distributors, which generally provide a lower margin. Year-to-date, the Signals & Illumination gross margin decreased 7.8% to 40.3%. We anticipate higher margins in the future as our contract manufacturer gains experience and generates some production efficiencies.

Operating Expenses

(in thousands US\$, except percentages)

	Q3 Fiscal 2009	Q3 Fiscal 2008	Year to date 2009	Year to date 2008
Sales and marketing	1,213	1,218	4,019	4,551
Research and development, net	498	669	1,410	1,982
General and administration	1,335	1,713	3,977	5,750
Amortization	165	459	470	904
Subtotal	3,211	4,059	9,876	13,187
Restructuring	-	466	452	1,007
Total	3,211	4,525	10,328	14,194
Operating expenses (excluding Restructuring) as % of sales	33.8%	33.4%	39.8%	33.2%

Our total operating expenses in the third quarter of 2009, excluding restructuring costs, have decreased 20.9% compared to the same period in 2008. Year to date, operating costs, excluding restructuring costs, have decreased 25.1% over 2008.

In the third quarter of 2009, our sales and marketing costs declined less than \$0.1 million to \$1.2 million over the same period in 2008. This decline was primarily the result of minor reductions in commissions which have declined with sales volumes. On a year to date basis, our sales and marketing costs are down \$0.5 million for the same reasons discussed for the quarter to date decline.

Our gross research and development expenditures during the third quarter were \$1.4 million, \$0.7 million lower than the same period in 2008. This decrease is primarily due to our increased spending on research and development investment. Net research and development expenditures during the third quarter were \$0.5 million, \$0.2 million lower from the previous year. This decline in net expenditures is due to the capitalization of approximately \$1.1 million to intangible assets. The net addition to intangible assets is less applicable tax credits of \$0.4 million. The capitalization of development costs began in the first quarter of 2009 when we determined that a number of our development projects qualified for capitalization under current accounting guidelines. These projects represent our efforts to create our next generation of products, and the capitalized costs will be amortized over the related products expected life cycle once they have been commercialized. Our year to date net research and development is down approximately \$0.6 million for the same reasons noted for the third quarter.

In the third quarter of 2009, our general and administrative costs declined \$0.4 million to \$1.3 million over the same period in 2008. This decline was primarily the result of reduced salaries resulting from the restructuring activities, and from lower occupancy costs stemming from the closure of our manufacturing facility. Our year to date general and administrative costs have declined by \$1.8 million also for the same reasons as noted for the third quarter.

Amortization expense has declined both year over year and quarter over quarter due to the elimination of our manufacturing and distribution facilities.

The final expenses relating to the 2008 announced restructuring activities were completed in the second quarter of 2009. Year to date 2009 restructuring costs of \$0.5 million were recognized, which is comparable to the same period in 2008. These costs primarily consisted of severance and retention bonuses, accelerated amortization, and inventory write downs. A total of \$1.9 million in restructuring costs have been recognized since the plans were announced in September of 2008.

Other Income (expenses)

Other income (expenses) mainly relate to interest, foreign exchange gains or losses and miscellaneous non-operating items. During the third quarter of 2009, we recognized other income (net of other expenses) of \$1.4 million, compared to income of \$0.2 million in the same period in 2008. These amounts primarily relate to foreign exchange translation gains and losses. The significant increase in 2009 is directly related to the translational gain of \$1.4 million resulting from fluctuations in the US dollar/Canadian dollar foreign exchange rates.

For the nine-months ended September 30, 2009, we recognized \$1.8 million of other income, compared to income of \$0.6 million in the same period in 2008. The change year over year is mainly attributed to foreign exchange translation gains. In the same period, we incurred a foreign exchange gain of \$1.0 million compared to a gain of \$0.6 million for the nine months ended 2008. Also included in other income is a \$0.7 million gain associated with the sale of our roadway signage product line to a distributor.

We try to minimize our exposure to foreign exchange transactional fluctuations by entering into forward contracts to buy or sell Canadian dollars in exchange for US dollars. See further discussions on how we manage our foreign exchange risk in our "Market Risks" section of this MD&A.

Income Tax

Our effective income tax rate for the third quarter was 1.0% compared to 12.6% in the same period in 2008. Our effective income tax was lower in 2009 due to tax rate adjustments. Non-deductible expenditures primarily relate to stock compensation costs.

Adjusted EBITDA

For the third quarter of 2009, as well as the respective comparative period in 2008, we are disclosing adjusted EBITDA, a non-GAAP financial measure, as a supplementary indicator of operating performance. We define adjusted EBITDA as net income before interest, income taxes, amortization, restructuring charges, and goodwill and intangible impairments. We are presenting the non-GAAP financial measure in our filings because we use it internally to make strategic decisions, forecast future results and to evaluate our performance. We are also presenting this measure because we believe that our current and potential investors and many analysts use it to assess our current and future operating results and to make investment decisions. It is a non-GAAP measure and it is not intended as a substitute for GAAP measures.

Adjusted EBITDA reconciliation <i>(US\$ thousands)</i>	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income/(loss)	1,244	746	258	483
Add/(deduct):				
Interest	(121)	(13)	(181)	(68)
Income taxes	(11)	40	(351)	448
Amortization	202	470	566	948
Restructuring charges	-	466	452	1,007
Discontinued operations	104	(467)	382	(825)
Adjusted EBITDA	1,418	1,242	1,126	1,993

Summary of Quarterly Results - Highlights

(US\$ thousands) except per share amounts	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total sales	9,495	7,489	7,820	12,205	12,170	13,223	14,307	12,466
Gross margin	3,110	2,861	2,823	4,450	4,629	4,210	4,845	2,593
Gross margin %	32.8%	38.2%	36.1%	36.5%	38.0%	31.8%	33.9%	20.8%
Operating costs	(3,211)	(3,218)	(3,899)	(4,004)	(4,525)	(5,097)	(4,572)	(5,136)
Other income (expense)	1,438	(482)	867	(7,776)	215	53	348	(1,796)
Income Tax recovery (expense)	11	244	96	(533)	(40)	(89)	(319)	270
Income/(loss) before Discontinued operations	1,348	(595)	(113)	(7,863)	279	(923)	302	(4,070)
Net income/(loss)	1,244	(736)	(250)	(8,022)	746	(349)	88	(4,665)
EPS for continuing operations— Basic	0.03	(0.01)	(0.01)	(0.21)	0.01	(0.01)	0.00	(0.09)
EPS for discontinued operations— Basic	(0.00)	(0.01)	(0.01)	(0.00)	0.01	0.03	0.01	(0.01)
EPS for continuing operations— Diluted	0.03	(0.01)	(0.01)	(0.22)	0.01	(0.01)	0.01	(0.09)
EPS for discontinued operations— Diluted	(0.00)	(0.01)	(0.01)	(0.00)	0.01	0.03	0.01	(0.01)
Adjusted EBITDA	1,418	(654)	362	2,090	1,242	(75)	825	(2,355)

The sales prior to the first quarter 2009 have remained relatively consistent, as growth in our Signals & Illumination products has offset lost sales from divested or discontinued product lines. The declines in the fourth quarter of 2007 and the third quarter of 2008 are primarily due to delayed shipments or the negative impact of foreign exchange fluctuations. The decline in the first and second quarters of 2009 was primarily due to the combination of the exiting of certain Systems & Other businesses and lower growth in our Signals & Illumination product sales, which has been negatively effected by the global economic downturn. The increase in the third quarter of 2009 relates primarily to an increase in sales in our illumination and traffic lighting products.

The gross margin has varied with the mix of products sold and inventory write-offs.

Other income/(expense) has varied due to changes in the US dollar/Canadian dollar exchange rate, and due to the write-offs of goodwill and intangible assets in the fourth quarter of 2008.

Liquidity and Capital Resources

We are in a strong financial position, with no debt and the financial resources necessary to fund our operating and capital requirements and to execute on our growth strategies. Our cash, cash equivalents, and short-term investments balance was \$8.9 million at September 30, 2009 compared to \$4.1 million in the previous year. Working capital decreased to \$14.9 million at September 30, 2009 compared to \$18.9 million in the prior year primarily due to the reduction in inventory.

Overall, we anticipate that our cash and cash equivalents, short-term investments, cash flow from operations, and credit facility will be sufficient to fund future operations and capital expenditures. Our current plan is to continue to finance our planned growth through internally generated funds.

Operating Activities

During the nine months ended September 30, 2009, cash generated by operating activities after adjusting for changes in working capital was \$5.6 million compared to \$0.4 million in the same period last year. Cash generated by changes in working capital was \$5.1 million compared to a negative cash flow of \$3.7 million during the same period

last year. The increase in cash generated by working capital was primarily the result of a decrease in accounts receivables and inventory. Working capital (inventory, accounts receivable and accounts payable) has been actively managed by monitoring inventory turnover data, collection of accounts receivable, and taking advantage of trade discounts and/or extended payment terms granted by suppliers.

Investing Activities

During the nine months ended September 30, 2009, net cash used for investing activities was \$3.1 million compared to \$0.4 million for the same period last year. In total, \$0.5 million was invested in capital asset purchases which primarily related to the acquisition of research and development equipment. A total of \$1.1 million was invested in intangible assets, \$1.0 million of which related to the implementation of our new Oracle ERP system. Offsetting this, we received a total of \$0.1 million in proceeds from the sale of some of our production equipment which was sold when we closed our main production facility, and \$0.7 million in proceeds from the sale of our Roadway signs product line to a distributor. We also received net proceeds of \$0.1 million from the sale of CSI. In addition, we capitalized a total of \$2.4 million of product development costs.

Financing Activities

During the nine months ended September 30, 2009, there were no financing activities that affected cash. In the same period in 2008, \$0.01 million was generated by financing activities, primarily from the proceeds on share issuance. There is no long term debt repayment requirement as we continued to operate debt-free during the first three quarters of 2009. Any profits earned are anticipated to be reinvested into the company, so no dividend payments are anticipated in the near term.

Other Related Information

Outstanding Share Data

Our common shares are trade on the TSX (TSX: CMH), and as at September 30, 2009 we had 41,924,309 fully issued and outstanding common shares. The following table summarizes the outstanding shares, options and other outstanding stock units stated in Canadian dollars.

	<i>Cnd\$ thousands, except share and per share amounts</i>				
	October 23, 2009	September 30, 2009	As at		
			June 30, 2009	Mar 31, 2009	Dec 31, 2008
Share price - closing (\$)	0.91	0.85	0.84	0.72	0.49
Market capitalization (\$)	38,151	35,636	35,983	30,780	20,800
Outstanding					
Shares	41,924,309	41,924,309	42,837,485	42,750,449	42,448,651
Warrants	300,000	300,000	300,000	300,000	300,000
Options	1,723,450	1,772,200	1,913,200	1,817,500	1,848,850
Restricted share units	519,471	524,471	665,606	709,549	404,428
Performance share units	55,970	55,970	55,970	55,970	189,672

Contractual Obligations and Commitments

Our major lease obligations relate to leases for our head office and office equipment. The total commitments under contract at September 30, 2009 were approximately \$0.6 million, compared to \$1.1 million of the same period in 2008. This decline is primarily due to the closure of our manufacturing facility.

During 2008, we entered into an agreement with Flextronics Inc. to build and supply a large portion of our manufactured products. Under this agreement, we are required to provide demand forecasts to Flextronics Ltd. for our expected sales. They utilize these forecasts to acquire raw materials and inventory to support that demand. If our sales are below the demand forecasts, we are then required to purchase the excess inventory. To date, the purchase buy backs from Flextronics have not been significant.

Off – Balance Sheet Arrangements

We have not entered into any off balance sheet arrangements other than standard office/facility lease agreements.

Related Party Transactions

As discussed above in the Business Outlook section, during the third quarter we accepted an offer from one of our former Director's to purchase the shares of CSI. There were no other significant related party transactions in this quarter.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The application of GAAP requires that we make estimates that affect our reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates.

The significant accounting policies and estimates are discussed below:

- **Warranty reserve** – A provision for future potential product warranty costs is included in cost of goods sold based primarily on prior warranty experience regarding cost of claims and expected product returns. These future product warranty costs include costs associated with repair or replacement of products returned under warranty. Actual future costs in support of these claims may differ from those estimates. This provision is reviewed at least quarterly and adjusted prospectively. The total provision as at September 30, 2009 is \$0.7 million, up less than \$0.1 million from December 31, 2008.
- **Valuation of inventory** - We evaluate inventory balances at each balance sheet date and record a provision as necessary for slow moving or obsolete inventory. In performing this review we consider such factors as forecasted sales, demand requirements, product lifecycle and product development plans, quality issues, and current inventory levels. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes occur, we may be required to record write-downs which would negatively affect gross margins in the period when the write-downs are recorded and our operating results and financial position could be adversely affected. At September 30, 2009 our inventory provision was approximately \$0.6 million, down \$0.7 million from December 31, 2008. This decrease was primarily due to the lower gross value of inventory and the disposal and scrapping of the impaired items.
- **Allowance for doubtful accounts** - We record an allowance for doubtful accounts related to accounts receivable. This allowance is based on our knowledge of the financial condition of our customers, the aging of the receivables, the current business environment and historical experience. A change in one or more of these factors could impact the estimated allowance and provision for bad debts recorded. At September 30, 2009, our allowance for doubtful accounts was \$0.4 million, down \$0.5 million from December 31, 2008.
- **Valuation of intangible assets** – We currently have both internally and externally generated intangible assets. The internally generated assets relate to capitalized development costs. The externally generated assets relate to trademarks and patents that support our various technologies. Amortization periods for these assets are based upon our best estimates of the assets useful life. New technologies or changes to our industry could impact our estimates and the underlying asset values. We review the value of the assets whenever events or circumstances change that might impact the asset.
- **Valuation of future income tax and investment tax credit assets** – As at September 30, 2009 we have recorded a future income tax asset of \$2.7 million which reflects future tax deductions available against taxable income. We have also recorded investment tax credits of \$2.0 million which are available to reduce taxes payable. The calculation of our future income tax and investment tax credit assets involves dealing with uncertainties in application of complex tax laws and regulations as well as assessing likelihood of future realization. It is also possible that tax audits may result in potential reductions of assets and that such adjustments may materially affect the amounts reported for future income tax and investment tax credit assets.

New Accounting Policies and Pronouncements

Adoption of New Accounting Standards

Effective January 1, 2009, we adopted the new recommendations of revised CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. We have assessed the impact of adopting these new recommendations and have determined that it does not impact our consolidated financial statements.

Effective January 1, 2009, our Company adopted the recommendations of CICA Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaced Section 3062, "Goodwill and Other Intangible Assets", and

section 3450, "Research and Development Costs", established standards for the recognition, measurement and disclosure of goodwill and intangible assets. We have assessed the impact of adopting this new section and determined that it does not impact our consolidated financial statements.

Independent to this change in the handbook section, the Company, as a result of a greater focus on technology and product development, has determined that certain development costs meet the criteria in Section 3064 for deferral. Our new policy on "internally-generated intangible assets – research and development expenditures", which follows the recommendations in Section 3064, is noted below.

Expenditures on research activities are recognized as an expense in the period which it is incurred. An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of the completing the intangible asset so that it will be available for use of sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above, less investment tax credits, if applicable.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. Internally-generated intangible assets will be amortized by us on a straight-line basis over their estimated useful lives and will be reviewed for impairment on a quarterly basis.

Amendments have been made to Handbook Section 3855, Financial Instruments – Recognition and Measurement, related to the use of the effective interest rate method, embedded prepayment options, and embedded derivatives on reclassification of financial assets. The changes regarding the effective interest method became effective in the second quarter of 2009, and changes regarding embedded derivatives will be effective for reclassifications made on or after July 1, 2009. The amendment for embedded prepayment options will be effective for our interim and annual 2011 financial statements. An amendment to Handbook Section 3862, Financial Instruments – Disclosures, also becomes effective for our year-end December 31, 2009 financial statements, which will require enhanced disclosure for fair value measurement of financial instruments and liquidity risks. We have assessed the impact of these amendments to our consolidated financial statements and have determined the changes will not be significant.

Future Changes in Accounting Policies

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period ending on January 1, 2011. Our Company has developed an implementation plan for the conversion. We have started the training phase and the evaluation of the impact, which involved a high-level of review of the differences between current GAAP and IFRS. Throughout fiscal year 2009, we have been and will continue to review the alternatives available for initial adoption and for preparation of a detailed impact assessment. We have identified the implications of the conversion and will continue to assess the impacts on the other key elements of the conversion plan during the last quarter of 2009. These key elements include: accounting policy changes, information technology changes, training requirements, internal control over financial reporting and impacts on business activities.

Disclosure Controls and Internal Controls over Financial Reporting

As noted in our annual MD&A, at December 31, 2008 we had identified control weaknesses in the design and operation of our Internal Controls over Financial Reporting (ICFR) relating to segregation of duties and formalization of policy documentation and review, as well as a lack of IT user access controls. Our Officers and Management team feel that these material weaknesses were related to the restructuring activities and our outdated ERP system.

With the implementation of our new IT system subsequent to quarter end, the majority of these control weaknesses identified are anticipated to be remediated, as our new IT system enables a more robust process flow. The deficiencies that will not be remedied by the IT upgrade are currently being addressed through increased documentation and formalization of certain procedures and control activities. Other than these improvements, there were no significant changes in internal controls in the period.

Disclosure about Risks and Financial Instruments

In the course of our operations, we are exposed to various business risks and uncertainties that can affect our financial condition. While some financial exposures are reduced through insurance, hedging and other risk management measures we have in place, there are certain cases where the market and operating risks that are driven by external factors are beyond our influence and control.

Market Risks

Although we have changed our functional currency from Canadian dollars to US dollars, we are still exposed to fluctuations in the exchange rates between the US and Canadian dollar, as a portion of our sales are still denominated in currencies other than US dollars. To reduce our exposure to Canadian dollar/US dollar fluctuations, we purchase a portion of inventory and other cost of sales items in Canadian dollars. If the US dollar rises relative to the Canadian dollar, our operating results may be negatively impacted.

Additionally, we enter into forward foreign exchange contracts to manage foreign exchange risk. Prior to our change in functional currency from Canadian dollars to US dollars, we entered into contracts that obliged us to sell US dollars in the future at predetermined exchange rates. As at September 30, 2009, we still held a series of forward foreign exchange contracts that required us to exchange \$2.5 million US dollars for Canadian dollars at a fixed exchange rate. As a result of market fluctuations, we have recorded a derivative asset of \$0.1 million associated with these contracts. The fair value of these contracts has been estimated by using the current forward exchange rates available on similar contracts as at September 30, 2009. As we have now changed our functional currency, in the future, we expect to enter into contracts that oblige us to sell Canadian dollars at predetermined exchange rates. The contracts will be matched with anticipated future Canadian dollar sales and expenses. We do not use these, or any other financial instruments for speculative purposes.

A significant portion of our revenues are derived from government and military agencies, thus, any disruption in government funding or in the relationship with those agencies could adversely affect our business. We feel that our global reach, our technological leadership and our proven long standing good relationships with such agencies are important in mitigating such risk.

Economic downturns could have a negative impact on our business since our clients may curtail investment in infrastructure projects. We manage this risk by pursuing a prudent growth plan which is financially conservative and is based on achieving growth while generating free cash flow. Our vision, core business, focus, and strategy and the key performance drivers and capabilities required to meet our goals have not changed since we announced our new strategic direction in mid 2008.

Operating Risks

Our exposure to credit risk primarily relates to accounts receivable. We maintain reserves for potential credit losses which, on a historical basis, have been limited due to our ongoing credit granting procedures and the general credit worthiness of our customers.

Our bookings and backlog trends are subject to monthly fluctuations, unexpected adjustments and cancellations and are, therefore, uncertain indicators of our future sales & earnings. We are working very hard to ensure we are able to focus on larger long term sales in order to reduce these fluctuations.

We may have difficulty attracting and retaining qualified staff, which may affect our reputation in the marketplace and restrict our ability to implement our business strategy. We feel that we have reduced this risk, with the 2008 implementation of various new employee retention, reward and benefit programs.