CRS ELECTRONICS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2014

Unaudited, in U.S. dollars

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2014 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, ‘Interim financial reporting’. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

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 consolidated interim financial statements; they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim 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 consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity’s auditor.

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

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**$ 1,158,987**	$ 3,081,012
Accounts receivable (Note 4)	**421,169**	221,054
Government incentives receivable (Note 13)	**-**	57,638
Inventory (Note 5)	**898,405**	1,110,033
Deposits and prepaid expenses	**482,836**	99,957
	2,961,397	4,569,694
Non-current assets		
Equipment, furniture and leaseholds (Note 6)	**408,331**	563,114
Patents and trademarks (Note 7)	**35,432**	45,208
Intangible assets (Note 8)	**155,199**	230,667
	$ 3,560,359	$ 5,408,683
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 9)	**$ 580,980**	$ 414,269
Trade and other payables	**369,592**	1,105,203
Notes payable (Note 10)	**24,242**	-
Current portion of debt obligations (Note 11)	**107,246**	106,103
Current portion of finance lease obligations (Note 12)	**24,031**	35,946
Derivative liabilities (Note 14)	**-**	22,827
	1,106,091	1,684,348
Non-current liabilities		
Debt obligations (Note 11)	**95,942**	186,573
Finance lease obligations (Note 12)	**21,583**	33,128
Derivative liabilities (Note 14)	**729,427**	-
	1,953,043	1,904,049
Commitments and contingencies (Note 16)		
EQUITY		
Share capital (Note 15)	**18,796,642**	17,153,996
Other paid-in capital	**2,107,049**	1,750,076
Deficit	**(19,296,375)**	(15,399,438)
	1,607,316	3,504,634
	$ 3,560,359	$ 5,408,683

Nature of operations and going concern (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director *Signed "Rob Neill"* Director

CRS ELECTRONICS INC.
Condensed Consolidated Interim Statements of Loss
and Comprehensive Loss
Unaudited, in U.S. dollars

	Three Month Period Ended September 30		Nine Month Period Ended September 30	
	2014	2013	**2014**	2013
SALES	**$ 706,861**	$ 437,020	**$ 2,011,026**	$ 1,740,831
Cost of sales	**743,382**	680,214	**2,245,234**	2,355,427
GROSS LOSS	**(36,521)**	(243,194)	**(234,208)**	(614,596)
EXPENSES				
Engineering, research and development	**185,850**	187,122	**610,815**	555,955
Selling and marketing	**106,887**	236,412	**751,689**	484,733
General and administrative	**404,954**	422,099	**1,261,247**	1,400,066
Loss on disposal of equipment, furniture and fixtures	**172,710**	37,549	**184,298**	37,549
Loss on disposal of patents and trademarks	**-**	3,485	**-**	3,485
Loss on disposal of intangible assets	**-**	888	**-**	888
Change in warrant liability (Note 14)	**728,403**	(103,641)	**705,576**	(86,919)
	1,598,804	803,914	**3,513,625**	2,395,757
LOSS BEFORE FINANCE COSTS, FOREIGN EXCHANGE GAIN (LOSS) AND INCOME TAXES	**(1,635,325)**	(1,047,108)	**(3,747,833)**	(3,010,353)
Finance revenue – interest earned	**3,184**	4,094	**12,786**	28,628
Finance costs - debt obligations	**(13,020)**	(9,373)	**(31,103)**	(37,243)
Finance accretion costs - debt obligations	**(4,327)**	(7,295)	**(14,809)**	(23,709)
Foreign exchange gain (loss)	**(25,092)**	68,721	**(115,978)**	(116,664)
LOSS BEFORE INCOME TAXES	**(1,674,580)**	(990,961)	**(3,896,937)**	(3,159,341)
Income Taxes	**-**	-	**-**	-
NET LOSS AND COMPREHENSIVE LOSS	**$ (1,674,580)**	$ (990,961)	**$ (3,896,937)**	$ (3,159,341)
Loss per share - basic and fully diluted	(0.02)	(0.01)	(0.04)	(0.04)
Weighted average number of common shares outstanding - basic and fully diluted	**92,486,801**	71,399,844	**88,451,126**	71,399,844

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

CRS ELECTRONICS INC.
Condensed Consolidated Interim Statements of Cash Flows
Unaudited, in U.S. dollars
For the nine months ended September 30

	2014	2013
OPERATING ACTIVITIES		
Net loss for the period	**$ (3,896,937)**	$ (3,159,341)
Items not affecting cash		
Stock-based compensation	**292,228**	223,308
Change in warrant liability	**705,576**	(86,919)
Depreciation of equipment, furniture and leaseholds	**142,515**	137,095
Amortization of patents and trademarks	**14,695**	20,526
Amortization of intangible assets	**75,694**	79,028
Accretion expense	**14,809**	23,709
Loss on disposal of equipment, furniture and leaseholds	**184,298**	37,549
Loss on disposal of patents and trademarks	**-**	3,485
Loss on disposal of intangible assets	**-**	888
Net change in non-cash working capital items relating to operating activities	**(2,467,122)**	(2,720,672)
Accounts receivable	**(200,115)**	63,848
Government incentives receivable	**57,638**	-
Inventory	**211,628**	(35,954)
Deposits and prepaid expenses	**(382,879)**	(7,224)
Trade and other payables	**(735,611)**	21,232
Cash used in operating activities	**(3,516,461)**	(2,678,770)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	**(172,030)**	(145,812)
Proceeds on disposal of equipment, furniture and leaseholds	**-**	-
Additions to patent and trademark costs	**(4,919)**	(6,131)
Additions to intangible assets	**(226)**	(42,148)
Cash used in investing activities	**(177,175)**	(194,091)
FINANCING ACTIVITIES		
Receipt of notes payable	**24,242**	989,275
Repayment of notes payable	**-**	(1,021,695)
Proceeds of funds from line of credit	**166,711**	136,405
Repayment of finance lease obligations	**(23,460)**	(27,328)
Repayment of debt obligations	**(104,297)**	(249,890)
Net proceeds from issuance of common share units	**1,707,391**	-
Issue of warrants	**1,024**	-
Cash provided by financing activities	**1,771,611**	(173,233)
Net (decrease) increase in cash and cash equivalents	**(1,922,025)**	(3,046,094)
Cash and cash equivalents, beginning of period	**3,081,012**	4,517,911
Cash and cash equivalents, end of period	**$ 1,158,987**	$ 1,471,817
The following cash flows are included in operating activities:		
Interest paid	**$ 30,464**	37,243
Non-cash transactions:		
Acquisition of equipment and intangibles under finance lease	**$ 19,665**	-

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

CRS ELECTRONICS INC.
Condensed Consolidated Interim
Statements of Change in Equity
Unaudited, in U.S. dollars

	Share capital	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2013	$ 17,153,996	$ 1,750,076	$ (15,399,438)	$ 3,504,634
Net loss for the period	-	-	(3,896,937)	(3,896,937)
Issue of common shares	1,642,646	-	-	1,642,646
Issue of warrants	-	64,745	-	64,745
Stock-based compensation	-	292,228	-	292,228
Balance, September 30, 2014	$ 18,796,642	$ 2,107,049	$ (19,296,375)	$ 1,607,316

	Share capital	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2012	$ 14,366,423	$ 1,416,338	$ (10,812,537)	$ 4,970,224
Net loss for the period	-	-	(3,159,341)	(3,159,341)
Issue of common shares	-	-	-	-
Stock-based compensation	-	223,308	-	223,308
Balance, September 30, 2013	$ 14,366,423	$ 1,639,646	$ (13,971,878)	$ 2,034,191

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

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 continues 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.

These condensed consolidated interim 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 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. Low sales volumes and production challenges encountered during the period have contributed to negative gross profits. In the current period, the Company launched its commercial LED lighting campaign. As a result, fixed expenses have continued to be incurred without a corresponding increase in revenues.

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 continues its restructuring efforts to move production of the LED products overseas and use the Canadian base as a distribution center for its LED products as well as a catalogue of synergistic products sourced through its investors. To meet its growth plan, CRS will be dependent on further financing through equity funds raised and/or loan proceeds.

These condensed consolidated interim 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 interim financial statements for the nine months ended September 30, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, 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 in the annual financial statements for the year ended December 31, 2013.

2. BASIS OF PREPARATION (continued)

Accounting standards issued but not yet effective
Certain pronouncements were issued by the IASB that are mandatory for accounting periods beginning after January 1, 2014 or later periods.

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

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

In October 2010, the IASB issued IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, 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 is assessing the impact of this new standard on its consolidated financial statements.

The following standards were adopted in these consolidated financial statements.

IFRS 10, Consolidated Financial Statements ("IFRS 10"):

In May 2011, the IASB issued IFRS 10. IFRS 10, Consolidated Financial Statements, which replaces the consolidated requirements of SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard was adopted in the prior year and is effective for the Company's financial statements commencing January 1, 2013. There are no material changes to the consolidated financial statements as a result of the adoption of this new standard.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

In May 2011, the IASB issued IFRS 12. IFRS 12, Disclosure of Interests in Other Entities, establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard was adopted in the prior year and is effective for the Company's financial statements commencing January 1, 2013. There are no material changes to the consolidated financial statements as a result of the adoption of this new standard.

IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB issued IFRS 13. IFRS 13, Fair Value Measurement, replaces the fair value guidance contained in individual IFRSs with a single source of fair value measurement guidance. This new standard was adopted in the prior year and is effective for the Company's financial statements commencing January 1, 2013. There are no material changes to the consolidated financial statements as a result of the adoption of this new standard.

Unaudited, in U.S. Dollars

3. CASH AND CASH EQUIVALENTS

	September 30 2014	December 31 2013
Cash	**$ 259,539**	$ 1,858,752
Ninety day term deposit 1.35% per annum	**899,448**	-
Ninety day term deposit 1.4% per annum	**-**	1,222,260
	$ 1,158,987	$ 3,081,012

As at September 30, 2014, the Company held two ninety day term deposits earning compound interest of 1.35% per annum maturing on October 22, 2014 and another ninety day term deposit maturing on November 14, 2014. As at December 31, 2013, the Company held two ninety day term deposits which matured on January 20, 2014, earning compound interest of 1.4% per annum and another ninety day term deposit earning compound interest of 1.4% per annum maturing on March 3, 2014. All term deposits are redeemable at any time before maturity.

4. ACCOUNTS RECEIVABLE

	September 30, 2014	December 31 2013
Trade accounts receivable	**$ 424,541**	$ 194,756
Other receivables	**3,013**	32,683
Allowance for doubtful accounts	**(6,385)**	(6,385)
	$ 421,169	$ 221,054

The three largest accounts receivable balances relate to a bus manufacturer based in the United States, a LED lighting manufacturer based in Canada, and a LED manufacturer based in the United States which make up 44%, 13% and 4% of the trade accounts receivable on September 30, 2014, respectively (41%, 9% and 0% on December 31, 2013).

The movement in the allowance for doubtful accounts is as follows:

	September 30 2014	December 31 2013
Opening balance	**$ 6,385**	$ 8,794
Write-off of accounts previously allowed for	**-**	(2,409)
Closing balance	**$ 6,385**	$ 6,385

5. INVENTORY

	September 30 2014	December 31 2013
Finished goods	**596,628**	$ 712,060
Raw materials	**256,340**	313,120
Inventory in transit	**45,437**	84,853
	$ 898,405	$ 1,110,033

During the period ended September 30, 2014, the Company recorded inventory write-downs of $21,974 ($91,007 for December 31, 2013) and made no reversals of previous inventory write-downs.

Unaudited, in U.S. Dollars

6. EQUIPMENT, FURNITURE AND LEASEHOLDS

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

At September 30, 2014:

	Office Furniture and Equipment	Tools, Moulds and Dies	Computer Equipment	Production Equipment	Leasehold Improvements	Assets under Finance Lease	Total
Cost							
At January 1, 2014	$88,005	$145,862	$121,293	$703,520	$134,647	$87,741	**$1,281,068**
Additions	-	$152,365	-	-	-	$19,665	**$172,030**
Disposals	-	(244,232)	-	-	-	($28,676)	**($272,908)**
	$88,005	$53,995	$121,293	$703,520	$134,647	$78,730	**$1,180,190**
Accumulated depreciation							
At January 1, 2014	$53,921	$24,967	$57,343	$443,102	$94,539	$44,082	**$717,954**
Depreciation for the year	$5,124	$54,948	$14,472	$39,991	$18,930	$9,050	**$142,515**
Eliminated on disposals	-	(71,522)	-	-	-	($17,088)	**($88,610)**
	$59,045	$8,393	$71,815	$483,093	$113,469	$36,044	**$771,859**
Net carrying value at September 31, 2014	**$28,960**	**$45,602**	**$49,478**	**$220,427**	**$21,178**	**$42,686**	**$408,331**

At December 31, 2013:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Production Equipment	Leasehold improvements	Assets under finance lease	Total
Cost							
At January 1, 2013	$ 100,912	$ 89,440	$ 73,426	$ 712,556	$ 175,173	$ 87,741	$ 1,239,248
Additions	-	104,163	55,461	34,761	-	-	194,385
Disposals	(12,907)	(47,741)	(7,594)	(43,797)	(40,526)	-	(152,565)
	88,005	145,862	121,293	703,520	134,647	87,741	1,281,068
Accumulated depreciation							
At January 1, 2013	53,712	9,720	42,260	390,314	108,232	25,034	629,272
Depreciation for the year	9,627	30,757	20,848	75,333	26,833	19,048	182,446
Eliminated on disposals	(9,418)	(15,510)	(5,765)	(22,545)	(40,526)	-	(93,764)
	53,921	24,967	57,343	443,102	94,539	44,082	717,954
Net carrying value at December 31, 2013	**$ 34,084**	**$ 120,895**	**$ 63,950**	**$ 260,418**	**$ 40,108**	**$ 43,659**	**$ 563,114**

For the period ended September 30, 2014, $102,109 of depreciation was included in cost of sales, $12,193 was included in research and development, and $28,213 within general and administrative (December 31, 2013: $112,706, $20,677 and $49,063 respectively).

Unaudited, in U.S. Dollars

7. PATENTS AND TRADEMARKS

Patents and trademarks at September 30, 2014 and December 31, 2013 consist of the following:

Cost	
At January 1, 2014	$ 94,067
Additions	4,919
Impairments	-
	98,986
Accumulated Amortization	
At January 1, 2014	48,859
Amortization for the year	14,695
Decrease due to impairment	-
	63,554
Net Carrying value at September 30, 2014	**$ 35,432**

Cost	
At January 1, 2013	$ 134,816
Additions	11,116
Impairments	(51,865)
	94,067
Accumulated Amortization	
At January 1, 2013	49,651
Amortization for the year	26,575
Decrease due to impairment	(27,367)
	48,859
Net Carrying value at December 31, 2013	**$ 45,208**

The amortization expense was charged to general and administration expense for 2014 and 2013.

Unaudited, in U.S. Dollars

8. INTANGIBLE ASSETS

	Deferred Development Costs	Computer Software	Total
Cost			
At January 1, 2014	$ 331,102	$ 229,779	$ 560,881
Additions	-	226	226
Disposals	-	-	-
	331,102	230,005	561,107
Accumulated Amortization			
At January 1, 2014	217,499	112,715	330,214
Amortization for the year	49,665	26,029	75,694
Eliminated on disposals	-	-	-
	267,164	138,744	405,908
Net carrying value at September 30, 2014	**$ 63,938**	**$ 91,261**	**$ 155,199**
Cost			
At January 1, 2013	$ 331,102	$ 197,261	$ 528,363
Additions	-	49,966	49,966
Disposals	-	(17,448)	(17,448)
	331,102	229,779	560,881
Accumulated Amortization			
At January 1, 2013	151,279	88,654	239,933
Amortization for the year	66,220	40,621	106,841
Eliminated on disposals	-	(16,560)	(16,560)
	217,499	112,715	330,214
Net carrying value at December 31, 2013	**$ 113,603**	**$ 117,064**	**$ 230,667**

For the period ended September 30, 2014 $24,374 of amortization was included in general and administrative, $1,655 was included in research and development and $49,665 within cost of sales (December 31, 2013: $37,416, $3,205 and $66,220 respectively).

9. BANK INDEBTEDNESS

Bank indebtedness consists of the following:

	September 30 2014	December 31 2013
TD Canada Trust – revolving demand line of credit	**$ 580,980**	$ 414,269
	$ 580,980	$ 414,269

The Company has an operating line of credit in the amount of $500,000 which is allocated CAD $250,000 and USD $250,000. The operating line may be cancelled at any time. The line of credit is renewable annually and is secured against the Company's property. Interest is charged monthly at a rate of prime plus 0.50% which was 3.5% at September 30, 2014.

10. NOTES PAYABLE

Notes payable consists of the following:	**September 30 2014**	December 31 2013
Extended payments on insurance – bearing interest at 4.73% per annum with 10 monthly payments of CAD $3,454.27, commencing July 16, 2014 and maturing May16, 2015.	**$ 24,242**	**$ -**
	$ 24,242	$ -

All outstanding notes payable at September 30, 2014 are related to insurance costs.

11. DEBT OBLIGATIONS

Debt obligations consist of the following:

	September 30 2014	December 31 2013
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below.	**203,188**	292,676
Less: principal due within one year	**(107,246)**	(106,103)
	$ 95,942	$ 186,573

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 discounted principal amounts of debt obligations, due in each of the next three years, are presented in US Dollars as follows:

2014	$ 26,001
2015	109,406
2016	67,781
	$ 203,188

12. FINANCE LEASE OBLIGATIONS

The following is a schedule of minimum lease payments under the finance leases expiring in 2019:

	September 30 2014	December 31 2013
USD Value of undernoted leases[(1)]	**$ 49,259**	$ 74,594
Less: amount representing interest at 7.4%	**3,645**	5,520
	45,614	69,074
Less: current portion	**(24,031)**	(35,946)
	$ 21,583	$ 33,128

(1) Comprised of four leases: i) 66 month lease for a printer copier at 10.9% per annum commenced March 2014 with quarterly repayments of CAD $1,414 ii) 39 month lease for computer software at 12.6% per annum commenced December 2011 with monthly repayments of CAD $1,878, iii) 39 month lease for a vehicle at 2.9% per annum commenced July 2012 with monthly repayments of CAD $536, and iv) 48 month lease for a vehicle at 2.9% per annum commenced October 2012 with monthly repayments of CAD $582.

The principal amounts of lease obligations, due in each of the next six years, are presented in US Dollars as follows:

2014	$ 8,277
2015	18,514
2016	8,015
2017	3,926
2018	4,456
2019	2,426
	$ 45,614

13. GOVERNMENT INCENTIVES RECEIVABLE

The Scientific Research and Experimental Development Tax Credits ("SR&ED"), offered by the Government of Canada and the Ontario Innovation Tax Credit ("OITC") and Ontario Research and Development Tax Credit ("ORDTC") offered by the Ontario Provincial Government are awarded for expenditures on research and development. The tax credits relating to deferred development costs are recorded in the consolidated statements of financial position as a reduction of deferred development costs. The tax credits relating to research are recorded as a reduction of expenses on the consolidated statements of loss and comprehensive loss. When CRS was a privately held company all SR&ED, OITC and ORDTC were refundable tax credits and were normally paid to the Company in the year following the year the tax credits were claimed. As a result of becoming a publicly traded company in May 2009, the SR&ED tax credit rate decreased to 20% from 35% of expenditures and the SR&ED, and the ORDTC are no longer refundable tax credits payable in cash to the Company but can only be applied against income taxes payable in future years. The Company continues to file for SR&ED, OITC and ORDTC. The Company provides a valuation allowance for the SR&ED and ORDTC tax credits receivable until it is reasonably certain it will realize the benefit of these tax credits.

13. GOVERNMENT INCENTIVES RECEIVABLE (Continued)

Government incentives receivable consist of the following:

	September 30 2014	December 31 2013
OITC and ORDTC	**$ 37,983**	$ 95,621
SR&ED	**211,290**	211,290
Valuation allowance – SR&ED	**(211,290)**	(211,290)
Valuation allowance – ORDTC	**(37,983)**	(37,983)
	$ -	$ 57,638

The SR&ED, OITC and ORDTC tax credits are based on the Company having incurred expenses which in management's opinion qualify as research and development costs under the Income Tax Act of Canada. These expenses are subject to review and approval by the Canada Revenue Agency and accordingly, the actual credits received may differ from the recorded amounts. Any such adjustments will be made in the year in which the refunds are received or applied against future income taxes due.

14. DERIVATIVE LIABILITIES

The Company has the following financial instruments classified at the following levels as at September 30, 2014:

	Level 1	Level 2	Level 3
Derivative liabilities – forward contracts	-	-	-
Derivative liabilities - warrants	-	-	729,427

Warrants

On August 11, 2014, the Company completed a non-brokered private placement of 11,200,000 common share units of the Company at an offering price of $0.18 per unit. Canaccord Genuity Corp. assisted with the Offering and received a cash commission of CAD $120,960 (USD $110,618) and 672,000 compensation warrants. Each compensation warrant entitles Canaccord to purchase one common share of the Company at a price of $0.18 until August 11, 2016.

Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.18 until August 11, 2016. If the closing price of the common shares of the Company on the TSX Venture Exchange is $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. 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.

The value of the warrants at the date of issuance, net of an allocation of the closing costs, was determined to be CAD $1,179,966 (USD $1,079,079) 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. As at September 30, 2014 11,200,000 warrants, entitling the warrant holders to purchase 11,200,000 common shares are outstanding.

14. DERIVATIVE LIABILITIES (Continued)

On April 28, 2011 the Company issued 9,379,156 common share units as part of a private placement of units. The units were comprised of one common share and one half-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 whole warrant entitles the holder to acquire one common share upon payment of CAD $0.65 per common share on (a) the earlier of the accelerated expiry date specified by the Company (that is not less than 10 days after written notice is deemed to have been received by the Warrant holders for the Common Shares) where the Volume Weighted Average price of the Common Shares on the Exchange for a period of 20 consecutive trading days has been greater than $1.00 or (b) the expiry date of April 28, 2014. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 29, 2011 were restricted from trading until that date.

The value of the warrants at the date of issuance, net of an allocation of the closing costs, was determined to be CAD $1,854,136 (USD $1,949,624) using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 109%, risk-free interest rate of 1.57% and an expected life of 2.8 years. As at September 30, 2014 9,379,156 half-warrants, entitling the warrant holders to purchase 4,689,578 common shares, had expired unexercised (December 31, 2013: 9,379,156 half-warrants to purchase 4,689,578 were outstanding).

The Company recorded a loss (gain) related to the change in the fair value of the warrants as follows:

	September 30 2014	December 31 2013
Loss (Gain) on warrant liability	**$ 705,576**	$ (201,858)

The Company determined the fair value of these warrants to be:

	September 30 2014	December 31 2013
Warrants	**$ 729,427**	$ 21,717

The Company determined the fair value of these warrants at September 30, 2014, August 11, 2014, December 31, 2013 and April 28, 2011 using the Black-Scholes option pricing model with assumptions as follows:

	September 30 2014	August 11 2014	December 31 2013	April 28 2011
Exercise price (CAD $)	**$0.18**	**$0.18**	**$0.65**	**$0.65**
Share price (CAD $)	**$0.145**	**$0.18**	**$0.30**	**$0.60**
Risk-free interest rate	**1.123%**	**1.077%**	**1.13%**	**1.57%**
Expected life	**1.87 years**	**2 years**	**0.32 years**	**2.8 years**
Expected volatility	**110%**	**114%**	**85%**	**109%**
Dividend rate	**0%**	**0%**	**0%**	**0%**

Unaudited, in U.S. Dollars

14. DERIVATIVE LIABILITIES (Continued)

Forward Contracts

The Company had zero forward contracts outstanding at September 30, 2014 (December 31, 2013 – Two forward contracts which totaled $450,000 and settled on January 2, 2014 and January 3, 2014). The Company recorded a loss related to the change in the fair value of the forward contracts as follows:

	September 30 2014	December 31 2013
Loss on forward contracts	**$ -**	$ 1,110

The loss on forward contracts is also equal to its fair value as at September 30, 2014 and December 31, 2013.

15. SHARE CAPITAL

Shares

Authorized
Unlimited number of common shares

Issued and outstanding
97,599,844 common shares

The common share transactions over the year are as follows:

	Number of shares	Amount
Balance January 1, 2013	71,399,844	14,366,423
Issuance of common shares for cash – December 31, 2013	15,000,000	2,787,573
Balance December 31, 2013	86,399,844	$ 17,153,996
Issuance of common shares for cash – August 11, 2014	11,200,000	1,642,646
Balance September 30, 2014	**97,599,844**	**$18,796,642**

[a] Common stock

Issuance of common shares for cash:

The Company completed a private placement on December 31, 2013 and issued 15,000,000 shares at a price of CAD $0.20 per unit for gross proceeds of CAD $3,000,000 (USD $2,815,335).

Private placement December 31, 2013 allocation of proceeds is as follows:

	Amount CAD	Amount USD
Common Shares (issued 15,000,000)	$ 3,000,000	$ 2,815,335
Less: Other issuance costs	(23,700)	(27,762)
Net Proceeds of Private Placement	$ 2,976,300	$ 2,787,573

Unaudited, in U.S. Dollars

15. SHARE CAPITAL (Continued)

On August 11, 2014, the Company completed a non-brokered private placement of 11,200,000 units of the Company at an offering price of $0.18 per Unit for gross proceeds to the Company of CAD $2,016,000 (USD $1,843,632). Canaccord Genuity Corp. assisted with the Offering and received a cash commission of CAD $120,960 (USD $110,618) and 672,000 compensation warrants. Each compensation warrant entitles Canaccord to purchase one common share of the Company at a price of $0.18 until August 11, 2016. The value of the compensation options 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.

Private placement August 11, 2014 allocation of proceeds is as follows:

	Amount CAD	Amount USD
Common Shares (issued 11,200,000)	$ 2,016,000	$ 1,843,632
Less: Issuance cost – compensation warrants (issued 672,000)	(70,798)	(64,745)
Less: Other issuance costs	(148,979)	(136,241)
Net Proceeds of Private Placement	$ 1,796,223	$ 1,642,646

[b] 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 Board of Directors administers the plan and determines the vesting and other terms of each award.

Value of stock options granted:
Stock-based compensation expense recognized for the period ended September 30, 2014 was $292,228 (September 30, 2013 – $229,055), of which $14,491 is included within cost of sales, $200,535 is included within general and administrative expense, $22,951 is included within selling and marketing expenses and $54,251 is included in R&D expenses (September 30, 2013 - $12,507 is included within cost of sales, $186,907 is included within general and administrative expense, $276 is included within selling expenses, and $29,365 in R&D expenses).

For the period ended September 30, 2013, stock-based compensation expense related to the termination of 16,666 unvested options issued during fiscal 2011 which were reversed upon an employee leaving the Company. The related stock-based compensation included in selling and marketing expense is $(5,747).

For the period ended September 30, 2014, stock-based compensation expense related to the termination of 350,000 unvested options issued during fiscal 2013 which were reversed upon several employees leaving the Company. The related stock-based compensation included in selling and marketing expense is $(16,004).

Unaudited, in U.S. Dollars

15. SHARE CAPITAL (Continued)

[b] Stock options (continued)

The Company's stock option activity during the year is as follows:

	September 30, 2014		December 31, 2013	
	No. of shares	**Weighted average exercise price ($)**	No. of shares	Weighted average exercise price ($)
Outstanding, beginning of year	5,030,834	0.27	1,384,169	0.44
Granted [1]	4,105,000	0.19	4,370,000	0.24
Expired	(385,834)	0.51	(706,669)	0.39
Forfeited	(350,000)	0.30	(16,666)	0.48
Outstanding, end of year	**8,400,000**	**0.22**	**5,030,834**	**0.27**

[1] The Company determined the fair value of these options using the Black-Scholes option pricing model with assumptions as follows:

	September 17 2014	May 16 2014	April 23 2014	January 20 2014	April 22 2013	April 9 2013	June 30 2012	August 29 2011	May 5 2011
Exercise price (CAD $)	$0.17	$0.225	$0.26	$0.31	$0.24	$0.24	$0.28	$0.48	$0.58
Options granted	3,055,000	100,000	100,000	850,000	1,870,000	2,500,000	450,000	202,500	905,000
Share price (CAD $)	0.17	$0.225	$0.26	$0.29	$0.25	$0.28	$0.28	$0.50	$0.58
Risk-free interest rate	1.687%	1.533%	1.683%	1.637%	1.185%	1.215%	1.223%	1.073%	1.625%
Expected life	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	106%	111%	112%	114%	100%	99%	105%	111%	111%
Dividend rate	0%	0%	0%	0%	0%	0%	0%	0%	0%

Under the Plan the total number of stock options that may be outstanding at any time is equal to 10% of the common shares outstanding. The remaining number of options available to be granted under the plan as at September 30, 2014 is 1,359,984.

The following table summarizes information about options outstanding as at September 30, 2014:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (months)	Weighted-average exercise price
$0.17 - $0.48	8,395,000	49	$0.22
$0.58 - $0.59	5,000	11	$0.59
Total	**8,400,000**	**49**	**$0.22**

1,442,500 options are exercisable as at September 30, 2014. The weighted average exercise price of these options is $0.27.

15. SHARE CAPITAL (Continued)

[b] Stock options (continued)

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.

[c] 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. The warrants are not registered for trading and all common shares issued through the exercise of warrants before October 9, 2012 were restricted from trading until that date. As at September 30, 2014, 2,389,167 warrants, entitling the warrant holders to purchase 2,389,167 common shares, are outstanding.

The value of the warrants at 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. Each compensation warrant entitles the holder to purchase one common share of the Company at a price of $0.18 until August 11, 2016. The warrants are not registered for trading and all common shares issued through the exercise of warrants before December 12, 2014 are restricted from trading until that date. As at September 30, 2014, 672,000 warrants, entitling the warrant holders to purchase 672,000 common shares, are outstanding.

The value of the compensation options 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.

Unaudited, in U.S. Dollars

16. 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	$ 2,196
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	$ 564
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	$ 10,725
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	$ 2,510
2015	10,040
2016	1,673

Unaudited, in U.S. Dollars

5. The Company signed a lease agreement for the use of a vehicle. The term of the agreement is from March 11, 2014 to March 10, 2019. 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	$	2,492
2015		8,971
2016		8,971
2017		8,971
2018		8,971
2019		1,495

17. AUTHORIZATION

The Board of Directors is responsible for reviewing and approving the condensed consolidated interim 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 condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

These unaudited condensed consolidated interim financial statements as at September 30, 2014 were approved by the Board of Directors on November 6, 2014.