CRS Electronics Inc.

Management Discussion and Analysis

Third Quarter Report
For the three and nine month period ended September 30, 2014

November 10, 2014

The following information prepared as of November 10, 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 three months and nine months ended September 30, 2014 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 November 10, 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 16 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 LED commercial market and has exited the retail 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 lamp supply chain was finalized during Q1 2014. Completing an assembly area for LED fixtures in the facility is planned for Q4 2014. 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 2015 the Company is focusing on completing a final assembly production line for LED fixtures to sell into the North American commercial market and continuing to build on the momentum of the LED lamp line which launched in Q1 2014. LED fixtures are currently in final development stage and are set to launch during Q4 2014.

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

Commercial LED lamp sales

Our objective is to expand sales in the commercial lamp replacement market. CRS introduced LED commercial lamps under the Lumenova™ brand in 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. The typical response has been overwhelmingly positive and is reflective of strong sales results.

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 continue working with and expanding its OEM business.

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 fourth quarter launch of 2014. Similar to competitive advantages in the Lumenova™ brand, KVIC Lighting features best in class lumen output, industry best efficiencies and compatibility with control systems and devices to further enhance energy savings. Designs include linear extruded fixtures for continuous rows, matching recessed, ceiling, and wall versions; Cove and Graze lighting featuring highest lumen output and triac dimming- a competitive advantage allowing incandescent dimming for LED's thereby eliminating ELV dimming which is expensive and complicated. Tape lighting which includes indoor and outdoor submersible products and optional customization of pre-cut and soldered lengths to meet specific application needs. Market reaction has been very positive as sales agents have already agreed to sell our line prior to its initial launch. Sales projections for Fiscal 2015 based on our agents expectation are significant.

Product Development- **Continued Development of LED Lamp and Fixture Innovation Product development**

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 LED lamps and these LED lamps contain best in class light output and dimming compatibility which are two critical components of value in the marketplace. CRS will create joint partnerships to rapidly expand the LED lamp offering. Fixtures require ETL and DLC certification. The majority of fixtures received ETL certification in August 2014. All fixtures will be DLC certified by end of 2014.

Performance of CRS

Key performance indicators

The key performance indicators for CRS are revenue growth, gross profit, EBITDA, and net income. 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 developments 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, engineering and research, and general administration costs have increased over the last eighteen months. To maintain an acceptable EBITDA, management will need to balance the increase in these 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 2014			Fiscal 2013				Fiscal 2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
In thousands of dollars	**USD**	USD	USD	USD	USD	USD	USD	USD
Sales	**706.8**	714.1	590.1	283.5	437.0	565.3	738.5	463.3
Gross loss	**(36.5)**	(56.1)	(141.6)	(452.4)	(243.2)	(109.1)	(262.3)	(750.1)
Gross loss%	**(5.2%)**	(7.9%)	(24.0%)	(159.6%)	(55.7%)	(19.3%)	(35.5%)	(161.9%)
Select expenses								
Selling and marketing	**106.9**	349.1	295.7	256.1	236.4	118.8	129.5	446.2
General and administrative	**404.9**	402.4	453.9	583.1	442.1	571.5	386.5	566.7
Engineering and research	**185.9**	216.0	208.9	178.5	187.1	236.5	132.3	61.0
Foreign exchange (gain) loss	**25.1**	(2.5)	93.4	23.7	(68.7)	108.2	77.2	49.6
Total expenses	**722.8**	965.0	1,051.9	1,041.4	796.9	1,035.0	725.5	1,123.5
Income (loss) from operations	**(759.3)**	(1,021.1)	(1,193.5)	(1,493.8)	(1,040.1)	(1,144.1)	(987.8)	(1,873.6)
Add back: Depreciation and amortization	**83.5**	77.6	71.8	79.3	80.9	79.6	76.0	107.5
EBITDA Loss	**(675.8)**	(943.5)	(1,121.7)	(1,414.5)	(959.2)	(1,064.5)	(911.8)	(1,766.1)
Finance costs	**(14.1)**	(7.2)	(11.8)	(19.9)	(12.6)	(12.4)	(7.3)	(10.1)
Refundable tax credit expense	**-**	-	-	13.4	-	-	-	-
Depreciation of equipment, furniture and leaseholds	**(53.3)**	(47.4)	(41.8)	(45.4)	(46.4)	(46.2)	(44.4)	(70.6)
Amortization of patents and trademarks	**(4.9)**	(4.9)	(4.9)	(6.1)	(6.9)	(6.8)	(6.8)	(8.4)
Amortization of intangibles	**(25.3)**	(25.3)	(25.1)	(27.8)	(27.6)	(26.6)	(24.8)	(28.5)
Loss on disposal of equipment, furniture and leaseholds	**(172.7)**	-	(11.6)	(21.3)	(37.5)	-	-	(237.4)
Loss on disposal of patents and trademarks	**-**	-	-	(21.0)	(3.5)	-	-	(21.8)
(Loss) Gain on disposal of intangible assets	**-**	-	-	-	(0.9)	-	-	-
Change in warrant liability	**(728.4)**	1.8	21.0	115.0	103.6	(54.8)	38.0	170.7
Net (loss) income	**(1,674.5)**	(1,026.5)	(1,195.9)	(1,427.6)	(991.0)	(1,211.3)	(957.1)	(1,972.2)
Loss per share	**(0.02)**	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.03)

Results of Operations

The following table sets out the Company's results for the nine month ended September 30, 2014 compared with the prior year's period then ended.

In Thousands of U.S. dollars [1]	Nine Month Ended September 30 2014	2013	Increase (Decrease)	% Increase (Decrease)
Sales	$2,011.0	$1,740.8	270.2	15.5%
Gross profit (loss)	(234.2)	(614.6)	380.4	61.9%
Gross profit (loss) percentage	(11.6%)	(35.3%)		
Selling and marketing	751.7	484.7	267.0	55.1%
As a % of sales	37.4%	27.8%		
General and administrative	1,261.2	1,400.1	(138.9)	(9.9%)
As a % of sales	62.7%	80.4%		
Engineering and research	610.8	555.9		
Foreign exchange (gain) loss	116.0	116.7		
Total operating expenses	2,739.7	2,557.4		
Income (loss) from operations	(2,973.9)	(3,172.0)		
Add back amortization	232.9	236.5		
EBITDA Loss	(2,741.0)	(2,935.5)	194.5	6.6%
Finance costs	(33.1)	(32.3)		
Depreciation of capital equipment	(142.5)	(137.0)		
Amortization of product development	(75.7)	(79.0)		
Amortization of patents and trademarks	(14.7)	(20.5)		
Gain (loss) on disposal of equipment, furniture and fixtures	(184.3)	(37.5)		
Gain (loss) on disposal of intangible assets	-	(0.9)		
Gain (loss) on disposal of patents and trademarks	-	(3.5)		
Change in warrant liability	(705.6)	86.9		
Net loss	(3,896.9)	(3,159.3)	(737.6)	(23.3%)

[1] Information for 2014 and 2013 is prepared in accordance with International Financial Reporting Standards ("IFRS").

Revenues

Revenues for the three months ended September 30, 2014 increased 61.7% to $706,800 from $437,000 for the same period in 2013.

Revenue from bus light sales during the three months ended September 30, 2014 increased 3.3% to $257,500 from $249,300 for the same period in 2013. Revenues from contract manufacturing for the three months ended September 30, 2014 decreased 30.3% to $116,600 from $167,300 for the same period in 2013.

LED light bulb revenue for the three months ended September 30, 2014 increased 1531% to $332,700 from $20,400 for the same period in 2013. This marks the third full quarter Lumenova™ lamp sales have more than doubled in 2014.

Revenues for the nine months ended September 30, 2014 increased 15.5% to $2,011,000 from $1,740,800 for the same period in 2013.

Revenue from bus light sales during the nine months ended September 30, 2014 increased 2.6% to $830,400 from $809,700 for the same period in 2013. Revenues from contract manufacturing for the nine months ended September 30, 2014 increased 14.9% to $640,600 from $557,700 for the same period in 2013.

LED light bulb revenue for the nine months ended September 30, 2014 increased 44.6% to $540,100 from $373,400 for the same period in 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 September 30, 2014, gross loss percentage was (5.2%) compared to (55.7%) in the same period last year. For the nine months ended September 30, 2014, gross loss percentage was (11.6%) compared to (35.3%) in the same period last year. The decrease in the gross loss is primarily attributed to two factors: 1) By the end of 2013 and into 2014 CRS had fully exited the retail market and a large portion of the retail product shipped at the beginning of 2013 was subject to continued cost overrun issues and a contractual returned inventory provision which did not occur during 2014, 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 negative 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 September 30, 2014 selling and marketing expenses decreased 54.8% to $106,900 from $236,400 for the same period in 2013. For the nine months ended September 30, 2014 selling and marketing expenses increased 55.1% to $751,700 from $484,700 for the same period in 2013. The nine month ended increase reflects the company's transition to the commercial market and hiring of an experienced team of regional sales managers during the 3rd and 4th quarters of 2013. The three month ended decrease reflects the company's strategy of utilizing sales agencies instead of regional sales managers during Q3 2014.

General and administrative expenses

For the three months ended September 30, 2014 general and administrative expenses decreased 8.4% to $404,900 from $442,100 for the same period in 2013. For the nine months ended September 30, 2014 general and administrative expenses decreased 9.9% to $1,261,200 from $1,400,100 for the same period in 2013. The decrease is attributable to lower head count in administration as well as a decrease in stock based compensation expense during Q2 and Q3 of 2014.

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 September 30, 2014 net research and development expenses decreased to $185,900 from $187,100 for the same period in 2013. For the nine months ended September 30, 2014 net research and development expenses increased to $610,800 from $555,900 for the same period in 2013. The Company has invested increased resources during Q1 to Q3 2014 to prepare for the Lumenova™ LED lamps and LED fixtures product launches during 2014.

Finance Costs

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Interest on short term debt	**$11,500**	$7,500	**$25,700**	$29,300
Interest on long term debt	**1,500**	1,900	**5,400**	7,900
Accretion expense	**4,300**	7,300	**14,800**	23,700
Less:				
Interest revenue	**(3,200)**	(4,100)	**(12,800)**	(28,600)
Net finance costs:	**$14,100**	12,600	**$33,100**	32,300

Total finance costs for the three month period ended September 30, 2014 increased 1,500 to $14,100 from $12,600 for the same period in 2013. Total finance costs for the nine month period ended September 30, 2014 increased $800 to $33,100 from $32,300 for the same period in 2013. Finance costs are attributable to a mix of long and short term debt obligations as follows:

Interest on short-term debt increased 53.3% to $11,500 during the three months ended September 30, 2014 from $7,500 during the same period in 2013. Interest on short-term debt decreased 12.3% to $25,700 during the nine months ended September 30, 2014 from $29,300 during the same period in 2013.

Interest on long-term debt decreased 21.1% to $1,500 during the three months ended September 30, 2014 from $1,900 during the same period in 2013. Interest on long-term debt decreased 31.6% to $5,400 during the nine months ended September 30, 2014 from $7,900 during the same period in 2013. The decrease is related to the finalization of two long term loans which occurred in 2013.

Accretion expense decreased 41.1% to $4,300 during the three months period ended September 30, 2014 from $7,300 during the same period in 2013. Accretion expense decreased 37.6% to $14,800 during the nine months period ended September 30, 2014 from $23,700 during the same period in 2013. The decrease relates to the continued repayment of the loan provided through the Southern Ontario Development Program.

Interest revenue decreased 22.0% to $3,200 during the three month period ended September 30, 2014 from $4,100 during the same period in 2013. Interest revenue decreased 55.2% to $12,800 during the nine months period ended September 30, 2014 from $28,600 during the same period in 2013. 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, December 31, 2013 and August 11, 2014.

Depreciation of property and equipment

Depreciation increased $6,900 to $53,300 during the three months ended September 30, 2014 from $46,400 during the same period in 2013. Depreciation increased $5,500 to $142,500 during the nine months ended September 30, 2014 from $137,000 during the same period in 2013.

Loss on disposal of property and equipment increased $149,700 to $184,300 during the nine months ended September 30, 2014 from $37,600 during the same period in 2013. The increase related to the disposal of tools, dies, and moulds that are no longer in use.

Amortization of Intangible Assets

The amortization expense decreased $2,300 to $25,300 during the three months ended September 30, 2014 from $27,600 during the same period in 2013. The amortization expense decreased $3,300 to $75,700 during the nine months ended September 30, 2014 from $79,000 during the same period in 2013.

Amortization of Patents and Trademarks

The amortization expense decreased $2,000 to $4,900 during the three months ended September 30, 2014 from $6,900 during the same period in 2013. The amortization expense decreased $5,800 to $14,700 during the nine months ended September 30, 2014 from $20,500 during the same period in 2013.

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 September 30, 2014, CRS incurred a foreign currency loss of $25,100 compared to a gain of $68,700 during the same period in 2013. For the nine months ended September 30, 2014, CRS incurred a foreign currency loss of $116,000 compared to a loss of $116,700 during the same period in 2013.

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

The negative EBITDA loss for the three and nine months ended September 30, 2014 was ($675,800) and ($2,741,000) compared to ($959,200) and ($2,935,500) for the same period in 2013. The increase in the selling and marketing, and engineering and research expenses compared to decrease in the Gross Loss and general and administrative expenses have decreased overall EBITDA loss by $194,500 for the nine months ended September 30, 2014.

Net losses

As a result of the above activities, the net loss for the three months ended September 30, 2014 was ($1,674,500), or ($0.02) per share compared to a loss of ($991,000), or ($0.01) per share for the same period 2013. The net loss for the nine months ended September 30, 2014 was ($3,896,900), or ($0.04) per share compared to a loss of ($3,159,300), or ($0.04) per share for the same period 2013. The changes in net losses are a result of the increase selling and marketing expenses, research and development and warrants expense offset by the decrease in Gross Loss.

Liquidity and Capital Resources

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

(in U.S. dollars except for ratios)	September 30 2014	*September 30 2013*
Current Ratio	2.68:1	*2.17:1*
Cash	$1,158,987	*$1,471,817*
Available operating line	$311,920	*763,595*
Net Working Capital	$1,855,306	*$1,537,561*
Total Assets	$3,560,360	*$3,745,600*
Total Liability	$1,953,043	*$1,711,409*
Total Equity	$1,607,317	*$2,034,191*
Debt to Equity Ratio	1.22:1	*0.84:1*

Cash Flows

During the nine month period ended September 30, 2014, CRS experienced negative cash flows used in operations of $3,516,500 compared to a negative cash flow of $2,678,800 for the same period in 2013. The increase in accounts receivable, deposits and prepaids and the decrease in accounts payable increased the cash outflows from operations compared to the same period in 2013. The Company made investments in equipment, furniture and leasehold, computer software and patents of $177,200 compared to $194,100 in the same period in 2013. The Company's various financing activities generated positive cash flow of $1,771,600 compared to a negative cash flow of $173,200 in the same period in 2013. The increase is due to the large private placement which the company completed in the August 2014.

Outstanding Share Data

As at September 30, 2014 the Company had the following items issued and outstanding:

- Common shares: 97,599,844
- Stock options: 8,400,000

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

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

As at November 7, 2014 the Company had the following items issued and outstanding:

- Common shares: 97,599,844
- Stock options: 8,400,000

Range of exercise prices (CAD$)		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price (CAD$)
$0.17	**$0.48**	8,390,000	48 months	$0.22
$0.58	**$0.59**	5,000	10 months	$0.59
Total		8,395,000	48 months	$0.22

1,437,500 options are exercisable as at November 7, 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	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

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

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 three largest accounts receivable balances relate to a bus manufacturer based in the United States, a LED manufacturer based in the 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 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
September 30, 2014	$150,365	$143,322	$105,897	$10,532	$424,541

[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 September 30 2014.

	Total	**< 1 year**	**2 – 3 years**	**4 – 5 years**	**> 5 years**
Long-term debt	203,188	26,001	177,187	-	-
Lease obligations	45,614	24,031	10,775	8,382	2,426
Total contractual obligations	248,802	50,032	187,962	8,382	2,426

[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:

	September 30 2014	December 31 2013
Cash and cash equivalents	**$ 1,079,543**	$ 3,168,631
Accounts receivable	**75,652**	47,349
Trade and other payables	**(45,498)**	(29,806)
Debt obligations	**(259,046)**	(372,708)

At September 30, 2014 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a $85,065 change on reported net loss and comprehensive loss for the year.

Off-Balance Sheet Arrangements

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.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements for the three and nine months ended September 30, 2014, and the audited annual financial statements for the year ended December 31, 2013. Those financial statements outline the accounting principles and policies used to prepare this MD&A. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position. There was no significant change to the critical accounting policies from the year ended December 31, 2013 during the three and nine months period ended September 30, 2014.

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.

Risk and Uncertainties

CRS operates in the LED lighting market and is exposed to a variety of risk factors and uncertainties in the normal course of operations. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in our Annual Report for the fiscal year 2013 which has been filed with Canadian securities regulatory authorities and is available at www.sedar.com under the corporate name CRS Electronics Inc. The risks disclosed in our annual report are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.
There was no significant change to these risks and uncertainties during the period ended September 30, 2014 other than those described elsewhere in this MD&A.