CRS ELECTRONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS

Audited, in U.S. Dollars

For the Years Ended December 31, 2014 and 2013

CRS ELECTRONICS INC.
Table of Contents
December 31, 2014 and 2013

Independent Auditor's Report

To the Shareholders of CRS Electronics Inc.

We have audited the accompanying consolidated financial statements of CRS Electronics Inc., which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CRS Electronics Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on CRS Electronics Inc.'s ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
April 27, 2015

CRS ELECTRONICS INC.
Consolidated Statements of Financial Position
Expressed in U.S. Dollars

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**$ 654,184**	$ 3,081,012
Accounts receivable (Note 4)	**313,255**	221,054
Government incentives receivable (Note 14)	**-**	57,638
Inventory (Note 5)	**690,559**	1,110,033
Deposits and prepaid expenses	**49,056**	99,957
	1,707,054	4,569,694
Non-current assets		
Equipment, furniture and leaseholds (Note 6)	**378,001**	563,114
Patents and trademarks (Note 7)	**30,484**	45,208
Intangible assets (Note 8)	**84,617**	230,667
	$ 2,200,156	$ 5,408,683
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 9)	**$ -**	$ 414,269
Trade and other payables	**497,608**	1,105,203
Note payable (Note 10)	**14,713**	-
Current portion of debt obligations (Note 11)	**105,620**	106,103
Current portion of finance lease obligations (Note 12)	**17,873**	35,946
Derivative warrants and liabilities (Note 15)	**386,009**	22,827
	1,021,823	1,684,348
Non-current liabilities		
Debt obligations (Note 11)	**65,435**	186,573
Finance lease obligations (Note 12)	**18,172**	33,128
	1,105,430	1,904,049
EQUITY		
Share capital (Note 16)	**17,731,433**	17,153,996
Other paid-in capital	**2,221,724**	1,750,076
Deficit	**(18,858,431)**	(15,399,438)
	1,094,726	3,504,634
	$ 2,200,156	$ 5,408,683

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 19)

Subsequent events (Note 22)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Travis Jones" Director   *Signed "Rob Neill"* Director

CRS ELECTRONICS INC.
Consolidated Statements of Loss and Comprehensive Loss
Expressed in U.S. Dollars

For the years ended December 31

	2014	2013
SALES	**$ 2,984,116**	$ 2,024,300
Cost of sales	**3,407,466**	3,091,315
GROSS LOSS	**(423,350)**	(1,067,015)
EXPENSES		
Engineering, research and development	**740,849**	734,428
Selling and marketing	**894,054**	740,775
General and administrative	**1,686,056**	1,983,250
Loss on disposal of equipment, furniture and leaseholds	**186,915**	58,801
Impairment of patents and trademarks (Note 7)	**-**	24,498
Impairment of intangible assets (Note 8)	**47,381**	888
SR&ED refundable tax credits	**-**	(13,454)
	3,555,255	3,529,186
LOSS BEFORE FINANCE REVENUE AND COSTS, FOREIGN EXCHANGE (LOSS) GAIN AND INCOME TAXES	**(3,978,605)**	(4,596,201)
Change in derivative warrants and liabilities (Note 15)	**703,052**	201,858
Finance revenue – interest earned	**14,182**	32,956
Finance costs - debt obligations	**(42,232)**	(54,765)
Finance accretion costs - debt obligations	**(18,648)**	(30,395)
Foreign exchange (loss) gain	**(136,742)**	(140,354)
LOSS BEFORE INCOME TAXES	**(3,458,993)**	(4,586,901)
Income taxes (Note 13)	**-**	-
NET LOSS AND COMPREHENSIVE LOSS	**$ (3,458,993)**	$ (4,586,901)
Loss per share - basic and diluted	**$ (0.04)**	$ (0.06)
Weighted average number of common shares outstanding - basic and diluted	**90,757,104**	71,440,940

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

CRS ELECTRONICS INC.
Consolidated Statements of Cash Flows
Expressed in U.S. Dollars

For the years ended December 31

	2014	2013
OPERATING ACTIVITIES		
Net loss for the year	**$ (3,458,993)**	$ (4,586,901)
Items not affecting cash		
Stock-based compensation	**406,903**	333,738
Change in derivative warrants and liabilities	**(703,052)**	(201,858)
Depreciation of equipment, furniture and leaseholds	**174,904**	182,446
Amortization of patents and trademarks	**19,644**	26,575
Amortization of intangible assets	**98,895**	106,841
Accretion expense	**18,648**	30,395
Loss on disposal of equipment, furniture and leaseholds	**186,915**	58,801
Impairment of patents and trademarks	**-**	24,498
Impairment of intangible assets	**47,381**	888
	(3,208,755)	(4,024,577)
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	**(92,201)**	293,274
Government incentives receivable	**57,638**	(13,454)
Inventory	**419,474**	(384,908)
Deposits and prepaid expenses	**50,901**	11,768
Trade and other payables	**(607,595)**	97,255
Cash used in operating activities	**(3,380,538)**	(4,020,642)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	**(157,041)**	(194,385)
Additions to patent and trademark costs	**(4,920)**	(11,116)
Additions to intangible assets	**(226)**	(49,966)
Cash used in investing activities	**(162,187)**	(255,467)
FINANCING ACTIVITIES		
Repayment of note payable	**-**	(32,420)
Proceeds from note payable	**14,713**	-
Repayment of line of credit	**(414,269)**	-
Proceeds from line of credit	**-**	414,269
Repayment of finance lease obligations	**(52,694)**	(38,256)
Repayment of debt obligations	**(140,269)**	(291,956)
Net proceeds from issuance of common shares	**1,708,416**	2,787,573
Cash provided by financing activities	**1,115,897**	2,839,210
Net decrease in cash and cash equivalents	**(2,426,828)**	(1,436,899)
Cash and cash equivalents, beginning of year	**3,081,012**	4,517,911
Cash and cash equivalents, end of year	**$ 654,184**	$ 3,081,012
The following cash flows are included in operating activities:		
Interest paid	**$ 42,232**	$ 54,765
Non-cash transactions:		
Acquisition of equipment and intangibles under finance lease	**$ 19,665**	$ -

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

CRS ELECTRONICS INC.
Consolidated Statements of Changes in Equity
Expressed 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 year	-	-	(3,458,993)	(3,458,993)
Issue of common shares	577,437	-	-	577,437
Issue of warrants	-	64,745	-	64,745
Stock-based compensation	-	406,903	-	406,903
Balance, December 31, 2014	$ 17,731,433	$ 2,221,724	$ (18,858,431)	$ 1,094,726

	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 year	-	-	(4,586,901)	(4,586,901)
Issue of common shares	2,787,573	-	-	2,787,573
Stock-based compensation	-	333,738	-	333,738
Balance, December 31, 2013	$ 17,153,996	$ 1,750,076	$ (15,399,438)	$ 3,504,634

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries. Control is achieved where the Company has rights to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. All intercompany balances and transactions are eliminated upon consolidation.

Revenue recognition
The Company measures revenue at the fair value of the consideration received or receivable, reducing revenue for estimated customer returns, rebates and other similar allowances. It recognizes revenue from the sale of goods when it satisfies the following conditions:

- it has transferred to the buyer the significant risks and rewards of ownership of the goods;
- it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it can measure the amount of revenue reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- it can measure the costs incurred or to be incurred in respect of the transaction reliably.

Specifically, the Company recognizes revenue from sales of child safety systems, LED lighting products that it manufactures, and lighting products that it buys and resells, when it ships the products to the customer and collectability is reasonably assured. Ownership transfers at the point of shipment from the Company's plant.

The Company manufactures custom lighting boards based on designs from a specific customer. Customers send parts to the Company to manufacture these boards; the Company does not record the cost of these parts in its accounts. It recognizes revenues when it ships the products to the customer and collectability is reasonably assured. Ownership again transfers at the point of shipment from the Company's plant.

Cash and cash equivalents
Cash includes cash on hand and, when applicable, short-term, highly liquid deposits which are either cashable or with original maturities of less than three months at the date of their acquisition.

Inventory
The Company records inventory at the lower of cost and estimated net realizable value. Costs include raw materials, incoming freight, duty, brokerage and non-recoverable taxes, and are assigned to inventories on a first-in first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Intangible assets
Purchased software is stated at cost less accumulated amortization and impairment losses and is amortized on a declining balance basis of 30% per annum. The amortization method and estimated useful life are reviewed at least annually.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment, furniture and leaseholds

The Company records equipment, furniture and leaseholds at cost (including directly applicable taxes, freight-in and installation costs) less accumulated depreciation and accumulated impairment losses. Assets held under finance leases are included in this category and are depreciated on a straight-line basis over their estimated useful lives.

The Company recognizes depreciation to write off the cost of assets less their residual values over their estimated useful lives, using the following methods and rates:

Office furniture and equipment	20% declining balance
Tools, moulds and dies	3 years straight-line
Computer equipment	30% declining balance
Production equipment	20% declining balance
Leasehold improvements	5 years straight-line
Assets under finance lease	30% declining balance

The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

Finance lease obligations

Leases which effectively transfer substantially all of the risks and rewards of ownership to the Company are classified as finance leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of the minimum lease payments to a maximum of the asset's fair value. The asset is depreciated in accordance with the Company's depreciation policies.

Patents and trademarks

Patents and trademarks are stated at cost, which primarily consist of legal costs in relation to their applications. Patents and trademarks are amortized using the straight-line method over the estimated useful life of five years. The amortization method and estimated useful life are reviewed at least annually.

Derivatives

The Company evaluates all financial instruments for freestanding and embedded derivatives. Warrants issued in conjunction with common shares in an equity financing, with an exercise price denominated in a foreign currency are accounted for as a derivative liability in accordance with IAS 32 and IAS 39. The Company uses the Black-Scholes pricing model to estimate the fair value of these warrants at the end of each applicable reporting period. Changes in the fair value of these derivatives during each reporting period are included in the statement of loss and comprehensive loss. Inputs into the Black-Scholes pricing model require estimates, includes such items as estimated volatility of the Company's stock and the estimated life of the financial instruments being fair valued.

Broker warrants

Warrants issued in a public or private placement to brokers are accounted for under IFRS 2 and are classified as equity. The Company uses the Black-Scholes pricing model to estimate the fair value of these warrants at the time of issuance. Inputs into the Black-Scholes pricing model require estimates, including such items as estimated volatility of the Company's stock and the estimated life of the financial instruments being fair valued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research and development costs include materials, direct salaries and benefits, administration, contracting, consulting and professional fees.

The Company recognizes expenditure on research activities as an expense in the year incurred.

The Company recognizes an internally-generated intangible asset arising from development (or from the development phase of an internal project) if, and only if, it has demonstrated all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount the Company initially recognizes for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets these recognition criteria.

Subsequent to initial recognition, the Company reports these assets at cost less accumulated amortization and accumulated impairment losses. The assets recognized to date are being amortized on a straight-line basis over a five year period. The amortization method and estimated useful life are reviewed at least annually.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its internally-generated intangible assets arising from development, patents and trademarks, equipment, furniture and leaseholds and assets under finance leases, to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, the Company estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows).

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying value, it recognizes an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets (continued)

At December 31, 2014, management evaluated whether there are any adverse qualitative factors in respect to long-lived assets indicating that they might be impaired. Potential indicators include significant negative cash flow from operations, negative gross margins relating to fixed labor and overheads and a decrease in retail sales of LED lighting products. However, management noted that the current year results showed improvements compared to previous years and will further improve as the Company transitions into the commercial LED market segment with outsourced finished goods inventory. Accordingly, the Company believes that potential impairment indicators do not exist and do not reflect any impairment of the long-lived assets.

Foreign currency translation

The US dollar is the functional currency of the Company and is also the currency in which it presents these consolidated 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 year in which they arise.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Stock-based compensation

The Company measures equity-settled share-based payments to employees and others who provide similar services, issued under the stock option plan described in Note 16, at the fair value of the equity instruments at the grant date. For options granted to consultants, the same method of valuation is used unless the value of services provided is more readily determinable. It calculates the fair value using the Black-Scholes option valuation model and expenses this amount on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, crediting the amounts to other paid-in capital. It revises its estimate of the number of equity instruments expected to vest at the end of each reporting period, recognizing the impact of revising the original estimates, if any, in net loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other paid-in capital. When options are exercised, the Company credits the proceeds, together with the amount originally credited to other paid-in capital, to share capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Government assistance

The Company makes periodic applications for financial assistance under available government incentive programs including grants, low interest loans and tax credits, related to purchasing equipment and to other expenditures. The Company recognizes government assistance on an accrual basis when it has completed all requirements to earn the assistance and receipt is reasonably assured. It reflects government grants relating to capital expenditures as a reduction of the cost of such assets, and reflects government grants relating to operating expenses as a reduction of the expense. Non-interest bearing loans are discounted at market lending rates and accretion expense is recorded as a financing cost in the period incurred.

Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable it will be required to settle the obligation, and it can make a reliable estimate of its amount. The amount it recognizes as a provision is its best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the surrounding risks and uncertainties. Where it measures a provision using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, calculated using a pre-tax discount rate reflecting the risks specific to the liability. The Company adjusts the liability at the end of each reporting period for the unwinding of the discount rate and for changes to the discount rate or to the amount or timing of the estimated cash flows underlying the obligation.

Financial instruments

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument’s contractual provisions. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss, which it recognizes immediately in profit or loss).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

The Company's financial instruments and their classifications, described further below, are as follows:

Financial assets:	**Classification**:
Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Government incentives receivable	Loans and receivables

Financial liabilities:	**Classification:**
Bank indebtedness, trade and other payables, note payable, debt and finance lease obligations	Other financial liabilities
Derivative liabilities	Fair value through profit or loss

Financial assets
The Company recognizes and derecognizes all financial assets on the trade date. It derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of its ownership to another entity. It classifies financial assets into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. It determines the classification at the time of initial recognition, depending on the nature and purpose of the financial assets. The Company does not currently have any financial assets in the FVTPL, held-to-maturity or available-for-sale categories.

The Company measures loans and receivables at amortized cost using the effective interest method, less any impairment, except for short-term receivables for which recognizing interest would be immaterial. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the instrument's expected life (or, where appropriate, a shorter period) to the net carrying amount on initial recognition. The Company assesses its loans and receivables for indicators of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of any impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Trade receivables are discounted by an allowance for doubtful accounts which reflects the net realizable value.

Financial liabilities
The Company classifies financial liabilities as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss. The net gain or loss recognized in net loss excludes any interest paid on the financial liabilities.

The Company classifies its financial instruments according to a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly; and
- Level 3 – Inputs for assets or liabilities that are not based on observable market data.

As described in Note 15, the Company has two derivative liabilities: forward contracts and warrants outstanding. The forward contracts and derivative liabilities are classified as level 2 financial instruments .

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Critical accounting judgments and estimates

Preparing financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period.

Items affected by significant estimates include, but are not limited to:

Useful lives and residual values of tangible and intangible assets

Management estimates the useful lives and residual values of tangible and intangible assets to calculate depreciation expense using the straight-line or declining balance method.

Impairment of long term non-financial assets

The calculation of the recoverable amount of cash-generating units require the use of methods such as the discounted cash flow method which uses assumptions to estimate future cash flows.

Allowance for obsolete inventory

The determination of net realizable value requires that the management estimates the future selling prices and cost of selling based on information at each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting judgments and estimates (continued)

Allowance for doubtful accounts receivable

Allowance for impairment of doubtful debts is assessed and provided based on the Company's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by management when assessing the credit worthiness and past collection history of each individual customer.

Valuation of derivative warrants and liabilities

The fair value valuation of derivative warrants and liabilities require that the management estimates the inputs used in the Black-Scholes pricing model such as estimated volatility and life of the financial instruments based on information at each reporting period.

Accounting standards issued but not yet effective

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

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

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

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

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

Expressed in U.S. Dollars

3. CASH AND CASH EQUIVALENTS

	December 31 2014	December 31 2013
Cash	$ 215,407	$ 1,858,752
Ninety days term deposit 1.35% per annum	438,777	-
Ninety days term deposit 1.4% per annum	-	1,222,260
	$ 654,184	$ 3,081,012

As at December 31, 2014, the Company held one ninety day term deposit earning interest of 1.35% per annum maturing on January 21, 2015 (see note 9). As at December 31, 2013, the Company held two ninety day term deposits which matured on January 20, 2014 and March 3, 2014 respectively, earning interest of 1.4% per annum. All term deposits are redeemable at any time before maturity.

4. ACCOUNTS RECEIVABLE

	December 31 2014	December 31 2013
Trade accounts receivable	$ 313,608	$ 194,756
Other receivables	6,031	32,683
Allowance for doubtful accounts	(6,385)	(6,385)
	$ 313,255	$ 221,054

The three largest accounts receivable balances make up 48%, 7% and 5% of the trade accounts receivable on December 31, 2014, respectively (66%, 6% and 4% on December 31, 2013).

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

	December 31 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

	December 31 2014	December 31 2013
Finished goods	$ 444,994	$ 712,060
Raw materials	183,956	313,120
Inventory in transit	61,609	84,853
	$ 690,559	$ 1,110,033

During the year ended December 31, 2014, the Company recorded inventory write-downs of $298,395 ($265,802 for 2013) and made no reversals of previous inventory write-downs. The amount of inventory included in cost of sales is $2,543,251 for the year ended December 31, 2014 (2013 - $1,329,392).

Expressed in U.S. Dollars

6. EQUIPMENT, FURNITURE AND LEASEHOLDS

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

At December 31, 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	-	157,041	-	-	-	19,665	**176,706**
Disposals	-	(247,774)	-	-	-	(28,676)	**(276,450)**
	88,005	55,129	121,293	703,520	134,647	78,730	**1,181,324**
Accumulated depreciation							
At January 1, 2014	53,921	24,967	57,343	443,102	94,539	44,082	**717,954**
Depreciation for the year	6,772	59,393	19,120	52,675	25,011	11,933	**174,904**
Eliminated on disposals	-	(72,447)	-	-	-	(17,088)	**(89,535)**
	60,693	11,913	76,463	495,777	119,550	38,927	**803,323**
Net carrying amount at December 31, 2014	**$27,312**	**$43,216**	**$44,830**	**$207,743**	**$15,097**	**$39,803**	**$378,001**

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 amount at December 31, 2013	**$ 34,084**	**$ 120,895**	**$ 63,950**	**$ 260,418**	**$ 40,108**	**$ 43,659**	**$ 563,114**

For the period ended December 31, 2014, $121,704 of depreciation was included in cost of sales, $15,949 was included in research and development, and $37,251 within general and administrative (2013: $112,706, $20,677 and $49,063 respectively).The Company wrote off assets with net book value of $186,915 during the year ended December 31, 2014 (2013 - $58,801). The Company recognized a loss of $186,915 on these write off for the year ended December 31, 2014 (2013 - $58,801).

Expressed in U.S. Dollars

7. PATENTS AND TRADEMARKS

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

Cost		Cost	
At January 1, 2014	$ 94,067	At January 1, 2013	$ 134,816
Additions	4,920	Additions	11,116
Impairments	-	Impairments	(51,865)
	98,987		94,067
Accumulated Amortization		Accumulated Amortization	
At January 1, 2014	48,859	At January 1, 2013	49,651
Amortization for the year	19,644	Amortization for the year	26,575
Decrease due to impairment	-	Decrease due to impairment	(27,367)
	68,503		48,859
Net carrying amount at December 31, 2014	**$ 30,484**	**Net carrying amount at December 31, 2013**	**$ 45,208**

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

Management has reviewed the carrying amount of each patent and identified patents that it will not be using in future products of the Company. As a result, net costs of $Nil (2013 - $24,498) have been recognized as a loss during the year.

Expressed 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	66,222	32,673	98 895
Impairment losses	47,381	-	47,381
	331,102	145,388	476,490
Net carrying amount at December 31, 2014	**-**	**$ 84 617**	**$ 84,617**
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 amount at December 31, 2013	**$ 113,603**	**$ 117,064**	**$ 230,667**

For the period ended December 31, 2014 $30,480 of amortization was included in general and administrative, $2,193 was included in research and development and $66,222 within cost of sales (2013: $37,416, $3,205 and $66,220 respectively).

Management has reviewed the carrying amount of the intangible assets and identified items that it will not be using in future products of the Company. The related net costs of $47,381 have been recognized as an impairment loss during the year (2013 - $888).

Expressed in U.S. Dollars

9. BANK INDEBTEDNESS

Bank indebtedness consists of the following:

	December 31 2014	December 31 2013
TD Canada Trust – revolving demand line of credit.	**$ -**	$ 414,269
	$ -	$ 414,269

The Company has a revolving demand credit facility in the amount of up to CAD $900,000 which is available in CAD and USD. The operating line may be cancelled at any time. The line of credit is renewable annually and is secured by a general security agreement representing a charge on all the Company's personal property and an assignment of term deposits in the Company's name in the amount of the maximum credit made available. At December 31, 2014, the assigned term deposit and the credit facility available was CAD $500,000 (USD $438,777). Interest is charged monthly at a rate of prime plus 0.50% which was 3.5% at December 31, 2014 (2013 – 0.5% plus prime rate of 3.5%)..

10. NOTE PAYABLE

Note payable consists of the following:

	December 31 2014	December 31 2013
Extended payments on insurance – bearing interest at 4.73% per annum with 10 monthly payments of CAD $3,454.27, commencing July 16, 2014 and maturing May16, 2015.	**$ 14,713**	$ -
	$ 14,713	$ -

11. DEBT OBLIGATIONS

Debt obligations consist of the following:

	December 31 2014	December 31 2013
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below	**$ 171,055**	$ 292,676
Less: principal due within one year	**(105,620)**	(106,103)
	$ 65,435	$ 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.

11. DEBT OBLIGATIONS (Continued)

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

2015	$ 115,003
2016	67,056
	182.059
Less: Future finance charge	(11,004)
Discounted principal amount	$ 171,055

12. FINANCE LEASE OBLIGATIONS

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

The minimum lease payments are as follows:

	December 31 2014	December 31 2013
Not later than one year	**$ 20,368**	$ 39,112
Later than one year and not later than five years:	**21,582**	45,755
	41,950	84,768
Less: future finance charges	**(5,905)**	(15,793)
	36,045	69,074
Less: current portion	**(17,873)**	(35,946)
	$ 18,172	$33,128

The present values of minimum lease payments are as follows:

	December 31 2014	December 31 2013
Not later than one year	**$ 17,873**	$ 35,946
Later than one year and not later than five years:	**18,172**	33,128
	36,045	69,074

Expressed in U.S. Dollars

13. DEFERRED TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% to the effective tax rates is as follows:

	2014	2013
Net loss before recovery of income taxes	$ (3,458,993)	$ (4,586,901)
	26.5%	26.5%
Expected income tax recovery	$ (916,630)	$ (1,202,280)
Difference in foreign tax rates	(161,660)	(102,320)
Tax rate changes and other adjustments	(60,440)	20,920
Non-deductible expenses	188,320	102,760
Tax effect of change in fair value of warrants	(186,310)	-
Change in tax benefits not recognized	1,136,720	1,180,920
	$ -	$ -

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2014	2013
Non-capital losses carried forward - Canadian	$ 13,919,000	$ 12,592,500
Non-capital losses carried forward – US	3,093,420	1,199,370
Equipment, furniture and leaseholds	1,590,270	1,236,260
Share issuance costs	378,090	391,180
Deferred development costs	448,830	372,540
Patents and trademarks	149,780	133,770
Other deductible temporary differences	569,120	438,910
Investment tax credit	255,730	-
Reserve	313,400	-
	20,717,640	16,364,530

The US non-capital loss carry forwards expire in 2034. Share issue and financings costs will be fully amortized in 2018. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

Expressed in U.S. Dollars

13. DEFERRED TAXES (Continued)

The Company's Canadian non-capital income tax losses expire as follows:

2025	$ 265,800
2026	233,700
2027	86,200
2028	84,600
2029	240,900
2030	719,200
2031	3,302,600
2032	4,690,000
2033	3,051,900
3034	1,244,200
	$ 13,919,000

14. 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. 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.

Government incentives receivable consist of the following:

	December 31 2014	December 31 2013
OITC and ORDTC	**$ -**	$ 95,621
SR&ED	**-**	211,290
Valuation allowance – SR&ED	**-**	(211,290)
Valuation allowance – ORDTC	**-**	(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.

15. DERIVATIVE LIABILITIES

The Company has the following financial instruments classified at the following levels as at December 31, 2014 and 2013:

December 31 2014:	Level 1	Level 2	Level 3
Derivative liabilities - warrants	-	-	386,009

December 31 2013:	Level 1	Level 2	Level 3
Derivative liabilities – forward contracts	-	1,110	-
Derivative liabilities - warrants	-	-	21,717

Warrants

2014 warrants
On August 11, 2014, the Company issued 11,200,000 common shares units as part of a private placement of units (see Note 16). The units are comprised of one common share of the Company and one common share purchase warrant. These warrants are considered to be derivative liabilities due to the warrants being exercisable in a currency (Canadian dollars) other than the functional currency of the Company (U.S. dollars). The derivative is measured at fair value with changes in fair value included in net and comprehensive loss.

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

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

2011 warrants
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 (Series D) 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. As at December 31, 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 common shares were outstanding).

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.

Expressed in U.S. Dollars

15. DERIVATIVE LIABILITIES (Continued)

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

	December 31 2014	December 31 2013
Gain on warrant liability	**$ (703,052)**	$ **(201,858)**

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

	December 31 2014	December 31 2013
2014 Warrants	**$ 386,009**	-
2011 Warrants	**-**	$ 21,717
	$ 386,009	$ 21,717

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

	December 31 2014	December 31 2013
Exercise price (CAD $)	**$0.09**	**$0.65**
Share price (CAD $)	**$0.18**	**$0.30**
Risk-free interest rate	**1.010%**	**1.13%**
Expected life	**1.61 years**	**0.32 years**
Expected volatility	**131%**	**85%**
Dividend rate	**0%**	**0%**

Forward Contracts

At December 31, 2013, the Company had two forward contracts outstanding which totaled $450,000 and settled on January 2, 2014 and January 3, 2015. The Company recorded a loss related to the change in the fair value of the forward contracts as follows:

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

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

Expressed in U.S. Dollars

16. SHARE CAPITAL

Shares

Authorized
Unlimited number of common shares

Issued and outstanding

	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	577,437
Balance December 31, 2014	**97,599,844**	**$17,731,433**

[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

On August 11, 2014, the Company completed a non-brokered private placement of 11,200,000 units of the Company (See Note 14) at an offering price of CAD $0.18 per Unit for gross proceeds to the Company of CAD $2,016,000 (USD $1,843,632). The broker who assisted with the Offering received a cash commission of CAD $120,960 (USD $110,618) and 672,000 compensation warrants. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of CAD $0.18 until August 11, 2016. If the closing price of the common shares of the Company on the TSX Venture Exchange is CAD $0.30 or above for 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants upon notice to the holders.

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 costs – compensation warrants (issued 672,000)	(70,798)	(64,745)
Less: Allocated to warrants	(1,165,920)	(1,066,234)
Less: Other issuance costs	(147,858)	(135,216)
Net Proceeds of Private Placement	$ 631,424	$ 577,437

Expressed in U.S. Dollars

16. SHARE CAPITAL (Continued)

[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 options vest over a four year period from the date of grant of the options. All options granted under the stock option plan that have not been exercised within five years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company, in which case the vested options expire after one year from the date of termination.

Value of stock options granted:
Stock-based compensation expense recognized for the period ended December 31, 2014 was $406,903 (December 31, 2013 – $333,738), of which $27,186 is included in cost of sales, $277,125 is included in general and administrative expense, $29,665 is included in selling and marketing expenses and $72,927 is included in research and development expenses (December 31, 2013 - $16,981 is included in cost of sales, $278,450 is included in general and administrative expense, $276 is included in selling expenses, and $43,778 in research and development expenses).

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

	December 31, 2014		December 31, 2013	
	No. of shares	**Weighted average exercise price (CAD$)**	No. of shares	Weighted average exercise price (CAD$)
Outstanding, beginning of year	5,030,834	0.27	1,384,169	0.44
Granted [(1)]	4,105,000	0.20	4,370,000	0.24
Expired	(393,334)	0.55	(706,669)	0.39
Forfeited	(775,000)	0.24	(16,666)	0.48
Outstanding, end of year	**7,967,500**	**0.23**	**5,030,834**	**0.27**

Expressed in U.S. Dollars

16. SHARE CAPITAL (Continued)

[b] Stock options (Continued)

(1) The Company determined the fair value of options granted 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
Exercise price (CAD $)	$0.17	$0.225	$0.26	$0.31	$0.24	$0.24
Options granted	3,055,000	100,000	100,000	850,000	1,870,000	2,500,000
Share price (CAD $)	0.17	$0.225	$0.26	$0.29	$0.25	$0.28
Risk-free interest rate	1.687%	1.533%	1.683%	1.637%	1.185%	1.215%
Expected life	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	106%	111%	137%	137%	100%	99%
Dividend rate	0%	0%	0%	0%	0%	0%

The following table summarizes information about options outstanding as at December 31, 2014:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (months)	Weighted-average exercise price
CAD$0.17 - $0.225	2,805,000	57	CAD$0.17
CAD$0.24 - $0.31	5,045,000	41	CAD$0.25
CAD$0.48 - $0.59	117,500	19	CAD$0.48
Total	**7,967,500**	**46**	**$0.23**

1,435,000 options are exercisable as at December 31, 2014. The weighted average exercise price of these options is CAD $0.27.

16. 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. As at December 31, 2014 and 2013, 2,389,167 warrants, entitling the warrant holders to purchase 2,389,167 common shares, are outstanding.

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

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

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

17. CAPITAL MANAGEMENT

Management defines capital as the Company’s equity. The Company’s objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to achieve this objective, the Company recognizes the need to increase its capital base by issuing common shares or other equity based financial instruments and the Company’s need to become profitable to finance the future capital expenditures and working capital necessary to sustain a growth in operations.

Continuing a consistent objective year over year, the Board of Directors does not establish quantitative “return on capital” criteria for management; but instead promotes year over year sustainable profitable growth.

Expressed in U.S. Dollars

18. FINANCIAL INSTRUMENTS

[a] Fair value

The carrying values of cash and cash equivalents, accounts 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 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 48%, 7% and 5% respectively of accounts receivable at December 31, 2014 (66%, 6% and 4% at December 31, 2013). The Company performs background and credit references checks on customers to mitigate this credit risk.

Trade accounts receivable are past due when a customer fails to make a payment when contractually due, which is generally 30 days from invoice date. The Company specifically identifies customers with past due balances (over normal credit term) and provides for these accounts where appropriate. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
December 31, 2014	**$109,441**	**$98,909**	**$85,207**	**$20,051**	**$313,608**
December 31, 2013	$69,305	$65,485	$56,832	$3,134	$194,756

[c] Interest rate risk

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

18. FINANCIAL INSTRUMENTS (Continued)

[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 debt obligations and finance leases obligations.

	Total	**< 1 year**	**2 – 3 years**	**4 – 5 years**
Debt obligations	$ 182,059	$ 115,003	$ 67,056	$ -
Finance lease obligations	41,950	20,368	14,267	7,315
Total contractual obligations	$ 224,009	$ 135,371	$ 81,323	$ 7,315

[e] Foreign currency risk

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

	December 31 2014	December 31 2013
Cash and cash equivalents	**$ 619,052**	$ 3,168,631
Accounts receivable	**45,916**	47,349
Trade and other payables	**(40,646)**	(29,806)
Debt obligations	**(219,954)**	(372,708)

At December 31, 2014 a 10% change in the exchange rate between U.S. dollars and Canadian dollars would have resulted in a $40,437 change in reported net loss and comprehensive loss for the year.

Expressed in U.S. Dollars

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

	December 31 2014	December 31 2013
No later than one year	**$37,769**	$64,656
Later than one year but no later than five years	**29,629**	51,699
	67,398	116,355

20. RELATED PARTY TRANSATIONS

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

	December 31 2014	December 31 2013
Wages and benefits	**$ 786,280**	$ 732,330
Stock-based compensation	**302,242**	313,312
	$ 1,088,522	$ 1,045,642

21. AUTHORIZATION

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

These audited consolidated financial statements as at December 31, 2014 were approved by the Board of Directors on April 27, 2015.

22. SUBSEQUENT EVENTS

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