

**CRS ELECTRONICS INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**Unaudited, in U.S. dollars**

**As at June 30, 2011**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited condensed interim financial statements of CRS Electronics Inc. (the "Company" or "CRS") as at and for the six month period ended June 30, 2011, were prepared by management in accordance with IAS 34, interim financial reporting, and IFRS 1, First-time adoption of International Financial Reporting Standards ("IFRS"), as issued by the IASB. The comparative figures as at December 31, 2010, and for the three and six months ended June 30, 2010 have been restated to comply with IFRS. For details on the most significant adjustments to the statements of financial position, loss, and comprehensive loss and cash flows, see note 18 – Impact of adopting IFRS, as well as CRS's filings with Canadian securities regulatory authorities that are available at [www.sedar.com](http://www.sedar.com).

In preparing these 2011 unaudited condensed interim financial statements, the Company has amended certain accounting policies it previously applied in the Canadian GAAP financial statements to comply with IFRS, and has restated the 2010 comparative figures to reflect these adjustments. Note 18 to these financial statements reconcile the effect of the transition on the Company's equity and comprehensive loss. Only changes in accounting policies have been disclosed in these unaudited condensed interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited condensed 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 condensed interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim financial statements and (ii) the unaudited condensed interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim financial statements.

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

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

### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed 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 condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

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

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,822,339	\$ 340,015
Accounts receivable (Note 3)	536,315	707,649
Government incentives receivable (Note 12)	305,759	148,701
Inventory (Note 4)	769,130	533,049
Deposits and prepaid expenses	166,789	86,360
	5,600,332	1,815,774
<b>Non-current assets</b>		
Equipment, furniture and leaseholds (Note 5)	655,390	600,003
Patents and trademarks (Note 6)	326,225	197,562
Intangible assets – development costs (Note 7)	620,598	612,915
	\$ 7,202,545	\$ 3,226,254
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 8)	\$ 116,671	\$ 283,676
Trade and other payables provisions	751,094	562,400
Notes payable (Note 9)	14,038	38,377
Current portion of debt obligations (Note 10)	153,312	76,962
Current portion of finance lease obligations (Note 11)	3,212	4,442
	1,038,327	965,857
<b>Non-current liabilities</b>		
Debt obligations (Note 10)	634,660	322,228
Finance lease obligations (Note 11)	-	786
Derivative Liability - Warrants (Note 13)	1,924,878	315,080
	3,597,865	1,603,951
<b>Nature of operations (Note 1)</b>		
<b>Commitments and Contingencies (Note 17)</b>		
<b>Subsequent events (Note 21)</b>		
<b>EQUITY</b>		
Share capital (Note 14)	6,461,961	3,589,339
Shares to be issued	-	9,706
Other paid-in capital	480,143	275,706
(Deficit)	(3,337,424)	(2,252,448)
	3,604,680	1,622,303
	\$ 7,202,545	\$ 3,226,254

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" DirectorSigned "Jason Sparaga" Director**CRS ELECTRONICS INC.**

Condensed Interim Statements of  
Loss and Comprehensive Loss  
Unaudited, in U.S. dollars

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2011	2010	2011	2010
<b>SALES</b>	<b>\$ 614,900</b>	\$ 857,202	<b>\$ 1,154,716</b>	\$ 1,483,886
Cost of sales	<b>632,886</b>	635,139	<b>1,152,810</b>	1,133,818
<b>GROSS PROFIT</b>	<b>(17,986)</b>	222,063	<b>1,906</b>	350,068
<b>EXPENSES</b>				
Engineering, research and development	<b>85,669</b>	12,812	<b>165,716</b>	14,101
Selling and marketing	<b>264,694</b>	202,772	<b>371,885</b>	311,768
General and administrative	<b>488,529</b>	415,381	<b>903,371</b>	662,483
SRED refundable tax credits and grant funding	<b>(12,376)</b>	(13,499)	<b>(40,853)</b>	(17,065)
Foreign exchange (gains) losses	<b>2,675</b>	(2,667)	<b>6,719</b>	(3,703)
Finance costs – short-term debt obligations	<b>6,820</b>	7,133	<b>12,571</b>	12,487
Finance and accretion costs – long-term debt obligations	<b>3,996</b>	493	<b>14,881</b>	2,645
Loss (gain) on sale of capital assets	-	-	-	(1,823)
Change in warrant liability	<b>(277,054)</b>	(330,593)	<b>(339,826)</b>	(78,030)
	<b>562,953</b>	291,832	<b>1,094,464</b>	902,863
LOSS BEFORE INCOME TAXES				
INCOME TAXES	<b>(580,939)</b>	(69,769)	<b>(1,092,558)</b>	(552,795)
Foreign exchange (loss) gain and valuation adjustments	<b>12,646</b>	31,529	<b>7,582</b>	38,462
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (568,293)</b>	\$ (38,240)	<b>\$ (1,084,976)</b>	\$ (514,333)
Loss per share - basic and fully diluted	(0.02)	0.00	(0.03)	(0.02)
Weighted average number of common shares outstanding - basic and fully diluted	<b>37,750,089</b>	28,526,156	<b>34,480,115</b>	28,274,484

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

**CRS ELECTRONICS INC.**

Condensed Interim Statements of Cash Flows  
Unaudited, in U.S. dollars

For the 6 month period ending June 30

	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net (loss) for the period	\$ (1,084,976)	\$ (514,333)
Items not affecting cash		
Stock based compensation	88,976	2,777
Change in warrant liability	(339,826)	(78,030)
Amortization of intangible assets	57,604	14,716
Depreciation of capital assets	99,508	61,113
Accretion expense	15,330	-
Loss (gain) on sale of capital assets	-	(1,823)
Net change in non-cash working capital items relating to operating activities	(1,163,384)	(515,580)
Accounts receivable	171,334	(407,733)
Government incentives receivable	(157,058)	(27,128)
Inventory	(236,081)	(462,028)
Deposits and prepaid expenses	(80,429)	(5,657)
Trade and other payables provisions	188,694	781,952
Deposits	-	-
Cash (used in) provided by operating activities	(1,276,924)	(636,174)
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture, and leaseholds	(154,895)	(396,274)
Proceeds on sale of capital assets	-	6,105
Additions to intangible assets – development costs	(65,287)	(316,226)
– patent and trademark costs	(128,663)	(51,380)
Cash (used in) investing activities	(348,845)	(757,775)
<b>FINANCING ACTIVITIES</b>		
Advances from notes payable, net of repayments	(24,339)	(162,005)
Advances from line of credit (repayment)	(167,005)	61,688
Finance lease obligation repayments	(2,016)	(4,031)
Advances from debt obligations, net of repayments	373,452	143,428
Issue of warrants	1,949,624	-
Issue of common shares	2,978,377	485,635
Cash provided by financing activities	5,108,093	524,715
Net increase (decrease) in cash and cash equivalents	3,482,324	(869,234)
Cash and cash equivalents, beginning of period	340,015	869,234
Cash and cash equivalents, end of period	\$ 3,822,339	\$ -
The following cash flows are included in operating activities:		
Income taxes (paid) refunded	-	-
Interest (paid)	22,582	16,788

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

**CRS ELECTRONICS INC.**Condensed Interim Statements of Equity  
Unaudited, in U.S. dollars

	<b>Share capital</b>	<b>Other Paid- in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, January 1, 2011</b>	3,599,045	275,706	(2,252,448)	1,622,303
Net (loss) for the quarter			(1,084,976)	(1,084,976)
Issue of common shares	2,829,121	149,256		2,978,377
Stock based compensation		88,976		88,976
Transfer from other paid-in capital on exercise of stock options	33,795	(33,795)		
<b>Balance, June 30, 2011</b>	<b>6,461,961</b>	<b>480,143</b>	<b>(3,337,424)</b>	<b>3,604,680</b>

	<b>Share capital</b>	<b>Other Paid- in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, January 1, 2010</b>	2,317,608	183,160	(1,138,467)	1,362,301
Net (loss) for the quarter			(514,333)	(514,333)
Common shares to be issued	288,001			288,001
Issue of common shares	197,634			197,634
Stock based compensation		2,777		2,777
Transfer from other paid-in capital on exercise of stock options	36,868	(36,868)		-
<b>Balance, June 30, 2010</b>	<b>2,840,111</b>	<b>149,069</b>	<b>(1,652,800)</b>	<b>1,336,380</b>

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

## 1. NATURE OF OPERATIONS

The Company was incorporated under the Canada Business Corporations Act on October 25, 1998 and continues pursuant to a Certificate of Amalgamation dated September 1, 2009, with its head office located at 129 Hagar Street, Unit 5, in Welland, Ontario, Canada L3B 5V9. Its principal activities are the development, manufacture and sale, primarily in North America, of child safety systems for school buses; exterior lighting on school buses based on incandescent and light emitting diode technology (“LED”); contract manufacturing of LED light boards; and LED based space lighting products.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Adoption of International Financial Reporting Standards (IFRS)

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company’s reported equity as at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company’s audited annual financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company’s annual financial statements for the year ending December 31, 2011 could result in restatement of these condensed interim financial statements, including transition adjustments recognized on change-over to IFRS. The condensed interim financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company’s condensed interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

### Accounting standards issued but not yet effective

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

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

### 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.

**Accounting standards issued but not yet effective, continued:****IFRS 9 Financial Instruments**

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

**IFRS 13 – Fair value measurement**

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

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

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

**3. ACCOUNTS RECEIVABLE**

	June 30 2011	December 31 2010
Trade accounts receivable	<b>494,834</b>	705,433
HST recoverable	<b>46,665</b>	3,582
Other receivables	-	10,053
Allowance for doubtful accounts	<b>(5,184)</b>	(11,419)
	<b>536,315</b>	707,649

A bus manufacturer based in the United States represents 40.7% of the trade accounts receivable on June 30, 2011 (18.5% on December 31, 2010).

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

	June 30 2011	December 31 2010
Opening balance	<b>11,776</b>	10,054
Provision for impairment of accounts receivable	<b>(6,592)</b>	1,365
Bad debt unrecovered	-	-
Closing balance	<b>5,184</b>	11,419

#### 4. INVENTORY

	June 30 2011	December 31 2010
Finished goods	<b>221,308</b>	192,564
Raw materials	<b>525,699</b>	292,058
Inventory in transit	<b>22,123</b>	48,427
	<b>769,130</b>	533,049

During the quarter ended June 30, 2011, the Company recorded inventory write-downs of \$10,413 (December 31, 2010 of \$15,327) and made no reversals of previous inventory write-downs.

#### 5. EQUIPMENT, FURNITURE AND LEASEHOLDS

Cost and accumulated amortization and movements during the period, are as follows:

At June 30, 2011:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Computer software	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>									
At January 1, 2011	70,976	150,616	46,984	48,654	14,405	590,580	141,915	19,505	1,083,635
Additions	4,889	123,820	11,606	3,115	-	(18,463)	29,928	-	154,895
Disposals	-	-	-	-	-	-	-	-	-
	75,865	274,436	58,590	51,769	14,405	572,117	171,843	19,505	1,238,530
Accumulated amortization									
At January 1, 2011	32,148	69,536	14,994	28,441	14,287	267,115	46,817	10,294	483,632
Depreciation for the period	4,597	31,960	6,568	2,183	44	36,012	14,888	3,256	99,508
	36,745	101,496	21,562	30,624	14,331	303,127	61,705	13,550	583,140
<b>Net Carrying value at June 30, 2011</b>	<b>39,120</b>	<b>172,940</b>	<b>37,028</b>	<b>21,145</b>	<b>74</b>	<b>268,990</b>	<b>110,138</b>	<b>5,955</b>	<b>655,390</b>

At December 31, 2010:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Computer software	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>									
At January 1, 2010	40,068	85,163	73,715	40,312	14,405	344,938	90,013	19,505	708,119
Additions	30,908	65,453	14,731	8,342	-	257,706	51,902	-	429,042
Disposals	-	-	(41,462)	-	-	(12,064)	-	-	(53,526)
	70,976	150,616	46,984	48,654	14,405	590,580	141,915	19,505	1,083,635
Accumulated amortization									
At January 1, 2010	24,079	27,885	36,001	16,405	14,165	205,249	24,516	6,436	354,735
Depreciation for the year	8,069	41,651	15,658	12,036	122	69,631	22,301	3,858	173,326
Eliminated on disposal	-	-	(36,664)	-	-	(7,765)	-	-	(44,429)
	32,148	69,536	14,994	28,441	14,287	267,115	46,817	10,294	483,632
<b>Net Carrying value at December 31, 2010</b>	<b>38,828</b>	<b>81,080</b>	<b>31,990</b>	<b>20,213</b>	<b>118</b>	<b>323,465</b>	<b>95,098</b>	<b>9,211</b>	<b>600,003</b>

Of the depreciation charge for the period, \$82,972 was included in cost of sales and \$16,536 within general and administrative. (2010, \$135,975 and \$37,351 respectively)

## 6. PATENTS AND TRADEMARKS

Patents and trademarks at June 30, 2011 and December 31, 2010 consist of the following:

Patents and trademarks consist of the following:

Cost		Cost	
At January 1, 2011	197,562	At January 1, 2010	-
Additions	128,663	Additions	197,562
Disposals		Disposals	-
	<u>326,225</u>		<u>197,562</u>
Accumulated Amortization		Accumulated Amortization	
At January 1, 2011	-	At January 1, 2010	-
Amortization for the year	-	Amortization for the year	-
Decrease due to disposal	-	Decrease due to disposal	-
	<u>-</u>		<u>-</u>
Net Carrying value at June 30, 2011	<u>326,225</u>	Net Carrying value at December 31, 2010	<u>197,562</u>

## 7. INTANGIBLE ASSETS - DEVELOPMENT COSTS

Cost and accumulated amortization at June 30, 2011 and December 31, 2010, and movements during the year, are as follows:

Cost		Cost	
At January 1, 2011	693,983	At January 1, 2010	347,134
Additions	65,287	Additions	434,999
Disposals		Disposals	(88,150)
	<u>759,270</u>		<u>693,983</u>
Accumulated Amortization		Accumulated Amortization	
At January 1, 2011	81,068	At January 1, 2010	47,785
Amortization for the year	57,604	Amortization for the year	49,966
Decrease due to disposal	-	Decrease due to disposal	(16,683)
	<u>138,672</u>		<u>81,068</u>
Net Carrying value at June 30, 2011	<u>620,598</u>	Net Carrying value at December 31, 2010	<u>612,915</u>

The amortization expense was charged to cost of sales for both 2011 and 2010.

**8. BANK INDEBTEDNESS**

Bank indebtedness consists of the following:

	June 30 2011	December 31 2010
Operating line of credit	<b>116,671</b>	283,676

The Company has an operating line of credit in the amount of \$331,776 (CAD \$320,000). The operating line of credit (and certain debt obligations, see note 10) is collateralized 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 in the amount of \$207,360 (CAD \$200,000). Interest is charged on a monthly basis at a rate of prime plus 1.5% per annum (3% at June 30, 2011 and December 31, 2010).

**9. NOTES PAYABLE**

Notes payable consists of the following:

	June 30 2011	December 31 2010
Extended payments on insurance – bearing interest at 4.988% per annum with 10 monthly payments of CAD \$6,149, commencing August 16, 2010 and maturing May 16, 2011.	-	30,528
Extended payments on insurance – bearing interest at 4.988% per annum with 10 monthly payments of CAD \$1,385, commencing August 20, 2010 and maturing May 20, 2011.	-	6,877
Extended payments on insurance – bearing interest at 15.95% per annum with 10 monthly payments of CAD \$493, commencing May 20, 2010 and maturing February 20, 2011.	-	972
Extended payments on insurance – bearing interest at 4.988% Per annum with 10 monthly payments of CAD 1,385, commencing June 20, 2011 and maturing April 20, 2012	<b>14,038</b>	-
	<b>14,038</b>	38,377

**10. DEBT OBLIGATIONS**

Debt obligations consist of the following:

	June 30 2011	December 31 2010
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD \$1,038, maturing March 29, 2012.	<b>10,983</b>	16,286
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of CAD \$1,440, maturing December 20, 2014.	<b>54,560</b>	59,334
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD \$3,921, maturing June 14, 2015	<b>163,433</b>	174,600
Advances received under the Sothern Ontario Development Plan (SODP) as described in detail below.	<b>558,996</b>	148,970
Less: principal due within one year	<b>(153,312)</b>	(76,962)
	<b>634,660</b>	322,228

The PenFinancial loans (and the operating line of credit, see note 8) are collateralized by a registered general security agreement, representing a first fixed and floating charge over the assets and undertakings of the Company. There is also a personal guarantee for \$207,360 (CAD \$200,000) executed by two shareholders and officers of the Company.

**Contribution Agreement (CA) with the Southern Ontario Development Program**

In June 2011, the Company signed a revised Contribution Agreement with the Southern Ontario Development Program ("SODP"), a program administered by the Government of Canada for a maximum contribution amount of \$667,036. The contribution amount is based on 50% of eligible capital costs and 75% of eligible non-capital costs for projects to develop indoor and outdoor lighting and to increase the production capacity of the Company's facility in Welland, Ontario. The contribution amount is repayable over five years. No payments were required until April 1, 2011. The contribution amount is then repayable in 60 monthly payments equal to \$11,118 from April 1, 2011 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 June 30, 2011, \$507,353 has been received under the CA.

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

2011	153,312
2012	156,861
2013	171,801
2014	178,228
2015	127,770
	<b>787,972</b>

## 11. OBLIGATIONS UNDER FINANCE LEASES

The following is a schedule of minimum lease payments under the finance leases expiring in 2011:

Years ending 2011	<u>3,784</u>
Less: amount representing interest at 12%	<u>572</u>
	3,212
Less: current portion	<u>(3,212)</u>
	<u>-</u>

## 12. GOVERNMENT INCENTIVES RECEIVABLE

The Scientific Research and Experimental Development Tax Credits (“SRED”), offered by the Government of Canada and the Ontario Innovation Tax Credit (“ITC”) and Ontario Research and Development Tax Credit (“ORDTC”) offered by the Ontario Provincial Government are awarded for expenditures on research and development. The tax credits relating to the deferred development costs are recorded in the statement of financial position as a reduction of deferred development expenses. The tax credits relating to research are recorded as a reduction of expenses on the statement of loss and comprehensive loss. When CRS was a privately held company all SRED, ITC and ORDTC were refundable tax credits and were normally paid to the Company in the year following the year the tax credits were claimed. As a result of becoming a publicly traded company in May 2009, the SRED tax credit rate decreased to 20% from 35% of expenditures and the SRED, and the ORDTC are no longer refundable tax credits payable in cash to the Company but can only be applied against income taxes payable in future periods. The Company continues to file for SRED, ITC and ORDTC. The Company provides a valuation allowance for the SRED and ORDTC tax credits receivable until it is virtually certain it will realize the benefit of the SRED tax credit.

Government incentives receivable consist of the following:

	June 30 2011	December 31 2010
Ontario ITC and ORDTC	138,830	94,321
Scientific Research and Experimental Development Tax Credit	207,536	161,562
Valuation allowance – Federal, non-refundable tax credit	(207,536)	(161,562)
Valuation allowance – Provincial, non-refundable tax credit	(17,301)	-
SODP program grant receivable	184,230	54,380
	<u>305,759</u>	<u>148,701</u>

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

## 13. DERIVATIVE LIABILITY - WARRANTS

The Company has issued four series of warrants as part of four separate private placements of units. Each whole warrant entitles the holder thereof the right to purchase one common share of the Company at a specified price in Canadian dollars per share. These warrants are considered to be derivative liabilities due to the warrants being exercisable in a currency (Canadian dollars) other than the functional currency of the Company (U.S. dollars). The derivative is measured at fair value with changes in fair values included in net loss.

## Derivative Liabilities, continued

### 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 entitled the holder to acquire one common share upon payment of CAD \$0.50 per common share no later than September 30, 2010. The warrants were not registered for trading and all common shares issued through the exercise of warrants were restricted from trading until February 1, 2010. As at September 30, 2010, 806,666 half-warrants were exercised. The remaining warrants expired.

The value of the warrants at date of issuance, net of an allocation of the closing costs, was determined to be CAD \$29,727 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 75.0%, risk-free interest rate of 1.3% and an expected life of 1 year.

### 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 entitled the holder to acquire one common share upon payment of CAD \$0.65 per common share no later than December 22, 2010. The warrants were not registered for trading and all common shares issued through the exercise of warrants were restricted from trading until April 24, 2010. As at December 22, 2010, all warrants expired unexercised.

The value of the warrants at date of issuance, net of an allocation of the closing costs, was determined to be CAD \$168,402 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 73.1%, risk-free interest rate of 1.42% and an expected life of 1 year.

### Series C warrants

On July 5, 2010 the Company issued 2,004,446 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD \$0.70 per common share no later than July 5, 2012. The warrants are not registered for trading and all common shares issued through the exercise of warrants before November 6, 2010 were restricted from trading until that date. As at June 30, 2011, 2,004,446 half-warrants, entitling the warrant holders to purchase 1,002,223 common shares, are outstanding.

The value of the warrants at date of issuance, net of an allocation of the closing costs, were determined to be CAD \$246,980 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 119%, risk-free interest rate of 1.41% and an expected life of 2 years.

### Series D warrants

On April 28, 2011 the Company issued 9,379,156 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD \$0.65 per common share no later than April 28, 2014. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 29, 2011 were restricted from trading until that date. As at June 30, 2011, 9,379,156 half-warrants, entitling the warrant holders to purchase 4,689,578 common shares, are outstanding.

The value of the warrants at date of issuance, net of an allocation of the closing costs, were determined to be CAD \$1,854,136 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 109%, risk-free interest rate of 1.57% and an expected life of 2.8 years.

**Derivative Liabilities, continued**

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

	June 30 2011	June 30 2010
Gain (loss) on warrant liability	<b>339,826</b>	78,030

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

	June 30 2011	December 31 2010	June 30 2010
Series A	N/A	N/A	81,733
Series B	N/A	N/A	134,714
Series C	193,886	315,080	N/A
Series D	1,730,992	N/A	N/A
USD\$	<b>1,924,878</b>	315,080	216,447

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

	June 30 2011	December 31 2010	June 30 2010
Exercise price (CAD\$)	\$0.70 & \$0.65	\$0.70	\$0.50 & \$0.65
Share price (CAD \$)	\$0.57	\$0.51	\$0.47
Risk-free interest rate	1.57%	1.66%	1.47%
Expected life	0.85 & 2.8 years	1.5 years	0.25 & 0.48 years
Expected volatility	109%	157%	122%
Dividend rate	0%	0%	0%

**14. SHARE CAPITAL****[a] Shares****Authorized**

Unlimited number of common shares

**Issued and outstanding**

40,723,434 common shares

The common share transactions over the period are as follows:

	Number of shares	\$ Amount
Balance December 31, 2009	27,935,347	2,317,608
Transfers from contributed surplus on exercise of options	-	55,318
Issuance of common shares for cash	3,224,731	1,226,119
Balance December 31, 2010	31,160,078	3,599,045
Transfers from contributed surplus on exercise of options	176,200	33,795
Issuance of common shares for cash	9,387,156	2,829,121
Balance June 30, 2011	<b>40,723,434</b>	<b>6,461,961</b>

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

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

Value of stock options granted:

The total expense recognized for the period was \$88,976 (December 31, 2010 - \$147,863 and June 30, 2010 - \$2,777), of which \$0 is included within cost of sales, \$57,334 is included within general and administrative expense and \$31,642 is included within selling expense (December 31, 2010 - \$4,276 was included within cost of sales, \$124,243 was included within general and administrative, \$9,672 was included within research and development expense and \$9,672 was included within selling expense, June 30, 2010 - \$1,851 was included within cost of sales and \$926 was included within general and administrative expense).

**[b] Stock options, continued**

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

	<b>June 30, 2011</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2010	1,295,324	0.38
Granted	905,000	0.60
Expired	-	-
Exercised	(176,200)	0.31
<b>Outstanding, June 30, 2011</b>	<b>2,024,124</b>	<b>0.49</b>

The weighted average share price at the dates the options were exercised during the year was \$0.49 (December 2010- \$0.38 and June 2010- \$0.30).

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 2,048,219.

The following table summarizes information about options outstanding as at June 30, 2011:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted-average exercise price
\$0.30 - \$0.50	789,124	29 months	0.32
\$0.51 - \$0.70	1,235,000	56 months	0.60
<b>Total</b>	<b>2,024,124</b>	<b>45 months</b>	<b>0.49</b>

1,314,124 options are exercisable as at June 30, 2011. The weighted average exercise price of these options is \$0.43.

**15. CAPITAL MANAGEMENT**

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence, to sustain future development of the business, and to continue as a going concern. Management defines capital as the Company's equity. Because of the requirements of financing the Company's debt, net earnings generated from operations are generally not available to be reinvested in the Company or distributed to the Company's shareholders. To finance the future capital expenditures and working capital necessary to sustain a growth in operations, the Company recognizes the need to increase its capital base by issuing common shares or other equity based financial instruments.

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

**16. FINANCIAL INSTRUMENTS****[a] Fair value**

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and notes payable do not materially differ from their fair values given their short-term period to maturity. The fair values of bank indebtedness and debt obligations approximate carrying value as the instruments bear interest or are discounted at market rates.

**[b] Credit risk**

The Company is exposed to credit risk in the event of non-performance by customers in paying outstanding trade accounts receivable. One customer represents 40.7% of accounts receivable at June 30, 2011 (18.5% at 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 Company specifically identifies customers with past due balance and provides for these accounts where appropriate. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
June 30, 2011	258,895	149,697	62,751	23,491	494,834

**[c] Interest rate risk**

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

**[d] Foreign currency risk**

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

	June 30 2011	December 31 2010
Cash	3,536,829	(241,094)
Trade accounts receivable	190,788	460,413
Trade accounts payable	(245,797)	(217,856)
Short-term notes payable	(13,540)	(38,171)
Debt obligations	(633,397)	(397,046)

At June 30, 2011 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a \$283,488 change on reported net loss and comprehensive loss for the year.

## 17. COMMITMENTS AND CONTINGENCIES

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

The Company has the following commitments outstanding:

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

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

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

**18. ADOPTION OF IFRS**

The following reconciles the Company's Statement of Financial Position, Statements of Loss and Comprehensive Loss, and Statements of Equity as previously reported under Canadian GAAP.

**Statement of Financial Position:**

Unaudited	<b>June 30, 2010</b>		
	<b>CDN GAAP</b>	<b>IFRS Adj.</b>	<b>IFRS</b>
	<b>CDN \$</b>		<b>USD \$</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	-	-	-
Accounts receivable	830,383	(50,404)	779,979
Government incentives receivable	69,809	(4,237)	65,572
Inventory	883,349	(53,619)	829,730
Deposits and prepaid expenses	54,389	(3,301)	51,088
	<u>1,837,930</u>	<u>(111,562)</u>	<u>1,726,368</u>
<b>Long-term assets</b>			
Equipment, furniture and leaseholds	758,422	(74,160)	684,262
Patents and trademarks	53,144	(1,764)	51,380
Intangible assets - development costs	645,219	(44,360)	600,859
	<u>3,294,715</u>	<u>(231,847)</u>	<u>3,062,868</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness	65,674	(3,986)	61,688
Trade and other payables provisions	1,217,913	(73,927)	1,143,986
Notes payable	34,742	(2,109)	32,633
Current portion of debt obligations	52,338	(3,177)	49,161
Current portion of finance lease obligations	4,975	(302)	4,673
	<u>1,375,642</u>	<u>(83,501)</u>	<u>1,292,141</u>
<b>Long-term liabilities</b>			
Debt obligations	229,109	(13,907)	215,202
Finance lease obligations	2,873	(174)	2,699
Derivative liability - Warrants	-	216,447	216,447
	<u>1,607,624</u>	<u>118,864</u>	<u>1,726,488</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	2,889,132	(337,022)	2,552,110
Shares to be issued	297,891	(9,890)	288,001
Contributed surplus	173,897	(24,828)	149,069
Warrants	198,129	(198,129)	-
(Deficit)	(1,871,958)	219,158	(1,652,800)
	<u>1,687,091</u>	<u>(350,711)</u>	<u>1,336,380</u>
	<u>3,294,715</u>	<u>(231,847)</u>	<u>3,062,868</u>

Adoption of IFRS, continued:

Statements of Loss and comprehensive loss	Three months ended June 30, 2010	Six months ended June 30, 2010
As previously reported under Canadian GAAP	(411,599)	(652,488)
Statement of comprehensive loss – Foreign exchange (loss) gain	11,237	21,663
Statement of Financial Position – Foreign exchange (loss) gain and valuation adjustments	31,529	38,462
Adjustment – derivative liability	330,593	78,030
<b>As reported in accordance with IFRS</b>	<b>(38,240)</b>	<b>(514,333)</b>

Statement of Equity:

<i>Share Capital</i>	<b>June 30 2010</b>
As previously reported under Canadian GAAP	3,187,023
Foreign exchange loss (gain)	(17,942)
Prior period(s) foreign exchange loss (gain)	(328,970)
Transfer of exercised warrants	-
<b>As reported in accordance with IFRS</b>	<b>2,840,111</b>

<i>Other Paid in Capital</i>	<b>June 30 2010</b>
As previously reported under Canadian GAAP	173,897
Foreign exchange loss (gain)	1,170
Prior period(s) foreign exchange loss (gain)	(25,998)
Transfer value of expired warrants	-
<b>As reported in accordance with IFRS</b>	<b>149,069</b>

<i>Deficit</i>	<b>June 30 2010</b>
As previously reported under Canadian GAAP	(1,871,958)
Foreign exchange loss (gain)	141,128
Gain (loss) on warrant liability	78,030
<b>As reported in accordance with IFRS</b>	<b>(1,652,800)</b>

**Statement of Equity, continued:**

<b>Canadian \$ Warrants as Equity</b>	<b>June 30 2010</b>
<i>As previously reported under Canadian GAAP (CAD)</i>	198,129
<i>FVTPL revaluation loss (gain) (USD)</i>	(78,030)
<i>Loss (gain) on expiry of warrants (USD)</i>	-
<i>Cumulative foreign exchange loss (gain)</i>	96,348
<i>Transfer to derivative liability (USD)</i>	(216,447)
<b><i>As reported in accordance with IFRS</i></b>	<b>-</b>
<b><i>Total reported in accordance with IFRS</i></b>	<b>1,336,380</b>

**19. RELATED PARTY TRANSACTIONS**

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:

	<b>June 30 2011</b>	<b>June 30 2010</b>
Wages and benefits	<u>92,244</u>	61,530

**20. AUTHORIZATION**

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

These unaudited condensed interim financial statements as at June 30, 2011 were approved by the Board of Directors on August 24, 2011.

**21. SUBSEQUENT EVENTS**

a) Subsequent to the end of the period the Company received its 5th and final claim for CAD \$178,000 with the Southern Ontario Development Corporation (SODP). Total funding received is CAD \$667,036 which is repayable in 60 equal monthly payments commencing April 1, 2011 as detailed in note 10.