CRS ELECTRONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS

Audited, in U.S. Dollars

For the Years Ended December 31, 2012 and 2011

CRS ELECTRONICS INC.
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December 31, 2012

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Independent Auditor's Report

To the Shareholders of
CRS Electronics Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of CRS Electronics Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of CRS Electronics Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 18, 2013

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CRS ELECTRONICS INC.
Consolidated Statements of Financial Position
Expressed in U.S. Dollars

	December 31, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**$ 4,517,911**	$ 935,201
Accounts receivable (Note 4)	**514,328**	507,416
Government incentives receivable (Note 14)	**44,184**	52,883
Inventory (Note 5)	**725,125**	1,693,175
Deposits and prepaid expenses	**111,725**	496,112
	5,913,273	3,684,787
Non-current assets		
Equipment, furniture and leaseholds (Note 6)	**609,976**	979,213
Patents and trademarks (Note 7)	**85,165**	119,885
Intangible assets (Note 8)	**288,430**	334,837
	$ 6,896,844	$ 5,118,722
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 9)	**$ -**	$ 318,513
Trade and other payables	**1,007,948**	1,583,136
Notes payable (Note 10)	**32,420**	36,911
Current portion of debt obligations (Note 11)	**158,448**	145,692
Current portion of finance lease obligations (Note 12)	**34,584**	18,233
	1,233,400	2,102,485
Non-current liabilities		
Debt obligations (Note 11)	**395,788**	542,211
Finance lease obligations (Note 12)	**72,747**	65,465
Derivative liability - warrants (Note 15)	**224,685**	832,860
	1,926,620	3,543,021
Commitments and Contingencies (Note 19)		
Subsequent events (Note 22)		
EQUITY		
Share capital (Note 16)	**14,366,423**	6,403,407
Other paid-in capital	**1,416,338**	711,849
Deficit	**(10,812,537)**	(5,539,555)
	4,970,224	1,575,701
	$ 6,896,844	$ 5,118,722

Nature of Operations and Going Concern (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director   *Signed "Rob Neill"* Director

CRS ELECTRONICS INC.
Consolidated Statements of Loss and Comprehensive Loss
Expressed in U.S. Dollars

For the years ended December 31, 2012 and 2011

	2012	2011
SALES	**$ 3,070,121**	$ 2,143,210
Cost of sales	**4,803,233**	2,705,178
GROSS LOSS	**(1,733,112)**	(561,968)
EXPENSES		
Engineering, research and development	**383,365**	535,774
Selling and marketing	**1,414,743**	1,012,505
General and administrative	**2,251,427**	1,761,685
SR&ED refundable tax credits and grant funding	**-**	(18,849)
Finance costs – short-term debt obligations	**-**	28,162
Finance and accretion costs – long-term debt obligations	**-**	31,865
Loss (gain) on disposal of equipment, furniture and leaseholds	**256,874**	(110)
Gain on disposal of intangible assets	**(1,448)**	-
Impairment loss on intangible assets (note 8)	**-**	455,977
Impairment loss on patents and trademarks (note 7)	**21,846**	258,237
Change in warrant liability (note 15)	**(608,175)**	(1,431,844)
Foreign exchange gain and valuation adjustments	**-**	91,737
	3,718,632	2,573,375
LOSS BEFORE FINANCE COSTS, FOREIGN EXCHANGE GAIN (LOSS) AND INCOME TAXES	**(5,451,744)**	(3,135,343)
Finance revenue – interest earned	**39,508**	29,079
Finance costs - debt obligations	**(62,811)**	(49,391)
Finance accretion costs - debt obligations	**(41,520)**	(39,715)
Foreign exchange gain (loss)	**243,585**	(91,737)
LOSS BEFORE INCOME TAXES	**(5,272,982)**	(3,287,107)
Income taxes (note 13)	**-**	-
NET LOSS AND COMPREHENSIVE LOSS	**$ (5,272,982)**	$ (3,287,107)
Loss per share - basic and fully diluted	$ (0.09)	$ (0.09)
Weighted average number of common shares outstanding - basic and fully diluted	**57,987,130**	37,627,432

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

CRS ELECTRONICS INC.
Consolidated Statements of Cash Flows
Expressed in U.S. Dollars

For the years ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Net loss for the year	**$ (5,272,982)**	$ (3,287,107)
Items not affecting cash		
Stock-based compensation	**186,945**	298,629
Short-term financing expense	**58,350**	-
Change in warrant liability	**(608,175)**	(1,431,844)
Amortization of intangible assets	**114,058**	123,036
Depreciation of equipment, furniture and leaseholds	**294,613**	226,879
Amortization of patents and trademarks	**32,435**	30,143
Impairment loss on intangible assets	**-**	455,977
Impairment loss on patents and trademarks	**21,846**	258,237
Accretion expense	**41,520**	39,715
Loss (gain) on disposal of equipment, furniture and leaseholds	**256,874**	(110)
Loss (gain) on disposal of intangible assets	**5,573**	-
	(4,868,943)	(3,286,445)
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	**(6,912)**	200,233
Government incentives receivable	**8,699**	95,818
Inventory	**968,050**	(1,160,126)
Deposits and prepaid expenses	**384,387**	(409,752)
Trade and other payables	**(575,188)**	1,031,824
Cash (used in) operating activities	**(4,089,907)**	(3,528,448)
INVESTING ACTIVITIES		
Purchase of equipment, furniture, and leaseholds	**(143,598)**	(562,873)
Proceeds on sale of equipment, furniture and leaseholds	**10,625**	726
Additions to intangible assets	**(73,224)**	(277,385)
Additions to patent and trademark costs	**(19,561)**	(210,703)
Cash (used in) investing activities	**(225,758)**	(1,050,235)
FINANCING ACTIVITIES		
Repayment of notes payable	**(68,666)**	(69,456)
Proceeds from notes payable	**64,175**	67,990
(Repayment of) proceeds from line of credit	**(318,513)**	34,837
(Repayment of) finance lease obligations	**(25,644)**	-
(Repayment of) proceeds from debt obligations	**(175,187)**	248,998
Net proceeds from issuance of common share units	**8,422,210**	4,891,500
Cash provided by financing activities	**7,898,375**	5,173,869
Net increase in cash and cash equivalents	**3,582,710**	595,186
Cash and cash equivalents, beginning of year	**935,201**	340,015
Cash and cash equivalents, end of year	**$ 4,517,911**	$ 935,201

The following cash flows are included in operating activities:

	2012	2011
Income taxes (paid) refunded	**-**	-
Interest (paid)	**$ (62,810)**	$ (49,390)
Non-cash transactions:		
Acquisition of equipment and intangibles under finance lease	**$ 49,277**	$ 78,470

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

CRS ELECTRONICS INC.
Consolidated Statements of Changes in Equity
Expressed in U.S. Dollars

	Share capital	Shares to be issued	Other Paid-in Capital	Deficit	Total
Balance, December 31, 2011	$ 6,403,407	$ -	$ 711,849	$ (5,539,555)	$ 1,575,701
Net loss for the year	-	-	-	(5,272,982)	(5,272,982)
Issue of common shares	7,963,016	-	-	-	7,963,016
Issue of warrants	-	-	517,544	-	517,544
Stock-based compensation	-	-	186,945	-	186,945
Balance, December 31, 2012	$ 14,366,423	$ -	$ 1,416,338	$ (10,812,537)	$ 4,970,224

	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	$ -	$ 711,849	$ (5,539,555)	$ 1,575,701

The accompanying notes form an integral part of these consolidated 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. Its head office is located at 9120 Leslie Street, Suite 102, Richmond Hill, Ontario, Canada L4B 3J9 and its manufacturing warehouse is located at 129 Hagar Street, Unit 5, 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. The Company incorporated a wholly-owned subsidiary, CRS Lighting (USA) Inc., on November 9, 2012. CRS Lighting (USA) Inc. was incorporated to facilitate the Company's overall strategy to increase market share in the North American lighting market. From November 9, 2012 to December 31, 2012 CRS Lighting (USA) Inc. was inactive.

These consolidated 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 and previous years and negative cash flows from operating activities relating thereto, there may be significant doubt 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 year, the Company was and continues to be in the process of launching its commercial LED lighting campaign. As a result, research, marketing and administrative expenses increased at a higher rate than revenues.

Management recognizes that the Company must generate additional revenues and improve gross margins in order to reach profitable levels of operation. To that end, the Company has commenced restructuring efforts to move production of our LED lamps and new lighting fixtures overseas and use the Canadian base as a distributor center for our LED products as well as a catalogue of synergistic products sourced through our new investors. To meet its growth plan, CRS will be dependent on further financing through equity funds raised and/or loan proceeds.

These consolidated 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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary, CRS Lighting (USA) Inc. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany balances and transactions are eliminated upon consolidation.

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 which are either cashable or with original maturities of less than three months at the date of their acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
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.

Finance lease obligations

Leases which effectively transfer substantially all of the risks and rewards of ownership to the Company are classified as finance leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of the minimum lease payments to a maximum of the asset's fair value. The asset is depreciated in accordance with the Company's inherent depletion and depreciation policies.

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 of five years.

Other intangible assets

Purchased software is stated at cost less accumulated amortization and impairment losses as is amortized on a declining balance basis of 30% per annum. The amortization method and estimated useful life are reviewed at least annually.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Company recognizes an internally-generated intangible asset arising from development (or from the development phase of an internal project) if, and only if, it has demonstrated all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets, continued

Management evaluated whether there are any adverse qualitative factors in respect to long-lived assets indicating that they might be impaired. There were indicators of impairment such as a significant decrease in gross margin relating to increases in inventory input costs of raw materials, labor and overhead, a significant decrease in commercial sales of LED lighting products. Management therefore determined the recoverable amount of its overall CGU based on value in use using three year cash flow projections with a long term budgeted average gross margin of 35% and a pre-tax discount rate of 12.8%. Management allocated the equipment, furniture, leaseholds and assets under finance leases along with its intangible assets arising from development, computer software, patents and trademarks to the most strongly correlated CGU and compared the carrying amounts of each to the present value of its recoverable amount. As a result, the Company recognized an impairment loss of $NIL (2011 - $455,977) in respect of the deferred development costs.

Foreign currency translation

The US dollar is the functional currency of the Company and is also the currency in which it presents these consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 indebtedness, trade and other payables, notes payable, Debt and finance 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments, continued

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.

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 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 that are mandatory for accounting periods beginning after January 1, 2013 or later periods.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting standards issued but not yet effective, continued

IFRS 9, Financial Instruments ("IFRS 9):

In October 2010, the IASB issued IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's financial statements commencing January 1, 2015. The Company is assessing the impact of this new standard on its financial statements.

IFRS 10, Consolidated Financial Statement ("IFRS 10"):

In May 2011, the IASB issued IFRS 10. IFRS 10, Consolidated Financial Statements, which replaces the consolidated requirements of SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard is effective for the Company's financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

In May 2011, the IASB issued IFRS 12. IFRS 12, Disclosure of Interests in Other Entities, establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Company's financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB issued IFRS 13. IFRS 13, Fair Value Measurement, replaces the fair value guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard completes the IASB's project to converge fair value measurement in IFRS and United States Generally Accepted Accounting Principles. This new standard is effective for the Company's financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1"):

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. This amendment retains the "one or two statement" approach to presenting the Statements of Income and Comprehensive Income at the option of the entity and only revises the way other comprehensive income/(loss) is presented. This new standard is effective for the Company's financial statements commencing January 1, 2012. The Company anticipates no change to its financial statements as a result of this new standard.

3. CASH AND CASH EQUIVALENTS

	December 31 2012	December 31 2011
Cash	**$ 325,182**	$ 50,231
One year term deposit 1.5% per annum	**-**	884,970
One year term deposit 1.3% per annum	**1,177,429**	-
One year term deposit 1.536% per annum	**3,015,300**	-
	$ 4,517,911	$ 935,201

The Company purchased two term deposits during 2012. One year term deposit matures June 22, 2013, earning compound interest of 1.3% per annum. The other one year term deposit matures July 20, 2013, earning compound interest of 1.536% per annum. As at December 31, 2011, there was a one year term deposit maturing April 29, 2012, earning compound interest of 1.5% per annum. All term deposits are redeemable at any time before maturity.

4. ACCOUNTS RECEIVABLE

	December 31 2012	December 31 2011
Trade accounts receivable	**$ 485,908**	$ 427,799
Other receivables	**37,214**	83,943
Allowance for doubtful accounts	**(8,794)**	(4,326)
	$ 514,328	$ 507,416

A bus manufacturer based in the United States, a LED lighting manufacturer based in Canada, and a major Canadian retailer represent 28.7%, 20.3% and 10.3% of the trade accounts receivable on December 31, 2012, respectively (29.2%, 13.8% and 41.5% on December 31, 2011).

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

	December 31 2012	December 31 2011
Opening balance	**$ 4,326**	$ 11,419
Provision for impairment of accounts receivable	**4,468**	-
Bad debt recoveries	**-**	(7,093)
Closing balance	**$ 8,794**	$ 4,326

5. INVENTORY

	December 31 2012	December 31 2011
Finished goods	**$ 297,567**	$ 813,167
Raw materials	**414,124**	822,454
Inventory in transit	**13,434**	57,554
	$ 725,125	$ 1,693,175

During the year ended December 31, 2012, the Company recorded inventory write-downs of $399,007 ($80,814 for December 31, 2011) and made no reversals of previous inventory write-downs.

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6. EQUIPMENT, FURNITURE AND LEASEHOLDS

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

At December 31, 2012:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
Cost								
At January 1, 2012	$83,795	$427,730	$62,630	$ -	$762,363	$255,995	$38,464	$1,630,977
Additions	17,117	90,109	11,139	-	25,233	-	49,277	192,875
Disposals	-	(428,399)	(343)	-	(75,040)	(80,822)	-	(584,604)
	100,912	89,440	73,426	-	712,556	175,173	87,741	1,239,248
Accumulated depreciation								
At January 1, 2012	41,660	142,834	29,018	-	344,606	82,198	11,448	651,764
Depreciation for the year	12,052	121,427	13,242	-	90,992	43,314	13,586	294,613
Eliminated on disposals	-	(254,541)	-	-	(45,284)	(17,280)	-	(317,105)
	53,712	9,720	42,260	-	390,314	108,232	25,034	629,272
Net carrying value at December 31, 2012	**$47,200**	**$ 79,720**	**$31,166**	**$ -**	**$322,242**	**$ 66,941**	**$62,707**	**$ 609,976**

At December 31, 2011:

	Office Furniture and Equipment	Tools, moulds and dies	Computer equipment	Vehicles	Production Equipment	Leasehold improvements	Assets under finance lease	Total
Cost								
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	26,894	639,569
Disposals	-	(20,507)	(726)	(14,405)	-	-	-	(35,638)
	83,795	427,730	62,630	-	762,363	255,995	38,464	1,630,977
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 year	9,512	82,817	14,078	74	77,491	35,381	5.744	225,097
Eliminated on disposals	-	(9,519)	(54)	(14,361)	-	-	-	(23,934)
	41,660	142,834	29,018	-	344,606	82,198	11,448	651,764
Net carrying value at December 31, 2011	**$42,135**	**$284,896**	**$33,611**	**$ -**	**$417,757**	**$173,797**	**$ 27,016**	**$ 979,213**

For the year ended December 31, 2012, $238,810 of depreciation was included in cost of sales, $17,319 was included in research and development, and $38,484 within general and administrative (2011: $176,765, $24,762 and $23,570 respectively).

7. PATENTS AND TRADEMARKS

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

Cost		Cost	
At January 1, 2012	150,028	At January 1, 2011	197,562
Additions	19,561	Additions	210,703
Impairments	(34,773)	Impairments	(258,237)
	134,816		150,028
Accumulated Amortization		Accumulated Amortization	
At January 1, 2012	30,143	At January 1, 2011	-
Amortization for the year	32,435	Amortization for the year	30,143
Decrease due to impairment	(12,927)	Decrease due to impairment	-
	49,651		30,143
Net Carrying value at December 31, 2012	85,165	Net Carrying value at December 31, 2011	119,885

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

Management has reviewed the carrying value of each patent and identified a number of patents that it will not be using in future products of the Company. Since the recoverable amount of these patents is NIL, the related net cost of $21,846 has been recognized as an impairment loss during the year (2011 - $258,237).

8. INTANGIBLE ASSETS

	Deferred Development Costs	Computer Software	Total
Cost			
At January 1, 2012	331,102	131,058	462,160
Additions	-	73,224	73,224
Disposals	-	(7,021)	(7,021)
	331,102	197,261	528,363
Accumulated Amortization			
At January 1, 2012	85,059	42,264	127,323
Amortization for the year	66,220	47,838	114,058
Eliminated on disposals	-	(1,448)	(1,448)
	151,279	88,654	239,933
Net carrying value at December 31, 2012	**179,823**	**108,607**	**288,430**
Cost			
At January 1, 2011	693,983	56,590	750,573
Additions	202,917	74,468	277,385
Impairment	(565,798)	-	(565,798)
	331,102	131,058	462,160
Accumulated Amortization			
At January 1, 2011	81,068	33,040	114,108
Amortization for the year	113,812	9,224	123,036
Eliminated on impairment	(109,821)	-	(109,821)
	85,059	42,264	127,323
Net carrying value at December 31, 2011	**246,043**	**88,794**	**334,837**

For the year ended December 31, 2012 $43,172 of amortization was included in general and administrative, $4,666 was included in research and development and $66,220 within cost of sales (2011: $9,224, $0 and $113,812 respectively).

Management has reviewed the carrying value of deferred development costs as at year end and there were no projects that would be discontinued. In 2011, management identified a number of projects that it would not be pursuing and using in future products of the Company. Since the recoverable amount of these deferred development costs was $NIL, the related net cost of $455,977 had been recognized as an impairment loss during 2011.

9. BANK INDEBTEDNESS

Bank indebtedness consists of the following:

	December 31 2012	December 31 2011
Operating line of credit	**$ -**	$ 318,513

During 2012, the Company extinguished the operating line of credit which had a limit 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) was 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 was charged on a monthly basis at a rate of prime plus 1.5% per annum (3% at December 31, 2011).

10. NOTES PAYABLE

Notes payable consists of the following:

	December 31 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 4.989% per annum with 10 monthly payments of CAD $6,532, commencing July 20, 2012 and maturing May 20, 2013	**32,420**	-
	$ 32,420	$ 36,911

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

11. DEBT OBLIGATIONS

Debt obligations consist of the following:

	December 31 2012	December 31 2011
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD $1,038, maturing March 29, 2012.	**$ -**	$ 4,656
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of CAD $1,440, maturing December 20, 2014.	**32,036**	45,216
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of CAD $3,921, maturing June 14, 2015	**105,622**	138,554
Advances received under the Southern Ontario Development Plan (SODP) as described in detail below.	**416,578**	499,477
	554,236	687,903
Less: principal due within one year	**(158,448)**	(145,692)
	$ 395,788	$ 542,211

The PenFinancial loans (and the operating line of credit, see note 9) 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 ("SODP")

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 Dollars as follows:

2013	$ 158,448
2014	172,387
2015	145,907
2016	77,494
2017	-
	$ 554,236

12. OBLIGATIONS UNDER FINANCE LEASES

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

	December 31 2012	December 31 2011
USD Value of undernoted leases[1]	$ 117,688	$ 95,111
Less: amount representing interest at 7.4%	10,357	11,413
	107,331	83,698
Less: current portion	(34,584)	(18,233)
	$ 72,747	$ 65,465

[1] Comprised of four leases: i) 66 month lease for a printer copier at 10.9% per annum commenced July 2011 with quarterly repayments of CAD $1,777, ii) 39 month lease for computer software at 12.6% per annum commenced December 2011 with monthly repayments of CAD $1,878, iii) 39 month lease for a vehicle at 2.9% per annum commenced July 2012 with monthly repayments of CAD $536, and iv) 48 month lease for a vehicle at 2.9% per annum commenced October 2012 with monthly repayments of CAD $582.

The principle amounts of lease obligations, due in each of the next five years, are presented in US Dollars as follows:

2013	$ 34,584
2014	38,419
2015	23,918
2016	10,410
	$ 107,331

13. DEFERRED INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss to the amount recorded in the consolidated statements of loss and comprehensive loss for the years ended December 31 is as follows:

	2012	2011
Net loss before recovery of income taxes	**$ (5,272,982)**	$ (3,287,107)
	26.5%	28.25%
Expected income tax recovery	**$ (1,397,300)**	$ (928,600)
Difference in foreign tax rates	**-**	-
Tax rate changes and other adjustments	**(29,100)**	58,000
Changes in unrecognized deductible temporary differences	**(164,800)**	(139,900)
Change in future tax rates	**-**	(149,000)
Change in tax benefits not recognized	**1,591,200**	1,159,500
	$ -	$ -

The 2012 statutory tax rate of 26.5% differs from the 2011 statutory tax rate of 28.25% because of the reduction in federal and provincial 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 deductible temporary differences:

	2012	2011
Non-capital losses carried forward	**10,099,900**	5,054,900
Deductible temporary differences	**1,842,000**	1,572,500
Share issuance costs	**576,900**	571,300

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. Share issuance costs expire from 2013 to 2017.

13. DEFERRED INCOME TAXES (Continued)

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

Year	Amount
2025	$ 265,800
2026	233,700
2027	86,200
2028	84,600
2029	240,900
2030	719,200
2031	3,302,700
2032	5,166,800
	$ 10,099,900

14. GOVERNMENT INCENTIVES RECEIVABLE

The Scientific Research and Experimental Development Tax Credits ("SR&ED"), 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 deferred development costs are recorded in the consolidated statements 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 consolidated statements of loss and comprehensive loss. When CRS was a privately held company all SR&ED, 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 SR&ED tax credit rate decreased to 20% from 35% of expenditures and the SR&ED, 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 SR&ED, OITC and ORDTC. The Company provides a valuation allowance for the SR&ED and ORDTC tax credits receivable until it is reasonably certain it will realize the benefit of these tax credits.

Government incentives receivable consist of the following:

	December 31 2012	December 31 2011
OITC and ORDTC	**$ 60,592**	$ 69,291
SR&ED	**220,719**	269,084
Valuation allowance – SR&ED	**(220,719)**	(269,084)
Valuation allowance – ORDTC	**(16,408)**	(16,408)
	$ 44,184	$ 52,883

The SR&ED, 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 three series of warrants as part of three separate private placements of units in the past three years. 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 value included in net loss and comprehensive loss.

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 July 5, 2012, all warrants had expired unexercised.

The value of the warrants at date of issuance, net of an allocation of the closing costs, was determined to be CAD $246,980 (USD $232,161) using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 119%, risk-free interest rate of 1.41% and an expected life of 2 years.

Series D warrants
On April 28, 2011 the Company issued 9,379,156 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of CAD $0.65 per common share 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, 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, was determined to be CAD $1,854,136 (USD $1,949,624) 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 2012	December 31 2011
Gain on warrant liability	**$ 608,175**	$ 1,431,844

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

	December 31 2012	December 31 2011
Series C	**$ N/A**	$ 49,378
Series D	**224,685**	783,482
Total	**$ 224,685**	$ 832,860

15. DERIVATIVE LIABILITY – WARRANTS (Continued)

The Company determined the fair value of these warrants at December 31, 2012 and 2011 using the Black-Scholes option pricing model with assumptions as follows:

	December 31 2012	December 31 2011
Exercise price (CAD $)	$0.65	$0.70 & $0.65
Share price (CAD $)	$0.24	$0.38
Risk-free interest rate	1.13%	0.94%
Expected life	1.3 years	0.5 years & 2.3 years
Expected volatility	103%	113% & 103%
Dividend rate	0%	0%

16. SHARE CAPITAL

Shares

Authorized
Unlimited number of common shares

Issued and outstanding
71,399,844 common shares

The common share transactions over the year are as follows:

	Number of shares	Amount
Balance January 1, 2011	31,160,078	$ 3,599,045
Proceeds from issuance of common shares on exercise of stock options	176,200	128,118
Transfer from other paid-in capital on exercise of stock options	-	33,385
Issuance of common shares for cash – March 4, 2011	8,000	4,046
Issuance of common shares for cash – April 28, 2011	9,379,156	2,638,813
Balance December 31, 2011	**40,723,434**	**6,403,407**
Issuance of common shares for cash – June 8, 2012	30,400,548	7,904,666
Issuance of common shares in connection with short-term financing during the year	275,862	58,350
Balance December 31, 2012	**71,399,844**	**$ 14,366,423**

16. SHARE CAPITAL (Continued)

[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 $204,693 (USD $200,772).

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: Issuance costs - warrants (issued 2,389,167)	(531,523)	(517,544)
Less: Other issuance costs	(204,693)	(200,772)
Net Proceeds of Private Placement	8,143,784	7,904,666

16. SHARE CAPITAL (Continued)

[a] Common stock, continued

Issuance of common shares in connection with short term-financing

The Company obtained short-term financing from Diocles Capital on May 4, 2012 and issued 275,862 units at a price of CAD $0.2175 per unit as a payment in kind of CAD $60,000 (USD $58,350). In return, the Company obtained a CAD $300,000 (USD $303,521) bridge loan prior to the receipt of the June 8, 2012 private placement proceeds.

[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, 2012 was $186,945 (December 31, 2011 - $298,629), of which $15,106 is included within cost of sales, $Nil is included within research and development expense, $116,901 is included within general and administrative expense and $54,938 is included within selling expense (December 31, 2011 - $14,744 was included within cost of sales, $163,116 was included within general and administrative, $5,028 was included within research and development expense and $115,741 was included within selling expense).

Stock-based compensation expense related to the forfeiture of 450,000 options, issued during fiscal 2011 and for the year ended December 31, 2012, was accelerated in the current period upon forfeit. The related stock-based compensation of USD $41,902 is included within general and administrative expense.

Stock-based compensation expense related to the termination of 88,333 options, issued during fiscal 2011 and for the year ended December 31, 2012, was reversed in the current period upon employees and officers leaving the Company. The related stock-based compensation of ($23,132) of which ($3,210) in included within cost of sales, ($2,120) is included in selling and marketing expense, and ($17,802) in included within general and administrative expense.

16. SHARE CAPITAL (Continued)

[b] Stock options, continued

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

	December 31, 2012		December 31, 2011	
	No. of shares	**Weighted average exercise price ($)**	No. of shares	Weighted average exercise price ($)
Outstanding, beginning of year	2,226,624	0.48	1,295,324	0.38
Granted [(1)]	450,000	0.28	1,107,500	0.56
Expired	(454,122)	0.42	-	-
Forfeited voluntarily	(450,000)	0.58	-	-
Forfeited	(388,333)	0.33	-	-
Exercised	-	-	(176,200)	0.31
Outstanding, end of year	1,384,169	0.44	2,226,624	0.48

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

	June 30 2012	August 29 2011	May 5 2011
Exercise price (CAD $)	$0.28	$0.48	$0.58
Share price (CAD $)	$0.28	$0.50	$0.58
Risk-free interest rate	1.223%	1.073%	1.625%
Expected life	5 years	5 years	5 years
Expected volatility	105%	111%	111%
Dividend rate	0%	0%	0%

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 as at December 31, 2012 is 5,755,815.

16. SHARE CAPITAL (Continued)

[b] Stock options, continued

The following table summarizes information about options outstanding as at December 31, 2012:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (months)	Weighted-average exercise price
$0.28 - $0.48	810,836	23.28	$0.33
$0.58 - $0.59	573,333	29.44	$0.58
Total	1,384,169	25.83	$0.44

1,350,837 options are exercisable as at December 31, 2012. The weighted average exercise price of these options is $0.44

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 entitled the agent to subscribe for one common share unit at a price of CAD $0.55 until October 28, 2012. These options expired unexercised.

[c] 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 December 31, 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, was determined to be CAD $531,523 (USD $517,544) 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.

17. CAPITAL MANAGEMENT

Management defines capital as the Company's equity. The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In order to achieve this objective, the Company recognizes the need to increase its capital base by issuing common shares or other equity based financial instruments and the Company's need to become profitable to finance the future capital expenditures and working capital necessary to sustain a growth in operations.

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, trade and other payables and notes payable do not materially differ from their fair values given their short-term period to maturity. The fair values of bank indebtedness, finance lease obligations 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. Three main customers represent 28.7%, 20.3% and 10.3% respectively of accounts receivable at December 31, 2012 (29.2%, 13.8% and 41.5% at December 31, 2011). 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 balances (over normal credit term) 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, 2012	$162,403	$89,909	$103,009	$130,587	$485,908

[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 2012	December 31 2011
Cash and cash equivalents	$ 4,392,331	$ 577,855
Trade accounts receivable	236,628	326,073
Trade accounts payable	(60,481)	(733,788)
Short-term notes payable	(32,256)	(37,538)
Debt obligations	(669,832)	(699,586)

At December 31, 2012 a 10% change in the average exchange rate between U.S. dollars and Canadian dollars would have resulted in a $386,639 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 year. 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 remaining term thereof is as follows:

Year	Minimum Guaranteed Royalty
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 February 28, 2015.

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

Year	IT Hosting Fees
2013	$ 42,955
2014	42,955
2015	7,159

3. 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 for the Welland plant. 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 remaining term thereof is as follows:

Year	IT Hosting Fees
2013	$ 8,744
2014	8,744
2015	8,744
2016	2,186

19. COMMITMENTS AND CONTINGENCIES (Continued)

4. The Company signed a service agreement with Activo Inc., 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 for the Richmond Hill office. The term of the agreement is from August 1, 2012 (deployment date) to June 30, 2016.

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

Year	IT Hosting Fees
2013	$ 2,255
2014	2,255
2015	2,255
2016	1,128

5. The Company signed a tenant lease agreement for the use of office space located at 9120 Leslie Street, Suite 102, Richmond Hill, Ontario. The tenant agreement covers general rent of office space, operating costs, utilities and realty taxes. The term of the agreement is from August 1, 2012 to July 31, 2015.

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

Year	Rent
2013	$ 43,005
2014	43,617
2015	25,673

6. On September 19, 2012, the Company received a claim from an ex-employee claiming wrongful dismissal on August 28, 2012. The employee was made redundant as part of the rationalization process undertaken by the Company. Based on discussions with the Company's legal advisors, it has been determined that it is probable that the resolution of these contingencies could result in a payment by the Company and accordingly a provision based on managements' best estimates has been recorded in the trade and other payables in the Company's consolidated statements of financial position.

7. On December 28, 2012, GE Lighting Solutions, LLC ("GE") filed a lawsuit against the Company claiming CRS has infringed two GE patents and has asked for an Order to have CRS destroy all infringing products and related moulds, machine, tooling or other equipment used in their manufacture, to prevent CRS from importing, manufacturing, using, selling and/or offering all infringing products and to have CRS pay damages to GE, together with costs and prejudgment and post-judgment interest. The amount of the claim for damages and costs was not stipulated in the lawsuit. CRS denies any wrongdoing or infringement of any patent owned by GE, believes the claim to be without merit and intends to vigorously defend against the GE lawsuit. No accruals have been made as a result.

20. RELATED PARTY TRANSATIONS

Key management includes the Chief Executive Officer, Chief Administrative Officer, Chief Financial Officer, and the Former Chief Operating Officer. The compensation paid or payable to key management for services is as follows:

	December 31 2012	December 31 2011
Wages and benefits	$ 483,100	$ 356,013
Stock-based compensation	84,363	124,482
	$ 567,463	$ 480,495

21. AUTHORIZATION

The Board of Directors is responsible for reviewing and approving the consolidated 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 consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

These audited annual consolidated financial statements as at December 31, 2012 were approved by the Board of Directors on April 18, 2013.

22. SUBSEQUENT EVENTS

a) On January 18, 2013, the Company repaid two loans outstanding with the Pen Financial Credit Union by paying the individual loan amounts of $32,248 and $106,538 and cancelled the personal guarantees of the shareholders of the Company relating to these loans.

b) On April 9, 2013, the Company announced the grant of new incentive stock options to acquire up to 2,500,000 common shares of the Company to the CEO of the Company, having a term of five years and an exercise price of $0.24 per share, vesting as to one-fourth at the end of each of the four anniversary dates following the date of grant and subject to the terms of the Company's stock option plan.

c) On April 18, 2013, the Company announced it has granted an aggregate of 1,870,000 stock options under its stock option plan to two officers and several employees of the Company. All of the options have a term of five years, are exercisable at a price of $0.24 per share and vest as to one-fourth at the end of each of the four anniversary dates following the date of grant and subject to the terms of the Company's stock option plan. A total of 1,000,000 options were granted to Chief Administrative Officer and 500,000 were granted to the Chief Technical Officer of the Company.