

# **CRS Electronics Inc.**

## **Management Discussion and Analysis**

**First Quarter Report  
For the three month period ended March 31, 2014**

May 27, 2014

The following information prepared as of May 27, 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 ended March 31, 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 May 27, 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 2014 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 was finalized during Q1 2014. Completing an assembly area for LED fixtures in the facility is planned for Q3 2014. The North American commercial marketplace continues to adopt LED technology at a rapid pace. CRS management believes the marketplace will 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 for its remaining LED lamps to finalize the product portfolio, 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 3<sup>rd</sup> 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 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. 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 in Asia and sold in North America.

#### **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, 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			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
<i>In thousands of dollars</i>	USD	USD	USD	USD	USD	USD	USD	USD	
Sales	590.1	283.5	437.0	565.3	738.5	463.3	607.1	687.7	
Gross loss	(141.6)	(452.4)	(243.2)	(109.1)	(262.3)	(750.1)	(348.1)	(277.3)	
<i>Gross loss%</i>	(24.0%)	(159.6%)	(55.7%)	(19.3%)	(35.5%)	(161.9%)	(57.3%)	(40.3%)	
Select expenses									
Selling and marketing	295.7	256.1	236.4	118.8	129.5	446.2	118.0	278.9	
General and administrative	453.9	583.1	442.1	571.5	386.5	566.7	719.5	453.2	
Engineering and research	208.9	178.5	187.1	236.5	132.3	61.0	103.2	106.5	
Foreign exchange (gain) loss	93.4	23.7	(68.7)	108.2	77.2	49.6	(175.6)	(147.6)	
Total expenses	1,051.9	1,041.4	796.9	1,035.0	725.5	1,123.5	765.1	691.0	
Income (loss) from operations	(1,193.5)	(1,493.8)	(1,040.1)	(1,144.1)	(987.8)	(1,873.6)	(1,113.2)	(968.3)	
Add back: Depreciation and amortization	71.8	79.3	80.9	79.6	76.0	107.5	109.4	112.3	
EBITDA Loss	(1,121.7)	(1,414.5)	(959.2)	(1,064.5)	(911.8)	(1,766.1)	(1,003.8)	(856.0)	
Finance costs	(11.8)	(19.9)	(12.6)	(12.4)	(7.3)	(10.1)	2.8	(34.3)	
Refundable tax credit expense	-	13.4	-	-	-	-	-	-	
Depreciation of equipment, furniture and leaseholds	(41.8)	(45.4)	(46.4)	(46.2)	(44.4)	(70.6)	(72.2)	(75.7)	
Amortization of intangibles	(25.1)	(27.8)	(27.6)	(26.6)	(24.8)	(28.5)	(28.8)	(28.7)	
Amortization of patents and trademarks	(4.9)	(6.1)	(6.9)	(6.8)	(6.8)	(8.4)	(8.4)	(7.9)	
(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	(11.6)	(21.3)	(37.5)	-	-	(237.4)	(13.8)	(5.3)	
Change in warrant liability	21.0	115.0	103.6	(54.8)	38.0	170.7	(50.9)	26.3	
Net (loss) income	(1,195.9)	(1,427.6)	(991.0)	(1,211.3)	(957.1)	(1,972.2)	(1,173.7)	(981.6)	
Loss per share	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.03)	(0.02)	(0.02)	

## Results of Operations

The following table sets out the Company's results for the three month ended March 31, 2014 compared with the prior year 's period then ended.

<i>In Thousands of U.S. dollars</i> <sup>(1)</sup>	<b>Three Month Ended March 31</b>		<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
Sales	\$590.1	\$738.5	(148.4)	(20.1%)
Gross profit (loss)	(141.6)	(262.3)	(120.7)	(46.0%)
<i>Gross profit (loss) percentage</i>	(24.0%)	(35.5%)		
Selling and marketing	295.7	129.5	166.2	128.3%
<i>As a % of sales</i>	50.1%	17.5%		
General and administrative	453.9	386.5	67.4	17.4%
<i>As a % of sales</i>	76.9%	52.3%		
Engineering and research	208.9	132.3		
Foreign exchange (gain) loss	93.4	77.2		
<i>Total operating expenses</i>	1,051.9	725.5		
<i>Income (loss) from operations</i>	(1,193.5)	(987.8)		
Add back amortization	71.8	76.0		
EBITDA Loss	(1,121.7)	(911.8)	209.9	23.0%
Finance costs	(11.8)	(7.3)		
Depreciation of capital equipment	(41.8)	(44.4)		
Amortization of product development	(25.1)	(24.8)		
Amortization of patents and trademarks	(4.9)	(6.8)		
Impairment of product development	-	-		
Impairment of patents and trademarks	-	-		
Gain (loss) on sale of equipment, furniture and fixtures	(11.6)	-		
Refundable tax credit income	-	-		
Change in warrant liability	21.0	38.0		
Net loss	(1,195.9)	(957.1)	238.8	25.0%

<sup>(1)</sup> Information for 2014 and 2013 is prepared in accordance with International Financial Reporting Standards ("IFRS").

**Revenues**

Revenues for the three months ended March 31, 2014 decreased 20.1% to \$590,100 from \$738,500 for the same period in 2013.

Revenue from bus light sales during the three months ended March 31, 2014 increased 2.0% to \$266,400 from \$261,100 for the same period in 2013. Revenues from contract manufacturing for the three months ended March 31, 2014 increased 29.4% to \$263,800 from \$203,800 in 2013.

Commercial LED revenue for the three months ended March 31, 2014 stemmed from 1<sup>st</sup> generation LED MR16 sales that decreased 99.4% to \$500 from \$80,300 during the same period in 2013. Next generation LED lamp revenue for the three months ended March 31, 2014 stemmed from Lumenova™ LED GU 10, PAR 20, 30, 38, BR 40, 30 and R20 sales that increased 100% to \$59,400 from nil during the same period in 2013. This marks the first full 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 March 31, 2014 stemmed from LED MR16, GU10, PAR 20, 30, 38, and A19 sales that decreased 100% to nil from \$193,300 during the same period in 2013. 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.

**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 March 31, 2014, gross loss percentage was (24.0%) compared to (35.5%) 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 March 31, 2014 selling and marketing expenses increased 128.3% to \$295,700 from \$129,500 for the same period in 2013. This increase reflects the company's transition to the commercial market and hiring of an experienced team of regional sales managers during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2013.

***General and administrative expenses***

For the three months ended March 31, 2014 general and administrative expenses increased 17.4% to \$453,900 from \$386,500 for the same period in 2013. The majority of the increase relates to stock based compensation incurred during the first quarter of 2014 compared to the same period in 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 March 31, 2014 net research and development expenses increased to \$208,900 from \$132,300 for the same period in 2013. The Company has restructured the Research and Development department to prepare for the Lumenova™ LED lamps and LED fixtures product launches during 2014.

***Finance Costs***

	Three months ended	
	March 31	
	2014	2013
Interest on short term debt	\$9,700	\$8,200
Interest on long term debt	\$2,300	\$3,700
Accretion expense	5,500	8,500
Less:		
Interest revenue	(5,700)	(13,100)
Net finance costs:	<b>\$11,800</b>	7,300

Total finance costs for the three month period ended March 31, 2014 increased 4,500 to \$11,800 from \$7,300 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 18.3% to \$9,700 during the three months ended March 31, 2014 from \$8,200 during the same period in 2013.

Interest on long-term debt decreased 37.8% to \$2,300 during the year ended March 31, 2014 from \$3,700 during the same period in 2013. The decrease is related to the finalization of two long term loans which occurred in Q1 2013.

Accretion expense decreased 35.3% to \$5,500 during the three month period ended March 31, 2014 from \$8,500 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 56.5% to \$5,700 during the three month period ended March 31, 2014 from \$13,100 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 and December 31, 2013.

#### ***Depreciation of property and equipment***

Depreciation decreased \$2,600 to \$41,800 during the three months ended March 31, 2014 from \$44,400 during the same period in 2013.

#### ***Amortization of Intangible Assets***

The amortization expense increased \$300 to \$25,100 during the three months ended March 31, 2014 from \$24,800 during the same period in 2013.

#### ***Amortization of Patents and Trademarks***

The amortization expense decreased \$1,900 to \$4,900 during the three months ended March 31, 2014 from \$6,800 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 March 31, 2014, CRS incurred a foreign currency loss of \$93,400 compared to a loss of \$77,200 during the same period in 2013.

**Loss before Income Taxes, Depreciation and Amortization (“EBITDA”)**

The negative EBITDA loss for the three months ended March 31, 2014 was (\$1,121,700) compared to (\$911,800) for the same period in 2013. The increase in the selling and marketing, general and administrative and engineering and research expenses have increased overall EBITDA loss by \$209,900 for the three months ended March 31, 2014.

**Net losses**

As a result of the above activities, the net loss for the three months ended March 31, 2014 was (\$1,195,900), or (\$0.01) per share compared to a loss of (\$957,100), or (\$0.01) per share for the same period 2013. The \$238,800 negative change in net losses have been increased principally by an increase in selling and marketing, general and administrative, engineering and research expenses and foreign exchange loss of 326,400 net against a positive change in gross loss of \$120,700.

**Liquidity and Capital Resources**

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

<i>(in U.S. dollars except for ratios)</i>	March 31 2014	March 31 2013
Current Ratio	2.03:1	4.1:1
Cash	\$1,692,065	\$3,338,579
Available operating line	\$369,901	N/A
Net Working Capital	\$1,817,607	\$3,595,575
Total Assets	\$4,392,041	\$5,691,025
Total Liability	\$1,950,940	\$1,681,356
Total Equity	\$2,441,101	\$4,009,669
Debt to Equity Ratio	0.80:1	0.42:1

**Cash Flows**

During the three month period ended March 31, 2014, CRS experienced negative cash flows used in operations of \$1,321,100 compared to a negative cash flow of \$935,800 for the same period in 2013. The increase in accounts receivable, inventory, deposit and prepaid expenses and 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 and patent \$49,800 in the three months ended March 31, 2014 compare to \$34,300 in the same period last year. The Company's various financing activities generated negative cash flow of \$18,100 compared to \$209,300 in the same period last year. The decrease is due to the finalization of two term loans during Q1 2013.

## Outstanding Share Data

As at March 31, 2014 the Company had the following items issued and outstanding:

- Common shares: 86,399,844
- Stock options: 5,495,000

Range of exercise prices (CAD\$)		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price (CAD\$)
<b>\$0.24</b>	<b>\$0.48</b>	5,490,000	49 months	\$0.26
<b>\$0.58</b>	<b>\$0.59</b>	5,000	17 months	\$0.59
Total		5,495,000	49 months	\$0.26

275,000 options are exercisable as at March 31, 2014. The weighted average exercise price of these options is CAD \$0.37.

As at May 27, 2014 the Company had the following items issued and outstanding:

- Common shares: 86,399,844
- Stock options: 5,695,000

Range of exercise prices (CAD\$)		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price (CAD\$)
<b>\$0.24</b>	<b>\$0.48</b>	5,690,000	50 months	\$0.26
<b>\$0.58</b>	<b>\$0.59</b>	5,000	17 months	\$0.59
Total		5,695,000	50 months	\$0.26

1,367,500 options are exercisable as at May 27, 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:

<u>Year</u>	<u>IT Hosting Fees</u>
2014	6,588
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:

<u>Year</u>	<u>IT Hosting Fees</u>
2014	1,691
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:

<u>Year</u>	<u>Rent</u>
2014	32,713
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:

<u>Year</u>	<u>Rent</u>
2014	7,530
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:

<u>Year</u>	<u>Rent</u>
2014	7,476
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 Company's three main customers represent 63%, 8% and 7% respectively of accounts receivable at March 31, 2014 (66%, 6% and 0% at 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
March 31, 2014	\$184,094	\$92,604	\$67,415	\$1,081	\$345,194

**[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 March 31, 2014.

	Total	< 1 year	2 – 3 years	4 – 5 years	> 5 years
Long-term debt	256,893	104,274	152,619	-	-
Lease obligations	62,358	33,125	18,283	10,950	-
Foreign exchange forwards	500,000	500,000	-	-	-
Total contractual obligations	819,251	637,399	170,902	10,950	-

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:

	<b>March 31</b>	December 31
	<b>2014</b>	2013
Cash and cash equivalents	<b>\$ 1,862,474</b>	\$ 3,168,631
Accounts receivable	<b>199,398</b>	47,349
Trade and other payables	<b>(91,161)</b>	(29,806)
Debt obligations	<b>(352,920)</b>	(372,708)

At March 31, 2014 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a \$161,800 change on reported net loss and comprehensive loss for the year.

**Subsequent Events**

On April 28, 2014, 4,689,578 warrants the Company issued in connection with a 9,379,156 common share unit private placement completed on April 28, 2011 expired unexercised. These warrants (Series D) were 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).

**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 months ended March 31, 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 months period ended March 31, 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](http://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 March 31, 2014 other than those described elsewhere in this MD&A.