CRS ELECTRONICS INC.

FINANCIAL STATEMENTS

Audited, in U.S. dollars

For the Years Ended December 31, 2011 and 2010

CRS ELECTRONICS INC.
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December 31, 2011

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Independent Auditors' Report

To the Shareholders of
CRS Electronics Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of CRS Electronics Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss and comprehensive loss, cash flows and changes in equity for the years ended December 31, 2011 and 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of CRS Electronics Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to note 1 to the financial statements which describes uncertainty about CRS Electronics Inc.'s ability to continue as a going concern.

Signed: ***"MSCM LLP"***

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 30, 2012

CRS ELECTRONICS INC.
Statements of Financial Position
Audited, in U.S. dollars

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current Assets			
Cash and cash equivalents	**935,201**	340,015	869,234
Accounts receivable (Note 3)	**507,416**	707,649	372,246
Government incentives receivable (Note 14)	**52,883**	148,701	38,444
Inventory (Note 4)	**1,693,175**	533,049	367,702
Deposits and prepaid expenses	**496,112**	86,360	45,431
	3,684,787	1,815,774	1,693,057
Non-current assets			
Equipment, furniture and leaseholds (Note 5)	**1,068,007**	600,003	353,383
Patents and trademarks (Note 6)	**119,885**	197,562	–
Intangible assets – development costs (Note 7)	**246,043**	612,915	299,349
	5,118,722	3,226,254	2,345,789
LIABILITIES			
Current liabilities			
Bank indebtedness (Note 9)	**318,513**	283,676	–
Trade and other payables	**1,583,136**	562,400	362,034
Notes payable (Note 10)	**36,911**	38,377	194,638
Current portion of debt obligations (Note 11)	**145,692**	76,962	49,408
Current portion of finance lease obligations (Note 12)	**18,233**	4,442	6,456
	2,102,485	965,857	612,536
Non-current liabilities			
Debt obligations (Note 11)	**542,211**	322,228	71,527
Finance lease obligations (Note 12)	**65,465**	786	4,948
Derivative Liability - Warrants (Note 15)	**832,860**	315,080	294,477
	3,543,021	1,603,951	983,488
Commitments and Contingencies (Note 19)			
Subsequent events (Note 23)			
EQUITY			
Share capital (Note 16)	**6,403,407**	3,589,339	2,317,608
Shares to be issued	-	9,706	–
Other paid-in capital	**711,849**	275,706	183,160
Deficit	**(5,539,555)**	(2,252,448)	(1,138,467)
	1,575,701	1,622,303	1,362,301
	5,118,722	3,226,254	2,345,789

Nature of operations and going concern (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director *Signed "Larry Taylor"* Director

CRS ELECTRONICS INC.
Statements of Loss and Comprehensive Loss
Audited, in U.S. dollars

For the years ended December 31, 2011 and 2010

	2011	2010
SALES	**2,143,210**	3,052,949
Cost of sales	**2,705,178**	2,384,608
GROSS PROFIT	**(561,968)**	668,341
EXPENSES		
Engineering, research and development	**535,774**	31,284
Selling and marketing	**1,012,505**	499,080
General and administrative	**1,761,685**	1,416,786
SRED refundable tax credits and grant funding	**(18,849)**	(14,387)
Finance costs - short-term debt obligations	**28,162**	22,418
Finance and accretion costs - long-term debt obligations	**31,865**	19,170
Impairment loss on intangible assets (note 8)	**455,977**	39,310
Impairment loss on patents and trademarks (note 8)	**258,237**	-
Loss (gain) on sale of equipment, furniture and fixtures	**(110)**	5,891
Change in warrant liability (note 15)	**(1,431,844)**	(211,558)
Foreign exchange (loss) gain and valuation adjustments	**91,737**	(25,672)
	2,725,139	1,782,322
LOSS BEFORE INCOME TAXES	**(3,287,107)**	(1,113,981)
(Recovery) of income taxes (note 13)	**-**	-
NET LOSS AND COMPREHENSIVE LOSS	**(3,287,107)**	(1,113,981)
Loss per share - basic and fully diluted	(0.09)	(0.04)
Weighted average number of common shares outstanding - basic and fully diluted	**37,627,432**	29,575,997

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

CRS ELECTRONICS INC.
Statements of Cash Flows
Audited, in U.S. dollars

For the years ended December 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Net (loss) for the period	**(3,287,107)**	(1,113,981)
Items not affecting cash		
Stock based compensation	**298,629**	147,863
Change in warrant liability	**(1,431,844)**	(211,558)
Amortization of intangible assets	**113,812**	49,966
Depreciation of equipment, furniture and fixtures	**236,103**	173,326
Amortization of patents and trademarks	**30,143**	-
Impairment loss on intangible assets	**455,977**	39,310
Impairment loss on patents and trademarks	**258,237**	-
Accretion expense	**39,715**	3,848
Loss (gain) on sale of equipment, furniture and fixtures	**(110)**	5,891
Net change in non-cash working capital items relating to operating activities	**(3,286,445)**	(905,335)
Accounts receivable	**200,233**	(335,403)
Government incentives receivable	**95,818**	(110,257)
Inventory	**(1,160,126)**	(165,347)
Deposits and prepaid expenses	**(409,752)**	(40,929)
Trade and other payables	**1,031,824**	200,366
Cash (used in) operating activities	**(3,528,448)**	(1,356,905)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	**(715,811)**	(429,042)
Proceeds on sale of equipment, furniture and fixtures	**726**	3,205
Additions to intangible assets – development costs	**(202,917)**	(402,842)
– patent and trademark costs	**(210,703)**	(197,562)
Cash (used in) investing activities	**(1,128,705)**	(1,026,241)
FINANCING ACTIVITIES		
Repayment of notes payable	**(1,466)**	(156,261)
Proceeds from line of credit	**34,837**	283,676
Proceeds from (repayment of) finance lease obligations	**78,470**	(6,176)
Proceeds from debt obligations	**248,998**	274,407
Issue of warrants	**1,949,624**	232,161
Issue of common shares	**2,941,876**	1,226,120
Cash provided by financing activities	**5,252,339**	1,853,927
Net increase (decrease) in cash and cash equivalents	**595,186**	(529,219)
Cash and cash equivalents, beginning of year	**340,015**	869,234
Cash and cash equivalents, end of year	**935,201**	340,015
The following cash flows are included in operating activities:		
Income taxes (paid) refunded	**-**	-
Interest (paid)	**(49,390)**	(43,685)

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

CRS ELECTRONICS INC.
Statements of Changes in Equity
Audited, in U.S. dollars

	Share capital	Shares to be issued	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2009	2,317,608	0	183,160	(1,138,467)	1,362,301
Net (loss) for the year				(1,113,981)	(1,113,981)
Issue of common shares	1,216,414				1,216,414
Common shares to be issued		9,706			9,706
Stock based compensation			147,863		147,863
Transfer from other paid-in capital on exercise of stock options	55,317	0	(55,317)		
Balance, December 31, 2010	3,589,339	9,706	275,706	(2,252,448)	1,622,303

	Share capital	Shares to be issued	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2010	3,589,339	9,706	275,706	(2,252,448)	1,622,303
Net (loss) for the year				(3,287,107)	(3,287,107)
Issue of common shares	2,780,683	(9,706)	170,899		2,941,876
Stock based compensation			298,629		298,629
Transfer from other paid-in capital on exercise of stock options	33,385		(33,385)		-
Balance, December 31, 2011	6,403,407	0	711,849	(5,539,555)	1,575,701

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

1. NATURE OF OPERATIONS AND GOING CONCERN

CRS Electronics Inc. (the "Company" or "CRS") was incorporated under the Canada Business Corporations Act on October 25, 1998 and continues pursuant to a Certificate of Amalgamation dated September 1, 2009, 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.

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 the current year ended December 31, 2011 and negative cash flows relating thereto, there exists some uncertainty with respect to the Company's ability to continue as a going concern. Low sales volumes and production challenges encountered during the year have contributed to negative gross profits. During this period, the Company was and continues to be in the process of launching its retail LED lighting campaign. As a result, research, marketing and administrative expenses increased at a higher rate than revenues.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards (IFRS)

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Adoption of International Financial Reporting Standards (IFRS), continued
In preparing these 2011 financial statements, the Company has amended certain accounting policies it previously applied in the CGAAP financial statements to comply with IFRS, and has restated the 2010 comparative figures to reflect these adjustments. Note 20 to these financial statements sets out a description of the differences between CGAAP and IFRS accounting policies, and reconciles the effect of the transition on the Company's financial positions, equity and comprehensive loss.

The Company has applied IFRS with effect from January 1, 2010, the transition date, in accordance with the transitional provisions set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 requires that a first-time adopter retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period. However, it also sets out certain optional exemptions and certain mandatory exceptions to this principle. Note 20 also describes the items relevant to the Company's reporting.
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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 initially shipped to the customer and provides a provision against this inventory held by the customer until the 180 day period is satisfied.

Cash and cash equivalents
Cash includes cash on hand and, when applicable, short-term, highly liquid deposits with original maturities of less than 365 days at the date of their acquisition. Cash and cash equivalents include the following:

	December 31 2011	December 31 2010	January 1 2010
Cash	**50,231**	340,015	155,622
Term deposit	**884,970**	-	713,612
	935,201	340,015	869,234

The one year term deposit matures April 29, 2012, earning compound interest of 1.5% per annum.

Inventory
The Company records inventory at the lower of cost and estimated net realizable value. Costs include raw materials, incoming freight, duty, brokerage and non-recoverable taxes, and are assigned to inventories on a first-in first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Equipment, furniture and leaseholds
The Company records equipment, furniture and leaseholds at cost (including directly applicable taxes, freight-in and installation costs) less accumulated depreciation and accumulated impairment losses. Assets held under finance leases are included in this category and are depreciated on a straight-line basis over their estimated useful lives.

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

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

The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

Patents and trademarks
Patents and trademarks are stated at cost, which primarily consist of legal costs in relation to their applications. Patents and trademarks are amortized using the straight-line method over the estimated useful life thereof.

Research and development costs
Research and development costs include 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.

Research and development costs, continued

The amount the Company initially recognizes for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets these recognition criteria.

Subsequent to initial recognition, it reports these assets at cost less accumulated amortization and accumulated impairment losses. The assets recognized to date are being amortized on a straight-line basis over a five year period.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its internally-generated intangible assets arising from development, patents and trademarks, equipment, furniture and leaseholds and assets under finance 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.

Foreign currency translation

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

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Stock-based compensation
The Company measures equity-settled share-based payments to employees and others who provide similar services, issued under the stock option plan described in note 16, 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.

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

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

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

Government assistance
The Company makes periodic applications for financial assistance under available government incentive programs including grants, low interest loans and tax credits, related to purchasing equipment and to other expenditures. The Company recognizes government assistance on an accrual basis when it has completed all requirements to earn the assistance and receipt is reasonably assured. It reflects government grants relating to capital expenditures as a reduction of the cost of such assets, and reflects government grants relating to operating expenses as a reduction of the expense. Non-interest bearing loans are discounted at market lending rates and accretion expense is recorded as a financing cost in the period incurred. As such, all costs are expensed as incurred and are recorded as a component of interest expense.

Provisions
The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable it will be required to settle the obligation, and it can make a reliable estimate of its amount. The amount it recognizes as a provision is its best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the surrounding risks and uncertainties. Where it measures a provision using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, calculated using a pre-tax discount rate reflecting the risks specific to the liability. The Company adjusts the liability at the end of each reporting period for the unwinding of the discount rate and for changes to the discount rate or to the amount or timing of the estimated cash flows underlying the obligation.

Financial instruments

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument's contractual provisions. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss, which it recognizes immediately in profit or loss).

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

Financial assets:	**Classification**:
Cash and cash equivalents	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.

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 derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Financial instruments, continued
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.

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.

Accounting standards issued but not yet effective
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)

3. ACCOUNTS RECEIVABLE

	December 31 2011	December 31 2010	January 1 2010
Trade accounts receivable	**427,799**	705,433	343,987
HST recoverable	**56,115**	3,582	34,831
Other receivables	**27,828**	10,053	2,943
Allowance for doubtful accounts	**(4,326)**	(11,419)	(9,515)
	507,416	707,649	372,246

A bus manufacturer based in the United States represents 29.2% of the trade accounts receivable on December 31, 2011 (18.5% on December 31, 2010 and 26.4% on January 1, 2010).

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

	December 31 2011	December 31 2010	January 1 2010
Opening balance	**11,419**	9,515	27,594
Provision for impairment of accounts receivable	**-**	1,904	9,515
Bad debt recoveries	**(7,093)**	-	(27,594)
Closing balance	**4,326**	11,419	9,515

4. INVENTORY

	December 31 2011	December 31 2010	January 1 2010
Finished goods	**813,167**	192,564	195,139
Raw materials	**822,454**	292,058	151,637
Inventory in transit	**57,554**	48,427	20,926
	1,693,175	533,049	367,702

During the year ended December 31, 2011, the Company recorded inventory write-downs of $80,814 ($15,327 for December 31, 2010 and $52,073 for January 1, 2010) and made no reversals of previous inventory write-downs.

5. EQUIPMENT, FURNITURE AND LEASEHOLDS

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

At December 31, 2011:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Computer software	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
Cost									
At January 1, 2011	70,976	150,616	46,984	48,654	14,405	590,580	141,915	19,505	1,083,635
Additions	12,819	297,621	16,372	11,322	-	171,783	114,080	91,814	715,811
Disposals	-	(20,507)	(726)	-	(14,405)	-	-	-	(35,638)
	83,795	427,730	62,630	59,976	-	762,363	255,995	111,319	1,763,808
Accumulated depreciation									
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	9,512	82,817	14,078	9,148	74	77,491	35,381	7,602	236,103
Eliminated on disposals	-	(9,519)	(54)	-	(14,361)	-	-	-	(23,934)
	41,660	142,834	29,018	37,589	-	344,606	82,198	17,896	695,801
Net Carrying value at December 31, 2011	**42,135**	**284,896**	**33,611**	**22,387**	**-**	**417,757**	**173,797**	**93,423**	**1,068,007**

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
Cost									
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 depreciation									
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
Net Carrying value at December 31, 2010	**38,828**	**81,080**	**31,989**	**20,213**	**118**	**323,465**	**95,098**	**9,211**	**600,003**

For the year ended December 31, 2011 $176,765 of depreciation was included in cost of sales, $24,762 was included in research and development, and $34,576 within general and administrative (2010: $119,747, $16,228 and $37,351 respectively).

6. PATENTS AND TRADEMARKS

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

Cost		Cost	
At January 1, 2011	197,562	At January 1, 2010	-
Additions	210,703	Additions	197,562
Impairments (note 8)	(258,237)	Disposals	-
	150,028		197,562
Accumulated Amortization		Accumulated Amortization	
At January 1, 2011	-	At January 1, 2010	-
Amortization for the year	30,143	Amortization for the year	-
Decrease due to impairment (note 8)	-	Decrease due to disposal	-
	30,143		-
Net Carrying value at December 31, 2011	119,885	Net Carrying value at December 31, 2010	197,562

The amortization expense was charged to general and administration expense for 2011.

7. INTANGIBLE ASSETS - DEVELOPMENT COSTS

Cost		Cost	
At January 1, 2011	693,983	At January 1, 2010	347,134
Additions	202,917	Additions	402,842
Impairment (note 8)	(565,798)	Impairment	(55,993)
	331,102		693,983
Accumulated Amortization		Accumulated Amortization	
At January 1, 2011	81,068	At January 1, 2010	47,785
Amortization for the year	113,812	Amortization for the year	49,966
Decrease due to impairment (note 8)	(109,821)	Decrease due to impairment	(16,683)
	85,059		81,068
Net Carrying value at December 31, 2011	246,043	Net Carrying value at December 31, 2010	612,915

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

8. IMPAIRMENT OF LONG-LIVED ASSETS

Management assessed its overall CGUs for impairment because of a significant decrease in gross margin relating specifically to increases in inventory input costs of raw materials, labour, and overhead. Management also noted a significant decrease in commercial sales of LED lighting products related to specific deferred development costs. The recoverable amount has been determined based on the value in use of the CGU using three year cash flow projections approved by management that made maximum use of observable inputs and outputs. Cash flows from periods beyond the projection period were excluded from the evaluation. Key assumptions include the following:

Long term budgeted average gross margin	40.0%
Pre-tax discount rate	12.8%

Management estimated the projected gross margin based on the cost objectives contained in its three year plan, adjusted for the new level of expected volumes, and its expectations for market development.

8. IMPAIRMENT OF LONG-LIVED ASSETS, continued

Management allocated the equipment, furniture, leaseholds and assets under finance leases along with its intangible assets arising from development, patents and trademarks to the most strongly correlated CGU and compared the carrying amounts of each to the present value of its recoverable amount.

In 2011, the Company recognized an impairment loss of $714,214 (2010 – 39,310) in respect of the Company's patents and trademarks and deferred development costs.

9. BANK INDEBTEDNESS

Bank indebtedness consists of the following:

	December 31 2011	December 31 2010	January 1 2010
Operating line of credit	**318,513**	283,676	-

The Company has an operating line of credit in the amount of $320,000 CAD extended by the Credit Union Syndicate. The operating line of credit (and certain debt obligations, see note 11) 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 $200,000 CAD. Interest is charged on a monthly basis at a rate of prime plus 1.5% per annum (3% at December 31, 2011, December 31, 2010 and January 1, 2010 respectively).

10. NOTES PAYABLE

Notes payable consists of the following:

	December 31 2011	December 31 2010	January 1 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 debt with a law firm – non-interest bearing with 12 monthly payments of CAD $15,513 commencing August 27, 2009 and maturing July 29, 2010.	**-**	-	118,081
Settlement on a debt with a past employee – non-interest bearing with principal payments of CAD $9,461 per month to May 7, 2010.	**-**	-	35,878
Supplier loan for tooling – non-interest bearing, payable when certain parts are shipped. The final payment was made in March, 2010.	**-**	-	30,688
Settlement on a debt with a consultant – non-interest bearing, with the remaining principal repayments of CAD $10,500 per month to December 15, 2009. The final payment on the note was made in January 2010.	**-**	-	9,991
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	**5,392**	-	-
Extended payments on insurance – bearing interest at 4.988% Per annum with 10 monthly payments of CAD $6,491, commencing July 16, 2011 and maturing May 16, 2012	**31,519**	-	-
	36,911	38,377	194,638

All outstanding notes payable at December 31, 2011 and December 31, 2010 are related to insurance costs.

11. DEBT OBLIGATIONS

Debt obligations consist of the following:

	December 31 2011	December 31 2010	January 1 2010
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD $1,038, maturing March 29, 2012.	**4,656**	16,286	25,386
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of CAD $1,440, maturing December 20, 2014.	**45,216**	59,334	67,557
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD $3,921, maturing June 14, 2015	**138,554**	174,600	-
PenFinancial Credit Union – Prime plus 2% payable in Blended monthly installments of CAD $3,844, due to October, 2010	**-**	-	27,992
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below.	**499,477**	148,970	-
Less: principal due within one year	**(145,692)**	(76,962)	(49,408)
	542,211	322,228	71,527

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 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 SODP, a program administered by the Government of Canada for a maximum contribution amount of CAD $667,036. The contribution amount is based on 50% of eligible capital costs and 75% of eligible non-capital costs for projects to develop indoor and outdoor lighting and to increase the production capacity of the Company's facility in Welland, Ontario. The interest-free contribution amount is repayable over five years. No payments were required until August 1, 2011. The contribution amount is then repayable in 60 monthly payments equal to $11,118 from August 1, 2011 to July 1, 2016. No interest is payable on the undrawn balance of the contribution amount. No assets of the Company currently owned or to be acquired under the CA will be pledged as security. As at December 31, 2011, the maximum contribution amount of $667,036 has been received under the CA. The Company has discounted the SODP loan using an annual interest rate of 7.5% over the term of the loan.

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

2012	145,692
2013	155,007
2014	169,385
2015	143,015
2016	74,804
	687,903

12. OBLIGATIONS UNDER FINANCE LEASES

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

USD Value of undernoted leases[(1)]:	95,111
Less: amount representing interest at 12%	11,413
	83,698
Less: current portion	(18,233)
	65,465

(1) Comprised of two leases: i) 66 month lease commenced July 2011 with quarterly pre-tax repayments of CAD $1,777.06, and ii) 39 months lease commenced December 2011 with monthly pre-tax repayments of CAD $1,877.68

13. DEFERRED INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 28.25% (2010 – 30%) to the amount recognized in the statement of loss and comprehensive loss:

	2011	2010
Net loss before recovery of income taxes	**(3,287,107)**	(1,113,981)
	28.25%	30%
Expected income tax recovery	**(928,600)**	(334,200)
Increase (decrease) resulting from:		
Change in unrecognized deductible temporary differences	**1,159,500**	137,300
Difference in and foreign exchange (gain) loss on translation of tax basis and foreign exchange on deferred income taxes within income tax expense	**58,000**	40,100
Change in future tax rates and other adjustments	**(149,000)**	100,900
Tax attributes (recognized) reversed in current year	**(139,900)**	55,900
Tax recovery	**-**	-

The 2011 statutory tax rate of 28.25% differs from the 2010 statutory tax rate of 30% because of the reduction in both federal and Ontario substantively enacted tax rates.

Unrecognized deferred tax assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following terms:

	2011	**2010**
Non-capital losses carried forward	**5,054,900**	1,595,000
Deductible temporary differences	**1,572,500**	-

DEFERRED INCOME TAXES, continued

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The deductible temporary differences do not expire under current tax legislation.

The Company's Canadian non-capital income tax losses expire as follows:

2025	**260,000**
2026	**228,600**
2027	**84,300**
2028	**82,800**
2029	**235,700**
2030	**703,600**
2031	**3,459,900**
	5,054,900

14. GOVERNMENT INCENTIVES RECEIVABLE

The Scientific Research and Experimental Development Tax Credits ("SRED"), offered by the Government of Canada and the Ontario Innovation Tax Credit ("OITC") and Ontario Research and Development Tax Credit ("ORDTC") offered by the Ontario Provincial Government are awarded for expenditures on research and development. The tax credits relating to 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, OITC and ORDTC were refundable tax credits and were normally paid to the Company in the year following the year the tax credits were claimed. As a result of becoming a publicly traded company in May 2009, the 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, OITC 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 these tax credits.

Government incentives receivable consist of the following:

	December 31 2011	December 31 2010	January 1 2010
OITC and ORDTC	69,291	94,321	38,444
Scientific Research and Experimental Development Tax Credit	269,084	161,562	73,134
Valuation allowance – Federal, non-refundable tax credit	(269,084)	(161,562)	(73,134)
Valuation allowance – Provincial, non-refundable tax credit	(16,408)	-	-
SODP program grant receivable	-	54,380	-
	52,883	148,701	38,444

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

15. DERIVATIVE LIABILITY - WARRANTS

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

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 December 31, 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.

Derivative Liability – Warrants continued

Series D warrants

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

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

	December 31 2011	December 31 2010
Gain on warrant liability	**1,431,844**	211,558

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

	December 31 2011	December 31 2010	January 1 2010
Series A	**N/A**	N/A	132,552
Series B	**N/A**	N/A	161,925
Series C	**49,378**	315,080	N/A
Series D	**783,482**	N/A	N/A
USD$	**832,860**	315,080	294,477

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

	December 31, 2011	December 31, 2010	January 1, 2010
Exercise price (CAD$)	$0.70 & $0.65	$0.70	$0.50 & $0.65
Share price (CAD $)	$0.38	$0.51	$0.28 & $0.54
Risk-free interest rate	0.94%	1.66%	1.30% & 1.42%
Expected life	0.5 years & 2.3 years	1.5 years	1 year
Expected volatility	113% & 103%	157%	75% & 73%
Dividend rate	0%	0%	0%

16. SHARE CAPITAL

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 January 1, 2010	27,935,347	2,317,608
Transfers from contributed surplus on exercise of options	-	55,317
Issuance of common shares for cash	3,204,731	1,216,414
Shares to be issued for cash	20,000	9,706
Balance December 31, 2010	31,160,078	3,599,045
Transfers from contributed surplus on exercise of options	176,200	33,385
Issuance of common shares for cash	9,387,156	2,770,977
Balance December 31, 2011	**40,723,434**	**6,403,407**

[a] Common stock

Issuance of common shares for cash:

Private Placement July 15, 2010

The Company completed a private placement financing and issued 2,004,446 units at a price of $0.55 per unit for gross proceeds of $1,102,445. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD $0.70 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. The private placement was a non-brokered private placement, but, a finders' fee equal to $33,000 was paid to an agent not related to the Company. Other closing costs for legal expenses and filings fees were $5,955.

Private Placement April 28, 2011

The Company completed a private placement financing and issued 9,379,156 units at a price of CAD $0.55 per unit for gross proceeds of CAD $5,158,535. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD $0.65 per common share no later than April 28, 2014. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 28, 2011 were restricted from trading until that date. The issue was a brokered private placement with Canaccord Genuity Corp. acting as lead agent for the Company for a commission equal to 6% of the gross proceeds raised. Additionally, 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 valued at $170,900. Other closing costs for legal expenses and filings fees were $66,208.

[b] Stock options

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

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

Value of stock options granted:
Stock based compensation expense recognized for the year ended December 31, 2011 was $298,629 (December 31, 2010 - $147,863), of which $14,744 is included within cost of sales, $5,028 is included within research and development expense, $163,116 is included within general and administrative expense and $115,741 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.

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

	December 31, 2011		December 31, 2010	
	No. of shares	**Weighted average exercise price**	No. of shares	Weighted average exercise price
Outstanding, beginning of year	1,295,324	0.38	1,705,436	0.30
Granted (1)	1,107,500	0.58	340,833	0.57
Expired	-	-	-	-
Exercised	(176,200)	0.31	(750,945)	0.29
Outstanding, end of year	2,226,624	0.48	1,295,324	0.38

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

	May 5, 2011	August 29, 2010
Exercise price (CAD$)	$0.58	$0.48
Share price (CAD $)	$0.58	$0.50
Risk-free interest rate	1.625%	1.073%
Expected life	5 years	5 years
Expected volatility	111%	111%
Dividend rate	0%	0%

The weighted average share price at the dates the options were exercised during the year was $0.48 (December 2010- $0.38).

[b] Stock options, continued

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 1,845,719.

The following table summarizes information about options outstanding as at December 31, 2011:

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	35 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:

In March 27, 2008, charitable options to purchase 66,486 common shares were granted to an eligible charitable organization. These options are exercisable at CAD $0.30 per share with an expiry date as of March 27, 2018.

Agent options:

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

17. 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.

Continuing a consistent objective year over year, The Board of Directors does not establish quantitative "return on capital" criteria for management; but instead promotes year over year sustainable profitable growth.

18. FINANCIAL INSTRUMENTS

[a] Fair value

The carrying values of cash and cash equivalents, accounts receivable, government incentives 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 29.2% of accounts receivable at December 31, 2011 (18.5% at December 31, 2010 and 26.4% on January 1, 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
December 31, 2011	211,867	112,911	75,115	27,907	427,800

[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:

	December 31 2011	December 31 2010	January 1 2010
Cash	577,856	(241,094)	(135,305)
Trade accounts receivable	326,073	460,413	128,574
Trade accounts payable	(733,788)	(217,856)	(180,204)
Short-term notes payable	(37,538)	(38,171)	(172,307)
Debt obligations	(699,586)	(397,046)	(127,099)

At December 31, 2011 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a $56,700 change on reported net loss and comprehensive loss for the year.

19. 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:

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

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

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

2. The Company signed a service agreement with DBA Tenzing Managed IT Services, for the Company to establish offsite IT infrastructure and related management services. The services primarily relate to administration of the supplied infrastructure, network availability, data backup and archiving. The term of the agreement is from December 12, 2011 (deployment date) to 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

19. COMMITMENTS AND CONTINGENCIES, continued

3. 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.

20. IMPACT OF ADOPTING IFRS

As described in note 2, these are the Company's first annual financial statements prepared in accordance with IFRS. The Company has applied IFRS with effect from January 1, 2010, the transition date, in accordance with the transitional provisions set out in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. IFRS 1 requires that a first-time adopter retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period. However, it also sets out certain optional exemptions and certain mandatory exceptions to this principle.

The majority of the optional exemptions are either not relevant to or necessary for the Company. However, it has applied the following items:

Share-based payments
The Company has elected not to recognize or measure the effect of stock options, warrants and other share-based payments that vested before the transition date. The cumulative impact of these awards on the information previously reported under CGAAP has been eliminated through opening retained earnings.

Impact of mandatory exceptions
The only mandatory exception relevant to the Company prevents it from amending any of the estimates it previously made under CGAAP, unless objective evidence exists that any of those estimates were in error. Since no such evidence exists, the estimates used in preparing these IFRS financial statements remain unchanged.

Note 2 describes the accounting policies the Company applies under IFRS. These differ from the accounting policies it previously applied under CGAAP in the following material respects:

Foreign currency translation
In these financial statements, the US dollar is the Company's functional currency. Under CGAAP, the Company's functional currency was the Canadian dollar. The change reflects the greater specificity contained in IFRS on determining the functional currency, focusing in particular on the currency in which an entity primarily generates sales and that in which it primarily incurs costs.

Impact of Adopting IFRS, continued
Statements of Loss and Comprehensive Loss previously reported in Canadian dollars under CGAAP have been translated using the Bank of Canada average exchange rate posted for the period. The Statements of Financial Position are translated using the Bank of Canada closing rate on the date of the Statement except for inventories, intangible assets, and property, plant and equipment which are valued at the average Bank of Canada rates in effect at date of acquisition.

Derivative liability
Under CGAAP, warrants issued as part of a unit offering are treated as equity and are valued at the date of issuance. The warrants were valued using the Black-Scholes pricing model. The warrants are not accounted for as financial instruments.

Derivative liability, continued

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).

The application of IFRS relating to warrants has resulted in: an increase in deficit of $103,968 at the Transition Date; and a decrease in deficit of $211,558 at December 31, 2010.

Summary of differences

The following summarizes the impact of these differences on the Company's IFRS Statement of Financial Position, Statements of Loss and Comprehensive Loss, Statements of Cash Flows, and Statements of Equity as previously reported under CGAAP.

Statement of Financial Position:

	December 31, 2010			January 1, 2010		
	CDN GAAP	IFRS Adj.	IFRS	CDN GAAP	IFRS Adj.	IFRS
ASSETS	CDN $		USD $	CDN $		USD $
Current Assets						
Cash and cash equivalents	338,180	1,835	340,015	913,557	(44,323)	869,234
Accounts receivable	703,841	3,808	707,649	391,219	(18,973)	372,246
Government incentives receivable	147,902	799	148,701	40,404	(1,960)	38,444
Inventory	552,689	(19,640)	533,049	414,386	(46,684)	367,702
Deposits and prepaid expenses	85,896	464	86,360	47,747	(2,316)	45,431
	1,828,508	(12,734)	1,815,774	1,807,313	(114,256)	1,693,057
Long-term assets						
Equipment, furniture and leaseholds	670,270	(70,267)	600,003	416,180	(62,797)	353,383
Patents and trademarks	203,546	(5,984)	197,562	-	-	-
Intangible assets - development costs	656,420	(43,505)	612,915	333,356	(34,007)	299,349
	3,358,744	(132,490)	3,226,254	2,556,849	(211,060)	2,345,789
LIABILITIES						
Current liabilities						
Bank indebtedness	282,153	1,523	283,676	-	-	-
Trade and other payables	559,373	3,027	562,400	378,811	(16,777)	362,034
Notes payable	38,171	206	38,377	204,559	(9,921)	194,638
Current portion of debt obligations	76,549	413	76,962	51,926	(2,518)	49,408
Current portion of finance lease obligations	4,418	24	4,442	6,785	(329)	6,456
	960,664	5,193	965,857	642,081	(29,545)	612,536
Long-term liabilities					-	
Debt obligations	320,497	1,731	322,228	75,173	(3,646)	71,527
Finance lease obligations	782	4	786	5,200	(252)	4,948
Derivative liability - Warrants	-	315,080	315,080	-	294,477	294,477
	1,281,943	322,008	1,603,951	722,454	261,034	983,488
SHAREHOLDERS' EQUITY						
Share capital	3,970,534	(381,195)	3,589,339	2,646,577	(328,969)	2,317,608
Shares to be issued	10,000	(294)	9,706	-	-	-
Contributed surplus	488,933	(213,227)	275,706	209,159	(25,999)	183,160
Warrants	246,980	(246,980)	-	198,129	(198,129)	-
(Deficit)	(2,639,646)	387,198	(2,252,448)	(1,219,470)	81,003	(1,138,467)
	2,076,801	(454,498)	1,622,303	1,834,395	(472,094)	1,362,301
	3,358,744	(132,490)	3,226,254	2,556,849	(211,060)	2,345,789

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

Statement of Cash Flows

	December 31, 2010		
	CDN GAAP	IFRS Adj.	IFRS
OPERATING ACTIVITIES	CDN $		USD $
Net (loss) for the year	(1,420,176)	306,195	(1,113,981)
Items not affecting cash		-	
Stock-based compensation	152,342	(4,479)	147,863
Change in warrant liability	-	(211,558)	(211,558)
Amortization of product development costs	51,480	(1,514)	49,966
Impairment loss on product development costs	40,501	(1,191)	39,310
Amortization of equipment, furniture and fixtures	178,578	(5,252)	173,326
Accretion expense	3,965	(117)	3,848
Loss (gain) on sale of equipment, furniture and fixtures	6,070	(179)	5,891
	(987,240)	81,905	(905,335)
Net change in non-cash working capital items relating to operating activities			
Accounts receivable	(312,622)	(22,781)	(335,403)
Government incentives receivable	(107,498)	(2,759)	(110,257)
Inventory	(138,303)	(27,044)	(165,347)
Deposits and prepaid expenses	(38,149)	(2,780)	(40,929)
Trade and other payables	180,562	19,804	200,366
Cash (used in) operating activities	(1,403,250)	46,345	(1,356,905)
INVESTING ACTIVITIES			
Purchase of equipment, furniture, and leaseholds	(445,052)	16,010	(429,042)
Proceeds on sale of equipment, furniture and fixtures	6,315	(3,110)	3,205
Additions to intangible assets - development costs	(415,044)	12,202	(402,842)
- patent and trademark costs	(203,546)	5,984	(197,562)
Cash (used in) investing activities	(1,057,327)	31,086	(1,026,241)
FINANCING ACTIVITIES			
Advances from notes payable, net of repayments	(166,388)	10,127	(156,261)
Line of credit (repayment) proceeds	282,153	1,523	283,676
Finance lease obligations repayments	(6,785)	609	(6,176)
Advances from debt obligations, net of repayments	265,980	8,427	274,407
Issuance of warrants	246,980	(14,819)	232,161
Issuance of common shares	1,263,260	(37,140)	1,226,120
Cash provided by financing activities	1,885,200	(31,273)	1,853,927
Net (decrease) increase in cash and cash equivalents	(575,377)	46,158	(529,219)
Cash and cash equivalents, beginning of year	913,557	(44,323)	869,234
Cash and cash equivalents, end of year	338,180	1,835	340,015

Statement of Equity:

Share Capital		December 31, 2010	January 1, 2010
As previously reported under CGAAP		3,980,534	2,646,577
Foreign exchange loss (gain)		(38,816)	(328,969)
Prior period(s) foreign exchange loss (gain)		(328,970)	-
Transfer of exercised warrants		(13,703)	-
As reported in accordance with IFRS		3,599,045	2,317,608

Other Paid in Capital		December 31, 2010	January 1, 2010
As previously reported under CGAAP		488,933	209,159
Foreign exchange loss (gain)		(2,803)	(25,999)
Prior period(s) foreign exchange loss (gain)		(25,998)	-
Transfer value of expired warrants		(184,426)	-
As reported in accordance with IFRS		275,706	183,160

Deficit		December 31, 2010	January 1, 2010
As previously reported under CGAAP		(2,639,646)	(1,219,470)
Foreign exchange loss (gain)		175,640	184,971
(Gain) loss on warrant liability		211,558	(103,968)
As reported in accordance with IFRS		(2,252,448)	(1,138,467)

Canadian $ Warrants as Equity		December 31, 2010	January 1, 2010
As previously reported under CGAAP	(CAD)	246,980	198,129
FVTPL revaluation loss (gain)	(USD)	82,919	103,968
Loss (gain) on expiry of warrants	(USD)	(294,477)	-
Cumulative foreign exchange loss (gain)		279,658	(7,620)
Transfer to derivative liability	(USD)	(315,080)	(294,477)
As reported in accordance with IFRS		-	-
Total reported in accordance with IFRS		**1,622,303**	**1,362,301**

21. RELATED PARTY TRANSATIONS

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

22. AUTHORIZATION

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

These audited annual financial statements as at December 31, 2011 were approved by the Board of Directors on April 29, 2012.

23. SUBSEQUENT EVENTS

a) 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.

b) 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 loan 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.