

CRS ELECTRONICS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2013

Unaudited, in U.S. dollars

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These unaudited condensed consolidated interim financial statements for the three months ended March 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, 'Interim financial reporting'. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

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

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

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

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

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

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 3,338,579	\$ 4,517,911
Accounts receivable (Note 4)	714,214	514,328
Government incentives receivable (Note 12)	44,184	44,184
Inventory (Note 5)	562,968	725,125
Deposits and prepaid expenses	89,308	111,725
	4,749,253	5,913,273
Non-current assets		
Equipment, furniture and leaseholds (Note 6)	598,283	609,976
Patents and trademarks (Note 7)	79,897	85,165
Intangible assets (Note 8)	263,592	288,430
	\$ 5,691,025	\$ 6,896,844
LIABILITIES		
Current liabilities		
Trade and other payables	\$ 1,001,426	\$ 1,007,948
Notes payable (Note 9)	12,779	32,420
Current portion of debt obligations (Note 10)	103,930	158,448
Current portion of finance lease obligations (Note 11)	35,543	34,584
	1,153,678	1,233,400
Non-current liabilities		
Debt obligations (Note 10)	279,532	395,788
Finance lease obligations (Note 11)	61,457	72,747
Derivative liability - warrants (Note 13)	186,689	224,685
	1,681,356	1,926,620
Commitments and Contingencies (Note 15)		
Subsequent events (Note 17)		
EQUITY		
Share capital (Note 14)	14,366,423	14,366,423
Other paid-in capital	1,412,856	1,416,338
Deficit	(11,769,610)	(10,812,537)
	4,009,669	4,970,224
	\$ 5,691,025	\$ 6,896,844

Nature of Operations and Going Concern (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director

Signed "Rob Neill" Director

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

For the three months ended March 31, 2013 and 2012	2013	2012
SALES	\$ 738,485	\$ 1,311,951
Cost of sales	1,000,747	1,669,507
GROSS LOSS	(262,262)	(357,556)
EXPENSES		
Engineering, research and development	132,290	112,838
Selling and marketing	129,548	571,597
General and administrative	386,471	512,014
SR&ED refundable tax credits and grant funding	-	-
Loss (gain) on disposal of equipment, furniture and leaseholds	-	343
Change in warrant liability (note 13)	(37,996)	(462,125)
	610,313	734,667
LOSS BEFORE FINANCE COSTS, FOREIGN EXCHANGE GAIN (LOSS) AND INCOME TAXES	(872,575)	(1,092,223)
Finance revenue – interest earned	13,142	2,029
Finance costs - debt obligations	(11,895)	(14,126)
Finance accretion costs - debt obligations	(8,511)	(11,123)
Foreign exchange gain (loss)	(77,234)	(30,089)
LOSS BEFORE INCOME TAXES	(957,073)	(1,145,532)
Income taxes	-	-
NET LOSS AND COMPREHENSIVE LOSS	\$ (957,073)	\$ (1,145,532)
Loss per share - basic and fully diluted	(0.01)	(0.03)
Weighted average number of common shares outstanding		
- basic and fully diluted	71,399,844	40,723,434

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

CRS ELECTRONICS INC.

Condensed Consolidated Interim Statements of Cash Flows

Unaudited, in U.S. dollars

For the three months ended March 31, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Net loss for the year	\$ (957,073)	\$ (1,145,532)
Items not affecting cash		
Stock-based compensation	(3,482)	72,367
Change in warrant liability	(37,996)	(462,125)
Amortization of intangible assets	24,838	28,000
Depreciation of equipment, furniture and leaseholds	44,443	76,081
Amortization of patents and trademarks	6,778	7,677
Accretion expense	8,511	11,122
Loss (gain) on disposal of equipment, furniture and leaseholds	-	343
	(913,981)	(1,412,067)
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(199,886)	79,241
Government incentives receivable	-	-
Inventory	162,157	737,590
Deposits and prepaid expenses	22,417	110,062
Trade and other payables	(6,522)	(78,505)
Cash (used in) operating activities	(935,815)	(563,679)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	(32,750)	(41,095)
Proceeds on sale of equipment, furniture and leaseholds	-	-
Additions to intangible assets	-	(73,224)
Additions to patent and trademark costs	(1,510)	(4,829)
Cash (used in) investing activities	(34,260)	(119,148)
FINANCING ACTIVITIES		
(Repayment of) notes payable	(19,641)	(23,226)
Proceeds from line of credit	-	45,973
(Repayment of) finance lease obligations	(10,331)	(5,893)
(Repayment of) debt obligations	(179,285)	(25,479)
Net proceeds from issuance of common share units	-	-
Cash provided by financing activities	(209,257)	(8,625)
Net increase in cash and cash equivalents	(1,179,332)	(691,452)
Cash and cash equivalents, beginning of period	4,517,911	935,201
Cash and cash equivalents, end of period	\$ 3,338,579	\$ 243,749

The following cash flows are included in operating activities:

Income taxes (paid) refunded	-	-
Interest (paid)	(11,895)	(24,984)

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

CRS ELECTRONICS INC.

Condensed Consolidated Interim
Statement of Changes in Equity
Unaudited, in U.S. dollars

	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	-	-	(957,073)	(957,073)
Issue of common shares	-	-	-	-
Issue of warrants	-	-	-	-
Stock-based compensation	-	(3,482)	-	(3,482)
Balance, March 31, 2013	\$ 14,366,423	\$ 1,412,856	\$ (11,769,610)	\$ 4,009,669
	Share capital	Other Paid- in Capital	Deficit	Total
Balance, December 31, 2011	\$ 6,403,407	\$ 711,849	\$ (5,539,555)	\$ 1,575,701
Net loss for the year	-	-	(1,145,532)	(1,145,532)
Issue of common shares	-	-	-	-
Issue of warrants	-	-	-	-
Stock-based compensation	-	72,367	-	72,367
Balance, March 31, 2012	\$ 6,403,407	\$ 784,216	\$ (6,685,087)	\$ 502,536

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

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

CRS Electronics Inc. (the “Company” or “CRS”) was incorporated under the Canada Business Corporations Act on October 25, 1998 and continues pursuant to a Certificate of Amalgamation dated September 1, 2009. Its head office is located at 9120 Leslie Street, Suite 102, Richmond Hill, Ontario, Canada L4B 3M4 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.

These condensed consolidated interim financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Due to the losses incurred by the Company in the current and previous years and negative cash flows from operating activities relating thereto, there may be significant doubt with respect to the Company’s ability to continue as a going concern. Low sales volumes and production challenges encountered during the year have contributed to negative gross profits. During this year, the Company was and continues to be in the process of launching its commercial LED lighting campaign. As a result, research, marketing and administrative expenses increased at a higher rate than revenues.

Management recognizes that the Company must generate additional revenues and improve gross margins in order to reach profitable levels of operation. To that end, the Company has commenced restructuring efforts to move production of our LED lamps and new lighting fixtures overseas and use the Canadian base as a distributor center for our LED products as well as a catalogue of synergistic products sourced through our new investors. To meet its growth plan, CRS will be dependent on further financing through equity funds raised and/or loan proceeds.

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

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

2. BASIS OF PREPARATION**Statement of compliance**

These condensed consolidated interim financial statements for the three months ended March 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the annual financial statements for the year ended December 31, 2012.

Accounting standards issued but not yet effective

Certain pronouncements were issued by the IASB that are mandatory for accounting periods beginning after January 1, 2013 or later periods.

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

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

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Unaudited, in U.S. Dollars

Accounting standards issued but not yet effective, continued**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, 2015. The Company is assessing the impact of this new standard on its financial statements.

IFRS 10, Consolidated Financial Statement (“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 is effective for the Company’s financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

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 is effective for the Company’s financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

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. The standard completes the IASB’s project to converge fair value measurement in IFRS and United States Generally Accepted Accounting Principles. This new standard is effective for the Company’s financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

IAS 1, Presentation of Financial Statements (“IAS 1”):

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. This amendment retains the “one or two statement” approach to presenting the Statements of Income and Comprehensive Income at the option of the entity and only revises the way other comprehensive income/(loss) is presented. This new standard is effective for the Company’s financial statements commencing January 1, 2012. The Company anticipates no change to its financial statements as a result of this new standard.

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

3. CASH AND CASH EQUIVALENTS

	March 31 2013	December 31 2012
Cash	\$ 385,679	\$ 325,182
One year term deposit 1.3% per annum	-	1,177,429
One year term deposit 1.536% per annum	2,952,900	3,015,300
	\$ 3,338,579	\$ 4,517,911

As at March 31, 2013, the Company held a one year term deposit which matures on July 20, 2013, earning compound interest of 1.536% per annum. As at December 31, 2012, the Company held a one year term deposit which matures on June 22, 2013, earning compound interest of 1.3% per annum and another one year term deposit which matures on July 20, 2013, earning compound interest of 1.536% per annum. All term deposits are redeemable at any time before maturity.

4. ACCOUNTS RECEIVABLE

	March 31 2013	December 31 2012
Trade accounts receivable	\$ 690,674	\$ 485,908
Other receivables	32,334	37,214
Allowance for doubtful accounts	(8,794)	(8,794)
	\$ 714,214	\$ 514,328

A bus manufacturer based in the United States, a LED lighting manufacturer based in Canada, and a major Canadian retailer represent 30.3%, 5.0% and 29.1% of the trade accounts receivable on March 31, 2013, respectively (28.7%, 20.3% and 10.3% on December 31, 2012).

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

	March 31 2013	December 31 2012
Opening balance	\$ 8,794	\$ 4,326
Provision for impairment of accounts receivable	-	4,468
Bad debt recoveries	-	-
Closing balance	\$ 8,794	\$ 8,794

5. INVENTORY

	March 31 2013	December 31 2012
Finished goods	\$ 188,057	\$ 297,567
Raw materials	363,415	414,124
Inventory in transit	11,496	13,434
	\$ 562,968	\$ 725,125

During the period ended March 31, 2013, the Company recorded inventory write-downs of \$168 (\$399,007 for December 31, 2012) and made no reversals of previous inventory write-downs.

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

6. EQUIPMENT, FURNITURE AND LEASEHOLDS

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

At March 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, 2012	100,912	89,440	73,426	712,556	175,173	87,741	1,239,248
Additions	-	-	-	32,750	-	-	32,750
Disposals	-	-	-	-	(40,526)	-	(40,526)
	100,912	89,440	73,426	745,306	134,647	87,741	1,231,472
Accumulated depreciation							
At January 1, 2012	53,712	9,720	42,260	390,314	108,232	25,034	629,272
Depreciation for the period	2,524	8,304	2,750	18,955	6,846	5,064	44,443
Eliminated on disposals	-	-	-	-	(40,526)	-	(40,526)
	56,236	18,024	45,010	409,269	74,552	30,098	633,189
Net carrying value at March 31, 2013	44,676	71,416	28,415	336,037	60,095	57,643	598,283

At December 31, 2012:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Production Equipment	Leasehold improvements	Assets under finance lease	Total
Cost							
At January 1, 2012	\$83,795	\$427,730	\$62,630	\$762,363	\$255,995	\$38,464	\$1,630,977
Additions	17,117	90,109	11,139	25,233	-	49,277	192,875
Disposals	-	(428,399)	(343)	(75,040)	(80,822)	-	(584,604)
	100,912	89,440	73,426	712,556	175,173	87,741	1,239,248
Accumulated depreciation							
At January 1, 2012	41,660	142,834	29,018	344,606	82,198	11,448	651,764
Depreciation for the year	12,052	121,427	13,242	90,992	43,314	13,586	294,613
Eliminated on disposals	-	(254,541)	-	(45,284)	(17,280)	-	(317,105)
	53,712	9,720	42,260	390,314	108,232	25,034	629,272
Net carrying value at December 31, 2012	\$47,200	\$ 79,720	\$31,166	\$322,242	\$ 66,941	\$62,707	\$ 609,976

For the year period March 31, 2013, \$29,155 of depreciation was included in cost of sales, \$5,027 was included in research and development, and \$10,261 within general and administrative (December 31, 2012: \$238,810, \$17,319 and \$38,484 respectively).

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

7. PATENTS AND TRADEMARKS

Patents and trademarks at March 31, 2013 and December 31, 2012 consist of the following:

Cost		Cost	
At January 1, 2013	134,816	At January 1, 2012	150,028
Additions	1,510	Additions	19,561
Impairments	-	Impairments	(34,773)
	<u>136,326</u>		<u>134,816</u>
Accumulated Amortization		Accumulated Amortization	
At January 1, 2013	49,651	At January 1, 2012	30,143
Amortization for the period	6,778	Amortization for the year	32,435
Decrease due to impairment	-	Decrease due to impairment	(12,927)
	<u>56,429</u>		<u>49,651</u>
Net Carrying value at March 31, 2013	<u>79,897</u>	Net Carrying value at December 31, 2012	<u>85,165</u>

The amortization expense was charged to general and administration expense for 2013 and 2012.

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

As at March 31, 2013

Unaudited, in U.S. Dollars

8. INTANGIBLE ASSETS

	Deferred Development Costs	Computer Software	Total
Cost			
At January 1, 2013	331,102	197,261	528,363
Additions	-	-	-
Disposals	-	(12,378)	(12,378)
	<u>331,102</u>	<u>184,883</u>	<u>515,985</u>
Accumulated Amortization			
At January 1, 2013	151,279	88,654	239,933
Amortization for the period	16,555	8,283	24,838
Eliminated on disposals	-	(12,378)	(12,378)
	<u>167,834</u>	<u>84,559</u>	<u>252,393</u>
Net carrying value at March 31, 2013	<u>163,268</u>	<u>100,324</u>	<u>263,592</u>
Cost			
At January 1, 2012	331,102	131,058	462,160
Additions	-	73,224	73,224
Disposals	-	(7,021)	(7,021)
	<u>331,102</u>	<u>197,261</u>	<u>528,363</u>
Accumulated Amortization			
At January 1, 2012	85,059	42,264	127,323
Amortization for the year	66,220	47,838	114,058
Eliminated on disposals	-	(1,448)	(1,448)
	<u>151,279</u>	<u>88,654</u>	<u>239,933</u>
Net carrying value at December 31, 2012	<u>179,823</u>	<u>108,607</u>	<u>288,430</u>

For the period ended March 31, 2013 \$7,475 of amortization was included in general and administrative, \$808 was included in research and development and \$16,555 within cost of sales (December 31, 2012: \$43,172 \$4,666 and \$66,220 respectively).

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

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Unaudited, in U.S. Dollars

9. NOTES PAYABLE

Notes payable consists of the following:

	March 31 2013	December 31 2012
Extended payments on insurance – bearing interest at 4.989% per annum with 10 monthly payments of CAD \$6,532, commencing July 20, 2012 and maturing May 20, 2013	\$ 12,779	\$ 32,420
	\$ 12,779	\$ 32,420

All outstanding notes payable at March 31, 2013 and December 31, 2012 are related to insurance costs.

10. DEBT OBLIGATIONS

Debt obligations consist of the following:

	March 31 2013	December 31 2012
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of CAD \$1,440, maturing December 20, 2014.	\$ -	\$ 32,036
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD \$3,921, maturing June 14, 2015	-	105,622
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below.	383,462	416,578
	383,462	554,236
Less: principal due within one year	(103,930)	(158,448)
	\$ 279,532	\$ 395,788

The PenFinancial loans were collateralized by a registered general security agreement, representing a first fixed and floating charge over the assets and undertakings of the Company. There is also a personal guarantee for CAD \$200,000 executed by two shareholders and officers of the Company.

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 then repayable in 60 monthly payments equal to \$11,118 from August 1, 2011 to July 1, 2016. No interest is payable on the undrawn balance of the contribution amount. 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 has 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.

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

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

2013	\$ 103,935
2014	115,271
2015	124,948
2016	39,308
	<u>\$ 383,462</u>

11. OBLIGATIONS UNDER FINANCE LEASES

The following is a schedule of minimum lease payments under the finance leases expiring in 2016:

	March 31 2013	December 31 2012
USD Value of undernoted leases ⁽¹⁾	<u>\$ 104,752</u>	\$ 117,688
Less: amount representing interest at 7.4%	<u>7,752</u>	10,357
	<u>97,000</u>	107,331
Less: current portion	<u>(35,543)</u>	(34,584)
	<u>\$61,457</u>	\$ 72,747

⁽¹⁾ Comprised of four leases: i) 66 month lease for a printer copier at 10.9% per annum commenced July 2011 with quarterly repayments of CAD \$1,777, ii) 39 month lease for computer software at 12.6% per annum commenced December 2011 with monthly repayments of CAD \$1,878, iii) 39 month lease for a vehicle at 2.9% per annum commenced July 2012 with monthly repayments of CAD \$536, and iv) 48 month lease for a vehicle at 2.9% per annum commenced October 2012 with monthly repayments of CAD \$582.

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

2013	\$ 35,543
2014	38,758
2015	16,501
2016	6,198
	<u>\$ 97,000</u>

CRS ELECTRONICS INC.

Notes to Condensed Consolidated Interim Financial Statements

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Unaudited, in U.S. Dollars

12. 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 expenses. The tax credits relating to research are recorded as a reduction of expenses on the consolidated statements of loss and comprehensive loss. When CRS was a privately held company all SR&ED, OITC and ORDTC were refundable tax credits and were normally paid to the Company in the year following the year the tax credits were claimed. As a result of becoming a publicly traded company in May 2009, the SR&ED tax credit rate decreased to 20% from 35% of expenditures and the SR&ED, and the ORDTC are no longer refundable tax credits payable in cash to the Company but can only be applied against income taxes payable in future periods. The Company continues to file for SR&ED, OITC and ORDTC. The Company provides a valuation allowance for the SR&ED and ORDTC tax credits receivable until it is reasonably certain it will realize the benefit of these tax credits.

Government incentives receivable consist of the following:

	March 31 2013	December 31 2012
OITC and ORDTC	\$ 60,592	\$ 60,592
SR&ED	220,719	220,719
Valuation allowance – SR&ED	(220,719)	(220,719)
Valuation allowance – ORDTC	(16,408)	(16,408)
	\$ 44,184	\$ 44,184

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.

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13. DERIVATIVE LIABILITY - WARRANTS

The Company has issued a series of warrants as part of a private placement of units on April 28, 2011. Each whole warrant entitles the holder thereof to purchase one common share of the Company at a specified price in Canadian dollars per share. 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 loss and comprehensive loss.

Series D warrants

On April 28, 2011 the Company issued 9,379,156 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD \$0.65 per common share on (a) the earlier of the accelerated expiry date specified by the Company (that is not less than 10 days after written notice is deemed to have been received by the Warrant holders for the Common Shares) where the Volume Weighted Average price of the Common Shares on the Exchange for a period of 20 consecutive trading days has been greater than \$1.00 or (b) the expiry date of April 28, 2014. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 29, 2011 were restricted from trading until that date. As at December 31, 2012, 9,379,156 half-warrants, entitling the warrant holders to purchase 4,689,578 common shares, are outstanding.

The value of the warrants at date of issuance, net of an allocation of the closing costs, was determined to be CAD \$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.

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

	March 31 2013	December 31 2012
Gain on warrant liability	\$ 37,996	\$ 608,175

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

	March 31 2013	December 31 2012
Series D	186,689	224,685

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13. DERIVATIVE LIABILITY – WARRANTS (Continued)

The Company determined the fair value of these warrants at March 31, 2013 and December 31, 2012 using the Black-Scholes option pricing model with assumptions as follows:

	March 31 2013	December 31 2012
Exercise price (CAD \$)	\$0.65	\$0.65
Share price (CAD \$)	\$0.26	\$0.24
Risk-free interest rate	1.00%	1.13%
Expected life	1.1 years	1.3 years
Expected volatility	99%	103%
Dividend rate	0%	0%

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14. SHARE CAPITAL**Shares****Authorized**

Unlimited number of common shares

Issued and outstanding

71,399,844 common shares

The common share transactions over the year are as follows:

	Number of shares	Amount
Balance January 1, 2012	40,723,434	6,403,407
Issuance of common shares for cash – June 8, 2012	30,400,548	7,904,666
Issuance of common shares in connection with short-term financing during the year	275,862	58,350
Balance December 31, 2012	71,399,844	\$14,366,423
	-	-
Balance March 31, 2013	71,399,844	\$ 14,366,423

[a] Common stock**Issuance of common shares for cash:**Private Placement June 8, 2012

The Company completed a private placement financing and issued 30,400,548 units at a price of CAD \$0.2921 per unit for gross proceeds of CAD \$8,880,000 (USD \$8,622,982). The Company also issued 2,389,167 common share purchase warrants as compensation for Parklea Capital Inc. acting as a special advisor to the Chief Executive Officer and the Board of Directors of the Company. Each warrant entitles the holder to acquire one common share upon payment of CAD \$0.2921 per common share no later than June 8, 2017. The warrants are not registered for trading and all common shares issued through the exercise of warrants before October 9, 2012 were restricted from trading until that date. Other closing costs for legal expenses and filings fees were CAD \$204,693 (USD \$200,772).

Private Placement June 8, 2012 allocation of proceeds is as follows:

	Amount CAD	Amount USD
Common Shares (issued 30,400,548)	8,880,000	8,622,982
Less: Issuance costs - warrants (issued 2,389,167)	(531,523)	(517,544)
Less: Other issuance costs	(204,693)	(200,772)
Net Proceeds of Private Placement	8,143,784	7,904,666

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14. SHARE CAPITAL (Continued)**Issuance of common shares in connection with short term-financing**

The Company obtained short-term financing from Diocles Capital on May 4, 2012 and issued 275,862 units at a price of CAD \$0.2175 per unit as a payment in kind of CAD \$60,000 (USD \$58,350). In return, the Company obtained a CAD \$300,000 (USD \$303,521) bridge loan prior to the receipt of the June 8, 2012 private placement proceeds.

[b] Stock options**Employee Stock Option Plan**

In 2008, CRS established a stock option plan under which directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares of the Company.

Under the plan, the Company may grant stock options to directors, senior officers, employees' and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The Board of Directors administers the plan and determines the vesting and other terms of each award.

Value of stock options granted:

Stock-based compensation expense recognized for the period ended March 31, 2013 was \$2,265 (March 31, 2013 - \$72,367), of which \$1,708 is included within cost of sales, \$281 is included within general and administrative expense and \$276 is included within selling expense (March 31, 2012 - \$5,955 was included within cost of sales, \$26,985 was included within general and administrative, and \$39,427 was included within selling expense).

Stock-based compensation expense related to the termination of 16,666 options, issued during fiscal 2011 and for the period ended March 31, 2013, was reversed in the current period upon an employee leaving the Company. The related stock-based compensation included in selling and marketing expense is (\$5,747).

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14. SHARE CAPITAL (Continued)**[b] Stock options, continued**

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

	March 31, 2013		December 31, 2012	
	No. of	Weighted	No. of	Weighted
	shares	average	shares	average
		exercise price		exercise price
		(\$)		(\$)
Outstanding, beginning of year	1,384,169	0.44	2,226,624	0.48
Granted ⁽¹⁾	-	-	450,000	0.28
Expired	-	-	(454,122)	0.42
Forfeited voluntarily	-	-	(450,000)	0.58
Forfeited	(16,666)	0.58	(388,333)	0.33
Exercised	-	-	-	-
Outstanding, end of period	1,367,503	0.43	1,384,169	0.44

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

	June 30	August 29	May 5
	2012	2011	2011
Exercise price (CAD \$)	\$0.28	\$0.48	\$0.58
Share price (CAD \$)	\$0.28	\$0.50	\$0.58
Risk-free interest rate	1.223%	1.073%	1.625%
Expected life	5 years	5 years	5 years
Expected volatility	105%	111%	111%
Dividend rate	0%	0%	0%

Under the Plan the total number of stock options that may be outstanding at any time is equal to 10% of the common shares outstanding. The remaining number of options available to be granted under the plan as at March 31, 2013 is 5,772,481.

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14. SHARE CAPITAL (Continued)**[b] Stock options, continued**

The following table summarizes information about options outstanding as at March 31, 2013:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (months)	Weighted-average exercise price
\$0.28 - \$0.48	810,836	20	\$0.33
\$0.58 - \$0.59	556,667	15	\$0.58
Total	1,367,503	18	\$0.43

1,325,837 options are exercisable as at March 31, 2013. The weighted average exercise price of these options is \$0.44

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.

Agent options:

As compensation for services related to the April 28, 2011 offering, the Company issued a total of 530,022 non-transferable compensation options to the lead agents. Each option entitled the agent to subscribe for one common share unit at a price of CAD \$0.55 until October 28, 2012. These options expired unexercised.

[c] Warrants

On June 8, 2012 the Company issued 2,389,167 common share purchase warrant units. Each warrant entitles the holder to acquire one common share upon payment of CAD \$0.2921 per common share no later than June 8, 2017. The warrants are not registered for trading and all common shares issued through the exercise of warrants before October 9, 2012 were restricted from trading until that date. As at December 31, 2012, 2,389,167 warrants, entitling the warrant holders to purchase 2,389,167 common shares, are outstanding.

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

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15. 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 period when they become known to the Company.

The Company has the following commitments outstanding:

1. The Company signed an exclusive license agreement with Eveready Battery Company, Inc. (the "Exclusive Agreement"), a subsidiary of Energizer Holdings, Inc., for the Company to manufacture a suite of LED lighting products under the brand name Energizer. The term of the Exclusive Agreement is from January 1, 2011 to December 31, 2015.

In accordance with the Exclusive Agreement, the minimum guaranteed royalty to be paid by the Company over the remaining term thereof is as follows:

<u>Year</u>	<u>Minimum Guaranteed Royalty</u>
2013	\$ 592,500
2014	756,000
2015	836,000

2. The Company signed a service agreement with DBA Tenzing Managed IT Services, for the Company to establish offsite IT infrastructure and related management services. The services primarily relate to administration of the supplied infrastructure, network availability, data backup and archiving. The term of the agreement is from December 12, 2011 (deployment date) to February 28, 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>IT Hosting Fees</u>
2013	\$ 42,955
2014	42,955
2015	7,159

3. The Company signed a service agreement with Niagara Regional Broadband Network Limited, for the Company to establish high-speed fiber optic network bandwidth and related management services. The services primarily relate to the maintenance of the supplied fiber optic network and network availability for the Welland plant. The term of the agreement is from April 1, 2011 (deployment date) 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>
2013	\$ 8,744
2014	8,744
2015	8,744
2016	2,186

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15. COMMITMENTS AND CONTINGENCIES (Continued)

4. The Company signed a service agreement with Activo Inc., for the Company to establish high-speed fiber optic network bandwidth and related management services. The services primarily relate to the maintenance of the supplied fiber optic network and network availability for the Richmond Hill office. The term of the agreement is from August 1, 2012 (deployment date) 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>
2013	\$ 2,255
2014	2,255
2015	2,255
2016	1,128

5. 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>
2013	\$ 43,005
2014	43,617
2015	25,673

6. On September 19, 2012, the Company received a claim from an ex-employee claiming wrongful dismissal on August 28, 2012. The employee was made redundant as part of the rationalization process undertaken by the Company. The claim has resulted in a settlement with the ex-employee and accordingly a provision based on the settlement has been recorded in the trade and other payables in the Company's condensed consolidated interim statements of financial position.
7. On December 28, 2012, GE Lighting Solutions, LLC ("GE") filed a lawsuit against the Company claiming CRS has infringed two GE patents and has asked for an Order to have CRS destroy all infringing products and related moulds, machine, tooling or other equipment used in their manufacture, to prevent CRS from importing, manufacturing, using, selling and/or offering all infringing products and to have CRS pay damages to GE, together with costs and prejudgment and post-judgment interest. The amount of the claim for damages and costs was not stipulated in the lawsuit. CRS denies any wrongdoing or infringement of any patent owned by GE, believes the claim to be without merit and intends to vigorously defend against the GE lawsuit. No accruals have been made as a result.

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16. 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 unaudited condensed consolidated interim financial statements as at March 31, 2013 were approved by the Board of Directors on May 29, 2013.

17. SUBSEQUENT EVENTS

- a) On April 9, 2013, the Company announced the grant of new incentive stock options to acquire up to 2,500,000 common shares of the Company to the CEO of the Company, having a term of five years and an exercise price of \$0.24 per share, vesting as to one-fourth at the end of each of the four anniversary dates following the date of grant and subject to the terms of the Company's stock option plan.
- b) On April 18, 2013, the Company announced it has granted an aggregate of 1,870,000 stock options under its stock option plan to two officers and several employees of the Company. All of the options have a term of five years, are exercisable at a price of \$0.24 per share and vest as to one-fourth at the end of each of the four anniversary dates following the date of grant and subject to the terms of the Company's stock option plan. A total of 1,000,000 options were granted to Chief Administrative Officer and 500,000 were granted to the Chief Technical Officer of the Company.
- c) On May 2, 2013, the Company announced the proposed entering into of an agreement for a private placement by the Company to Ms. Yan Li, of up to 16,330,974 common shares of the Company at a price of \$0.1837 per common share for total aggregate proceeds to the Company of approximately \$3,000,000 in reliance on the minimum amount investment exemption. Ms. Yan Li is the Chief Administrative Officer of the Company.