

**CRS ELECTRONICS INC.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**As at March 31, 2015**

**Unaudited, in U.S. dollars**

### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

**CRS ELECTRONICS INC.**

Condensed Interim Consolidated  
Statements of Financial Position  
Unaudited, in U.S. dollars

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 3)	\$ 440,192	\$ 654,184
Accounts receivable (Note 4)	359,541	313,255
Inventory (Note 5)	635,775	690,559
Deposits and prepaid expenses	139,794	49,056
	<b>1,575,302</b>	<b>1,707,054</b>
<b>Non-current assets</b>		
<b>Equipment, furniture and leaseholds</b> (Note 6)	<b>344,520</b>	<b>378,001</b>
<b>Patents and trademarks</b> (Note 7)	<b>25,534</b>	<b>30,484</b>
<b>Intangible assets</b> (Note 8)	<b>79,531</b>	<b>84,617</b>
	<b>2,024,887</b>	<b>\$ 2,200,156</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 9)	\$ 291,922	\$ -
Trade and other payables	613,802	497,608
Note payable (Note 10)	5,422	14,713
Current portion of debt obligations (Note 11)	98,646	105,620
Current portion of finance lease obligations (Note 12)	10,928	17,873
Derivative warrants and liabilities (Note 13)	115,577	386,009
	<b>1,136,297</b>	<b>1,021,823</b>
<b>Non-current liabilities</b>		
<b>Debt obligations</b> (Note 11)	<b>34,554</b>	<b>65,435</b>
<b>Finance lease obligations</b> (Note 12)	<b>14,585</b>	<b>18,172</b>
	<b>1,185,436</b>	<b>1,105,430</b>
<b>EQUITY</b>		
Share capital (Note 14)	17,731,433	17,731,433
Other paid-in capital	2,305,662	2,221,724
Deficit	(19,197,644)	(18,858,431)
	<b>839,451</b>	<b>1,094,726</b>
	<b>\$ 2,024,887</b>	<b>\$ 2,200,156</b>

**Nature of operations and going concern** (Note 1)

**Commitments and contingencies** (Note 15)

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Travis Jones" Director

Signed "Rob Neill" Director

**CRS ELECTRONICS INC.**

Condensed Interim Consolidated Statements of Loss  
 And Other Comprehensive Loss  
 Unaudited, in U.S. dollars

For the three months ended March 31

	<u>2015</u>	<u>2014</u>
<b>SALES</b>	<b>\$ 495,337</b>	<b>\$ 590,086</b>
Cost of sales	592,063	731,641
<b>GROSS LOSS</b>	<b>(96,726)</b>	<b>(141,555)</b>
<b>EXPENSES</b>		
Engineering, research and development	94,882	208,932
Selling and marketing	47,183	295,683
General and administrative	344,425	453,901
Loss on disposal of equipment, furniture and leaseholds	-	11,588
	<b>486,490</b>	<b>970,104</b>
<b>LOSS BEFORE FINANCE REVENUE AND COSTS, FOREIGN EXCHANGE (LOSS) GAIN AND INCOME TAXES</b>	<b>(583,216)</b>	<b>(1,111,659)</b>
Change in derivative warrants and liabilities (Note 13)	270,432	21,002
Finance revenue – interest earned	1,292	5,733
Finance costs - debt obligations	(8,890)	(11,979)
Finance accretion costs - debt obligations	(2,947)	(5,546)
Foreign exchange (loss)	(15,884)	(93,417)
<b>LOSS BEFORE INCOME TAXES</b>	<b>(339,213)</b>	<b>(1,195,866)</b>
Income taxes	-	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (339,213)</b>	<b>\$ (1,195,866)</b>
Loss per share - basic and diluted	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>97,599,844</b>	<b>86,399,844</b>

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

**CRS ELECTRONICS INC.**

Condensed Interim Consolidated Statements of Cash Flows  
 Unaudited, in U.S. dollars

For the three months ended March 31

	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (339,213)	\$ (1,195,866)
Items not affecting cash		
Stock-based compensation	83,938	132,333
Change in derivative warrants and liabilities	(270,432)	(21,002)
Depreciation of equipment, furniture and leaseholds	35,160	41,793
Amortization of patents and trademarks	4,950	4,867
Amortization of intangible assets	5,086	25,149
Accretion expense	2,947	5,546
Loss on disposal of equipment, furniture and leaseholds	-	11,588
	<b>(477,564)</b>	<b>(995,592)</b>
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(46,286)	(263,565)
Inventory	54,784	(131,500)
Deposits and prepaid expenses	(90,738)	(10,883)
Trade and other payables	116,194	80,422
Cash used in operating activities	<b>(443,610)</b>	<b>(1,321,118)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture, and leaseholds	(1,679)	(45,957)
Additions to patent and trademark costs	-	(3,797)
Cash used in investing activities	<b>(1,679)</b>	<b>(49,754)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of note payable	(9,291)	-
Proceeds from line of credit	291,922	29,970
Repayment of finance lease obligations	(10,532)	(6,716)
Repayment of debt obligations	(40,802)	(41,329)
Cash provided by (used in) financing activities	<b>231,297</b>	<b>(18,075)</b>
Net decrease in cash and cash equivalents	<b>(213,992)</b>	<b>(1,388,947)</b>
Cash and cash equivalents, beginning of period	<b>654,184</b>	<b>3,081,012</b>
Cash and cash equivalents, end of period	<b>\$ 440,192</b>	<b>\$ 1,692,065</b>
The following cash flows are included in operating activities:		
Interest paid	\$ 8,890	\$ 11,979
Non-cash transactions:		
Acquisition of equipment and intangibles under finance lease	\$ -	\$ 19,665

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

**CRS ELECTRONICS INC.**

Condensed Interim Consolidated  
Statements of Changes in Equity  
Unaudited, in U.S. dollars

	<b>Share capital</b>	<b>Other Paid-in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, December 31, 2014</b>	\$ 17,731,433	\$ 2,221,724	\$ (18,858,431)	\$ 1,094,726
Net loss for the period	-	-	(339,213)	(339,213)
Stock-based compensation	-	83,938	-	83,938
<b>Balance, March 31, 2015</b>	\$ 17,731,433	\$ 2,305,662	\$ (19,197,644)	\$ 839,451

	<b>Share capital</b>	<b>Other Paid-in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, December 31, 2013</b>	\$ 17,153,996	\$ 1,750,076	\$ (15,399,438)	\$ 3,504,634
Net loss for the year	-	-	(1,195,866)	(1,195,866)
Stock-based compensation	-	132,333	-	132,333
<b>Balance, March 31, 2014</b>	\$ 17,153,996	\$ 1,882,409	\$ (16,595,304)	\$ 2,441,101

*The accompanying notes form an integral part of these condensed interim consolidated financial statements.*

## **CRS ELECTRONICS INC.**

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

CRS Electronics Inc. (the “Company” or “CRS”) was incorporated under the Canada Business Corporations Act on October 25, 1998 and continued pursuant to a Certificate of Amalgamation dated September 1, 2009. Its head office is located at 9120 Leslie Street, Suite 102, Richmond Hill, Ontario, Canada L4B 3J9 and its manufacturing warehouse is located at 129 Hagar Street, Unit 5, Welland, Ontario, Canada L3B 5V9. Its principal activities are the development, manufacture and sale, primarily in North America, of child safety systems for school buses; exterior lighting on school buses based on incandescent and light emitting diode technology (“LED”); contract manufacturing of LED light boards; and LED based space lighting products. The Company incorporated a wholly-owned subsidiary, CRS Lighting (USA) Inc., on November 9, 2012. CRS Lighting (USA) Inc. was incorporated to facilitate the Company’s overall strategy to increase market share in the North American lighting market. On November 28, 2013 the Company incorporated a wholly-owned subsidiary Chongqing Yongzhao Trading Company to manage the Chinese supply chain but operations in this company had ceased by the end of 2014.

These condensed consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Due to the losses incurred by the Company, there may be significant doubt with respect to the Company’s ability to continue as a going concern.

Management recognizes that the Company must generate additional revenues and improve gross margins in order to reach profitable levels of operation. To that end, the Company has developed higher margin LED fixtures and launched them under their KVIC Lighting brand. In addition, the Company has established strategic partnerships for access to LED lamps to increase sales revenue in its Lumenova brand. A plan to significantly reduce production costs has been established and is being executed. To meet its growth plan, CRS will be dependent on further financing through equity funds raised and/or loan proceeds.

These condensed consolidated financial statements do not include adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

These condensed consolidated financial statements for the three months ended March 31, 2015 have been prepared in accordance with IAS 34 “Interim Financial Reporting” under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated financial statements do not include all information and disclosures required for the annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as disclosed in the annual financial statements for the year ended December 31, 2014.

## CRS ELECTRONICS INC.

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

### 2. BASIS OF PREPARATION (Continued)

#### Accounting standards issued but not yet effective

The following new standards which have not been early-adopted in these condensed consolidated financial statement, may have an effect on the Company's future results and financial position:

#### IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 was initially issued by the IASB in November 2009 and re-issued in its completed version in July 2014. It replaces IAS 39, Financial Instruments: Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's financial statements commencing January 1, 2018. The Company intends to adopt the standard on its effective date and is assessing the impact on its consolidated financial statements.

#### IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). It establishes a single, comprehensive framework for revenue recognition. This new standard is effective for the Company's financial statements commencing January 1, 2017. The Company intends to adopt the standard on its effective date and is assessing the impact on its consolidated financial statements.

### 3. CASH AND CASH EQUIVALENTS

	March 31 2015	December 31 2014
Cash	36,966	\$ 215,407
Ninety days term deposit 1.35% per annum	403,226	438,777
	<u>\$ 440,192</u>	<u>\$ 654,184</u>

As at March 31, 2015, the Company held one ninety day term deposit earning interest of 1.35% per annum maturing on April 21, 2015 (see note 9). All term deposits are redeemable at any time before maturity.

### 4. ACCOUNTS RECEIVABLE

	March 31 2015	December 31 2014
Trade accounts receivable	\$ 359,033	\$ 313,608
Other receivables	6,893	6,031
Allowance for doubtful accounts	(6,385)	(6,385)
	<u>\$ 359,541</u>	<u>\$ 313,255</u>



**CRS ELECTRONICS INC.**

## Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**5. INVENTORY**

	<b>March 31 2015</b>	December 31 2014
Finished goods	<b>\$ 338,567</b>	\$ 444,994
Raw materials	<b>297,207</b>	183,956
Inventory in transit	-	61,609
	<b>\$ 635,775</b>	<b>\$ 690,559</b>

**6. EQUIPMENT, FURNITURE AND LEASEHOLDS**

Cost and accumulated depreciation and movements during the period, are as follows:

**At March 31, 2015:**

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>							
At January 1, 2015	88,005	55,129	121,293	703,520	134,647	78,730	<b>1,181,324</b>
Additions	-	1,679	-	-	-	-	<b>1,679</b>
Disposals	-	-	-	-	-	-	-
	88,005	56,808	121,293	703,520	134,647	78,730	<b>1,183,003</b>
<b>Accumulated depreciation</b>							
At January 1, 2015	60,693	11,913	76,463	495,777	119,550	38,927	<b>803,323</b>
Depreciation for the period	1,206	4,474	2,978	9,468	5,565	11,469	<b>35,160</b>
Eliminated on disposals	-	-	-	-	-	-	-
	61,899	16,387	79,441	505,245	125,115	50,396	<b>838,483</b>
<b>Net carrying amount at March 31, 2015</b>	<b>\$26,106</b>	<b>\$40,421</b>	<b>\$41,852</b>	<b>\$198,275</b>	<b>\$9,532</b>	<b>\$37,796</b>	<b>\$344,520</b>

**At December 31, 2014:**

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>							
At January 1, 2014	\$88,005	\$145,862	\$121,293	\$703,520	\$134,647	\$87,741	<b>\$1,281,068</b>
Additions	-	157,041	-	-	-	19,665	<b>176,706</b>
Disposals	-	(247,774)	-	-	-	(28,676)	<b>(276,450)</b>
	88,005	55,129	121,293	703,520	134,647	78,730	<b>1,181,324</b>
<b>Accumulated depreciation</b>							
At January 1, 2014	53,921	24,967	57,343	443,102	94,539	44,082	<b>717,954</b>
Depreciation for the year	6,772	59,393	19,120	52,675	25,011	11,933	<b>174,904</b>
Eliminated on disposals	-	(72,447)	-	-	-	(17,088)	<b>(89,535)</b>
	60,693	11,913	76,463	495,777	119,550	38,927	<b>803,323</b>
<b>Net carrying amount at December 31, 2014</b>	<b>\$27,312</b>	<b>\$43,216</b>	<b>\$44,830</b>	<b>\$207,743</b>	<b>\$15,097</b>	<b>\$39,803</b>	<b>\$378,001</b>

**CRS ELECTRONICS INC.**

## Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**7. PATENTS AND TRADEMARKS**

Patents and trademarks at March 31, 2015 and December 31, 2014 consist of the following:

Cost		Cost	
At January 1, 2015	\$ 98,987	At January 1, 2014	\$ 94,067
Additions	-	Additions	4,920
Impairments	-	Impairments	-
	<u>98,987</u>		<u>98,987</u>
Accumulated Amortization		Accumulated Amortization	
At January 1, 2015	68,503	At January 1, 2014	48,859
Amortization for the period	4,950	Amortization for the year	19,644
Decrease due to impairment	-	Decrease due to impairment	-
	<u>73,453</u>		<u>68,503</u>
<b>Net carrying amount at March 31, 2015</b>	<b>\$ 25,534</b>	<b>Net carrying amount at December 31, 2014</b>	<b>\$ 30,484</b>

The amortization expense was charged to general and administration expense for 2015 and 2014.

**CRS ELECTRONICS INC.**

## Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**8. INTANGIBLE ASSETS**

		Computer Software	
Cost			
At January 1, 2015		\$ 230,005	
Additions		-	
Disposals		-	
		<u>230,005</u>	
Accumulated Amortization			
At January 1, 2015		145,388	
Amortization for the period		5,086	
Impairment losses		-	
		<u>150,474</u>	
Net carrying amount at March 31, 2015		<u><b>\$ 79,531</b></u>	
	Deferred Development Costs	Computer Software	Total
Cost			
At January 1, 2014	\$ 331,102	\$ 229,779	\$ 560,881
Additions	-	226	226
Disposals	-	-	-
	<u>331,102</u>	<u>230,005</u>	<u>561,107</u>
Accumulated Amortization			
At January 1, 2014	217,499	112,715	330,214
Amortization for the year	66,222	32,673	98,895
Impairment losses	47,381	-	47,381
	<u>331,102</u>	<u>145,388</u>	<u>476,490</u>
Net carrying amount at December 31, 2014	<u>-</u>	<u><b>\$ 84,617</b></u>	<u><b>\$ 84,617</b></u>

**9. BANK INDEBTEDNESS**

Bank indebtedness consists of the following:

	March 31 2015	December 31 2014
TD Canada Trust – revolving demand line of credit.	<u><b>\$ 291,922</b></u>	<u>\$ -</u>
	<u><b>\$ 291,922</b></u>	<u>\$ -</u>

The Company has a revolving demand credit facility in the amount of up to CAD \$900,000 which is available in CAD and USD. The operating line may be cancelled at any time. The line of credit is renewable annually and is secured by a general security agreement representing a charge on all the Company's personal property and an assignment of term deposits in the Company's name in the amount of the maximum credit made available. At March 31, 2015, the assigned term deposit and the credit facility available was CAD \$500,000 (USD \$403,226). Interest is charged monthly at a rate of prime plus 0.50% which was 3.5% at March 31, 2015.

**CRS ELECTRONICS INC.**

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**10. NOTE PAYABLE**

Note payable consists of the following:

	<b>March 31 2015</b>	December 31 2014
Extended payments on insurance – bearing interest at 4.73% per annum with 10 monthly payments of CAD \$3,454.27, commencing July 16, 2014 and maturing May16, 2015.	<b>\$ 5,422</b>	\$ 14,713
	<b>\$ 5,422</b>	\$ 14,713

**11. DEBT OBLIGATIONS**

Debt obligations consist of the following:

	<b>March 31 2015</b>	December 31 2014
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below	<b>\$ 133,200</b>	\$ 171,055
Less: principal due within one year	<b>(98,646)</b>	(105,620)
	<b>\$ 34,554</b>	\$ 65,435

**Contribution Agreement (“CA”) with the Southern Ontario Development Program (“SODP”)**

In June 2011, the Company signed a revised Contribution Agreement with the SODP, a program administered by the Government of Canada for a maximum contribution amount of CAD \$667,036. The contribution amount is based on 50% of eligible capital costs and 75% of eligible non-capital costs for projects to develop indoor and outdoor lighting and to increase the production capacity of the Company’s facility in Welland, Ontario. The interest-free contribution amount is repayable over five years. No payments were required until August 1, 2011. The contribution amount is repayable in 60 monthly payments equal to \$11,118 from August 1, 2011 to July 1, 2016. No assets of the Company currently owned or to be acquired under the CA will be pledged as security. As at December 31, 2011, the maximum contribution amount of \$667,036 had been received under the CA. The Company has discounted the SODP loan using an annual interest rate of 7.5% over the term of the loan.

The debt obligation payments, due in each of the next two years, are presented in US Dollars as follows:

2015	\$ 105,330
2016	35,084
	140,414
Less: Future finance charge	(7,214)
Discounted principal amount	<b>\$ 133,200</b>

**CRS ELECTRONICS INC.**

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**12. FINANCE LEASE OBLIGATIONS**

The Company has various finance lease obligations for office furniture, equipment and motor vehicles with interest rates varying from 2.9% to 12.6% per annum and expiring between February 2015 and August 2019.

The minimum lease payments are as follows:

	<b>March 31 2015</b>	December 31 2014
Not later than one year	<b>\$ 12,939</b>	\$ 20,368
Later than one year and not later than five years:	<b>17,272</b>	21,582
	<b>30,211</b>	41,950
Less: future finance charges	<b>(4,698)</b>	(5,905)
	<b>25,513</b>	36,045
Less: current portion	<b>(10,928)</b>	(17,873)
	<b>\$ 14,585</b>	\$ 18,172

The present values of minimum lease payments are as follows:

	<b>March 31 2015</b>	December 31 2014
Not later than one year	<b>\$ 10,928</b>	\$ 17,873
Later than one year and not later than five years:	<b>14,585</b>	18,172
	<b>25,513</b>	36,045

**CRS ELECTRONICS INC.**

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**13. DERIVATIVE LIABILITIES**

The Company has the following financial instruments classified at the following levels as at March 31, 2015 and December 31, 2014:

<b>March 31, 2015:</b>	Level 1	Level 2	Level 3
Derivative liabilities - warrants	-	-	115,577
<b>December 31, 2014:</b>	Level 1	Level 2	Level 3
Derivative liabilities - warrants	-	-	386,009

**Warrants****2014 warrants**

On August 11, 2014, the Company issued 11,200,000 common shares units as part of a private placement of units. The units are comprised of one common share of the Company and one common share purchase warrant. These warrants are considered to be derivative liabilities due to the warrants being exercisable in a currency (Canadian dollars) other than the functional currency of the Company (U.S. dollars). The derivative is measured at fair value with changes in fair value included in net and comprehensive loss.

Each warrant entitles the holder thereof to purchase one common share of the Company at a price of CAD \$0.18 until August 11, 2016. If the closing price of the common shares of the Company on the TSX Venture Exchange is CAD \$0.30 or above for 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants upon notice to the holders.

The value of the warrants at the date of issuance, net of an allocation of the closing costs, was determined to be CAD \$1,165,920 (USD \$1,089,060) using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 112.37%, risk-free interest rate of 1.077% and an expected life of 2 years.

**CRS ELECTRONICS INC.**

Notes to Condensed Interim Consolidated Financial Statements

As at March 31, 2015

Unaudited, in U.S. Dollars

**14. SHARE CAPITAL****Shares****Authorized**

Unlimited number of common shares

**Issued and outstanding**

	Number of shares	Amount
Balance December 31, 2014	97,599,844	\$17,731,433
Issuance of common shares	-	-
Balance March 31, 2015	<u>97,599,844</u>	<u>\$17,731,433</u>

**[a] Stock options****Employee stock option plan**

In 2008, CRS established a stock option plan under which directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares of the Company.

Under the plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The options vest over a four year period from the date of grant of the options. All options granted under the stock option plan that have not been exercised within five years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company, in which case the vested options expire after one year from the date of termination.

Value of stock options granted:

Stock-based compensation expense recognized for the period ended March 31, 2015 was \$83,938 (March 31, 2014 – \$132,333), of which \$10,235 is included in cost of sales, \$65,202 is included in general and administrative expense, \$1,107 is included in selling and marketing expenses and \$7,394 is included in research and development expenses (March 31, 2014 - \$3,870 is included in cost of sales, \$90,927 is included in general and administrative expense, \$15,626 is included in selling expenses, and \$21,910 in research and development expenses).

The Company's stock option activity during the period is as follow:

	Quarter ended March 31, 2015		Year ended December 31, 2014	
	No. of shares	Weighted average exercise price (CAD\$)	No. of shares	Weighted average exercise price (CAD\$)
Outstanding, beginning of period	7,967,500	0.23	5,030,834	0.27
Granted <sup>(1)</sup>	-	-	4,105,000	0.20
Expired	-	-	(393,334)	0.55
Forfeited	(1,087,500)	0.19	(775,000)	0.24
Outstanding, end of period	<u>6,880,000</u>	<u>0.12</u>	<u>7,967,500</u>	<u>0.23</u>

**CRS ELECTRONICS INC.**

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**14. SHARE CAPITAL (Continued)****[a] Stock options (continued)**

The following table summarizes information about options outstanding as at March 31, 2015:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (months)	Weighted-average exercise price
CAD\$0.17 - \$0.225	2,205,000	54	CAD\$0.17
CAD\$0.24 - \$0.31	4,557,500	37	CAD\$0.24
CAD\$0.48 - \$0.59	117,500	16	CAD\$0.48
Total	<b>6,880,000</b>	<b>42</b>	<b>\$0.23</b>

1,528,750 options are exercisable as at March 31, 2015. The weighted average exercise price of these options is CAD \$0.27.

**Charitable options:**

In March 27, 2008, charitable options to purchase 66,486 common shares were granted to an eligible charitable organization. These options are exercisable at CAD \$0.30 per share with an expiry date as of March 27, 2018.

**[b] Warrants**

On June 8, 2012 the Company issued 2,389,167 common share purchase compensation warrants. Each warrant entitles the holder to acquire one common share upon payment of CAD \$0.2921 per common share no later than June 8, 2017. As at March 31, 2015, 2,389,167 warrants, entitling the warrant holders to purchase 2,389,167 common shares, are outstanding.

The value of the warrants at the date of issuance, net of an allocation of the closing costs, was determined to be CAD \$531,523 (USD \$517,544) using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 105%, risk-free interest rate of 1.29% and an expected life of 5 years.

On August 11, 2014, the Company issued 672,000 compensation warrants as part of the non-brokered private placement mentioned in Note 16(a). Each compensation warrant entitles the holder to purchase one common share of the Company at a price of CAD \$0.18 until August 11, 2016. As at March 31, 2015, 672,000 warrants, entitling the warrant holders to purchase 672,000 common shares, are outstanding.

The value of the compensation warrants at the date of issuance was determined to be CAD \$70,798 (USD \$64,745) using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 114%, risk-free interest rate of 1.077% and an expected life of 2 years.



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### 15. COMMITMENTS AND CONTINGENCIES

Commitments:

The Company has various commitments for information technology service agreements, operating leases for its premises and vehicles. The future minimum lease payments as of March 31, 2015 and December 31, 2014 are as follows:

	<b>March 31</b>	December 31
	<b>2015</b>	2014
No later than one year	<b>\$29,829</b>	\$37,769
Later than one year but no later than five years	<b>22,002</b>	29,629
	<b>51,831</b>	67,398

Contingencies:

On March 20, 2015, the Company received a claim from an ex-employee claiming wrongful dismissal on February 11, 2015 and seeking various damages for a total of \$295,100. The Company intends to vigorously defend these charges. Based on discussions with the Company's legal advisors, it is not possible to assess the potential liability to the Company at this time.

### 16. AUTHORIZATION

The Board of Directors is responsible for reviewing and approving the condensed consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

These unaudited condensed consolidated financial statements as at March 31, 2015 were approved by the Board of Directors on May 22, 2015.

### 17. SUBSEQUENT EVENT

On May 21, 2015, the Company signed a loan agreement whereby the Lender agrees to make credit facilities of an operating loan of up to \$1,000,000 and an uncommitted facility of up to \$500,000 to the Company. The loan has been used to repay the line of credit with the bank (Note 9), with the remainder used for working capital purposes. The amount available under the operating loan is determined as a percentage of eligible accounts receivable and inventory and is repayable on demand by the Lender or on the first anniversary date of the agreement. The credit facilities bear interest at 15% per annum and are secured by general security agreements on all assets of the Company, cash collateral pledge agreement, intellectual property security agreement and assignment of insurance.