

**CRS ELECTRONICS INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**As at June 30, 2012**

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

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

These unaudited condensed interim financial statements for the six months ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, 'Interim financial reporting'. The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

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, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	6,903,341	935,201
Accounts receivable (Note 3)	501,778	507,416
Government incentives receivable (Note 12)	52,883	52,883
Inventory (Note 4)	861,913	1,693,175
Deposits and prepaid expenses	351,528	496,112
	<b>8,671,443</b>	<b>3,684,787</b>
<b>Non-current assets</b>		
<b>Equipment, furniture and leaseholds (Note 5)</b>	<b>863,845</b>	<b>979,213</b>
<b>Patents and trademarks (Note 6)</b>	<b>119,077</b>	<b>119,885</b>
<b>Intangible assets (Note 7)</b>	<b>351,286</b>	<b>334,837</b>
	<b>10,005,651</b>	<b>5,118,722</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 8)	33,925	318,513
Trade and other payables	1,104,477	1,583,136
Notes payable (Note 9)	13,299	36,911
Current portion of debt obligations (Note 10)	139,651	145,692
Current portion of finance lease obligations (Note 11)	20,791	18,233
	<b>1,312,143</b>	<b>2,102,485</b>
<b>Non-current liabilities</b>		
<b>Debt obligations (Note 10)</b>	<b>463,731</b>	<b>542,211</b>
<b>Finance lease obligations (Note 11)</b>	<b>52,414</b>	<b>65,465</b>
<b>Derivative Liability - Warrants (Note 13)</b>	<b>862,024</b>	<b>832,860</b>
	<b>2,690,312</b>	<b>3,543,021</b>
<b>Commitments and Contingencies (Note 15)</b>		
<b>Subsequent events (Note 18)</b>		
<b>EQUITY</b>		
Share capital (Note 14)	14,314,950	6,403,407
Other paid-in capital	667,011	711,849
Deficit	(7,666,622)	(5,539,555)
	<b>7,315,339</b>	<b>1,575,701</b>
	<b>10,005,651</b>	<b>5,118,722</b>

Nature of operations and going concern (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" DirectorSigned "Lian Wu" 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	
	2012	2011	2012	2011
<b>SALES</b>	<b>687,740</b>	614,900	<b>1,999,691</b>	1,154,716
Cost of sales	<b>965,081</b>	632,886	<b>2,634,588</b>	1,152,810
<b>GROSS PROFIT (LOSS)</b>	<b>(277,341)</b>	(17,986)	<b>(634,897)</b>	1,906
<b>EXPENSES</b>				
Engineering, research and development	<b>106,394</b>	85,669	<b>219,232</b>	165,716
Selling and marketing	<b>278,892</b>	264,694	<b>850,489</b>	371,885
General and administrative	<b>453,164</b>	488,529	<b>965,178</b>	903,371
SRED refundable tax credits and grant funding	-	(12,376)	-	(40,853)
Finance costs - short-term debt obligations	<b>17,726</b>	6,820	<b>25,106</b>	12,571
Finance and accretion costs - long-term debt obligations	<b>16,628</b>	3,996	<b>32,468</b>	14,881
Loss (gain) on sale of equipment, furniture and fixtures	<b>5,275</b>	-	<b>5,618</b>	-
Change in warrant liability (note 13)	<b>(26,255)</b>	(277,054)	<b>(488,380)</b>	(339,826)
Foreign exchange loss (gain)	<b>(147,630)</b>	(9,971)	<b>(117,541)</b>	(863)
	<b>704,194</b>	550,307	<b>1,492,170</b>	1,086,882
LOSS BEFORE INCOME TAXES	<b>981,535</b>	568,293	<b>2,127,067</b>	1,084,976
Income Taxes	-	-	-	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>981,535</b>	568,293	<b>2,127,067</b>	1,084,976
Loss per share - basic and fully diluted	(0.02)	(0.02)	(0.05)	(0.03)
Weighted average number of common shares outstanding - basic and fully diluted	<b>48,073,017</b>	37,750,089	<b>44,398,226</b>	34,480,115

*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 six months ended June 30, 2012 and 2011

	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net (loss) for the period	(2,127,067)	(1,084,976)
Items not affecting cash		
Stock based compensation	(44,838)	88,976
Change in warrant liability	(488,380)	(339,826)
Amortization of intangible assets	56,775	57,604
Depreciation of equipment, furniture and fixtures	151,698	99,508
Amortization of patents and trademarks	15,597	-
Accretion expense	22,456	15,330
Loss (gain) on disposal of equipment, furniture and fixtures	5,618	-
Net change in non-cash working capital items relating to operating activities	(2,408,141)	(1,163,384)
Accounts receivable	5,638	171,334
Government incentives receivable	-	(157,058)
Inventory	831,262	(236,081)
Deposits and prepaid expenses	144,584	(80,429)
Trade and other payables	(478,659)	188,694
Cash (used in) operating activities	(1,905,316)	(1,276,924)
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture, and leaseholds	(52,573)	(154,895)
Proceeds on sale of equipment, furniture and fixtures	10,625	-
Additions to intangible assets – intangibles	(73,224)	(65,287)
– patent and trademark costs	(14,789)	(128,663)
Cash (used in) investing activities	(129,961)	(348,845)
<b>FINANCING ACTIVITIES</b>		
Repayment of notes payable	(23,612)	(24,339)
Repayment of line of credit	(284,588)	(167,005)
Repayment of finance lease obligations	(10,493)	(2,016)
Proceeds from (repayment of) debt obligations	(106,977)	373,452
Issue of warrants	517,544	1,949,624
Issue of common shares	7,911,543	2,978,377
Cash provided by financing activities	8,003,417	5,108,093
Net increase (decrease) in cash and cash equivalents	5,968,140	3,482,324
Cash and cash equivalents, beginning of period	935,201	340,015
Cash and cash equivalents, end of period	6,903,341	3,822,339
The following cash flows are included in operating activities:		
Income taxes (paid) refunded	-	-
Interest (paid)	38,379	22,582

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

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

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	<b>Share capital</b>	<b>Other Paid-in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, December 31, 2011</b>	6,403,407	711,849	(5,539,555)	1,575,701
Net (loss) for the period	-	-	(2,127,067)	(2,127,067)
Issue of common shares	7,911,543	-	-	7,911,543
Stock based compensation	-	(44,838)	-	(44,838)
<b>Balance, June 30, 2012</b>	<b>14,314,950</b>	<b>667,011</b>	<b>(7,666,622)</b>	<b>7,315,339</b>

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	<b>Share capital</b>	<b>Other Paid-in Capital</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, December 31, 2010</b>	3,599,045	275,706	(2,252,448)	1,622,303
Net (loss) for the period	-	-	(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>

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*The accompanying notes form an integral part of these condensed interim 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 unaudited condensed interim 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 quarter ended, June 30, 2012 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 period have contributed to negative gross profits. The Company 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 were reliant upon the successful raise of additional capital. The Company has pursued an initiative to raising capital from both strategic and financial investors. In this regard, CJL Holding Inc., a corporation related to Mr. Chiang Jiang Wu, agreed to purchase 30,400,548 common shares of the Company at a price of \$0.2921 per common share for total aggregate proceeds to the Company of \$8,880,000. On June 8, 2012 the Company announced that the private placement had finalized. Net proceeds from the private placement will be used to fund operations, sales and marketing expenditures and for general corporate purposes.

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. BASIS OF PREPARATION**

These condensed interim financial statements for the six months ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the annual financial statements for the year ended December 31, 2011.

### 3. ACCOUNTS RECEIVABLE

	June 30 2012	December 31 2011
Trade accounts receivable	<b>452,254</b>	427,799
HST recoverable	<b>51,361</b>	56,115
Other receivables	<b>6,214</b>	27,828
Allowance for doubtful accounts	<b>(8,051)</b>	(4,326)
	<b>501,778</b>	507,416

A bus manufacturer based in the United States represents 47.1% of the trade accounts receivable on June 30, 2012 (29.2% on December 31, 2011).

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

	June 30 2012	December 31 2011
Opening balance	<b>4,326</b>	11,419
Provision for impairment of accounts receivable	<b>3,725</b>	-
Bad debt recoveries	-	(7,093)
Closing balance	<b>8,051</b>	4,326

### 4. INVENTORY

	June 30 2012	December 31 2011
Finished goods	<b>229,230</b>	813,167
Raw materials	<b>593,465</b>	822,454
Inventory in transit	<b>39,218</b>	57,554
	<b>861,913</b>	1,693,175

During the quarter ended June 30, 2012, the Company recorded inventory write-downs of \$36,972 (\$80,814 for December 31, 2011) 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 June 30, 2012:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>								
At January 1, 2012	83,795	426,868	62,630	-	762,363	255,995	40,245	1,631,896
Additions	16,111	11,990	3,035	-	21,437	-	-	52,573
Disposals	-	-	(343)	-	(59,453)	-	-	(59,796)
	99,906	438,858	65,322	-	724,347	255,955	40,245	1,624,673
<b>Accumulated depreciation</b>								
At January 1, 2012	41,660	143,753	29,018	-	344,606	82,198	11,448	652,683
Depreciation for the period	5,735	66,635	6,175	-	46,411	22,452	4,290	151,698
Eliminated on disposals	-	-	-	-	(43,553)	-	-	(43,553)
	47,395	210,388	35,193	-	347,464	104,650	15,738	760,828
<b>Net Carrying value at June 30, 2012</b>	<b>52,511</b>	<b>228,470</b>	<b>30,128</b>	<b>-</b>	<b>376,883</b>	<b>151,345</b>	<b>24,507</b>	<b>863,845</b>

## Equipment, furniture and leaseholds continued

At December 31, 2011:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
<b>Cost</b>								
At January 1, 2011	70,976	150,616	46,984	14,405	590,580	141,915	11,570	1,027,046
Additions	12,819	297,621	16,372	-	171,783	114,080	28,675	614,350
Disposals	-	(21,369)	(726)	(14,405)	-	-	-	(36,500)
	83,795	426,868	62,630	-	762,363	255,995	40,245	1,631,896
Accumulated depreciation								
At January 1, 2011	32,148	69,536	14,994	14,287	267,115	46,817	5,704	450,601
Depreciation for the period	9,512	82,817	14,078	74	77,491	35,381	5,744	225,097
Eliminated on disposals	-	(8,600)	(54)	(14,361)	-	-	-	(23,015)
	41,660	143,753	29,018	-	344,606	82,198	11,448	652,683
<b>Net Carrying value at December 31, 2011</b>	<b>42,135</b>	<b>283,115</b>	<b>33,611</b>	<b>-</b>	<b>417,757</b>	<b>173,797</b>	<b>28,797</b>	<b>979,213</b>

For the period ended June 30, 2012 \$127,349 of depreciation was included in cost of sales, \$8,345 was included in research and development, and \$16,004 within general and administrative (2011: \$176,765, \$24,762 and \$23,570, respectively).

## 6. PATENTS AND TRADEMARKS

Patents and trademarks at June 30, 2012 and December 31, 2011 consist of the following:

Cost		Cost	
At January 1, 2012	150,028	At January 1, 2011	197,562
Additions	14,789	Additions	210,703
Impairments	-	Impairments	(258,237)
	164,817		150,028
Accumulated Amortization		Accumulated Amortization	
At January 1, 2012	30,143	At January 1, 2011	-
Amortization for the year	15,597	Amortization for the year	30,143
Decrease due to impairment	-	Decrease due to impairment	-
	45,740		30,143
Net Carrying value at June 30, 2012	119,077	Net Carrying value at December 31, 2011	119,885

The amortization expense was charged to general and administration expense for 2012 and 2011

## 7. INTANGIBLE ASSETS

	Deferred Development Costs	Computer Software	Total
Cost			
At January 1, 2012	331,110	131,050	462,160
Additions	-	73,224	73,224
Disposals	-	-	-
	<u>331,110</u>	<u>204,274</u>	<u>535,384</u>
Accumulated Amortization			
At January 1, 2012	85,059	42,264	127,323
Depreciation for the year	33,110	23,665	56,775
Eliminated on disposals	-	-	-
	<u>118,169</u>	<u>65,929</u>	<u>184,098</u>
Net Carrying value at June 30, 2012	<u><b>212,941</b></u>	<u><b>138,345</b></u>	<u><b>351,286</b></u>
Cost			
At January 1, 2011	693,983	56,590	750,573
Additions	202,917	74,460	277,377
Impairment	(565,790)	-	(565,790)
	<u>331,110</u>	<u>131,050</u>	<u>462,160</u>
Accumulated Amortization			
At January 1, 2011	81,068	33,040	114,108
Depreciation for the year	113,812	9,224	123,036
Eliminated on impairment	(109,821)	-	(109,821)
	<u>85,059</u>	<u>42,264</u>	<u>127,323</u>
Net Carrying value at December 31, 2011	<u><b>246,051</b></u>	<u><b>88,786</b></u>	<u><b>334,837</b></u>

For the period ended June 30, 2012 \$21,347 of amortization was included in general and administrative, \$2,318 was included in research and development and \$33,110 within cost of sales (2011: \$9,224, \$0 and \$113,812 respectively).

## 8. BANK INDEBTEDNESS

Bank indebtedness consists of the following:

	June 30 2012	December 31 2011
Operating line of credit	<b>33,925</b>	318,513

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 June 30, 2012, and December 31, 2011 respectively).

## 9. NOTES PAYABLE

Notes payable consists of the following:

	June 30 2012	December 31 2011
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
Extended payments on insurance – bearing interest at 5.72% Per annum with 10 monthly payments of CAD \$1,389.75, commencing July 20, 2012 and maturing April 20, 2013	<b>13,299</b>	-
	<b>13,299</b>	36,911

All outstanding notes payable at June 30, 2012 and December 31, 2011 are related to insurance costs.

## 10. DEBT OBLIGATIONS

Debt obligations consist of the following:

	June 30 2012	December 31 2011
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD \$1,038, maturing May 29, 2012.	-	4,656
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of CAD \$1,440, maturing December 20, 2014.	<b>38,374</b>	45,216
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD \$3,921, maturing June 14, 2015	<b>121,203</b>	138,554
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below.	<b>443,805</b>	499,477
Less: principal due within one year	<b>(139,651)</b>	<b>(145,692)</b>
	<b>463,731</b>	<b>542,211</b>

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 CAD \$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 CAD \$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:

2013	139,651
2014	164,180
2015	170,955
2016	117,579
2017	11,017
	<b>603,382</b>

## 11. 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 <sup>(1)</sup> :	83,188
Less: amount representing interest at 12%	<u>(9,983)</u>
	73,205
Less: current portion	<u>(20,791)</u>
	<u>52,414</u>

(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

## 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 ("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:

	June 30 2012	December 31 2011
OITC and ORDTC	69,291	69,291
Scientific Research and Experimental Development Tax Credit	220,719	269,084
Valuation allowance – Federal, non-refundable tax credit	(220,719)	(269,084)
Valuation allowance – Provincial, non-refundable tax credit	(16,408)	(16,408)
	<u>52,883</u>	<u>52,883</u>

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.

### **13. 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 June 30, 2012, 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 June 30, 2012, 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.

### Series E warrants

On June 8, 2012 the Company issued 2,389,167 common share purchase warrant units. Each warrant entitles the holder to acquire one common share upon payment of CAD \$0.2921 per common share no later than June 8, 2017. The warrants are not registered for trading and all common shares issued through the exercise of warrants before October 9, 2012 were restricted from trading until that date. As at June 30, 2012, 2,389,167 warrants, entitling the warrant holders to purchase 2,389,167 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 \$531,523 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 105%, risk-free interest rate of 1.29% and an expected life of 5 years.

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

	June 30 2012	December 31 2011
Gain on warrant liability	<b>488,380</b>	1,431,844

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

	June 30 2012	December 31 2011
Series A	N/A	N/A
Series B	N/A	N/A
Series C	-	49,378
Series D	<b>364,556</b>	783,482
Series E	<b>497,468</b>	N/A
USD\$	<b>862,024</b>	832,860

## Derivative Liability – Warrants continued

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

	June 30 2012	December 31 2011
Exercise price (CAD\$)	\$0.70, \$0.65 & \$0.2921	\$0.70 & \$0.65
Share price (CAD \$)	\$0.28	\$0.38
Risk-free interest rate	1.00%, 1.00% & 1.22%	0.94%
Expected life	0.01 years, 1.83 years & 4.9 years	0.5 years & 2.3 years
Expected volatility	58%, 97% & 105%	113% & 103%
Dividend rate	0%	0%

## 14. SHARE CAPITAL

### Shares

#### Authorized

Unlimited number of common shares

#### Issued and outstanding

71,123,982 common shares

The common share transactions over the period are as follows:

	Number of shares	Amount
Balance January 1, 2011	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
Transfers from contributed surplus on exercise of options	-	-
Issuance of common shares for cash	30,400,548	7,911,543
Balance June 30, 2012	<b>71,123,982</b>	<b>14,314,950</b>

## [a] Common stock

### Issuance of common shares for cash:

#### 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 (USD \$5,217,342). 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 CAD \$168,973 (USD \$170,900). Additional agent costs were CAD \$386,635 (USD \$391,042). Other closing costs for legal expenses and filings fees were CAD \$66,208 (USD \$66,963).

Private Placement April 28, 2011 allocation of proceeds is as follows:

	Amount CAD	Amount USD
Common Shares (issued 9,379,156)	5,158,535	5,217,342
Less: Whole Warrants (issued 4,689,578)	(1,854,136)	(1,949,624)
Less: Agent Options (issued 530,022)	(168,973)	(170,900)
Less: Issuance Costs	(452,843)	(458,005)
Net Proceeds of Private Placement	2,682,583	2,638,813

#### Private Placement June 8, 2012

The Company completed a private placement financing and issued 30,400,548 units at a price of CAD \$0.2921 per unit for gross proceeds of CAD \$8,880,000 (USD \$8,622,982). The Company also issued 2,389,167 common share purchase warrants as compensation for Parklea Capital Inc. acting as a special advisor to the Chief Executive Officer and the Board of Directors of the Company. Each warrant entitles the holder to acquire one common share upon payment of CAD \$0.2921 per common share no later than June 8, 2017. The warrants are not registered for trading and all common shares issued through the exercise of warrants before October 9, 2012 were restricted from trading until that date. Other closing costs for legal expenses and filings fees were CAD \$197,739 (USD \$193,895).

Private Placement June 8, 2012 allocation of proceeds is as follows:

	Amount CAD	Amount USD
Common Shares (issued 30,400,548)	8,880,000	8,622,982
Less: Warrants (issued 2,389,167)	(531,523)	(517,544)
Less: Issuance Costs	(197,739)	(193,895)
Net Proceeds of Private Placement	8,150,738	7,911,543

## [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 period ended June 30, 2012 was USD \$120,037 (June 30, 2011 - \$88,976), of which USD \$11,858 is included within cost of sales, \$0 is included within research and development expense, USD \$53,728 is included within general and administrative expense and \$54,451 is included within selling expense (June 30, 2011 – \$0 is included within cost of sales, \$0 is included within research and development expense, USD \$57,334 is included within general and administrative expense and \$31,642 is included within selling expense)

Stock based compensation expense related to the forfeiture of 486,667 options, recognized during Fiscal 2011 and for the period ended June 30, 2012, was reversed in the current period upon forfeit. The related stock based compensation recovery of USD (\$164,875) is included within general and administrative expense.

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

	June 30, 2012		June 30, 2011	
	No. of shares	Weighted average exercise price (CAD \$)	No. of shares	Weighted average exercise price (CAD \$)
Outstanding, beginning of year	2,226,624	0.48	1,295,324	0.38
Granted	450,000	0.28	905,000	0.60
Forfeited	(486,667)	0.58	-	-
Exercised	-	-	(176,200)	0.31
Outstanding, end of year	2,189,957	0.41	2,024,124	0.49

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 4,950,027.

## [b] Stock options continued

The following table summarizes, Canadian currency, information about options outstanding as at June 30, 2012:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted-average exercise price (CAD\$)
\$0.30 - \$0.50	1,441,624	34	0.32
\$0.51 - \$0.70	748,333	36	0.58
Total	2,189,957	35	0.41

2,189,957 options are exercisable as at June 30, 2012. The weighted average exercise price of these options is CAD \$0.41.

### 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.

## 15. 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:

<u>Year</u>	<u>Minimum Guaranteed Royalty</u>
2012	411,000
2013	592,500
2014	756,000
2015	836,000

## Commitments and Contingencies continued

- 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:

<u>Year</u>	<u>CAD \$ IT Hosting Fees</u>
2012	37,820
2013	37,820
2014	35,965

- The Company signed a service agreement with Niagara Regional Broadband Network Limited, for the Company to establish high-speed fiber optic network bandwidth and related management services. The services primarily relate to the maintenance of the supplied fiber optic network and network availability. The term of the agreement is from April 1, 2011 (deployment date) to March 31, 2016.

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

<u>Year</u>	<u>CAD \$ IT Hosting Fees</u>
2012	8,700
2013	8,700
2014	8,700
2015	8,700
2016	2,175

- 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.

## 16. RELATED PARTY TRANSACTIONS

The Company's related parties consist of the Company's officers, which includes the Chief Executive Officer and the Chief Operating Officer. The Company incurred the following expenditures during the six months ended June 30, 2012 and 2011 that represent the compensation paid or payable to the Company's officers for services is as follows:

	<b>June 30 2012</b>	<b>June 30 2011</b>
Wages and benefits	179,209	184,492
Stock based compensation	-	-
	<u>179,209</u>	<u>184,492</u>

## **17. 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 unaudited condensed interim financial statements as at June 30, 2012 were approved by the Board of Directors on August 29, 2012.

## **18. SUBSEQUENT EVENTS**

a) In the third quarter the Company has commenced restructuring efforts to reduce losses. Preparations are under way to move production of our led lamps overseas and use the Canadian base as a distribution center for our led products as well as a catalogue of synergistic products sourced through our new investors.