

INTERIM FINANCIAL STATEMENTS

CRS ELECTRONICS INC.

As at March 31, 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of CRS Electronics Inc. (the "Company" or "CRS"), were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the financial statements for the year ended December 31, 2009. Only changes in accounting policies have been disclosed in these unaudited interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

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

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

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

NOTICE TO READER

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CRS ELECTRONICS INC.
Balance Sheets – Unaudited

As at March 31, 2010 and December 31, 2009

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$297,565	\$913,557
Accounts receivable (Note 4)	653,029	391,219
Income taxes receivable (Note 13)	51,944	40,404
Inventory (Note 5)	896,485	414,386
Deposits and prepaid expenses	67,153	47,747
	1,966,176	1,807,313
Long-term Assets		
Equipment, furniture and leaseholds (Note 6)	704,605	402,013
Assets under capital leases (Note 7)	13,173	14,167
Deferred development costs (Note 8)	508,926	333,356
	\$3,192,880	\$2,556,849
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 9)	\$0	\$0
Accounts payable and accrued liabilities	1,206,730	375,403
Customer deposits	43,788	3,408
Notes payable (Note 10)	86,748	204,559
Current portion of long-term debt (Note 11)	41,224	51,926
Current portion of long-term lease obligations (Note 12)	5,830	6,785
	1,384,320	642,081
Long-term liabilities		
Long-term debt (Note 11)	69,207	75,173
Long-term lease obligations (Note 12)	4,165	5,200
	1,457,692	722,454
Nature of operations and going concern (Note 1)		
Commitments and contingencies (Note 18)		
Subsequent events (Note 19)		
SHAREHOLDERS EQUITY (DEFICIT)		
Share capital (Note 14)	2,807,437	2,646,577
Warrants (Note 14)	198,129	198,129
Contributed surplus (Note 14)	189,477	209,159
Retained deficit	(1,459,855)	(1,219,470)
	1,735,188	1,834,395
	\$3,192,880	\$2,556,849

The accompanying Notes form an integral part of these financial statements.

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director

Signed "Jason Sparaga" Director

CRS ELECTRONICS INC.

Statements of Operations and Comprehensive Loss - Unaudited

Three months ended March 31	<u>2010</u>	<u>2009</u>
SALES	\$653,807	\$429,997
Cost of sales	519,468	307,256
GROSS PROFIT	134,339	122,741
EXPENSES		
Engineering, research and development	1,413	3,886
Sales, general and administrative	366,609	208,565
SRED refundable tax credits and grant funding	(3,773)	(8,886)
Foreign exchange (gains) losses	(1,089)	4,490
Gain on sale of capital assets	(1,886)	—
Interest on short-term debt	5,582	13,102
Interest on long-term debt	2,288	3,375
Depreciation	5,580	3,257
	374,724	227,789
INCOME (LOSS) BEFORE INCOME TAXES	(240,385)	(105,048)
Future income taxes recovery	—	—
NET (LOSS) AND COMPREHENSIVE (LOSS)	(\$240,385)	(\$105,048)
(Loss) per share - basic and fully diluted	(\$0.01)	(\$0.01)
Weighted average of common shares outstanding.		
- basic and fully diluted	28,046,708	15,590,441

The accompanying Notes form an integral part of these financial statements.

CRS ELECTRONICS INC.

Statements of Cash Flows – Unaudited

Three months ended March 31

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Net (loss) for the period	(\$240,385)	(\$105,048)
Items not affecting cash		
Amortization of product development costs	6,455	6,632
Depreciation	27,900	16,283
Gain on sale of capital asset	(1,886)	—
	(207,916)	(82,133)
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(261,810)	(45,103)
Income taxes receivable	(11,540)	(24,524)
Inventory	(482,099)	(20,223)
Deposits and prepaid expenses	(19,406)	(7,878)
Prepaid transaction costs	—	(13,414)
Accounts payable and accrued liabilities	831,327	106,353
Customer deposits	40,380	(19,181)
Cash (used in) provided by operating activities	(111,064)	(106,103)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	(333,927)	(3,763)
Proceeds on sale of fixed assets.	6,315	—
Deferred development costs	(182,024)	(27,150)
Cash (used in) investing activities	(509,636)	(30,913)
FINANCING ACTIVITIES		
Long-term debt repayments	(16,669)	(12,920)
Line of credit advances	—	126,791
Capital lease obligation repayments	(1,990)	(2,051)
Note payable advances	—	25,000
Note payable repayments	(117,811)	—
Issuance of common shares	141,178	—
Cash provided by (used in) financing activities	4,708	136,820
Net (decrease) increase in cash and cash equivalents	(615,992)	(196)
Cash and cash equivalents, beginning of period	913,557	10,512
Cash and cash equivalents, end of period	\$297,565	\$10,316
The following cash flow are included in operating activities:		
Income taxes (paid) refunded	\$ —	\$ —
Interest paid	\$7,870	\$16,477

The accompanying Notes form an integral part of these financial statements.

CRS ELECTRONICS INC.

Statement of Shareholders' Equity (Deficiency) – Unaudited

As at March 31, 2010

	Share capital	Warrants	Contributed Surplus	Deficit	Total
Balance, December 31, 2008	\$150,100	\$ —	\$ —	(\$220,779)	(\$70,679)
Net (loss) for the year	—	—	—	(998,691)	(998,691)
Issuance of common shares and warrants	2,012,508	—	—	—	2,012,508
Value attributed to warrants on private placements	(198,129)	198,129	—	—	—
Issuance of common shares in Qualifying Transaction	678,408	—	—	—	678,408
Stock based compensation	—	—	212,849	—	212,849
Transfer from contributed surplus on exercise of stock options	3,690	—	(3,690)	—	—
Balance, December 31, 2009	\$2,646,577	\$198,129	\$209,159	(\$1,219,470)	\$1,834,395
Net (loss) for the period	—	—	—	(240,385)	(240,385)
Issuance of common shares	141,178	—	—	—	141,178
Transfer from contributed surplus on exercise of stock options	19,682	—	(19,682)	—	—
Balance, March 31, 2010	\$2,807,437	\$198,129	\$189,477	(\$1,459,855)	\$1,735,188

The accompanying Notes form an integral part of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated under the Canada Business Corporations Act on October 25, 1998 and continues on pursuant to a Certificate of Amalgamation dated September 1, 2009, with its head office located in Welland, Ontario, Canada. The principal activities of the Company are the development, manufacture and sale, primarily in North America, of child safety systems for school buses; exterior lighting on school buses based on incandescent and light emitting diode technology ("LED"); contract manufacturing of LED light boards; and LED based interior and exterior lighting products.

These financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Due to the losses incurred by the Company in 2008 and 2009 and in the current quarter ended March 31, 2010 and negative cash flows relating thereto, there exists some uncertainty with respect to the Company's ability to continue as a going concern. During this period, the Company was and continues to be in the process of introducing new LED based products. As a result, marketing and administrative expenses increased during the period at a higher rate than revenues. The Company has taken steps to increase sales and has demonstrated its ability in the recent year to obtain additional equity to finance a growth in operations and mitigate the effects of historical losses. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These interim statements have been prepared without audit by the management of CRS Electronics Inc. ("Company") or the ("CRS") in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and expressed in Canadian dollars unless otherwise noted. Accordingly, they do not contain all of the disclosures required by Canadian GAAP for annual financial statements. These financial statements should be read in conjunction with the Company's most recent audited annual financial statements for the year end December 31, 2009, as they follow the same accounting policies and methods of their application as the annual financial statements for the year ended December 31, 2009. The results for the period are not necessarily indicative for the results to be expected for the year ending December 31, 2009.

Significant accounting policies

The significant accounting policies have not changed from the significant accounting policies disclosed in the audited financial statements for the year ended December 31, 2009.

3. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and short-term, highly liquid deposits with original maturities of less than 90 days at the date of acquisition. The composition of cash and cash equivalents at March 31, 2010 and December 31, 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Cash	\$97,565	\$163,557
Term deposit	200,000	750,000
	<u>\$297,565</u>	<u>\$913,557</u>

4. ACCOUNTS RECEIVABLE

As at March 31, 2010 and December 31, 2009

	<u>2010</u>	<u>2009</u>
Trade accounts receivable	\$629,908	\$361,521
GST recoverable	32,661	36,606
Other receivables	2,960	3,092
Allowance for doubtful accounts	(12,500)	(10,000)
	<u>\$653,029</u>	<u>\$391,219</u>

A bus manufacturer based in the United States represents 46.4% of the trade accounts receivable on March 31, 2010, (26.4% on December 31, 2009). These outstanding accounts are insured by the Export Development Corporation.

5. INVENTORY

As at March 31, 2010 and December 31, 2009

	<u>2010</u>	<u>2009</u>
Finished goods	\$126,514	\$211,536
Raw materials	642,316	169,816
Inventory in transit	121,630	21,993
Sample inventory	6,025	11,041
	<u>\$896,485</u>	<u>\$414,386</u>

6. EQUIPMENT, FURNITURE AND LEASEHOLDS

As at March 31, 2010

	Annual Depreciation Rates	Asset at Cost	Accumulated Depreciation	Net Book Value
Office furniture and equipment	20%	\$53,946	\$29,246	\$24,699
Tools, moulds and dies	33% S.L.	142,267	39,154	103,113
Computer equipment	30%	55,185	3,167	52,018
Computer software	30%	48,676	18,938	29,738
Vehicles	30%	17,454	17,066	388
Production equipment	20%	644,168	233,920	410,248
Leasehold improvements	20% S.L.	117,109	32,709	84,400
		\$1,078,805	\$374,200	\$704,605

As at December 31, 2009

	Annual Depreciation Rates	Asset at Cost	Accumulated Depreciation	Net Book Value
Office furniture and equipment	20%	\$47,440	\$28,177	\$19,263
Tools, moulds and dies	33% S.L.	95,959	32,062	63,897
Computer equipment	30%	85,716	41,895	43,821
Computer software	30%	45,876	18,739	27,137
Vehicles	30%	17,454	17,035	419
Production equipment	20%	406,552	232,814	173,738
Leasehold improvements	20% S.L.	101,029	27,291	73,738
		\$800,026	\$398,013	\$402,013

7. ASSETS UNDER CAPITAL LEASES

As at March 31, 2010

	Annual Depreciation Rates	Asset at Cost	Accumulated Amortization	Net Book Value
Computer software	30%	\$8,459	\$3,804	\$4,655
Production equipment	20%	3,817	1,206	2,611
Computer hardware	30%	9,123	3,216	5,907
		\$21,399	\$8,226	\$13,173

As at December 31, 2009

	Annual Amortization Rates	Asset at Cost	Accumulated Amortization	Net Book Value
Computer software	30%	\$8,459	\$3,426	\$5,033
Production equipment	20%	3,817	1,069	2,748
Computer hardware	30%	9,123	2,737	6,386
		\$21,399	\$7,232	\$14,167

CRS Electronics Inc. – Notes to the Financial Statements – March 31, 2010

Depreciation was reported on the Statement of Operations as follows:

	Three months ended March 31	
	2010	2009
Cost of sales	\$22,320	\$13,026
Depreciation expense	5,580	3,257
	\$27,900	\$16,283

8. DEFERRED DEVELOPMENT COSTS

As at March 31, 2010

	Asset at Cost	Accumulated Amortization	Net Book Value
Product development	\$569,004	\$60,078	\$508,926

As at December 31, 2009

	Asset at Cost	Accumulated Amortization	Net Book Value
Product development	\$386,981	\$53,625	\$333,356

Deferred development costs are amortized over five years from the time the product is ready for sale. During the three months ended March 31, 2010, amortization expense of \$6,455 was charged to cost of sales (2009 - \$6,632).

9. BANK INDEBTEDNESS

The Company has an operating line of credit in the amount of \$320,000.

The operating line of credit (and certain long-term debt, see note 11) is secured by a general security agreement, representing a first and fixed floating charge over the assets and undertakings of the Company, assignment of adequate public liability and fire insurance acknowledging the Credit Union Syndicate as first loss payees and a personal guarantee by two of the shareholders and officers of the Company in the amount of \$200,000. Interest on the outstanding balance is charged on a monthly basis at a rate of prime plus 1.5% per annum.

10. NOTES PAYABLE

As at March 31, 2010 and December 31, 2009

	2010	2009
Supplier loan for tooling - non-interest bearing, payable when certain parts are shipped. The final payment was made in March, 2010.	\$ —	\$32,252
Extended payments on debt with a law firm - non-interest bearing, 12 monthly payments on principal equal to \$15,513 commencing August 27, 2009 maturing July 29, 2010.	77,561	124,100
Settlement on a debt with a consultant - non-interest bearing, with the remaining principal repayments of \$10,500 per month to December 15, 2009. The final payment on the note was made in January 2010.	—	10,500
Settlement on a debt with a past employee - non-interest bearing, principal repayments of \$9,461 per month to May 7, 2010	9,187	37,707
	\$86,748	\$204,559

11. LONG-TERM DEBT

The long-term debt as at March 31, 2010 and December 31, 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
PenFinancial Credit Union - Prime plus 2% payable in blended monthly installments of \$3,844, due to June 30, 2010	\$18,236	\$29,419
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of \$1,038, maturing March 29, 2012	24,140	26,680
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of \$1,440, maturing December 20, 2014	68,055	71,000
	110,431	127,099
Less principal due within one year	(41,224)	(51,926)
	<u>\$69,207</u>	<u>\$75,173</u>

The PenFinancial loans (and the operating line of credit, see note 9) are secured by a registered general security agreement, representing a first fixed and floating charge over the assets and undertakings of the Company. There is also a personal guarantee for \$200,000 executed by two shareholders and officers of the Company.

Contribution Agreement (CA) with the Southern Ontario Development Corporation

In March 2010, the Company signed a Contribution Agreement with the Southern Ontario Development Corporation, a Crown Corporation of the Government of Canada for a maximum contribution amount of \$825,595. The contribution amount is based on 50% of eligible capital costs and 75% of eligible non-capital costs for projects to develop indoor and outdoor lighting and to increase the production capacity of the Company's facility in Welland, Ontario. The contribution amount is repayable over six years. No payments are required until April 1, 2011. The contribution amount is then repayable in 60 monthly payments equal to \$13,760 from April 1, 2010 to March 1, 2016. No interest is payable on the undrawn balance of the contribution amount. No assets of the Company currently owned or to be acquired under the CA will be pledged as security. As at March 31, 2010, no contributions had been received under the CA. The Company is in the process of applying for reimbursement of approximately \$179,000 of eligible expenditures made in the first quarter of fiscal 2010.

12. OBLIGATIONS UNDER CAPITAL LEASES

The following is a schedule of minimum lease payments under the capital leases expiring in 2010 and 2011, together with the balance of the obligation:

Years ending	2010	\$6,649
	2011	<u>4,421</u>
		11,070
Less: amount representing interest at 12%		<u>(1,075)</u>
		9,995
Less current portion		<u>(5,830)</u>
		<u>\$4,165</u>

13. INCOME TAXES RECEIVABLE

The Scientific Research and Experimental Development Tax Credits (“SRED”), offered by the Government of Canada and the Innovation Tax Credits (“ITC”) offered by the Ontario Provincial Government are awarded for expenditures on research and development. The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development costs. The tax credits that relate to research are recorded as a reduction of expenses on the statement of operations and comprehensive loss. As a result of becoming a publicly traded company in May 2009, the SRED tax credit rate decreased to 20% from 35% of expenditures and the SRED is no longer a refundable tax credit payable in cash to the Company but can only be applied against income taxes payable in the current and future periods. The Company continues to file for both the SRED and ITC. A valuation allowance for the SRED tax credit receivable is provided for until such time that the Company is virtually certain the benefit of the SRED tax credit will be realized.

As at March 31, 2010 and December 31, 2009

	<u>2010</u>	<u>2009</u>
Ontario Innovations Tax Credit	\$51,944	\$40,404
Scientific Research and Experimental Development Tax Credit	85,329	76,882
Valuation allowance	<u>(85,329)</u>	<u>(76,882)</u>
	<u>\$51,944</u>	<u>\$40,404</u>

The SRED and the ITC tax credits are based on the Company having incurred expenses which in management’s opinion qualify as research and development costs under the Income Tax Act of Canada. These expenses are subject to review and approval by the Canada Revenue Agency and accordingly, the actual credits received may differ from the recorded amounts. Any such adjustments will be made in the year in which the refunds are received or applied against future income taxes due.

14. SHARE CAPITAL

Shares

Authorized

Unlimited number of common shares

Issued and outstanding

28,405,950 common shares. The common share transactions over the period are as follows:

	<u>Number of shares</u>	<u>Amount</u>
Balance December 31, 2008	37,666,667	\$150,100
Common shares of CRS Electronics Inc. redeemed for exchange for common shares of Podium Capital Corporation	(37,666,667)	—
Common shares of Podium Capital Corporation issued for common shares of CRS Electronics Inc.	15,887,427	—
Common shares issued in the Qualifying Transaction	6,648,667	678,408
Issuance of common shares for cash	5,399,253	1,814,379
Transfers from contributed surplus on exercise of options	—	3,690
Balance December 31, 2009	<u>27,935,347</u>	<u>\$2,646,577</u>
Issuance of common shares for cash	470,603	141,178
Transfers from contributed surplus on exercise of options	—	19,682
Balance March 31, 2010	<u>28,405,950</u>	<u>\$2,807,437</u>

[a] Common stock

Issuance of common shares for cash:

Exercise of agents options

During the quarter, 66,007 common shares were issued through the exercise agents options at a price of \$0.30 per common share for gross proceeds of \$19,802.

Exercise of stock options

During the quarter, 404,596 common shares were issued through the exercise of stock options under the Employee Stock Option Plan at a price of \$0.30 per common share for gross proceeds of \$121,376.

[b] Warrants

Series A warrants

On September 30, 2009, the Company issued 1,749,999 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.50 per common share no later than September 30, 2010. The warrants are not registered for trading and all common shares issued through the exercise of warrants were restricted from trading until February 1, 2010. As at March 31, 2010, 1,749,999 half-warrants, that entitled the warrant holders to purchase 874,998 common shares, were outstanding.

Series B warrants

On December 29, 2009, the Company issued 2,777,777 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.65 per common share no later than December 22, 2010. The warrants are not registered for trading and all common shares issued through the exercise of warrants are restricted from trading until April 24, 2010. As at March 31, 2010, 2,777,777 half-warrants, that entitled the warrant holders to purchase 1,388,887 common shares, were outstanding.

[c] Stock options

Employee Stock Option Plan

In 2008, CRS established a stock option plan whereby directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares of the Company. Under this stock option plan the Company may grant stock options to directors, senior officers, employees' and advisors and is authorized to issue options to acquire up to 10% of the issued and outstanding shares of the Company. The Board of directors administers the plan and determines the vesting and other terms of each award.

CRS Electronics Inc. – Notes to the Financial Statements – March 31, 2010

A summary of the Company's stock option activity during the three months ended March 31, 2010 and during the year ended December 31, 2009 are as follows:

	2010		2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of period	1,705,436	\$0.31	1,450,553	\$0.30
Cancellation of CRS employee options	—	—	(1,450,553)	0.30
Replacement options to CRS employees	—	—	880,070	0.30
Podium stock options	—	—	664,866	0.30
Granted	7,500	—	215,000	0.36
Exercised	(404,596)	0.30	(54,500)	0.30
Outstanding, end of period	1,308,340	\$0.31	1,705,436	\$0.31

Stock options granted during the year vest after a four month period. At that time the stock options are valued using the Black-Scholes option pricing model. On January 7, 2010, three employees were issued 2,500 stock options each. The stock options will be valued upon vesting in the second quarter of 2010.

Under the Plan the total number of stock options that may be outstanding at any time is equal to 10% of the common shares outstanding. The remaining number of options available to be granted under the plan is 1,532,255.

The following table summarizes information about options outstanding as at March 31, 2010:

Range of exercise prices		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.30	\$0.50	1,278,340	2.5 years	\$0.30
\$0.51	\$0.70	30,000	4.5 years	\$0.52
Total		1,308,340	2.6 years	\$0.31

Agent's options and charitable options

During the quarter 66,007 agent's options were exercised for gross proceeds equal to \$19,802. The balance at the end of the period was 349. Subsequent to the end of the quarter, the remaining balance expired unexercised on April 2, 2010.

On 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.

[d] Contributed surplus

Contributed surplus was generated from issuing stock-based remuneration to employees, directors and consultants. The changes in contributed surplus during the period compared for the three months ended March 31, 2010 and for the year ended December 31, 2009 were comprised of the following:

	<u>2010</u>	<u>2009</u>
Opening Balance	\$209,159	\$ —
From the granting of employee stock options	—	212,849
Transfers to common stock on exercise of options	(19,682)	(3,690)
Balance March 31, 2010 and December 31, 2009	<u>\$189,477</u>	<u>\$209,159</u>

15. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income. The Company has incurred debt financing and therefore net earnings generated from operations are generally not available for reinvestment in the Company or distribution of the Company's shareholders. In order to finance future capital expenditures and working capital required to sustain a growth in operations, the Company recognizes the need to increase its capital base through the issuance of common shares or other equity based financial instruments.

The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. In the future, the Board of Directors will review on a quarterly basis the level of dividends paid to the Company's shareholders and monitor all other capital management activities. The Company does have plans to pay dividends within the next year.

The Company has margin requirements and covenants on its operating line and certain long-term debt that may require increases in capital. As at March 31, 2010 the Company had not drawn on the line of credit.

16. ECONOMIC DEPENDENCE

The Company has one customer that accounted for 47.7% of sales during the quarter (for the year ended December 31, 2009 – 39.9%).

17. FINANCIAL INSTRUMENTS

[a] Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and notes payable are considered to be representative of their respective fair values due to their short-term period to maturity. The fair value of bank indebtedness, long-term debt and capital lease obligations approximates carrying value as the instruments bear interest at market rates.

[b] Credit risk

The Company is exposed to credit risk in the event of non-performance to pay outstanding trade accounts receivable. One customer represents 46.4% of the accounts receivable at period end (26.4% - December 31, 2009). 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
As at March 31, 2009	\$215,363	\$194,475	\$113,090	\$106,979	\$629,908
As at December 31, 2009	\$200,458	\$93,640	\$38,893	\$28,530	\$361,521

[c] Interest rate risk

The Company is exposed to interest rate risk related to its short term credit facilities and to a portion of its long-term debt since the interest rate charged on these facilities fluctuates with the general level of interest rates.

It is management's opinion that the Company is not exposed to significant interest rate risk arising from its financial instruments.

[d] Foreign currency risk

The Company is exposed to currency risk as the Company has purchases and sales which are transacted in U.S. currency and therefore is exposed to exchange rate fluctuations. At March 31, 2010 and December 31, 2009 the following accounts were denominated in U.S. dollars:

	2010	2009
Cash	\$121,799	\$26,115
Trade accounts receivable	\$489,154	\$235,901
Trade accounts payable	(\$840,379)	(\$78,384)
Short-term notes payable	\$ —	(\$30,625)

A 10% change in the average exchange rate between Canadian and U.S. dollars on the financial instruments would have a \$23,000 negative effect on the net loss and comprehensive loss, in Canadian dollars.

18. COMMITMENTS AND CONTINGENCIES

The Company has the following commitments outstanding:

- a) The Company leases its premises under a lease agreement that was renewed for a period from April 1, 2010 through July 31, 2013 at a rate of \$3,831 per month. The Company also has an option that expires June 1, 2010, on a second unit in the same facility at a rate of \$1,315 per month for the period from August 1, 2010 through July 31, 2013.

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- b) The Company leases a photocopier requiring quarterly payments of \$2,009 until June 2011.

Due to the nature of the business, the Company may have unspecified contingent liabilities that are not known to the Company at the end of the year. The Company will recognize contingent liabilities in a future period when the contingent liability becomes known to the Company.

19. SUBSEQUENT EVENTS

- a) Subsequent to the period end, 177,477 stock options were exercised for the issuance of 177,477 common shares for gross proceeds equal to \$52,243.

- b) Also subsequent to the end of the period, the CFO of the Company resigned. Under an existing employment agreement the employee will be paid salary and benefits for a period of six months. An expense equal to \$63,400 will be recorded in the second quarter of 2010.

20. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Some amounts reported for the period ended March 31, 2009 have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.