<u>CRS Electronics Inc.</u>

Management Discussion and Analysis

Year Ended
December 31, 2011

April 29, 2012

The following information prepared as of April 29, 2012 is Management's Discussion and Analysis ("MD&A") of the financial condition and performance of CRS Electronics Inc. (the "Company" or "CRS") for the year ended December 31, 2011 and should be read in conjunction with the audited financial statements for the year then ended which have been prepared in accordance with International Financial Reporting Standards. 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").

All amounts are in United States (U.S.) dollars unless otherwise noted (tabular amounts are in thousands of U.S. dollars).

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

Forward-Looking Information

The statements made in this MD&A, particularly those in the "Outlook" section that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address CRS's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by management and with information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. The forward-looking statements made in this MD&A describe our expectations as at April 29, 2012.

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

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

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

Overview

For over 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 eco-friendly. 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 3%. Over the next few years, management believes that LED lighting products will gain market share.

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.

FISCAL 2011

Sales Objectives

1. Retail LED Sales

CRS' objective was to launch its retail strategy under the Energizer Licensing agreement. This objective incorporated 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 was $2 million with significantly higher sales anticipated in 2012 (the first full year of product roll out).

During the year CRS announced an agreement with Canadian Tire Corporation to supply a range of Energizer branded LED lamps. Due to production issues shipments did not begin until the fourth quarter of fiscal 2011 and were behind target. CRS is currently in discussions with a number of U.S. retailers for a similar product launch.

Commercial LED Sales

CRS's objective was to achieve $3 million in sales through its existing sales and distribution channels. The sales target included 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 year ended December 31, 2011 were $504,100 representing 16.8% of the annual target. Major commercial customers have ordered samples of our new high output lamp for store pilots and the Company plans on aggressively following up these pilots.

2. Bus light business and contract LED light board manufacturing

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

Sales for the year ended December 31, 2011 were $1,465,800 representing 91.6% of the annual target. Bus light business contributed $1,015,800 or 63.5% of the annual target, and contract manufacturing provided revenues of $450,000 or 28.1% of the target.

Product Development Objectives and Milestones

1. Product cost reduction

CRS expected 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 was 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 was in the third quarter of 2011 for most of these models.

Development work on these and future models are currently ongoing. Production challenges encountered during the retail launch delayed work in this area. The Company has been engaged with various offshore companies and is considering various outsourcing and product development changes to reduce the price points of our products.

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 was 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 was to be met by the fourth quarter of 2011.

The Company continues to make progress its Energy Star certification program and anticipates certification by the fall of 2012.

Production Objectives and Milestones

1. Expand production capacity

CRS expected that the Energizer brand products would surpass the existing capacity of $12,000,000 to $15,000,000 as the Company entered 2012. Accordingly, a second assembly line and enhanced SMT equipment was planned to double this capacity by the 4th quarter of 2011.

Equipment needs were itemized and the layout for the second assembly line was completed. Equipment was sourced, quoted, and lead times were established. The execution of the second assembly line has been delayed until demands on capacity merit the investment.

2. Automate packaging process

The second major objective in the area of manufacturing was 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 were investigated to ensure the best balance between efficient assembly and CRS's commitment to ecological friendly packaging. The packaging design was completed in July embracing environmentally friendly materials and the supplier was selected in August. Automation alternatives are currently being reviewed for high speed manufacturing and will be implemented when merited.

Outlook

Fiscal 2011 was a very challenging year for CRS, however, the Company continues to see significant opportunities for increased sales growth.

For Fiscal 2012 the Company will be focusing on increasing revenues by adding additional retail partners and achieving Energy Star certification to support our commercial efforts. Additional work being undertaken on reducing product costing is also expected to support these initiatives.

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 targeted gross margin 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 gross margin will be an indicator of how well the Company is managing its production costs and customer contract negotiations. The Company is looking at various product development and outsourcing alternatives to increase gross margin.

Key performance indicators, continued

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 have increased over the last 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.

Measurement

Below in "Quarterly Results" and "Results of Operations" are two tables the Company uses to assess performance. "Quarterly Results" presents the Company's results for the last eight quarters, followed by a comparison of the Company's fiscal year to the prior year.

Quarterly Results

	Fiscal 2011				Fiscal 2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	IFRS				IFRS			
In Thousands of dollars	USD	USD	USD	USD	USD	USD	USD	USD
Sales	$526.6	$461.0	$614.9	$540.7	$889.4	$677.7	$857.2	$628.6
Gross profit	($384.1)	($179.6)	($18.0)	$19.7	$127.3	$189.7	$222.1	$129.2
Gross profit %	(72.9)%	(39.0)%	(2.9)%	3.6%	14.3%	28.0%	25.9%	20.6%
Select expenses								
Selling and marketing	352.7	286.4	264.7	108.7	92.5	94.1	202.8	109.7
General and administrative	427.4	430.1	488.5	415.7	451.1	302.1	415.4	248.2
Engineering and research	175.8	194.0	85.7	80.2	23.8	(6.7)	12.8	1.4
Foreign exchange (gain) loss	(57.4)	152.9	(10)	6.2	21.3	(4.2)	(34.2)	(8.6)
Total expenses	898.5	1,063.4	828.9	610.8	588.7	385.3	596.8	350.7
Income (loss) from operations	(1,282.6)	(1,243.0)	(846.9)	(591.1)	(461.4)	(195.6)	(374.7)	(221.5)
Add back: Depreciation and amortization	125.1	89.9	83.3	81.7	117.9	63.8	47.8	33.2
EBITDA	(1,157.5)	(1,153.1)	(763.6)	(509.4)	(343.5)	(131.8)	(326.9)	(188.3)
Finance costs	(18.9)	(13.6)	(10.8)	(16.8)	(10.1)	(16.3)	(7.6)	(7.6)
Refundable tax credit income (expense)	(41.3)	19.3	12.4	28.4	(6.9)	4.2	13.5	3.6
Depreciation of capital equipment	(67.5)	(61.2)	(54.6)	(52.8)	(54.3)	(53.1)	(39.2)	(26.8)
Amortization of product development costs	(27.5)	(28.7)	(28.7)	(28.9)	(63.9)	(10.6)	(8.6)	(6.2)
Amortization of patents and trademarks	(30.2)	—	—	—	—	—	—	—
Impairment of product development costs	(456.0)	—	—	—	(39.3)	—	—	—
Impairment of patents and trademarks	(258.2)	—	—	—	—	—	—	—
Gain (loss) on sale of equipment, furniture and fixtures	—	0.1	—	—	(4.8)	(2.9)	—	1.8
Change in warrant liability	13.3	1,078.7	277.0	62.8	8.3	125.3	330.6	(252.6)
Income taxes recovery	—	—	—	—	—	—	—	—
Net (loss) income	($2,043.7)	($158.5)	($568.3)	($516.7)	($514.5)	($85.2)	($38.2)	($476.1)
Loss per share	(0.05)	(0.00)	(0.02)	(0.02)	(0.02)	(0.00)	(0.00)	(0.02)

Results of Operations

The following table sets out the Company's results for the year ended December 31, 2011 compared with the prior year ended.

In Thousands of U.S. dollars (1)	Year ended December 31 2011	Year ended December 31 2010	Increase (Decrease)	% Increase (Decrease)
Sales	$2,143.2	$3,052.9	(909.7)	(29.8%)
Gross profit	(562.0)	668.3	(1,230.3)	(184.1%)
Gross profit percentage	(26.2%)	21.9%		
Selling and marketing	1,012.5	499.1	507.1	102.9%
As a % of sales	47.2%	16.3%		
General and administrative	1,761.7	1,416.8	344.9	24.3%
As a % of sales	82.2%	45.2%		
Engineering and research	535.7	31.3		
Foreign exchange (gain) loss	91.7	(25.7)		
Total operating expenses	3,401.6	1,921.5		
Income (loss) from operations	(3,963.6)	(1,253.2)		
Add back amortization	380.0	262.7		
EBITDA	(3,583.6)	(990.5)	(2,551.8)	261.8%
Finance costs	(60.1)	(41.6)		
Depreciation of capital equipment	(236.1)	(173.4)		
Amortization of product development	(113.8)	(89.3)		
Amortization of patents and trademarks	(30.1)	-		
Impairment of product development	(456.0)	(39.3)		
Impairment of patents and trademarks	(258.2)	-		
Gain (loss) on sale of equipment, furniture and fixtures	0.1	(5.9)		
Refundable tax credit income	18.8	14.4		
Change in warrant liability	1,431.8	211.6		
Net loss	($3,287.2)	($1,114.0)	(2,222.4)	195.1%

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

Revenues

Revenues for the three months ended December 31, 2011 decreased 40.8% to $526,600 from $889,400 for the same period in 2010. Revenue from bus light sales during the three months ended December 31, 2011 increased 8.9% to $175,300 from $161,000 for the same period in 2010. Revenues from contract manufacturing for the three months ended December 31, 2011 decreased 22.5% to $88,200 from $113,800 in 2010. Commercial LED revenue for the three months ended December 31, 2011 stemmed from LED MR16 sales that decreased 83.9% to $109,400 from $614,600 during the same period in 2010. Retail LED revenue of $153,700 for the three months ended December 31, 2011 stemmed from LED MR16, GU10, PAR 20, 30, and 38, A19 60w and A19 40w sales that were the first retail sales in the Company's history.

Revenues for the year ended December 31, 2011 decreased 29.8% to $2,143,200 from $3,052,900 for the same period in 2010. Revenue from bus light sales during the year ended December 31, 2011 decreased 10.2% to $1,015,900 from $1,131,200 for the same period in 2010. Revenues from contract manufacturing for the year ended December 31, 2011 decreased 10.8% to $453,800 from $509,000 in 2010. Commercial LED revenue for the year ended December 31, 2011 stemmed from LED MR16 sales that decreased 63.6% to $514,500 from $1,412,700 during the same period in 2010. Retail LED revenue of $159,000 for the three months ended December 31, 2011 stemmed from LED MR16, GU10, PAR 20, 30, and 38, A19 60w and A19 40w sales that were the first retail sales in the Company's history.

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 December 31, 2011, gross profit percentage was (72.9)% compared to 14.3% in the same period last year. The decrease is primarily attributed to two factors. Firstly, the low sales volume in relation to increased fixed plant expenses and amortization charged to cost of goods sold resulted in lower gross margins. Secondly, as a result of various production issues the Company incurred significant additional costs related to tooling and freight. The cost overrun issues have been resolved and are not anticipated to affect the gross margin of orders placed in fiscal 2012.

For the year ended December 31, 2011, gross profit percentage was (26.2)% compared to 21.9% in the same period last year and was impacted by the issues discussed above.

Selling and marketing expenses

For the three months ended December 31, 2011 selling and marketing expenses increased 381.3% to $352,700 from $92,500 for the same period in 2010. This increase reflects the expansion of the sales and marketing team and marketing costs focused in the retail lighting sector in conjunction with the Energizer roll out.

For the year ended December 31, 2011 selling and marketing expenses increased 102.9% to $1,012,500 from $499,100 for the same period in 2010. This increase is attributed to the same factors as noted above.

General and administrative expenses

For the three months ended December 31, 2011 general and administrative expenses decreased 5.3% to $427,400 from $451,100 for the same period in 2010. This decrease reflects the change in stock based compensation awarded during the periods.

For the year ended December 31, 2011 general and administrative expenses increased 24.3% to $1,761,700 from $1,416,800 for the same period in 2010. This increase reflects increased staffing costs and insurance fees. As well as $40,500 in non-recurring expenditures for legal and investor relations related to the Company's OTC listing during the first quarter of 2011 and $163,100 of stock based compensation provided to management during the year ended December 31, 2011.

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 December 31, 2011 net research and development expenses increased to $175,800 from $23,800 for the same period in 2010. For the year ended December 31, 2011 net research and development expenses increased to $535,700 from $31,300 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 ended December 31, 2011 increased $8,800 to $18,900 vs. $10,100 for the same period in 2010. Total finance costs for the year ended December 31, 2011 increased $18,500 to $60,100 vs. $41,600 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 obligations increased 125.0% to $9,200 during the three months ended December 31, 2011 from ($800) during the same period in 2010. Interest on short-term debt obligations remained steady at $28,200 for the year ended December 31, 2011 as in the same period in 2010. The increase in the expense for these quarter resulted from an increase in the average credit card debt and bank operating loans during the period.

Net interest on long-term debt obligations decreased 11.0% to $9,700 during the three months ended December 31, 2011 from $10,900 during the same period in 2010. Year to date, net interest on long-term debt obligations increased 238.1% to $31,900 during the year ended December 31, 2011 from $19,200 during the same period in 2010. Net interest on long-term debt obligations are comprised of the following:

	Three months ended December 31		Year ended December 31	
	2011	**2010**	**2011**	**2010**
Interest LTD	5,300	11,000	21,300	21,300
Accretion expense	11,100	-	39,700	-
Less:				
Interest revenue	(6,700)	(100)	(29,100)	(2,100)
Net Interest on LTD:	9,700	10,900	31,900	19,200

Interest costs are higher during 2011 due to higher average principal outstanding on long-term debt. This is primarily attributable to the finance of capital equipment that occurred in the second quarter of 2010. Accretion expense is related to the non-interest bearing loan from the S.O.D.P. These expenses are partially offset by increased interest revenues. The increased revenues are due to a 1 year redeemable term deposit purchased by the Company with proceeds from the private equity placement issuance of common shares on April 28, 2011. Interest on the term deposit compounds annually at a rate of 1.5%.

Depreciation of property and equipment

Depreciation increased 24.3% to $67,500 during the three months ended December 31, 2011 from $54,300 during the same period in 2010. Additionally, depreciation increased 36.2% to $236,100 during the year ended December 31, 2011 from $173,400 during the same period in 2010. The increase is related primarily to additional production equipment put into operation in the second quarter of 2011.

Amortization of Product Development Costs

The amortization expense decreased $36,400 to $27,500 during the three months ended December 31, 2011 from $63,900 during the same period in 2010. During the fourth quarter of 2011, the Company amortized $27,500 related to LED MR16, the G2Max bus safety light and dimming technology. Overall the amortization expense increased $24,500 to $113,800 during the year ended December 31, 2011 from $89,300 during the same period in 2010.

Product development costs impairment occurred during the year ended December 31, 2011 in the amount of $456,000. Product development impairment was $39,300 during the same period in 2010. The impairment charge is related to obsolete technologies which are deemed to provide no future economic benefit for the Company in the future.

Amortization of Patents and Trademarks

The amortization expense of $30,100 during the three months ended December 31, 2011 vs. $0 during the same period in 2010. During the fourth quarter of 2011, the Company decided to amortize $30,100 representing a full year amortization of all patents, patents pending, and active trademarks. Overall amortization expense of $30,100 was recorded during the year ended December 31, 2011 vs. $0 during the same period in 2010.

Patent and Trademarks impairment occurred during the year ended December 31, 2011 in the amount of $258,200. The impairment charge is related to unfiled or abandoned patents and trademarks which are deemed to provide no future economic benefit for the Company in the future.

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 December 31, 2011 was $(41,300) compared to ($6,900) in 2010. The amount recorded as reduction to expenses for the year ended December 31, 2011 was $18,800 compared to $14,400 in 2010.

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 December 31, 2011, CRS incurred a foreign currency gain of $57,400 compared to a loss of $21,300 in 2010. For the year ended December 31, 2011, CRS incurred a foreign currency loss of $91,700 compared to a gain of $25,700 in 2010.

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

The negative EBITDA for the three months ended December 31, 2011 was ($1,157,500) compared to ($343,500) for the same period in 2010. The negative EBITDA for the year ended December 31, 2011 was ($3,583,600) compared to ($990,500) 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 $814,000 and $2,593,100 respectively for the three months ended and year ended December 31, 2011 compared to 2010.

Net losses

As a result of the above activities, the net loss for the three months ended December 31, 2011 was ($2,043,700), or ($0.05) per share compared to a loss of ($514,500), or ($0.02) per share for the same period 2010. The net loss for the year ended December 31, 2011 was ($3,287,200), or ($0.09) per share compared to a loss of ($1,114,000), or ($0.04) for the same period 2010. The $1,529,200 and $2,173,200 negative changes respectively in net losses vs. 2010 have been moderated by a positive change in warrant liability totalling $5,000 and $1,220,200 respectively for the three months ended and year ended December 31, 2011.

Liquidity and Capital Resources

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

(in U.S. dollars except for ratios)	December 31 2011	*December 31 2010*
Current Ratio	1.7:1	*1.9:1*
Cash	$935,201	*$340,015*
Available operating line	$0	*$38,052*
Net Working Capital	$1,582,302	*$849,917*
Total Assets	$5,118,722	*$3,226,254*
Total Debt	$3,543,021	*$1,603,951*
Total Equity	$1,575,701	*$1,622,303*
Debt to Equity Ratio	2.25:1	*0.99:1*

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:

(in U.S. dollars)	December 31 2011	December 31 2010
Derivative liability – Warrants	$832,860	315,080

Total funding received from with the Southern Ontario Development Corporation (SODP) CAD $667,036. The contribution amount is repayable in 60 equal monthly payments commencing August 1, 2011. 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 December 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:

Year	Minimum Guaranteed Royalty
2011	$ 20,000
2012	411,000
2013	592,500
2014	756,000
2015	836,000

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 December 11, 2014. In accordance with the Agreement, the service cost to be paid by the Company over the term thereof is as follows:

Year	CAD $ IT Hosting Fees
2012	37,820
2013	37,820
2014	35,965

The Company has participated in a distribution program that induces participation in a nationwide campaign providing the right to return unsold product after 90 days on the shelf. These rights are extinguished if subsequent reorders are placed. The Company does not possess enough information to reasonably estimate potential returns under this program at date of publication.

Cash Flows

During the year ended December 31, 2011, CRS experienced negative cash flows used in operations of ($3,528,400) compared to a negative cash flow of ($1,356,900) for the same period in 2010. Reduction of accounts receivable and increases in accounts payable partially offset higher losses. The Company invested $1,129,400 in tooling and other capital equipment, development costs and patents in the year ended December 31, 2011 compared to $1,029,400 in the prior year. The Company's various financing activities generated $5,252,300 in cash flows for the year ended December 31, 2011 compared to $1,853,900 in the same period last year. The increase during the second quarter of 2011 is mainly attributable to the April 28, 2011 private placement offering generating gross proceeds of CAD $5,158,500.

The Company has reviewed its financial and strategic initiatives and developed a plan to counteract the challenges it faces. These plans are reliant upon the successful raise of additional capital. The Company is pursuing several initiatives to raising capital from both strategic and financial investors. In this regard, on April 25, 2012, the Company announced that it has entered into an agreement with an underwriter for a fully marketed private placement, the terms of which are to be determined in the context of the market. Net proceeds from the private placement will be used to fund operations, sales and marketing expenditures and for general corporate purposes. There is no certainty the private placement will close.

On April 26, 2012, the Company also completed a short term bridge financing in the form of a debenture with a second charge on the Company's assets in the amount of $300,000 to fund operations. The short term bridge is to be repaid from the proceeds of the private placement. The Company has also agreed, subject to regulatory approval, to issue to the debenture holder bonus interest in the form of shares of the Company.

Outstanding Share Data

As at December 31, 2011 and April 29, 2012 the Company had the following items issued and outstanding:

- 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**	991,624	30 months	$0.35
$0.51	**$0.70**	1,235,000	50 months	$0.60
Total		2,226,624	41 months	$0.48

2,226,624 options are exercisable as at December 31, 2011. The weighted average exercise price of these options is $0.48.

- 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.

- 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 entitles the agent to subscribe for one common share unit at a price of CAD $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:

	December 31 2011	December 31 2010
Wages and benefits	356,013	283,503
Stock based compensation	124,482	-
	480,495	283,503

Proposed Transactions

CRS is not a party to any proposed transactions, other than the financing initiatives being pursued as described elsewhere in this document, which may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

Critical Accounting Policies

The accounting estimates considered to be significant to the Company include revenue recognition, the impairment of long lived assets such as intangible assets and patents and trademarks, the valuation of inventory, the decision to capitalize development costs, and the computation of share-based payments expense and warrants.

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.

The Company holds a contract with a specific customer which allows for return of un-sold product 180 days from the invoice date for either credit or exchange. The Company records a sale on all goods initial shipped to the customer and provides a provision against this inventory held by the customer until the 180 day period is satisfied.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its internally-generated intangible assets arising from development, patents and trademarks, equipment, furniture and leaseholds and assets under capital leases, to determine whether any indication exists that any of those assets have suffered an impairment loss as described in note 8. 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 ("CGU") to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

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

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying 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.

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.

Research and development costs

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

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

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. For options granted to consultants, the same method of valuation is used unless the value of services provided is more readily determinable. It calculates the fair value using the Black-Scholes option valuation model and expenses this amount on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, crediting the amounts to other paid-in capital. It revises its estimate of the number of equity instruments expected to vest at the end of each reporting period, recognizing the impact of revising the original estimates, if any, in 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.

International Financial Reporting Standards ("IFRS")

For fiscal years commencing on or after January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. The three month period ended March 31, 2011 was the Company's first reporting period under IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010 (the "Transition Date").

The Company's IFRS conversion team identified four phases to the Company's conversion: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through the implementation phase. The post-implementation phase will continue in future periods, as outlined below.

Notes 2 and 20 of the accompanying audited consolidated financial statements provide details of the Company's key Canadian GAAP to IFRS differences, accounting policy decisions and first-time adoption exemptions applied.

The conversion to IFRS has had a low impact on the financial record keeping, internal controls and financial disclosures of the Company due to the exploration and project development nature of the Company's business. Accounting systems have been assessed and re-configured to ensure accurate reporting under IFRS.

Transitional financial impact

The following is a summary of the adjustments to net loss and other comprehensive loss for the year ended December 31, 2010 under IFRS (all of which are outlined in the notes to the accompanying audited consolidated financial statements):

Statements of Loss and comprehensive loss	**Year ended December 31, 2010**
As previously reported under Canadian GAAP	(1,420,176)
Foreign exchange (loss) gain and valuation adjustments (1)	94,637
Adjustment – derivative liability (2)	211,558
As reported in accordance with IFRS	(1,113,981)

(1) The Company, as a result of its interpretation of IFRS has a changed its functional currency of Canadian dollars to U.S. dollars. On translation to the presentation currency, U.S. dollars, the exchange gains/losses under IFRS are charged to other comprehensive income/loss. This treatment has resulted in a currency translation difference on conversion from Canadian GAAP to IFRS.

Transitional financial impact, continued

(2) Under IFRS, non-broker warrants issued in a currency other than the Company's functional currency as part of a unit offering do not meet the definition of equity as they violate the fixed-for-fixed principle due to the number of common shares issuable on exercise of the warrants fluctuating based on the U.S. dollar and Canadian dollar exchange rate. Under IFRS, the warrants are accounted for as financial instruments designated as financial liabilities at fair value through profit and loss (IAS 39.9) and subsequently measured at fair value (IAS 39.47a). These warrants are measured at fair value through profit and loss under IFRS (Note 15).

All of the above adjustments are non-cash accounting adjustments. There was no impact on total assets, total liabilities, and total shareholders' equity on converting from Canadian GAAP to IFRS as at December 31, 2010.

Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, financial instruments, and leases. The International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

Accounting standards issued but not yet applied

Certain pronouncements were issued by the IASB or IFRIC 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 financial statements, may have an effect on the Company's future results and financial position:

Amendments to IFRS 7 "Financial Instruments: Disclosures"

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company is in the process of evaluating the impact of the new standard.

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, 2015. 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 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)
- IAS 1 – Presentation of Other Comprehensive Income (Amendments to IAS 1 (Effective for periods beginning on or after July 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)

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	Loans and receivables
Accounts receivable	Loans and receivables
Government incentives receivable	Loans and receivables

Financial liabilities:	**Classification:**
Bank loans, accounts payable, notes payable, Debt and lease 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 FVTPL held-to-maturity or available-for-sale categories.

Financial assets, continued

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. Trade receivables are discounted by an allowance for doubtful accounts which reflects the net realizable value.

Financial liabilities

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

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

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

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

Financial liabilities, continued

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly; and

Level 3 – Inputs for assets or liabilities that are not based on observable market data.
The Company's derivative liability – warrants is classified within level 3 of the fair value hierarchy.

Derecognition of financial assets and liabilities

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

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 deferred income tax assets, the allowance for doubtful accounts receivable, the allowance for obsolete inventory, the useful lives of tangible and intangible assets, and the assumptions used in the assessment of impairment of long term assets. In all these cases, actual results could differ from the estimates that the Company used.

Risk and Uncertainties

Risks Related to CRS' Business

Failure of Business Strategy

There is no assurance that CRS' business strategy will succeed. The success of CRS' business strategy will depend on a number of factors. There is no assurance that CRS will be able to achieve its planned growth, that modifications to its strategy will not be required or that CRS will be able to effectively manage expanded operations and enhance profitability.

CRS has only recently begun the implementation of its business model involving the LED MR16, the LED PAR lamps, street lighting and contract manufacturing. CRS has a limited history of operations under this business model and upon which investors may base an assessment of its potential. There is no assurance that CRS' business model and proposed operations will be successful or that CRS will meet its stated business objectives.

Reliance on Channel Partners

CRS relies, in part, on channel partners as agents and distributors to expand distribution channels for its products and to grow its sales in indoor lighting, PAR lamps, street lighting and contract manufacturing. Failure by channel partners to expand CRS' customer and product base may have a material adverse effect on CRS' operating results. In the last two years, CRS has expanded into new business channels that are different from those that CRS has historically operated in. If CRS is unable to penetrate these new distribution channels to ensure its products are reaching the appropriate customer base, CRS' financial results may be impacted. In addition, if CRS successfully penetrates these new distribution channels, it cannot guarantee that customers will accept its products or that it will be able to manufacture and deliver them in the timeline established by its customers.

Management of Growth

CRS may face challenges managing its growth. CRS has experienced a period of significant growth over the past year that may challenge its management and other resources. CRS is also in the process of expanding its business to include additional product lines. In order to manage growth and change in business strategy effectively, CRS will continue to: expand sales, marketing and distribution; implement and improve operating and information technology systems; maintain adequate manufacturing facilities and equipment to meet customer demand; maintain a sufficient supply of component parts to support its growth; expand the skills and capabilities of current management team; add experienced senior level managers; attract and retain qualified people with experience in engineering, design, sales and marketing; and recruit and retain qualified manufacturing employees.

CRS expects to spend substantial amounts of money in supporting its growth and may have additional unexpected costs. CRS may not be able to expand quickly enough to exploit potential market opportunities. CRS' future operating results will also depend on expanding sales and marketing, research and development and administrative functions. If CRS cannot attract qualified people or manage growth and change effectively, its business, results of operations and financial condition could be adversely affected.

Strategic Opportunities

CRS will evaluate strategic opportunities available to it for product, technology or business acquisitions. If CRS chooses to make acquisitions, it will face certain risks, such as failure of the acquired business to meet CRS' performance expectations, diversion of management attention, retention of existing customers of its current and acquired business, and difficulty in integrating the acquired business's operations, personnel and financial and operating systems into its current business. CRS may not be able to successfully address these risks. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any acquisition could adversely affect CRS' business, results of operations and financial condition.

Risks Related to CRS' Operations

Fluctuation of Operating Results and Margins

CRS has experienced significant fluctuation in revenue, earnings and margins over the past three years, and it may experience significant fluctuations in revenue, earnings and margins in the future. Historically, the prices of LED products have declined based on market trends. CRS attempts to maintain its margins by constantly developing improved or new products, which provide greater value and result in higher prices, or by lowering the cost of its existing LED products. If CRS is unable to do so, its margins will decline.

Fluctuation of Operating Results and Margins, continued

CRS' operating results and margins may vary significantly in the future due to many factors, including the following: average sales prices for its products declining at a greater rate than anticipated; fluctuations in foreign currency as more of its revenue may be in U.S. dollars; ability to develop, manufacture and deliver products in a timely and cost-effective manner; variations in the amount of usable product produced during manufacturing; ability to improve yields and reduce costs in order to allow lower product pricing without margin reductions; increased reliance on and ability to ramp up capacity at its production facility; ability to ramp up production of new products; ability to produce higher brightness and more efficient LED products that satisfy customer design requirements; ability to continue improving current products and develop new products to specifications that meet the evolving needs of customers; changes in demand for products and customers' products that may cause fluctuations in revenue and possible inventory obsolescence; raw material price fluctuations, including certain commodities consumed in the production process; effects of an economic slowdown on both consumer and non-consumer spending on products that incorporate CRS' products; changes in the competitive landscape, such as inventions of new technology, availability of higher brightness LED products, higher volume production and lower pricing from competitors; changes in the mix of products CRS sells, which may vary significantly; product returns or exchanges due to quality-related matters or improper use of products; changes in purchase commitments permitted under the contracts with large customers; changes in production capacity and variations in the utilization of that capacity; disruptions of manufacturing that could result from fire, flood, drought or other disasters, particularly in the case of the single production facility; changes in legislation, regulations, or tax or accounting rules or changes in their interpretation; and costs to protect the intellectual property rights. These or other factors could adversely affect CRS' future operating results and margins.

Additional Financing Requirements and Access to Capital

CRS currently relies on revenue and borrowings to fund its daily operations and activities. If CRS is unable to generate sufficient operating cash flow or is unable to secure adequate debt or equity financing to cover its operating requirements, CRS' financial position may deteriorate. In addition, CRS may seek to obtain additional funds through a variety of sources including public or private equity or debt financing. There is no assurance that additional funding will be available if required, or that CRS will be able to establish any necessary banking arrangements or credit facilities, on acceptable terms or at all.

Reliance on Key and Qualified Personnel

CRS currently relies on its management team to oversee its core research, marketing, business development, operational and financing activities. If CRS loses the services of any of its management team and is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of CRS may be materially adversely affected. The successful implementation of the business plan also depends on the identification, engagement, training and retention of qualified inside sales, marketing communications and pre-sales engineering personnel. Failure to obtain and retain such qualified personnel may have an adverse impact on CRS' business, financial condition and results of operations.

Competition

The LED lighting market is highly competitive and has evolving technology standards. Competition is expected to intensify with increasing demand for LED products in the marketplace and government support of the industry. CRS' success will depend, among other things, upon the establishment of the CRS brand and the demonstration to customers of the benefits of CRS' products. There is no assurance that other companies with greater financial and technological resources will not develop a similar business model with greater perceived benefits or that CRS will be able to compete successfully against existing competitors or future entrants into the market. These competitors may reduce average sales prices faster than CRS' cost reduction, and competitive pricing pressures may accelerate the rate of decline of CRS' average sales prices. Therefore, CRS' ability to provide higher performance LEDs at lower costs will be critical to its success. Competitors may also try to align with some of CRS' strategic customers. This could mean lower prices for CRS' products, reduced demand for its products and a corresponding reduction in CRS' ability to recover development, engineering and manufacturing costs. Competitors also could invent new technologies that may make CRS' products obsolete. Any of these developments could have an adverse effect on CRS' business, results of operations and financial condition.

Intellectual Property

CRS' intellectual property consists of "know-how". CRS also keeps various trade secrets regarding its technology, marketing and other business operations. While CRS makes every effort to manage this information properly, there is no assurance that this information will not enter the public domain. Any unanticipated leak of such information or improper use of such information by a third party could have a material adverse effect on CRS' business, financial condition and results of operations.

Intellectual Property, continued

CRS is in the process of applying for patents and may seek patent protection for its technology in the future. The patent protection that CRS may obtain for its technology may not be adequate. If CRS is unable to maintain protection from direct competition or if its patents are ineffective, CRS' business, financial condition and results of operations could be materially adversely affected.

In the future, CRS may have to defend against potential litigation in connection with intellectual property rights and obligations, which will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which will adversely affect CRS' results of operation and financial position unless covered by insurance or recovered from third parties.

Risks Related to CRS and its Business Generally

Credit risk

The Company is exposed to credit risk in the event of non-performance to pay outstanding trade accounts receivable. One customer represents 29.2% of accounts receivable at December 31, 2011 (18.5% - December 31, 2010). The Company has purchased insurance from the export development corporation to compensate for this risk in addition to monitoring the status of accounts on a regular basis.

Trade accounts receivable are past due when a customer fails to make a payment when contractually due. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
Year ended December 31, 2011	$211,867	$112,910	$75,115	$27,907	$427,799
Year ended December 31, 2010	$337,930	$254,754	$64,295	$48,455	$705,434

Foreign Currency Risk

In any year CRS sells on average 76% of its products in U.S. dollars. On average in any year, approximately 40% of its expenses are incurred in U.S. dollars. When the value of the U.S. dollar changes to the value of the Canadian dollar, CRS can experience a foreign currency gain or loss on monetary items such as accounts payable and accounts receivable held by CRS during the period of change. CRS has not entered into any foreign currency derivative financial instruments; however, it may choose to do so in the future in an effort to manage or hedge the foreign exchange rate risk.

International Sales

CRS is subject to risks related to international sales. CRS expects that revenue from international sales will continue to represent the majority of its total revenue. International sales are subject to a variety of risks, including risks arising from currency fluctuations, tariffs, trade barriers, collection issues and taxes. International sales are subject to variability as prices become less competitive in countries with currencies that are low or are declining in value against the Canadian dollar and more competitive in countries with currencies that are high or increasing in value against the Canadian dollar. In addition, international sales are subject to numerous Canadian and foreign laws and regulations, including, without limitation, regulations relating to import-export control, and technology transfer restrictions. If CRS fails to comply with these laws and regulations, it could be liable for administrative, civil or criminal liabilities, and in the extreme case, its export privileges could be suspended, which could have a material adverse effect on CRS' business.

Rising Fuel Costs

CRS requires fuel in production and for transportation of purchased parts and shipments to customers. Fuel costs contribute to an increasing portion of CRS' operating costs and adversely impacted CRS' level of profitability. CRS will need to adopt measures to decrease the impact of high fuel costs. CRS may be able to reduce inbound freight costs by ordering parts in larger volumes. CRS also plans to ship to regional fulfillment centers in volume for distribution locally.

LED Diode Manufacturers Producing End Products

Currently, very few LED diode manufacturers produce lighting products or LED light engines. The diode manufacturers sell batches of lights to LED engine manufacturers, who in turn sell the LED light engine to fixture manufacturers. A trend is emerging that LED diode manufacturers are developing LED light engines for direct sale to LED fixtures manufacturers, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. In addition, LED diode manufacturers are producing fully equipped fixtures to the end users. CRS can deal with this risk by producing low cost, high quality light engines and end user fixtures. CRS is positioning itself, through vertical marketing, to end user industry sectors.

Customers Producing Own LED Light Engines

Existing or future customers may decide to produce LED light engines for their own products, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. The risk may not be that significant due to the complexity of the manufacturing and assembly of light engines. In addition, a customer's volume may not justify the equipment and tooling costs.

Development and Acceptance of New Products

CRS' operating results are substantially dependent on the development and acceptance of new products based on CRS' technology. CRS' future success may depend on its ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. CRS must introduce new products in a timely and cost-effective manner, and it must secure production orders for those products from its customers. The development of new products is a highly complex and lengthy process. The successful development and introduction of these products depends on a number of factors, including the following: achievement of technology breakthroughs required to make commercially viable devices; the accuracy of predictions of market requirements and evolving standards; acceptance of new product designs; acceptance of new technology in certain markets; availability of qualified research and development personnel; timely completion of product designs and development; ability to expand sales and influence key customers to adopt CRS' products; ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales; CRS' customers' ability to develop competitive products incorporating its products; and acceptance of CRS' customers' products by the market. If any of these or other factors become problematic, CRS may not be able to develop and introduce these new products in a timely or cost-effective manner.

Expansion Into New Markets

As a result of CRS' entry into and continued expansion into new markets, such as LED MR16 sales, its traditional customers may reduce orders. Through organic growth, CRS has moved into and continues to expand in new markets, such as LED MR16 and LED streetlights, where some of its current customers may now perceive CRS as a competitor. In response, CRS' customers may reduce their orders for CRS' products. This reduction in orders could occur faster than CRS' sales growth in these new markets, which could adversely affect CRS' business, results of operations and financial condition.

Market Share

Although the emerging and rapidly expanding LED lighting market holds significant opportunities, there is no assurance that CRS will achieve adequate market presence or market share required to achieve profitable operations.

Sourcing Automation Equipment

CRS requires equipment to reduce manpower costs per unit. If suitable equipment is not located, CRS can mitigate the risk by using additional manpower. CRS will need to control costs in the other areas of the manufacturing process to offset the additional manpower costs.

Customer Demand and Capacity

CRS' results of operations, financial condition and business would be harmed if it were unable to balance customer demand and capacity. As customer demand for CRS' products, particularly new products, changes, CRS must be able to ramp up or adjust its production capacity to meet demand. CRS will be taking steps to address its manufacturing capacity needs for its products. If CRS is not able to increase its capacity or if CRS increases its capacity too quickly, its business and results of operations could be adversely impacted. If CRS experiences delays or unforeseen costs associated with adjusting its capacity levels, it may not be able to achieve its financial targets.

Production Yields

Variations in CRS' production yields impact CRS' ability to reduce costs and could cause margins to decline and operating results to suffer. All of CRS' products are manufactured using technologies that are highly complex. The number of usable items, or yield, from the production processes may fluctuate as a result of many factors, including but not limited to the following: variability in the process repeatability and control; contamination of the manufacturing environment; equipment failure, power outages or variations in the manufacturing process; lack of consistency and adequate quality and quantity of piece parts; losses from human errors; defects in packaging; and any transitions or changes in the production process, planned or unplanned.

If the yields decrease, CRS' costs could increase, CRS' margins could decline and CRS' operating results would be adversely affected. In the past, CRS has experienced difficulties in achieving acceptable yields on new products, which has adversely affected its operating results. CRS may experience similar problems in the future and it cannot predict when they may occur or their severity. In some instances, CRS may offer products for future delivery at prices based on planned yield improvements. Reduced yields or failure to achieve planned yield improvements could continue to significantly affect CRS' margins and operating results.

Reliance on Suppliers

CRS relies on a few key suppliers for certain components, services and equipment used in manufacturing its products, including key materials and equipment used in critical stages of CRS' manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to three months or longer. Where possible, CRS is attempting to identify alternative sources for suppliers. CRS generally purchases these items with purchase orders, and has limited guaranteed supply arrangements with such suppliers. CRS does not control the time and resources that these suppliers devote to CRS' business and it cannot be sure that these suppliers will perform their obligations to CRS.

Reliance on Suppliers, continued

In the past, CRS has experienced decreases in its production yields when suppliers have varied from previously agreed upon specifications that have impacted CRS' cost of sales. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent CRS from meeting commercial demand for its products. If CRS loses key suppliers, the key suppliers are unable to support CRS' demand or CRS is unable to identify and qualify alternative suppliers, CRS' manufacturing operations could be interrupted or hampered significantly.

Government Funding

If government agencies discontinue or curtail their funding for CRS' research and development programs, CRS' business may suffer. Historically, government agencies have funded a significant portion of CRS' research and development activities. When the government changes budget priorities, CRS' funding has the risk of being redirected to other programs. If government funding is discontinued or reduced, CRS' ability to develop or enhance products could be limited, and its business, results of operations and financial condition could be adversely affected.

Customer Satisfaction

If CRS' products fail to perform or meet customer requirements, CRS could incur significant additional costs. The manufacture of products involves highly complex processes. CRS' customers specify quality, performance and reliability standards that CRS must meet. If CRS' products do not meet these standards, CRS may be required to replace or rework the products. In some cases, CRS products may contain undetected defects or flaws that only become evident after shipment. CRS has experienced product quality, performance or reliability problems from time to time. Defects or failures may occur in the future. If failures or defects occur, CRS could: lose revenue; incur increased costs, such as warranty expense and costs associated with customer support; experience delays, cancellations or rescheduling of orders for its products; write down existing inventory; or experience product returns.

Taxes

Changes in CRS' effective tax rate may have an adverse effect on its results of operations. CRS' future effective tax rates may be adversely affected by a number of factors including: changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles; the jurisdiction in which profits are determined to be earned and taxed; the resolution of issues arising from tax audits with various authorities; changes in the valuation of deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development; and changes in available tax credits.

Any significant increase in future effective tax rates could adversely impact net income for future periods. In addition, the determination of income tax provision requires significant judgment. To the extent CRS' income tax liability materially differs from CRS' income tax provisions and accruals due to factors, including the above, that were not anticipated at the time CRS estimated its tax provision, its net income or cash flows could be adversely affected.

Catastrophic Events

Catastrophic events or geo-political conditions in North America may disrupt CRS' business. A disruption or failure of CRS' systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack or other catastrophic event could cause delays in completing sales or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption to the supply chain or any of the critical business or information technology systems could severely affect CRS' ability to conduct normal business operations and, as a result, CRS' operating results could be adversely affected. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could result in an adverse effect on CRS' business and results of operations.