CRS Electronics Inc.

Management Discussion and Analysis

Year Ended
December 31, 2013

April 23, 2014

The following information prepared as of April 23, 2014 is Management's Discussion and Analysis ("MD&A") of the financial condition and performance of CRS Electronics Inc. (the "Company" or "CRS") for the year ended December 31, 2013 and should be read in conjunction with the audited financial statements for the year ended December 31, 2013 which have been prepared in accordance with International Financial Reporting Standards.
All amounts are in United States (U.S.) dollars unless otherwise noted (tabular amounts are in thousands of U.S. dollars).

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure principally through its audit committee comprised of a majority of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure.

Forward-Looking Information

The statements made in this MD&A, particularly those in the "Outlook" section that are not historical facts, contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address CRS's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by management and with information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. The forward-looking statements made in this MD&A describe our expectations as at April 23, 2014.

You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although the Company believes that their expectations are based on reasonable assumptions, the Company can give no assurance that our forward-looking statements will materialize. Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward looking statements in this MD&A include: execution of the Company's existing plans and development programs for its product line, either of which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans or programs; and the accuracy of current interpretation of market study results.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the "Risk and Uncertainties" section.

Overview

For over 15 years, CRS has been a developer and manufacturer of light emitting diode ("LED") light products. As a manufacturer of LED indicator lights for Blue Bird Corporation buses and other light applications, CRS realized that the improvement in LEDs created an opportunity to supply LED based lighting. Throughout 2007 to 2013 inclusive, CRS expended a significant amount of time and capital to develop, manufacture and market an LED MR16 halogen bulb replacement and LED PAR series of interior lights for the residential market segment. However, CRS was unable to earn positive margins due to high Canadian labour rates and severe residential market price pressure through retailers.

CRS is currently focused on the expansion of its lamps to the North American interior light replacement market at a commercial level and has exited the residential market sector completely. The residential market value proposition did not align with CRS' considerable product features, market price or cost structure. CRS seeks to expand into the North American LED fixture market at a commercial level to leverage market leading intellectual property designed into its products. Converting the Welland, Ontario manufacturing facility to a distribution center for its Asian supply chain and an assembly area for LED fixtures has also been a key 2013 objective. The North American commercial marketplace continues to adopt LED technology at a rapid pace. CRS management believes the marketplace with be fruitful for both LED lamps and fixtures for years to come.

Outlook

For Fiscal 2014 the Company is focusing on finalizing the supply chain conversion to Asia, changing its Welland facility to the North American distribution center for LED lamps, and preparing a final assembly production line for LED fixtures to sell into the North American commercial market. Management added regional sales managers with LED commercial marketplace experience who have established strong relationships with electrical distributors, end users and lighting designers. The LED lamp portfolio has achieved the gold standard in 3rd party validation by achieving Energy Star® certification and ETL certification to support commercial sales efforts.

Business Objectives and Milestones

CRS' overall business objective is to gain market share in the LED commercial lighting market to provide an economic return to its shareholders.

Sales Objectives

1. Commercial LED lamp sales

Our objective is to expand sales in the commercial lamp replacement market. CRS continues to introduce LED commercial lamps under the Lumenova™ brand to North America. The company has strategically targeted the most commonly used commercial lamp categories for LED replacements: MR16, GU10, PAR 20, PAR 30, PAR 38, R20, BR30 and BR40 lamps. Independent laboratory testing confirms CRS LED lamps produce more light output, operate using less wattage, dim smoothly to 1% light output and are offered with a wider range of colour temperatures than any other brand. These best in class products have been demonstrated by CRS regional managers to electrical distributors, independent lighting agents, end users and lighting specifiers throughout North America. The typical response has been overwhelmingly positive. Finished products are now being built and sold.

2. Bus light business and contract LED OEM manufacturing

CRS continues to support its partners in these market segments. Over many years CRS has developed strong partnerships and the product lines deliver consistent gross margins. CRS plans to work with partners to meet their needs and expand current sales volumes.

3. Lighting fixture sales

CRS will introduce LED light fixtures under the KVIC Lighting™ brand to North America. They will be represented by commercial lighting agents and sold through electrical distribution. Finalized designs are being prototyped with an expected launch in the second quarter of 2014. Designs include industry innovations in light output and maintenance. Initial market feedback has been extremely positive. Recruiting an experienced sales management and customer service staff is underway.

Product Development Objectives

1. Product cost reduction

CRS has solidified its Asian supply chain and is beginning to realize a significant decrease in product costs while maintaining CRS' high performance and specification standards.

2. Product development

Market research has shown that Energy Star® certification has strong commercial market recognition and provides confidence for selection of sound, energy efficient LED lamps. The Company has received Energy Star® certifications for the majority of its new family of LED lamps and continues to aggressively pursue certification on the remaining yet to be introduced LED lamps. Preliminary results indicate that CRS' LED lamps will contain best in class light output and dimming compatibility which are two critical components of value in the marketplace. Fixtures require DLC certification. Both remaining certifications will be achieved by July 2014. CRS will work jointly with its strategic partners to provide performance specifications that are at the 'head of the class' for professional series commercial products.

Performance of CRS

Key performance indicators

The key performance indicators for CRS are revenue growth, gross profit, EBITDA, net income, and increasing patent protection on intellectual property.

The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependent on the Company being able to increase its sales staff and expand production capacity to meet the anticipated demand for its products.

The Company is targeting gross margin percentages (defined as revenues less cost of sales and plant expenses as a percentage of revenues) of approximately 35.0% on an annual basis. Maintaining a consistent gross margin will be an indicator of how well the Company is managing its production costs and customer contract negotiations. The Company is looking at various product development and outsourcing alternatives to increase gross margin.

Management believes that EBITDA is a measure of how efficiently and effectively the business is operating. The Company is entering a period of rapid expansion and growth. Therefore selling and general administration costs have increased over the last eighteen months. To maintain an acceptable EBITDA, management will need to balance the increase in selling and general administration costs and revenue growth. Net income is also viewed as an important measure for determining the value created for shareholders.

Measurement

Below in "Quarterly Results" and "Results of Operations" are two tables the Company uses to assess performance. "Quarterly Results" presents the Company's results for the last eight quarters, followed by a comparison of the Company's fiscal year to the prior year.

Quarterly Results

	Fiscal 2013			Fiscal 2012				
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
In thousands of dollars	**USD**	USD	USD	USD	USD	USD	USD	USD
Sales	**283.5**	437.0	565.3	738.5	463.3	607.1	687.7	1,312.0
Gross loss	**(452.4)**	(243.2)	(109.1)	(262.3)	(750.1)	(348.1)	(277.3)	(357.6)
Gross loss%	**(159.6%)**	(55.7%)	(19.3%)	(35.5%)	(161.9%)	(57.3%)	(40.3%)	(27.3%)
Select expenses								
Selling and marketing	**256.1**	236.4	118.8	129.5	446.2	118.0	278.9	571.6
General and administrative	**583.1**	442.1	571.5	386.5	566.7	719.5	453.2	512.0
Engineering and research	**178.5**	187.1	236.5	132.3	61.0	103.2	106.5	112.8
Foreign exchange (gain) loss	**23.7**	(68.7)	108.2	77.2	49.6	(175.6)	(147.6)	30.1
Total expenses	**1,041.4**	796.9	1,035.0	725.5	1,123.5	765.1	691.0	1,226.5
Income (loss) from operations	**(1,493.8)**	(1,040.1)	(1,144.1)	(987.8)	(1,873.6)	(1,113.2)	(968.3)	(1,584.1)
Add back: Depreciation and amortization	**79.3**	80.9	79.6	76.0	107.5	109.4	112.3	111.8
EBITDA Loss	**(1,414.5)**	(959.2)	(1,064.5)	(911.8)	(1,766.1)	(1,003.8)	(856.0)	(1,472.3)
Finance costs	**(19.9)**	(12.6)	(12.4)	(7.3)	(10.1)	2.8	(34.3)	(23.2)
Refundable tax credit expense	**13.4**	-	-	-	-	-	-	-
Depreciation of equipment, furniture and leaseholds	**(45.4)**	(46.4)	(46.2)	(44.4)	(70.6)	(72.2)	(75.7)	(76.1)
Amortization of intangibles	**(27.8)**	(27.6)	(26.6)	(24.8)	(28.5)	(28.8)	(28.7)	(28.0)
Amortization of patents and trademarks	**(6.1)**	(6.9)	(6.8)	(6.8)	(8.4)	(8.4)	(7.9)	(7.7)
(Loss) Gain on disposal of intangible assets	**-**	(0.9)	-	-	-	1.4	-	-
Loss on disposal of patents and trademarks	**(21.0)**	(3.5)	-	-	(21.8)	-	-	-
Loss on disposal of equipment, furniture and leaseholds	**(21.3)**	(37.5)	-	-	(237.4)	(13.8)	(5.3)	(0.3)
Change in warrant liability	**115.0**	103.6	(54.8)	38.0	170.7	(50.9)	26.3	462.1
Net (loss) income	**(1,427.6)**	(991.0)	(1,211.3)	(957.1)	(1,972.2)	(1,173.7)	(981.6)	(1,145.5)
Loss per share	**(0.02)**	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.02)	(0.03)

Results of Operations

The following table sets out the Company's results for the year ended December 31, 2013 compared with the prior year ended.

	Year Ended December 31		Increase	% Increase
In Thousands of U.S. dollars [1]	2013	2012	(Decrease)	(Decrease)
Sales	$2,024.3	$3,070.1	(1,045.8)	(34.1%)
Gross profit (loss)	(1,067.0)	(1,733.1)	666.1	38.4%
Gross profit (loss) percentage	(52.7%)	(56.5%)		
Selling and marketing	740.8	1,414.7	(673.9)	(47.6%)
As a % of sales	36.6%	46.2%		
General and administrative	1,983.2	2,251.4	(268.2)	(11.9%)
As a % of sales	95.5%	73.3%		
Engineering and research	734.4	383.4		
Foreign exchange (gain) loss	140.4	(243.5)		
Total operating expenses	3,598.8	3,806.0		
Income (loss) from operations	(4,665.8)	(5,539.1)		
Add back amortization	315.8	441.0		
EBITDA Loss	(4,350.0)	(5,098.1)	748.1	14.7%
Finance costs	(52.2)	(64.8)		
Depreciation of capital equipment	(182.4)	(294.6)		
Amortization of product development	(106.8)	(114.0)		
Amortization of patents and trademarks	(26.6)	(32.4)		
Impairment of product development	(0.9)	-		
Impairment of patents and trademarks	(24.5)	(21.8)		
Gain (loss) on sale of equipment, furniture and fixtures	(58.8)	(255.4)		
Refundable tax credit income	13.4	-		
Change in warrant liability	201.9	608.2		
Net loss	($4,586.9)	($5,272.9)	686.0	13.0%

[1] Information for 2013 and 2012 is prepared in accordance with International Financial Reporting Standards ("IFRS").

Revenues

Revenues for the three months ended December 31, 2013 decreased 38.8% to $283,500 from $463,300 for the same period in 2012.

Revenue from bus light sales during the three months ended December 31, 2013 decreased 21.4% to $174,400 from $221,900 for the same period in 2012. Revenues from contract manufacturing for the three months ended December 31, 2013 increased 43.5% to $88,100 from $61,400 in 2012.

Commercial LED revenue for the three months ended December 31, 2013 stemmed from 1st generation LED MR16 sales that decreased 99.3% to $700 from $106,300 during the same period in 2012. Next generation LED lamp revenue for the three months ended December 31, 2013 stemmed from Lumenova™ LED GU 10, PAR 20, 30, and 38 sales that increased 100% to $20,300 from nil during the same period in 2012. This marks the first quarter of the transition from the retail lighting segment to the commercial segment for our next generation LED lamps imported from our Asian supply chain.

Retail LED revenue for the three months ended December 31, 2013 stemmed from LED MR16, GU10, PAR 20, 31, 38, and A19 sales that decreased 100% to nil from $73,700 during the same period in 2012. CRS exited the retail LED lighting market in the first quarter of 2013 mainly due to severe residential market price pressure through retailers and therefore the Company reports no retail sales for the current quarter.

Revenues for the year ended December 31, 2013 decreased 34.1% to $2,024,300 from $3,070,100 for the same period in 2012. The overall decrease is due to the Company's exit from the retail lighting segment and the transition to the commercial lighting segment as well as the transition from North American manufacturing and assembly to an Asian supply chain of finished lamps. As these transitions occurred during the current year, the Company was unable to maintain the sales volume experience during Fiscal 2012.

Revenue from bus light sales during the year ended December 31, 2013 decreased 5.7% to $984,100 from $1,043,300 for the same period in 2012. Revenues from contract manufacturing for the year ended December 31, 2013 increased 107.3% to $645,800 from $311,600 in 2012.

Commercial LED revenue for the year ended December 31, 2013 stemmed from 1st generation LED MR16 sales that decreased 69.1% to $180,800 from $585,800 during the same period in 2012. Next generation LED lamp revenue for the year ended December 31, 2013 stemmed from Lumenova™ LED GU 10, PAR 20, 30, and 38 sales that increased 100% to $20,300 from nil during the same period in 2012.

Retail LED revenue for the year ended December 31, 2013 stemmed from LED MR16, GU10, PAR 20, 31, 38, and A19 sales that decreased 82.9% to $193,300 from $1,129,400 the same period in 2012. CRS exited the retail LED lighting market in the first quarter of 2013 mainly due to severe residential market price pressure through retailers and therefore the Company reports significantly decreased retail sales for the year ended December 31, 2013.

Cost of Sales and Gross Profit

The cost of sales is inclusive of direct material costs, plant labour, plant overheads, plant management salaries, amortization of plant and equipment and the amortization of product development costs.

For the three months ended December 31, 2013, gross loss percentage was (159.6)% compared to (161.9)% in the same period last year. For the year ended December 31, 2013, gross profit percentage was (52.7)% compared to (56.5)% in the same period last year. The increase is primarily attributed to two factors: 1) By the end of 2013 CRS had fully exited the retail market and a large portion of the retail product shipped in 2012 was subject to continued cost overrun issues and a contractual returned inventory provision which did not occur during 2013, and 2) consistent for both years, the sales volume in relation to increased fixed plant expenses and amortization charged to cost of goods sold resulted in lower gross margins. Measures are being taken in the form of lower product costs and focusing of larger LED lighting market segments to mitigate these issues which could persist to impact the gross margin of orders placed in fiscal 2014.

Selling and marketing expenses

For the three months ended December 31, 2013 selling and marketing expenses decreased 42.6% to $256,100 from $446,200 for the same period in 2012. This decrease reflects the company's exit of the retail market strategy and focus on the commercial market.

For the year ended December 31, 2013 selling and marketing expenses decreased 47.6% to $740,800 from $1,414,700 for the same period in 2012. This decrease reflects the strategic exit from the retail market and shift to selling through the commercial market which requires significantly less marketing and advertising expenses.

General and administrative expenses

For the three months ended December 31, 2013 general and administrative expenses increased 2.9% to $583,100 from $566,700 for the same period in 2012. The majority of the increase relates to stock based compensation incurred during the fourth quarter of 2013 and professional fees.

For the year ended December 31, 2013 general and administrative expenses decreased 11.9% to $1,983,200 from $2,251,400 for the same period in 2012. This decrease mainly relates to expenses incurred in conjunction with the June 8, 2012 private placement, stock based compensation and restructuring expenses which were subsequently not incurred during 2013.

Engineering and Research

Research costs are expensed in the year the costs are incurred. When a product is likely to be commercially viable in the form developed, the costs to complete the development are capitalized on the balance sheet. When commercial sales begin the development costs are amortized over the expected life of the product.

For the three months ended December 31, 2013 net research and development expenses increased to $178,500 from $61,000 for the same period in 2012. The Company has restructured the Research and Development department to prepare for the Lumenova™ LED lamps and LED fixtures product launches.

For the year ended December 31, 2013 net research and development expenses increased to $734,400 from $383,400 for the same period in 2012. The Company has restructured the Research and Development department to prepare for the Lumenova™ LED lamps and LED fixtures product launches.

Finance Costs

Interest costs are lower during 2013 due to lower average principal outstanding on long-term debt. This is primarily attributable to the finalization of two outstanding loans during January 2013. Accretion expense is related to the non-interest bearing loan from the Southern Ontario Development Program. These expenses are partially offset by interest revenues. The 2013 revenues were due to two redeemable term deposits purchased by the Company with proceeds from the private equity placement issuance of common shares on June 8, 2012. Interest on the term deposits compounded annually at a rate of 1.3% and 1.536%. The 1.3% and 1.536% term deposits matured during June and July 2013. The funds were re-invested into 3 month 1.4% term deposits which reinvest upon maturity.

	Three months ended December 31		**Twelve months ended December 31**	
	2013	2012	**2013**	**2012**
Interest on short term debt	**$13,100**	$8,500	**$36,500**	$37,100
Interest on long term debt	**$4,400**	$6,100	**$18,300**	$25,700
Accretion expense	**6,700**	12,700	**30,400**	41,500
Less:				
Interest revenue	**(4,300)**	(17,200)	**(33,000)**	(39,500)
Net finance costs:	**$19,900**	$10,100	**$52,200**	$64,800

Total finance costs for the three month period ended December 31, 2013 increased $9,800 to $19,900 from $10,100 for the same period in 2012. Net finance costs for the year ended December 31, 2013 decreased $12,600 to $52,200 from $64,800 for the same period in 2012. Finance costs are attributable to a mix of long and short term debt obligations as follows:

Interest on short-term debt increased 54.1% to $13,100 during the three months ended December 31, 2013 from $8,500 during the same period in 2012. Interest on short-term debt decreased 1.6% to $36,500 during the year ended December 31, 2013 from $37,100 during the same period in 2012. Fluctuations in short-term interest are due to usage of the line of credit during the period.

Interest on long-term debt decreased 27.9% to $4,400 during the three months ended December 31, 2013 from $6,100 during the same period in 2012. Interest on long-term debt decreased 28.8% to $18,300 during the year ended December 31, 2013 from $25,700 during the same period in 2012. The decrease is related to the finalization of loans which occurred in Q1 2013.

Accretion expense decreased 47.2% to $6,700 during the three month period ended December 31, 2013 from $12,700 during the same period in 2012. Accretion expense decreased 26.7% to $30,400 for the year ended December 31, 2013 from $41,500 during the same period in 2012. The decrease relates to the continued repayment of the loan provided through the Southern Ontario Development Program.

Interest revenue decreased 75.0% to $4,300 during the three month period ended December 31, 2013 from $17,200 during the same period in 2012. Interest revenue decreased 16.5% to $33,000 for the year ended December 31, 2013 from $39,500 during the same period in 2012. The decrease relates to the decrease in term deposits and the related interest earned by the Company from the proceeds of the private equity placement on June 8, 2012.

Depreciation of property and equipment

Depreciation decreased 35.7% to $45,400 during the three months ended December 31, 2013 from $70,600 during the same period in 2012. Depreciation decreased 38.1% to $182,400 during the year ended December 31, 2013 from $294,600 during the same period in 2012. The decrease is related primarily to limited additions to production equipment and tooling during 2013.

Amortization of Intangible Assets

The amortization expense decreased $700 to $27,800 during the three months ended December 31, 2013 from $28,500 during the same period in 2012. The amortization expense decreased $7,200 to $106,800 during the year ended December 31, 2013 from $114,000 during the same period in 2012.

Amortization of Patents and Trademarks

The amortization expense decreased $2,300 to $6,100 during the three months ended December 31, 2013 from $8,400 during the same period in 2012. The amortization expense decreased $5,800 to $26,600 during the year ended December 31, 2013 from $32,400 during the same period in 2012.

Patent and Trademarks impairment occurred during the year ended December 31, 2013 in the amount of $24,500 compared to $21,800 during the same period in 2012. The impairment charge is related to unfiled or abandoned patents and trademarks which are deemed to provide no future economic benefit for the Company.

Scientific Research and Experimental Development Tax Credit ("SRED")

The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development expenses. The tax credits that relate to research are recorded as a reduction in expenses on the statement of operations. The amount recorded as reduction to expenses for the three months ended December 31, 2013 was ($13,400) compared to nil in 2012. The amount recorded as reduction to expenses for the year ended December 31, 2013 was ($13,400) compared to nil in 2012.

Foreign Exchange Losses

The US dollar is the functional currency of the Company and is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the US dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, it retranslates monetary items denominated in foreign currencies at the rates prevailing at that date. It does not retranslate non-monetary items measured in terms of historical cost in a foreign currency. It recognizes exchange differences on monetary items in profit or loss in the period in which they arise. For the three months ended December 31, 2013, CRS incurred a foreign currency loss of $23,700 compared to a loss of $49,600 in 2012. For the year ended December 31, 2013, CRS incurred a foreign currency loss of $140,400 compared to a gain of $243,500 in 2012.

Loss before Income Taxes, Depreciation and Amortization ("EBITDA")

The negative EBITDA loss for the three months ended December 31, 2013 was ($1,414,500) compared to ($1,766,100) for the same period in 2012. The decrease in the foreign exchange, lower gross loss and decreased selling expenses has decreased overall negative EBITDA by $351,600 for the three months ended December 31, 2013 compared to 2012. The negative EBITDA loss for the year ended December 31, 2013 was ($4,350,000) compared to ($5,098,100) for the same period in 2012. The decrease in gross loss, selling and administrative costs have contributed to a reduction in overall negative EBITDA by $748,100 for the year ended December 31, 2013 compared to 2012.

Net losses

As a result of the above activities, the net loss for the three months ended December 31, 2013 was ($1,427,600), or ($0.02) per share compared to a loss of ($1,972,200), or ($0.03) per share for the same period 2012. The $544,600 positive change in net losses have been increased principally by a positive change in losses from disposal of fixed assets of $216,100 and for the three months ended December 31, 2013 compared to the corresponding period. The net loss for the year ended December 31, 2013 was ($4,586,900), or ($0.06) per share compared to a loss of ($5,272,900), or ($0.09) per share for the same period 2012. The $686,000 negative change in net losses vs. 2012 have been partly caused by a positive change in losses from disposals of fixed assets $196,600, by a positive change in the fixed asset amortization totaling $112,200, and by an overall decrease in selling and administrative expenses of $992,100 for the year ended December 31, 2013 compared to the corresponding period.

Liquidity and Capital Resources

The following table summarizes the key financial ratios of the Company.

(in U.S. dollars except for ratios)	December 31 2013	*December 31 2012*
Current Ratio	2.7:1	*4.8:1*
Cash	$3,081,012	*$4,517,911*
Available operating line	$437,891	*N/A*
Net Working Capital	$2,885,346	*$4,679,873*
Total Assets	$5,408,683	*$6,896,844*
Total Liability	$1,904,049	*$1,926,620*
Total Equity	$3,504,634	*$4,970,224*
Debt to Equity Ratio	0.54:1	*0.39:1*

Due to the losses incurred by the Company in the current and previous years and negative cash flows from operating activities relating thereto, there may be significant doubt with respect to the Company's ability to continue as a going concern. Management closely monitors the Company's current cash position and the short-term and long-term cash requirements. The Company is in a volatile market place that could generate significant orders for their LED products. The Company may be required to obtain additional funding to take advantage of the market opportunities. If additional funding is required, an issuance of common stock or a commitment to issue common stock will most likely be a component of the funding.

Cash Flows

During the period ended December 31, 2013, CRS experienced negative cash flows used in operations of ($4,020,642) compared to a negative cash flow of ($4,089,907) for the same period in 2012. Reduction of receivables and prepaid expenses partially offset higher losses. The Company invested $255,467 in tooling and other capital equipment, development costs and patents in the year ended December 31, 2013 compared to $236,383 in the prior year. The Company's various financing activities generated $2,839,210 in cash flow for the year ended December 31, 2013 compared to $7,898,375 in the same period last year. The decrease from 2012 is mainly attributable to the June 8, 2012 private placement offering generating gross proceeds of CAD $8,880,000, while only CAD $3,000,000 was raised in 2013.

Outstanding Share Data

As at December 31, 2013 the Company had the following items issued and outstanding:

- Common shares: 86,399,844
- Stock options: 5,030,834

Range of exercise prices (CAD$)		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price (CAD$)
$0.24	**$0.48**	4,672,500	51 months	$0.25
$0.58	**$0.59**	358,334	15 months	$0.58
Total		5,030,834	48 months	$0.27

660,834 options are exercisable as at December 31, 2013. The weighted average exercise price of these options is CAD $0.48.

As at April 23, 2014 the Company had the following items issued and outstanding:

- Common shares: 86,399,844
- Stock options: 5,847,500

Range of exercise prices (CAD$)		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price (CAD$)
$0.24	**$0.48**	5,522,500	40 months	$0.26
$0.58	**$0.59**	325,000	25 months	$0.58
Total		5,847,500	39 months	$0.27

1,720,000 options are exercisable as at April 23, 2014. 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.

Commitments and Contingencies

Due to the nature of the business, the Company may have unspecified contingent liabilities that are not known to the Company at the end of the year. The Company will recognize contingent liabilities in a future year when they become known to the Company.

The Company has the following commitments outstanding:

1. The Company signed a service agreement with Niagara Regional Broadband Network Limited, for high-speed fiber optic network bandwidth and related management services for the Welland plant. The term of the agreement is from April 1, 2011 to March 31, 2016.
   In accordance with the agreement, the service cost to be paid by the Company over the remaining term thereof is as follows:

Year	IT Hosting Fees
2014	8,744
2015	8,744
2016	2,186

2. The Company signed a service agreement with Activo Inc., for high-speed fiber optic network bandwidth and related management services for the Richmond Hill office. The term of the agreement is from August 1, 2012 to June 30, 2016.
   In accordance with the agreement, the service cost to be paid by the Company over the remaining term thereof is as follows:

Year	IT Hosting Fees
2014	2,255
2015	2,255
2016	1,128

3. The Company signed a tenant lease agreement for the use of office space located at 9120 Leslie Street, Suite 102, Richmond Hill, Ontario. The tenant agreement covers general rent of office space, operating costs, utilities and realty taxes. The term of the agreement is from August 1, 2012 to July 31, 2015.

   In accordance with the agreement, the service cost to be paid by the Company over the remaining term thereof is as follows:

Year	Rent
2014	43,617
2015	25,673

4. The Company signed a lease agreement for the use of a vehicle. The term of the agreement is from March 20, 2013 to March 20, 2016. In accordance with the agreement, the service cost to be paid by the Company over the remaining term thereof is as follows:

Year	Rent
2014	10,040
2015	10,040
2016	1,673

5. The Company signed a royalty agreement with GE Lighting Solutions, LLC (“GE”) subsequent to December 31, 2013. The amount payable each year is based on the Company’s annual sales and therefore is not determinable for years following December 31, 2013.

Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of CRS including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Proposed Transactions

CRS is not a party to any proposed transactions, other than the financing initiatives being pursued as described elsewhere in this document, which may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

Related Party Transactions

Key management includes the Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer, and the Chief Technology Officer. The compensation paid or payable to key management for services is as follows:

	December 31 2013	December 31 2012
Wages and benefits	**$ 732,330**	$ 483,100
Stock-based compensation	**313,312**	84,363
	$ 1,045,642	$ 567,463

Critical Accounting Policies

For disclosure of our accounting policies, please refer to our Fiscal 2013 Audited Financial Statements**.**

Management Discussion of Key Estimates

Inventory Impairment Analysis:

Although the Company continues to experience negative gross margins, management notes that inventory is not impaired for the following reasons. The transition to an Asian supply chain to purchase finished goods inventory manufactured in China has reduced product costs enough to support positive gross margins. As the Company was transitioning to this new supply chain during the period, these positive margins were reduced by the fixed overheads which were not able to be fully allocated into finished goods inventory at year end and not supported by sufficient sales volumes. The Company has budgeted appropriate sales volumes for Fiscal 2014 in order to fully absorb and justify these fixed overhead expenditures in order to generate a positive gross margin. Based on our market research, the commercial LED lighting segment aligns the best with our expected sales volume and our current product offerings to support management's expectations for Fiscal 2014.

Fixed Asset and Intangible Impairment Analysis:

Management evaluated whether there are any adverse qualitative factors in respect to long-lived assets indicating that they might be impaired. Potential indicators include significant negative cash flow from operations, negative gross margins relating to fixed labor and overheads and a decrease in retail sales of LED lighting products. However, management noted that the current year results related to a change in overall strategy which are not expected to be incurred in future periods as the Company transitions into the commercial LED market segment with outsourced finished goods inventory. The Company believes these potential impairment indicators are short term in nature and do not reflect impairment of the long-lived assets.

FINANCIAL INSTRUMENTS

[a] Fair value

The carrying values of cash and cash equivalents, accounts receivable, government incentives receivable, trade and other payables and note payable do not materially differ from their fair values given their short-term period to maturity. The fair values of bank indebtedness, finance lease obligations and debt obligations approximate carrying value as the instruments bear interest or are discounted at market rates.

[b] Credit risk

The Company is exposed to credit risk in the event of non-performance by customers in paying outstanding trade accounts receivable. The Company's three main customers represent 66%, 6% and 4% respectively of accounts receivable at December 31, 2013 (28.7%, 20.3% and 10.3% at December 31, 2012). The Company has purchased insurance from the Export Development Corporation to compensate for this risk in addition to monitoring the status of accounts on a regular basis. The Company purchases credit reports from an industry leading credit analysis firm to further mitigate this credit risk.

Trade accounts receivable are past due when a customer fails to make a payment when contractually due. The Company specifically identifies customers with past due balances (over normal credit term) and provides for these accounts where appropriate. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
December 31, 2013	$69,305	$65,485	$56,832	$3,134	$194,756

[c] Interest rate risk

The Company is exposed to interest rate risk on its short-term credit facilities and on a portion of its long-term debt, since the interest rate charged on these facilities fluctuates with the general level of interest rates. However, in management's opinion, this risk is not significant as the short term credit facilities do not represent a significant amount of financing.

[d] Liquidity risk

The Company incurs obligations to deliver cash or other financial assets on future dates. Liquidity risk inherently arises from these obligations, which include requirements to repay debt and make operating lease payments.

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing its line of credit. Company management continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and financial liabilities. Accounts payable are generally due within 30 days.

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include long-term debt, operating leases and commitments on short-term forward foreign exchange contracts used to mitigate the currency risk on U.S. dollar purchases as at December 31, 2013.

	Total	**< 1 year**	**2 – 3 years**	**4 – 5 years**	**> 5 years**
Long-term debt	324,010	125,435	198,575	-	-
Lease obligations	192,016	105,132	86,884	-	-
Foreign exchange forwards	450,000	450,000	-	-	-
Total contractual obligations	966,026	680,567	285,459	-	-

The Company's obligation under its foreign exchange forwards are stated above on a gross basis rather than net of the corresponding contractual benefits.

[e] Foreign currency risk

The Company is exposed to currency risk because it makes purchases and sales transacted in Canadian currency. The following accounts were denominated in Canadian dollars:

	December 31 2013	December 31 2012
Cash and cash equivalents	**$ 3,168,631**	$ 4,392,331
Accounts receivable	**47,349**	236,628
Trade and other payables	**(29,806)**	(60,481)
Debt obligations	**(372,708)**	(702,088)

At December 31, 2013 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a $281,347 change on reported net loss and comprehensive loss for the year.

Risk and Uncertainties

Risks Related to CRS' Business

Failure of Business Strategy

There is no assurance that CRS' business strategy will succeed. The success of CRS' business strategy will depend on a number of factors. There is no assurance that CRS will be able to achieve its planned growth, that modifications to its strategy will not be required or that CRS will be able to effectively manage expanded operations and enhance profitability.

CRS has only recently begun the implementation of its business model involving the commercial LED lamps, LED fixture lighting and OEM manufacturing. CRS has a limited history of operations under this business model and upon which investors may base an assessment of its potential. There is no assurance that CRS' business model and proposed operations will be successful or that CRS will meet its stated business objectives.

Reliance on Channel Partners

CRS relies, in part, on channel partners as agents and distributors to expand distribution channels for its products and to grow its sales in commercial LED lamps, LED fixture lighting and OEM manufacturing. Failure by channel partners to expand CRS' customer and product base may have a material adverse effect on CRS' operating results. In the last two years, CRS has expanded into new business channels that are different from those that CRS has historically operated in. If CRS is unable to penetrate these new distribution channels to ensure its products are reaching the appropriate customer base, CRS' financial results may be impacted. In addition, if CRS successfully penetrates these new distribution channels, it cannot guarantee that customers will accept its products or that it will be able to manufacture and deliver them in the timeline established by its customers.

Management of Growth

CRS may face challenges managing its growth. CRS has experienced a period of significant growth over the past year that may challenge its management and other resources. CRS is also in the process of expanding its business to include additional product lines. In order to manage growth and change in business strategy effectively, CRS will continue to: expand sales, marketing and distribution; implement and improve operating and information technology systems; maintain adequate distribution facilities and equipment to meet customer demand; maintain a sufficient supply of component parts and lamps to support its growth; expand the skills and capabilities of current management team; add experienced senior level managers; attract and retain qualified people with experience in engineering, design, sales and marketing; and recruit and retain qualified distribution employees.

CRS expects to spend substantial amounts of money in supporting its growth and may have additional unexpected costs. CRS may not be able to expand quickly enough to exploit potential market opportunities. CRS' future operating results will also depend on expanding sales and marketing, research and development and administrative functions. If CRS cannot attract qualified people or manage growth and change effectively, its business, results of operations and financial condition could be adversely affected.

Strategic Opportunities

CRS will evaluate strategic opportunities available to it for product, technology or business acquisitions. If CRS chooses to make acquisitions, it will face certain risks, such as failure of the acquired business to meet CRS' performance expectations, diversion of management attention, retention of existing customers of its current and acquired business, and difficulty in integrating the acquired business's operations, personnel and financial and operating systems into its current business. CRS may not be able to successfully address these risks. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any acquisition could adversely affect CRS' business, results of operations and financial condition.

Risks Related to CRS' Operations

Fluctuation of Operating Results and Margins

CRS has experienced significant fluctuation in revenue, earnings and margins over the past three years, and it may experience significant fluctuations in revenue, earnings and margins in the future. Historically, the prices of LED products have declined based on market trends. CRS attempts to maintain its margins by constantly developing improved or new products, which provide greater value and result in higher prices, or by lowering the cost of its existing LED products. If CRS is unable to do so, its margins will decline.

CRS' operating results and margins may vary significantly in the future due to many factors, including the following: average sales prices for its products declining at a greater rate than anticipated; fluctuations in foreign currency as more of its revenue may be in U.S. dollars; ability to develop, manufacture and deliver products in a timely and cost-effective manner; variations in the amount of usable product produced during manufacturing from our Asian supply chain; ability to improve yields and reduce costs in order to allow lower product pricing without margin reductions; increased reliance on and ability to ramp up capacity from its suppliers; ability to ramp up production of new products; ability to produce higher brightness and more efficient LED products that satisfy customer design requirements; ability to continue improving current products and develop new products to specifications that meet the evolving needs of customers; changes in demand for products and customers' products that may cause fluctuations in revenue and possible inventory obsolescence; inventory component price fluctuations, including certain commodities consumed in the production process; effects of an economic slowdown on both consumer and non-consumer spending on products that incorporate CRS' products; changes in the competitive landscape, such as inventions of new technology, availability of higher brightness LED products, higher volume production and lower pricing from competitors; changes in the mix of products CRS sells, which may vary significantly; product returns or exchanges due to quality-related matters or improper use of products; changes in purchase commitments permitted under the contracts with large customers; changes in production capacity and variations in the utilization of that capacity; disruptions of OEM manufacturing that could result from fire, flood, drought or other disasters, particularly in the case of the single production facility; changes in legislation, regulations, or tax or accounting rules or changes in their interpretation; and costs to protect the intellectual property rights. These or other factors could adversely affect CRS' future operating results and margins.

Additional Financing Requirements and Access to Capital

CRS currently relies on revenue and borrowings to fund its daily operations and activities. If CRS is unable to generate sufficient operating cash flow or is unable to secure adequate debt or equity financing to cover its operating requirements, CRS' financial position may deteriorate. In addition, CRS may seek to obtain additional funds through a variety of sources including public or private equity or debt financing. There is no assurance that additional funding will be available if required, or that CRS will be able to establish any necessary banking arrangements or credit facilities, on acceptable terms or at all.

Reliance on Key and Qualified Personnel

CRS currently relies on its management team to oversee its core research, marketing, business development, operational and financing activities. If CRS loses the services of any of its management team and is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of CRS may be materially adversely affected. The successful implementation of the business plan also depends on the identification, engagement, training and retention of qualified inside sales, marketing communications and pre-sales engineering personnel. Failure to obtain and retain such qualified personnel may have an adverse impact on CRS' business, financial condition and results of operations.

Competition

The LED lighting market is highly competitive and has evolving technology standards. Competition is expected to intensify with increasing demand for LED products in the marketplace and government support of the industry. CRS' success will depend, among other things, upon the establishment of the Lumenova™ and KVIC Lighting™ brands and the demonstration to customers of the benefits of CRS' products. There is no assurance that other companies with greater financial and technological resources will not develop a similar business model with greater perceived benefits or that CRS will be able to compete successfully against existing competitors or future entrants into the market. These competitors may reduce average sales prices faster than CRS' cost reduction, and competitive pricing pressures may accelerate the rate of decline of CRS' average sales prices. Therefore, CRS' ability to provide higher performance LEDs at lower costs will be critical to its success. Competitors may also try to align with some of CRS' strategic customers. This could mean lower prices for CRS' products, reduced demand for its products and a corresponding reduction in CRS' ability to recover development, engineering and manufacturing costs. Competitors also could invent new technologies that may make CRS' products obsolete. Any of these developments could have an adverse effect on CRS' business, results of operations and financial condition.

Intellectual Property

CRS' intellectual property consists of "know-how". CRS also keeps various trade secrets regarding its technology, marketing and other business operations. While CRS makes every effort to manage this information properly, there is no assurance that this information will not enter the public domain. Any unanticipated leak of such information or improper use of such information by a third party could have a material adverse effect on CRS' business, financial condition and results of operations.

CRS is in the process of applying for patents and may seek patent protection for its technology in the future. The patent protection that CRS may obtain for its technology may not be adequate. If CRS is unable to maintain protection from direct competition or if its patents are ineffective, CRS' business, financial condition and results of operations could be materially adversely affected.

In the future, CRS may have to defend against potential litigation in connection with intellectual property rights and obligations, which will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which will adversely affect CRS' results of operation and financial position unless covered by insurance or recovered from third parties.

Risks Related to CRS and its Business Generally

Credit risk

The Company is exposed to credit risk in the event of non-performance by customers in paying outstanding trade accounts receivable. The Company's three main customers represent 66%, 6% and 4% respectively of accounts receivable at December 31, 2013 (28.7%, 20.3% and 10.3% at December 31, 2012). The Company has purchased insurance from the Export Development Corporation to compensate for this risk in addition to monitoring the status of accounts on a regular basis. The Company purchases credit reports from an industry leading credit analysis firm to further mitigate this credit risk.

Trade accounts receivable are past due when a customer fails to make a payment when contractually due. The Company specifically identifies customers with past due balances (over normal credit term) and provides for these accounts where appropriate. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
Year ended December 31, 2013	$69,305	$65,485	$56,832	$3,134	$194,756
Year ended December 31, 2012	$162,403	$89,909	$103,009	$130,587	$485,908

Foreign Currency Risk

In any year CRS sells on average 75% of its products in U.S. dollars. On average in any year, approximately 60% of its expenses are incurred in U.S. dollars. When the value of the U.S. dollar changes to the value of the Canadian dollar, CRS can experience a foreign currency gain or loss on monetary items such as accounts payable and accounts receivable held by CRS during the period of change. CRS has entered into foreign currency derivative financial instruments in an effort to manage or hedge the foreign exchange rate risk.

International Sales

CRS is subject to risks related to international sales. CRS expects that revenue from international sales will continue to represent the majority of its total revenue. International sales are subject to a variety of risks, including risks arising from currency fluctuations, tariffs, trade barriers, collection issues and taxes. International sales are subject to variability as prices become less competitive in countries with currencies that are low or are declining in value against the Canadian dollar and more competitive in countries with currencies that are high or increasing in value against the Canadian dollar. In addition, international sales are subject to numerous Canadian and foreign laws and regulations, including, without limitation, regulations relating to import-export control, and technology transfer restrictions. If CRS fails to comply with these laws and regulations, it could be liable for administrative, civil or criminal liabilities, and in the extreme case, its export privileges could be suspended, which could have a material adverse effect on CRS' business.

Rising Fuel Costs

CRS requires fuel in production and for transportation of purchased inventory and shipments to customers. Fuel costs contribute to an increasing portion of CRS' operating costs and adversely impacted CRS' level of profitability. CRS will need to adopt measures to decrease the impact of high fuel costs. CRS may be able to reduce inbound freight costs by ordering inventory in larger volumes. CRS also plans to ship to regional fulfillment centers in volume for distribution locally.

LED Diode Manufacturers Producing End Products

Currently, very few LED diode manufacturers produce lighting products or LED light engines. The diode manufacturers sell batches of lights to LED engine manufacturers, who in turn sell the LED light engine to fixture manufacturers. A trend is emerging that LED diode manufacturers are developing LED light engines for direct sale to LED fixtures manufacturers, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. In addition, LED diode manufacturers are producing fully equipped fixtures to the end users. CRS can deal with this risk by producing low cost, high quality light engines and end user fixtures. CRS is positioning itself, through vertical marketing, to end user industry sectors.

Customers Producing Own LED Light Engines

Existing or future customers may decide to produce LED light engines for their own products, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. The risk may not be that significant due to the complexity of the manufacturing and assembly of light engines. In addition, a customer's volume may not justify the equipment and tooling costs.

Development and Acceptance of New Products

CRS' operating results are substantially dependent on the development and acceptance of new products based on CRS' technology. CRS' future success may depend on its ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. CRS must introduce new products in a timely and cost-effective manner, and it must secure production orders for those products from its customers. The development of new products is a highly complex and lengthy process. The successful development and introduction of these products depends on a number of factors, including the following: achievement of technology breakthroughs required to make commercially viable devices; the accuracy of predictions of market requirements and evolving standards; acceptance of new product designs; acceptance of new technology in certain markets; availability of qualified research and development personnel; timely completion of product designs and development; ability to expand sales and influence key customers to adopt CRS' products; ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales; CRS' customers' ability to develop competitive products incorporating its products; and acceptance of CRS' customers' products by the market. If any of these or other factors become problematic, CRS may not be able to develop and introduce these new products in a timely or cost-effective manner.

Expansion Into New Markets

As a result of CRS' entry into and continued expansion into new markets, such as Lumenova™ LED Lamps and KVIC Lighting™ fixtures in the commercial market, its traditional customers may reduce orders. Through organic growth, CRS has moved into and continues to expand in new markets, where some of its current customers may now perceive CRS as a competitor. In response, CRS' customers may reduce their orders for CRS' products. This reduction in orders could occur faster than CRS' sales growth in these new markets, which could adversely affect CRS' business, results of operations and financial condition.

Market Share

Although the emerging and rapidly expanding LED lighting market holds significant opportunities, there is no assurance that CRS will achieve adequate market presence or market share required to achieve profitable operations.

Customer Demand and Capacity

CRS' results of operations, financial condition and business would be harmed if it were unable to balance customer demand and capacity. As customer demand for CRS' products, particularly new products, changes, CRS must be able to adjust its production capacity from its Asian supply chain to meet demand. CRS will be taking steps to address its capacity needs for its products. If CRS is not able to increase its supply chain capacity or if CRS increases its capacity too quickly, its business and results of operations could be adversely impacted. If CRS experiences delays or unforeseen costs associated with adjusting its capacity levels, it may not be able to achieve its financial targets.

Reliance on Suppliers

CRS relies on a few key Asian suppliers for certain inventory and services which are critical to CRS' supply chain management. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to three months or longer. Where possible, CRS is attempting to identify alternative sources for suppliers. CRS generally purchases these items with purchase orders, and has limited guaranteed supply arrangements with such suppliers. CRS does not control the time and resources that these suppliers devote to CRS' business and it cannot be sure that these suppliers will perform their obligations to CRS.

In the past, CRS has experienced decreases in its production yields when suppliers have varied from previously agreed upon specifications that have impacted CRS' cost of sales. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent CRS from meeting commercial demand for its products. If CRS loses key suppliers, the key suppliers are unable to support CRS' demand or CRS is unable to identify and qualify alternative suppliers, CRS' operations could be interrupted or hampered significantly.

Government Funding

If government agencies discontinue or curtail their funding for CRS' research and development programs, CRS' business may suffer. Historically, government agencies have funded a significant portion of CRS' research and development activities. When the government changes budget priorities, CRS' funding has the risk of being redirected to other programs. If government funding is discontinued or reduced, CRS' ability to develop or enhance products could be limited, and its business, results of operations and financial condition could be adversely affected.

Customer Satisfaction

If CRS' products fail to perform or meet customer requirements, CRS could incur significant additional costs. The manufacture of products involves highly complex processes. CRS' customers specify quality, performance and reliability standards that CRS must meet. If CRS' products do not meet these standards, CRS may be required to replace or rework the products. In some cases, CRS products may contain undetected defects or flaws that only become evident after shipment. CRS has experienced product quality, performance or reliability problems from time to time. Defects or failures may occur in the future. If failures or defects occur, CRS could: lose revenue; incur increased costs, such as warranty expense and costs associated with customer support; experience delays, cancellations or rescheduling of orders for its products; write down existing inventory; or experience product returns.

Taxes

Changes in CRS' effective tax rate may have an adverse effect on its results of operations. CRS' future effective tax rates may be adversely affected by a number of factors including: changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles; the jurisdiction in which profits are determined to be earned and taxed; the resolution of issues arising from tax audits with various authorities; changes in the valuation of deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development; and changes in available tax credits.

Any significant increase in future effective tax rates could adversely impact net income for future periods. In addition, the determination of income tax provision requires significant judgment. To the extent CRS' income tax liability materially differs from CRS' income tax provisions and accruals due to factors, including the above, that were not anticipated at the time CRS estimated its tax provision, its net income or cash flows could be adversely affected.

Catastrophic Events

Catastrophic events or geo-political conditions in North America and Asia may disrupt CRS' business. A disruption or failure of CRS' systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack or other catastrophic event could cause delays in completing sales or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption to the supply chain or any of the critical business or information technology systems could severely affect CRS' ability to conduct normal business operations and, as a result, CRS' operating results could be adversely affected. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could result in an adverse effect on CRS' business and results of operations.