

CRS Electronics Inc.

Management Discussion and Analysis

**First Quarter Report
For the three month period ended March 31, 2011**

June 28, 2011

CRS ELECTRONICS INC. - Management's Discussion and Analysis for the period ending March 31, 2011

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of CRS Electronics Inc. (the "Company" or "CRS") and the financial performance for the three month period ended March 31, 2011. This quarterly report, prepared as of June 28, 2011, represents our first interim reporting under IFRS and should be should be read in conjunction with the unaudited condensed interim financial statements of CRS for the three months ended March 31, 2011 prepared in accordance with IAS 34, *Interim financial reporting*, and IFRS 1, *First-time adoption of IFRS*, as issued by the IASB as well as the audited financial statements for the year ended December 31, 2010 and the related management's discussion and analysis (the "Annual MD&A") contained in the 2010 Annual Report prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which differ in certain respects from IFRS.

The comparative figures presented in the condensed interim financial statements as at January 1, 2010 and December 31, 2010 and for the three-month period ended March 31, 2010 have been restated to comply with IFRS. Figures referenced in this MD&A from periods prior to and including December 31, 2009 are in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). For details on the most significant adjustments to the statements of equity, income, and comprehensive income, see note 18 – Impact of adopting IFRS, to the interim financial statements, as well as CRS's filings with Canadian securities regulatory authorities that are available at www.sedar.com.

All amounts are in United States (U.S.) dollars unless otherwise noted (tabular amounts are in thousands of U.S. dollars) and prepared in accordance with IAS 34, *Interim financial reporting*, and IFRS 1, *First-time adoption of IFRS*, as issued by the IASB.

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure principally through its audit committee comprised of a majority of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure.

Forward-Looking Information

The statements made in this MD&A, particularly those in the "Outlook" section that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address CRS's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by management and with information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. The forward-looking statements made in this MD&A describe our expectations as at June 28, 2011.

You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our forward-looking statements will materialize. Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward looking statements in this MD&A include: execution of the Company's existing plans and development programs for its product line, either of which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans or programs; and the accuracy of current interpretation of market study results.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the "Risk and Uncertainties" section.

Overview

For over 12 years, CRS has been a developer and manufacturer of light emitting diode ("LED") light products. As a manufacturer of LED light boards for its own school bus warning lights and under contract for other light applications, CRS realized that the improvement in LEDs created an opportunity for CRS to supply LED based indoor and outdoor lighting. Throughout 2007 to 2010 inclusive, CRS expended a significant amount of time and capital to develop an LED streetlight engine, the LED MR16 halogen bulb replacement and an LED PAR series of interior lights for the commercial market sector.

CRS is currently focused on the expansion of its LED MR16 and LED PAR lights to the North American interior light replacement market at a retail level. LED lighting products save energy, have attractive economic benefits and are good for the environment. CRS' LED MR16 was tested by the Department of Energy in the United States ("DOE") under the Commercially Available LED Product Evaluation and Reporting ("CALiPER") Program and received the highest ranking in several of the features tested. Market penetration by LED lights in both the indoor and outdoor general lighting market is less than 1%. Over the next few years, management believes that LED lighting products will gain market share. CRS continues to supply LED bus lights and LED light circuit boards for use in a variety of products such as LED road signs, accent lighting, tower warning lights, and vehicle warning lights to name a few.

In addition to measures based on International Financial Reporting Standards ("IFRS") in this MD&A, we use the term earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not in accordance with IFRS. This non-GAAP measure is derived from the financial statements but does not have a standardized meaning prescribed by IFRS; therefore, others using this term may calculate it differently.

Highlights for the Quarter

CRS continues to execute on its strategic and operational initiatives:

In February, the Company signed a licencing agreement with Eveready Battery Company, Inc. a subsidiary of Energizer Holding, Inc. ("Energizer"), (NYSE:ENR), for CRS to manufacture a suite of LED lighting products under the brand name Energizer.

On March 4th, the Company commenced trading on the OTCQX international market under the symbol LEDCF. The OTC offers our U.S. investor base an alternative trading platform and provides CRS with increased visibility and exposure to the largest capital market in the world.

On April 28, 2011 the Company closed a brokered private placement equity financing issuing 9,379,156 units at a price of CAD \$0.55 per unit for gross proceeds of CAD \$5,158,535. Proceeds will be used to support the Company's ramp up for the Energizer product line.

Business Objectives and Milestones

CRS' overall business objective is to gain market share in the LED general illumination market to provide an economic return to its shareholders.

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Sales Objectives

1. Retail LED Sales

CRS' first sales objective is to launch its retail strategy under the Energizer Licensing agreement. This objective incorporates a) the creation of 2-3 select partnerships with top brand retail stores for distribution of the lamps, b) the successful launch a North American marketing campaign in Q3 of 2011, followed by c) a product roll out into select top brand retail chain stores. The target sales volume during the 2011 roll out is \$2 million with significantly higher sales anticipated in 2012 (the first full year of product roll out).

During the first quarter CRS has initiated contact with key partners in North America and commenced supply negotiations. These negotiations will continue as retailers firm up their stocking requirements in the coming months.

2. Commercial LED Sales

CRS's second sales objective is to achieve \$ 3 million in sales through its existing sales and distribution channels. The sales target includes a mix of the existing high output LED MR16, the new lower cost LED MR16, and the PAR series of lamps (20, 30 and 38).

Sales for the three months ending March 31, 2011 are \$138,800 representing 4.6% of the annual target. The product mix during this quarter represents MR 16 lamps only. Sales are expected to ramp during the second half of the year with many additional product offerings, more competitive pricing, and improved performance.

3. Bus light business and contract LED light board manufacturing

CRS continues to commit itself to its partners in these sectors and to developing new LED applications. While these market sectors have been through difficult economic times and continue to be constrained by budget cut-backs, CRS is targeting sales of \$1.6 million in the current year.

Sales for the three months ending March 31, 2011 are \$401,900 representing 25.1% of the annual target. Bus light business contributes \$282,700 or 17.7% of the annual target, and contract manufacturing provides revenues of \$119,200 or 7.4%.

Product Development Objectives and Milestones

1. Product cost reduction

CRS expects continued demand for a lower cost offering for customers who do not feel that they require the high colour accuracy and rendering index provided by CRS's premier MR16 model. The first major objective in the area of product development is to finalize development on the low cost LED MR16, GU10, PAR16, PAR20, PAR30, and PAR38 models while maintaining CRS's high standard of lighting quality. The target completion date is in the second quarter of 2011 for most of these models.

Development work on these and future models are running concurrently and are on track at the end of the first quarter.

2. Expand versatility of LED interior lamp

While researching its entry into the retail sector CRS's marketing group encountered strong consumer confidence with the Energy Star certification for selection of sound, energy efficient products. Additionally the market encompasses a much larger array of fixtures with product colour requirements outside of the standard black ICE brand LED product. The second major objective is to achieve Energy Star approval for the full CRS product line and to broaden the LED MR16, GU10, and PAR lamp series appeal. The objective is to be met by the fourth quarter of 2011.

Results from our investigation into colour requirements in the marketplace have been received and our team is evaluating manufacturing alternatives. Timelines for Energy Star approval have been set with milestones focused within the fourth quarter of 2011. Energy Star approval requires more than four months of testing, meaning models will be submitted for testing much earlier than the fourth quarter.

Production Objectives and Milestones

1. Expand production capacity

CRS expects that the Energizer brand products will surpass the existing capacity of \$12,000,000 to \$15,000,000 as we enter 2012. Accordingly, a second assembly line and enhanced SMT equipment is planned to double this capacity by the 4th quarter of 2011.

Equipment needs have been itemized and the layout for the second assembly line has been completed. Equipment has been sourced, quoted, and lead times have been established to ensure a timely launch.

2. Automate packaging process

The second major objective in the area of manufacturing is the automation of product packing to enable an in-line process that packs and skids finished goods at the point of assembly completion.

Product packaging alternatives are being investigated to ensure the best balance between efficient assembly and CRS's commitment to ecological friendly packaging.

Outlook

CRS continues to see significant opportunities for increased sales growth. The most dramatic change in year over year revenues is expected to occur with the introduction of the Company's new line of LED replacement lamps under both Energizer and ICE brands.

Incentive plans offered by governments and utilities in both Canada and the United States align LED pricing closer to traditional bulbs, overcoming a major resistance to purchase. CRS' ICE LED lights offer compelling energy savings, lower operating costs, and help commercial users meet reduced environmental impact targets.

CRS anticipates its retail suite of superior LED lighting products, marketed under the Energizer brand name, will drive sales as consumers embrace the long life and eco-friendly nature of LED lighting.

Performance of CRS

Key performance indicators

The key performance indicators for CRS are revenue growth, gross profit, EBITDA, net income, and increasing patent protection on intellectual property.

The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependent on the Company being able to increase its sales staff and expand production capacity to meet the anticipated demand for its products.

The Company is aiming to achieve gross profit percentages (defined as revenues less cost of sales and plant expenses as a percentage of revenues) of approximately 25.0% on an annual basis. Maintaining a consistent contribution margin will be an indicator of how well the Company is managing its production costs and customer contract negotiations.

Management believes that EBITDA is a measure of how efficiently and effectively the business is running. The Company is entering a period of rapid expansion and growth. Therefore selling and general administration costs will increase over the next eighteen months. To maintain an acceptable EBITDA, management will need to balance the increase in selling and general administration costs and revenue growth. Net income is also viewed as an important measure for determining the value created for shareholders.

Results of Operations

The following table sets out the Company's results for the three months ended March 31, 2011 compared with the same period last year.

Unaudited ⁽¹⁾

<i>In Thousands of U.S. dollars</i>	Three months ended March 31		Increase (Decrease)	% Increase (Decrease)
	2011	2010		
Sales	\$540.7	\$628.6	(87.9)	(14.0)%
Gross profit	19.7	129.1	(109.4)	(84.7)%
<i>Gross profit percentage</i>	3.6%	20.5%		
Selling and marketing	108.7	109.6	(0.9)	(0.8)%
<i>As a % of sales</i>	20.1%	17.4%		
General and administrative	407.9	248.2	159.7	64.3%
<i>As a % of sales</i>	75.4%	39.5%		
Engineering and research	80.2	1.3	78.9	6,069.2%
	14.8%	0.2%		
Foreign exchange (gain) loss	4.0	(1.1)	5.1	(463.6)%
<i>Total operating expenses</i>	600.8	358.0	242.8	67.8%
<i>Income (loss) from operations</i>	(581.1)	(228.9)		
Add back amortization	73.9	33.1		
EBITDA	(507.2)	(195.8)	(311.4)	(159.0)%
Finance costs	(16.8)	(7.6)		
Depreciation of capital equipment	(52.7)	(26.9)		
Amortization of product development	(28.9)	(6.2)		
Gain (loss) on sale of capital assets	–	1.8		
Refundable tax credit income	28.3	3.7		
Change in warrant liability	62.8	(252.6)		
Foreign exchange (loss) gain and valuation adjustments	(2.2)	5.9		
Net loss	(\$516.7)	(\$477.7)	(39.0)	(8.2)%

⁽¹⁾ Information for 2011 and 2010 is prepared in accordance with IFRS.

Revenues

Revenues for the three months ended March 31, 2011 decreased 14% to \$540,700 from \$628,600 for the same period in 2010. Revenue from bus light sales during the first quarter of 2011 decreased 26% to \$282,700 from \$383,400 for the same period in 2010. Revenues from contract manufacturing for the quarter decreased 12% to \$119,200 from \$136,100 in 2010. Commercial LED revenue in the first quarter stemmed from LED MR16 sales that increased 27% to \$138,800 from \$109,100 during the same period in 2010.

Cost of Sales and Gross Profit

The cost of sales is inclusive of direct material costs, plant labour, plant overheads, plant management salaries, amortization of plant and equipment and the amortization of product development costs. For the three months ended March 31, 2011, gross profit percentage was 3.6% compared to 20.5% in the same period last year. The decrease is primarily attributed to low sales volumes in relation to increased fixed plant expenses and amortization charged to cost of sales.

Selling and marketing expenses

For the three months ended March 31, 2011 selling and marketing expenses decreased 0.8% to \$108,700 from \$109,600 for the same period in 2010. There were no major changes in spending patterns.

General and administrative expenses

For the three months ended March 31, 2011 general and administrative expenses increased 64.3% to \$407,900 from \$248,200 for the same period in 2010. This increase reflects increased staffing costs and insurance fees, along with \$40,500 in non-recurring expenditures for legal and investor relations related to the Company's OTC listing.

Engineering and Research

Research costs are expensed in the year the costs are incurred. When a product is likely to be commercially viable in the form developed, the costs to complete the development are capitalized on the balance sheet. When commercial sales begin the development costs are amortized over the expected life of the product.

For the three months ended March 31, 2011 net research and development expenses increased to \$80,200 from \$1,300 for the same period in 2010. The Company has incurred significant costs during

2011 as engineering staff levels increased, and the department began support of continuous improvement of existing lines in addition to active product development projects.

Finance Costs

Total finance costs for the three month period ending March 31, 2011 increased \$9,200 to \$16,800 vs. \$7,600 for the same period in 2010. Finance costs are attributable to a mix of long and short term debt obligations as follows:

Interest on short-term debt increased 7.4% to \$5,800 during the first quarter of 2011 from \$5,400 during the first quarter of 2010. The decrease in the expense in 2011 from 2010 resulted from an increase in the average credit card debt and bank operating loans.

Interest on long-term debt increased 400% to \$11,000 during the first quarter of 2011 from \$2,200 during the first quarter of 2010. The increase in the expense in 2011 from 2010 resulted from an increase in the average principal outstanding on long-term debt which is primarily attributable to the finance of capital equipment the occurred in the second quarter of 2010.

Depreciation of property and equipment

Amortization increased 96% to \$52,700 during the first quarter of 2011 from \$26,900 during the first quarter of 2010. The increase is related primarily to additional production equipment put into operation in the second quarter of 2010.

Amortization of Product Development Costs

The amortization expense increased to \$28,900 during the first quarter of 2011 from \$6,200 during the first quarter of 2010. During the first quarter of 2011, the Company amortized \$28,900 related to LED MR16, the G2Max bus safety light and dimming technology. To March 31, 2011, CRS invested a gross amount of \$43,500 in deferred development costs for the development of the PAR Series of indoor lights.

Scientific Research and Experimental Development Tax Credit ("SRED")

The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development expenses. The tax credits that relate to research are recorded as a reduction in expenses on the statement of operations. The amount recorded as reduction to expenses for the three months ended March 31, 2011 was \$28,300 compared to \$3,700 in 2010. The \$24,600 increase includes a \$16,100 a positive adjustment with respect to the reassessment of the period ended May 19, 2009 after acceptance of Scientific Research and Experimental Development Tax Credits ("SRED") along with increases activities in 2011.

Foreign Exchange Losses

The US dollar is the functional currency of the Company and is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the US dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, it retranslates monetary items denominated in foreign currencies at the rates prevailing at that date. It does not retranslate non-monetary items measured in terms of historical cost in a foreign currency. It recognizes exchange differences on monetary items in profit or loss in the period in which they arise. For the three months ended March 31, 2011, CRS incurred a foreign currency loss of \$4,000 compared to a gain of \$1,100 in 2010.

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

The negative EBITDA for the quarter ended March 31, 2011 was (\$507,200) compared to (\$195,800) for the same period in 2010. The decrease in revenues in 2011 combined with the increase in fixed overhead and administrative costs has reduced overall earnings by \$311,400 compared to 2010.

Net losses

As a result of the above activities, the net loss for the quarter ended March 31, 2010 was (\$516,700), or (\$0.02) per share compared to a loss of (\$477,700), or (\$0.02) for the first quarter of 2010. The \$39,000 negative change in net losses vs. 2010 has been moderated by a positive change in warrant liability totalling \$315,400.

Liquidity and Capital Resources

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

<i>(in of U.S. dollars except for ratios)</i>	March 31, 2011	December 31, 2010	January 1, 2010
Current Ratio	1.4:1	1.9:1	2.8:1
Cash	\$212,054	\$340,015	\$869,234
Available operating line	\$169,554	\$38,052	\$304,480
Net Working Capital	\$409,931	\$849,917	\$1,080,521
Total Assets	\$2,840,302	\$3,226,254	\$2,345,789
Total Debt	\$1,726,007	\$1,603,951	\$983,488
Total Equity	\$1,114,295	\$1,622,303	\$1,362,301
Debt to Equity Ratio	1.55:1	0.99:1	0.72:1

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In accordance with IAS, warrants issued for cash and denominated in CAD dollars are classified as a liability and stated at fair value on the statement date. Prior to adoption of IFRS warrants were classified as equity resulting in changes to the Company's debt to equity ratio. The value of warrants included in total debt obligations (above) is:

<i>(in of U.S. dollars)</i>	March 31, 2011	December 31, 2010	January 1, 2010
Derivative liability – Warrants	\$252,308	315,080	294,477

Subsequent to the end of the period the Company filed its 5th and final claim for CAD \$177,000 with the Southern Ontario Development Corporation (SODP). Total anticipated funding is CAD \$667,000 increasing the amount repayable to SODP. The contribution amount is then repayable in 60 equal monthly payments April 1, 2011 to March 1, 2016. No interest is payable on the outstanding balance of the contribution amount.

Management closely monitors the Company's current cash position and the short-term and long-term cash requirements. The Company is in a volatile market place that could generate significant orders for their LED products. The Company may be required to obtain additional funding to take advantage of the market opportunities. If additional funding is required, an issuance of common stock or a commitment to issue common stock will most likely be a component of the funding.

The Company has the following commitments outstanding as at March 31, 2011:

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 term thereof is as follows:

<u>Year</u>	<u>Minimum Guaranteed Royalty</u>
2011	\$157,000
2012	274,000
2013	539,000
2014	688,000
2015	760,000

Cash Flows

During the quarter, CRS experienced negative cash flows used in operations of (\$95,200) compared to a negative cash flow of (\$90,800) for the same period in 2010. Reduction of accounts receivable partially offset higher losses. The Company invested \$152,200 in equipment, development costs and patents in the quarter compared to \$490,000 in the prior year. The Company's various financing activities generated \$121,600 in cash flows for the quarter compared to \$4,500 in the same period last year.

Outstanding Share Data

As at March 31, 2011 and June 28, 2011 the Company had the following items issued and outstanding:

at March 31, 2011:

- Common shares 31,183,246
- Stock options:

Range of exercise prices		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.30	\$0.50	950,156	30 months	\$0.32
\$0.51	\$0.70	330,000	49 months	\$0.60
Total		1,280,156	35 months	\$0.39

- Charitable options:

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.

at June 28, 2011:

- Common shares 40,723,434
- Stock options:

Range of exercise prices		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.30	\$0.50	789,124	29 months	\$0.31
\$0.51	\$0.70	1,235,000	56 months	\$0.60
Total		2,024,124	45 months	\$0.49

- Charitable options:

March 27, 2008, charitable options to purchase 66,486 common shares were granted to an eligible charitable organization. These options are exercisable at \$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 agent, each option entitles the agent to subscribe for one Unit at a price of \$0.55 until October 28, 2012.

Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of CRS including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties

Key management includes the Chief Executive Officer and the Chief Operating Officer. The compensation paid or payable to key management for services is as follows:

	March 31, 2011	March 31, 2010
Wages and benefits	91,415	57,786

Proposed Transactions

CRS is not a party to any proposed transaction other than those previously discussed, that may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

Subsequent Events

a) Subsequent to the end of the period the Company filed its 5th and final claim for CAD \$177,000 with the Southern Ontario Development Corporation (SODP). Total anticipated funding is CAD \$667,000 which is repayable in 60 equal monthly payments April 1, 2011 to March 1, 2016. While no interest is payable on the outstanding balance, the loan is presented at fair value in U.S. Dollars.

Subsequent events, continued

b) On April 28, 2011 the Company closed a brokered private placement equity financing issuing 9,379,156 units at a price of CAD \$0.55 per unit for gross proceeds of CAD \$5,158,535. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD \$0.65 per common share no later than April 28, 2014 subject to acceleration of the expiry date if the 20 day volume weighted average trading price of the common shares of the Company is greater than \$1.00. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 28, 2014 will be restricted from trading until that date.

c) On May 5, 2011 the Company issued 905,000 options to Directors and Senior Staff of the Company pursuant to its stock option plan. The options, vesting on various dates over a three year period, have an exercise price of \$0.58 per share exercisable on or before May 5, 2016.

Summary of Significant Accounting Policies

This MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements for the three months ended March 31, 2011, and the audited annual financial statements for the year ended December 31, 2010. Those Financial Statements outline the accounting principles and policies used to prepare our financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position. A summary of the significant accounting policies is as follows:

Adoption of International Financial Reporting Standards (IFRS)

The Company has prepared these condensed interim financial statements under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss. They are the Company's first condensed interim financial statements prepared in accordance with IFRS. The Company prepared its Canadian dollar financial statements until December 31, 2010 in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which differ in certain respects from IFRS.

In preparing these 2011 condensed interim financial statements, the Company has amended certain accounting policies it previously applied in the Canadian GAAP financial statements to comply with IFRS, and has restated the 2010 comparative figures to reflect these adjustments. Note 18 to these financial statements sets out a description of the differences between Canadian GAAP and IFRS accounting policies, and reconciles the effect of the transition on the Company's equity and comprehensive loss.

Adoption of International Financial Reporting Standards (IFRS), continued

The Company has prepared these condensed interim financial statements in accordance with IAS 34, *Interim Financial Reporting*, using the accounting policies it expects to adopt in its December 31, 2011 financial statements, based on the IFRS standards and interpretations it expects to apply at that time. The Company has applied the policies set out below consistently to all the periods presented unless otherwise noted below. These condensed interim financial statements reflect all normal and recurring adjustments necessary, in management's opinion, to fairly present the interim periods included. The quarterly results are not necessarily indicative of results to be expected for the entire year.

The Company has applied IFRS with effect from January 1, 2010, the transition date, in accordance with the transitional provisions set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 requires that a first-time adopter retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period. However, it also sets out certain optional exemptions and certain mandatory exceptions to this principle. Note 18 also describes the items relevant to the Company's reporting.

These condensed interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Throughout these condensed interim financial statements additional disclosures relating to the year ended December 31, 2010 are provided in accordance with IFRS where material to an understanding of these condensed interim financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 with original maturities of less than 90 days at the date of their acquisition. Cash and cash equivalents include the following:

	March 31 2011	December 31 2010	January 1 2010
Cash	212,054	340,015	155,622
Term deposit	-	-	713,612
	212,054	340,015	869,234

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.

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 tangible fixed assets and are depreciated on a straight-line basis over their estimated useful lives.

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

Office furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	30% declining balance
Vehicles	30% declining balance
Production equipment	20% declining balance
Tools, moulds and dies	3 years straight-line
Leasehold improvements	5 years straight-line

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.

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 thereof.

Research and development costs

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

The Company recognizes expenditure on research activities as an expense in the period 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, it 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.

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, equipment, furniture and leaseholds and assets under capital leases, to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it 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 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.

Impairment of long-lived assets, continued

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 amount, it reduces the carrying amount to the recoverable amount, recognizing 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 been existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

Foreign currency translation

The US dollar is the functional currency of the Company and is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the US dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, it retranslates monetary items denominated in foreign currencies at the rates prevailing at that date. It does not retranslate non-monetary items measured in terms of historical cost in a foreign currency. It recognizes exchange differences on monetary items in profit or loss in the period in which they arise.

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 14, at the fair value of the equity instruments at the grant date. 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 profit or 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.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The Company bases the tax currently payable on its taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense taxable or deductible in other years and items that are never taxable or deductible. The Company calculates its liability for current tax using tax rates that have been enacted or substantively enacted by the end of the reporting period.

It also recognizes deferred tax on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computing taxable profit or loss. It generally recognizes deferred tax liabilities for all taxable temporary differences, and generally recognizes deferred tax assets for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and reduces them to the amount it expects to be recovered. It measures deferred tax assets and liabilities at the tax rates it expects to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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. As such, all costs are expensed as incurred and are recorded as a component of interest expense.

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).

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

Financial assets:

Classification:

Cash	At fair value through profit or loss
Accounts receivable	Loans and receivables

Financial liabilities:	Classification:
Bank loans, accounts payable, notes payable, and debt obligations	Other financial liabilities
Derivative liabilities - Warrants	At 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 held-to-maturity or available-for-sale categories.

The Company measures financial assets at FVTPL at fair value, recognizing any gains or losses arising from this measurement in profit or loss. It 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 financial assets, other than those at FVTPL, 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.

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 through the statement of comprehensive income (loss).

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 earnings or loss in the period in which they arise. The net gain or loss recognized in income or loss excludes any interest paid on the financial liabilities.

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 and the cumulative gain or loss that had been recognized directly in equity is recognized in earnings 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 earnings or loss.

Measurement uncertainty

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, the composition of future income tax assets and related valuation allowance, the allowance for doubtful accounts receivable, the allowance for obsolete inventory and the valuation of options and warrants issued. In all these cases, actual results could differ from the estimates that the Company used.

Accounting standards issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011 or later periods.

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

IFRS 13 – Fair value measurement

IFRS 13 Fair Value Measurement will improve consistency and reduce complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

The following new standards, amendments and interpretations, that have not been early adopted in these unaudited condensed interim financial statements, are not expected to have an effect on the Company's future results and financial position:

- IFRS 1 – Severe Hyperinflation (Effective for periods beginning on or after July 1, 2011)
- IAS 12 – Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12 (Effective for periods beginning on or after January 1, 2012))
- IFRS 10 – Consolidated Financial Statements (Effective for periods beginning on or after January 1, 2013)
- IFRS 11 – Joint Arrangements (Effective for periods beginning on or after January 1, 2013)
- IFRS 12 – Disclosure of interests in other entities (Effective for periods beginning on or after January 1, 2013)

Risk and Uncertainties

CRS operates in the LED lighting market and is exposed to a variety of risk factors and uncertainties in the normal course of operations. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in our Annual Report for the fiscal year 2010 which has been filed with Canadian securities regulatory authorities and is available at www.sedar.com under the corporate name CRS Electronics Inc. The risks disclosed in our annual report are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

There was no significant change to these risks and uncertainties during the three-month period ended March 31, 2011 other than those described elsewhere in this MD&A.