

**INTERIM FINANCIAL STATEMENTS**

**CRS ELECTRONICS INC.**

**As at June 30, 2010**

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

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

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

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

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

### **NOTICE TO READER**

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

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

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

**CRS ELECTRONICS INC.**

Balance Sheets

Unaudited

As at June 30, 2010 and December 31, 2009	2010	2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$-	\$913,557
Accounts receivable (Note 3)	830,383	391,219
Income taxes receivable (Note 11)	69,809	40,404
Inventories (Note 4)	883,349	414,386
Deposits and prepaid expenses	54,389	47,747
	1,837,930	1,807,313
<b>Long-term Assets</b>		
Equipment, furniture and leaseholds (Note 5)	758,422	416,180
Patents and trademarks	53,144	-
Deferred development costs (Note 6)	645,219	333,356
	\$3,294,715	\$2,556,849
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 7)	\$65,674	\$-
Accounts payable and accrued liabilities	1,217,913	378,811
Notes payable (Note 8)	34,742	204,559
Current portion of long-term debt (Note 9)	52,338	51,926
Current portion of long-term lease obligations (Note 10)	4,975	6,785
	1,375,642	642,081
<b>Long-term liabilities</b>		
Long-term debt (Note 9)	229,109	75,173
Long-term lease obligations (Note 10)	2,873	5,200
	1,607,624	722,454
<b>Nature of operations and going concern (Note 1)</b>		
<b>Commitments and contingencies (Note 17)</b>		
<b>Subsequent events (Note 18)</b>		
<b>SHAREHOLDERS EQUITY (DEFICIT)</b>		
Share capital (Note 12)	2,889,132	2,646,577
Common shares to be issued (Note 18)	297,891	-
Warrants (Note 12)	198,129	198,129
Contributed surplus (Note 12)	173,897	209,159
Retained deficit	(1,871,958)	(1,219,470)
	1,687,091	1,834,395
	\$3,294,715	\$2,556,849

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" Director

Signed "Jason Sparaq" Director

**CRS ELECTRONICS INC.**Statements of Operations and Comprehensive Loss  
Unaudited

	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
<b>SALES</b>	<b>\$881,260</b>	\$651,353	<b>\$1,534,843</b>	\$1,081,350
Cost of sales	<b>649,396</b>	460,896	<b>1,169,126</b>	768,152
<b>GROSS PROFIT</b>	<b>231,864</b>	190,457	<b>365,717</b>	313,198
<b>EXPENSES</b>				
Engineering, research and development	<b>13,172</b>	4,004	<b>14,585</b>	7,890
Sales and marketing	<b>208,463</b>	86,232	<b>322,474</b>	154,849
General and administrative	<b>418,444</b>	188,923	<b>671,058</b>	328,871
Stock-based compensation	<b>2,872</b>	178,270	<b>2,872</b>	178,270
SRED refundable tax credits and grant funding	<b>(13,878)</b>	(2,111)	<b>(17,651)</b>	(10,997)
Foreign exchange (gains) losses	<b>(2,742)</b>	(27,300)	<b>(3,830)</b>	(22,810)
Interest on short-term debt	<b>7,333</b>	21,727	<b>12,916</b>	34,829
Interest on long-term debt	<b>2,161</b>	2,075	<b>4,449</b>	5,450
Gain on sale of capital assets	-	-	<b>(1,886)</b>	-
Depreciation	<b>7,638</b>	5,511	<b>13,218</b>	8,768
	<b>643,463</b>	457,331	<b>1,018,205</b>	685,120
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(411,599)</b>	(266,874)	<b>(652,488)</b>	(371,922)
<b>INCOME TAXES</b>	—	—	—	—
<b>NET (LOSS) AND COMPREHENSIVE LOSS</b>	<b>(411,599)</b>	(266,874)	<b>(652,488)</b>	(371,922)
<b>Earnings (loss) per share - basic and fully diluted</b>	<b>(\$0.01)</b>	(\$0.01)	<b>(\$0.02)</b>	(\$0.02)
Weighted average of common shares outstanding - basic and fully diluted	<b>28,526,156</b>	19,371,896	<b>28,274,484</b>	17,557,836

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

**CRS ELECTRONICS INC.**  
**Statements of Cash Flows**  
**Unaudited**

	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net (loss) income	(\$411,599)	(\$266,874)	(\$652,488)	(\$371,922)
Items not affecting cash				
Stock-based compensation	2,872	178,270	2,872	178,270
Gain on sale of fixed asset	—	—	(1,382)	—
Amortization of product development costs	8,767	7,998	15,222	14,630
Depreciation	40,255	27,555	68,155	43,838
	<b>(359,705)</b>	(53,051)	<b>(567,621)</b>	(135,184)
Net change in non-cash working capital items relating to operating activities				
Accounts receivable	(177,858)	(286,331)	(439,668)	(331,434)
Inventory	13,136	(68,787)	(468,963)	(89,010)
Deposits and prepaid expenses	12,764	(61,033)	(6,642)	(68,910)
Accounts payable and accrued liabilities	(32,605)	(181,428)	839,102	(94,257)
Income taxes receivable	(17,865)	(1,781)	(29,405)	(26,305)
Other assets	—	40,852	—	27,438
Cash provided by (used in) operating activities	<b>(562,133)</b>	(611,559)	<b>(673,197)</b>	(717,662)
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment, furniture, and leaseholds	(80,899)	(91,239)	(414,826)	(104,125)
Patents and trademarks	(53,144)	—	(53,144)	—
Proceeds on sale of fixed asset	—	—	6,315	—
Deferred development costs	(145,060)	(27,323)	(327,084)	(54,473)
Cash used in investing activities	<b>(279,103)</b>	(118,562)	<b>(788,739)</b>	(158,598)
<b>FINANCING ACTIVITIES</b>				
Long-term debt advances net of repayments	171,016	(13,081)	154,347	(26,003)
Line of credit (repayment) proceeds	65,674	(423,182)	65,674	(296,391)
Capital lease obligation advances	—	—	—	9,123
Capital lease obligation repayments	(2,147)	(1,818)	(4,137)	(3,869)
Note payable advances net of repayments	(52,006)	401,793	(169,817)	426,794
Issuance of common shares in Qualifying Transaction	—	678,408	—	678,409
Issuance of and to be issued common shares	361,134	165,000	502,312	165,000
Cash provided by (used in) financing activities	<b>543,671</b>	807,120	<b>548,379</b>	953,063
Net increase (decrease) in cash	<b>(297,565)</b>	76,999	<b>(913,557)</b>	76,803
Cash and cash equivalents, beginning of period	297,565	10,316	913,557	10,512
Cash and cash equivalents, end of period	<b>\$—</b>	\$87,315	<b>\$—</b>	\$87,315
Cash and cash equivalents consists of:				
Cash		87,315		87,315
Term deposit		—		—
		<u>87,315</u>		<u>87,315</u>
The following cash flow are included in operating activities:				
Income taxes paid (refunded)	\$ —	\$ —	\$ —	\$ —
Interest paid	\$9,494	\$21,002	\$17,365	\$32,841

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

**CRS ELECTRONICS INC.**

## Statement of Shareholders' Equity (Deficiency)

Unaudited

As at June 30, 2010

	Share capital	Warrants	Contributed Surplus	Deficit	Total
<b>Balance, December 31, 2008</b>	<b>\$150,100</b>	<b>\$ —</b>	<b>\$ —</b>	<b>(\$220,779)</b>	<b>(\$70,679)</b>
Net (loss) for the year	—	—	—	(998,691)	(998,691)
Issuance of common shares and warrants	2,012,508	—	—	—	2,012,508
Value attributed to warrants on private placements	(198,129)	198,129	—	—	—
Issuance of common shares in Qualifying Transaction	678,408	—	—	—	678,408
Stock based compensation	—	—	212,849	—	212,849
Transfer from contributed surplus on exercise of stock options	3,690	—	(3,690)	—	—
<b>Balance, December 31, 2009</b>	<b>\$2,646,577</b>	<b>\$198,129</b>	<b>\$209,159</b>	<b>(\$1,219,470)</b>	<b>\$1,834,395</b>
Net (loss) for the period	—	—	—	(652,488)	(652,488)
Issuance of common shares	204,421	—	—	—	204,421
Common shares to be issued	297,891	—	—	—	297,891
Stock based compensation	—	—	2,872	—	2,872
Transfer from contributed surplus on exercise of stock options	38,134	—	(38,134)	—	—
<b>Balance, March 31, 2010</b>	<b>\$3,187,023</b>	<b>\$198,129</b>	<b>\$173,897</b>	<b>(\$1,871,958)</b>	<b>\$1,687,091</b>

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

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

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

These financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Due to the losses incurred by the Company in 2008 and 2009 and in the current year to date period ended June 30, 2010 and negative cash flows relating thereto, there exists some uncertainty with respect to the Company's ability to continue as a going concern. During this period, the Company was and continues to be in the process of introducing new LED based products. As a result, research, marketing and administrative expenses increased during the period at a higher rate than revenues. The Company has taken steps to increase sales and has demonstrated its ability to obtain additional equity to finance growth in operations and mitigate the effects of historical losses. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These interim statements have been prepared without audit by the management of CRS in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and expressed in Canadian dollars unless otherwise noted. Accordingly, they do not contain all of the disclosures required by Canadian GAAP for annual financial statements. These financial statements should be read in conjunction with the Company's most recent audited annual financial statements for the year end December 31, 2009, as they follow the same accounting policies and methods of their application as the annual financial statements for the year ended December 31, 2009. The results for the period are not necessarily indicative for the results to be expected for the year ending December 31, 2010.

### **Significant accounting policies**

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

**CRS Electronics Inc.**  
**Notes to the Interim Financial Statements**  
**June 30, 2010**

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**3. ACCOUNTS RECEIVABLE**

As at June 30, 2010 and December 31, 2009 accounts receivable consisted of the following balances:

	<u>2010</u>	<u>2009</u>
Trade accounts receivable	<b>\$717,063</b>	\$361,521
GST recoverable	<b>10,567</b>	36,606
Other receivables	<b>115,253</b>	3,092
Allowance for doubtful accounts	<b>(12,500)</b>	(10,000)
	<u><b>\$830,383</b></u>	<u>\$391,219</u>

A bus manufacturer based in the United States represents 32.6% of the trade accounts receivable on June 30, 2010, (26.4% on December 31, 2009). These outstanding accounts are insured by the Export Development Corporation.

**4. INVENTORIES**

As at June 30, 2010 and December 31, 2009 inventories consisted of:

	<u>2010</u>	<u>2009</u>
Finished goods	<b>\$214,111</b>	\$211,536
Raw materials	<b>582,264</b>	169,816
Inventory in transit	<b>86,817</b>	21,993
Sample inventory	<b>157</b>	11,041
	<u><b>\$883,349</b></u>	<u>\$414,386</u>

**5. EQUIPMENT, FURNITURE AND LEASEHOLDS**

As at June 30, 2010

	Annual Depreciation Rates	Asset at Cost	Accumulated Depreciation	Net Book Value
Office furniture and equipment	20%	<b>\$64,286</b>	<b>\$24,847</b>	<b>\$24,699</b>
Tools, moulds and dies	33% S.L.	<b>163,395</b>	<b>49,955</b>	<b>103,113</b>
Computer equipment	30%	<b>68,452</b>	<b>14,338</b>	<b>52,018</b>
Computer software	30%	<b>49,019</b>	<b>19,396</b>	<b>29,738</b>
Vehicles	30%	<b>17,454</b>	<b>17,098</b>	<b>388</b>
Production equipment	20%	<b>680,468</b>	<b>249,279</b>	<b>410,248</b>
Assets under capital lease	Various	<b>21,398</b>	<b>9,219</b>	<b>12,179</b>
Leasehold improvements	20% S.L.	<b>116,630</b>	<b>38,548</b>	<b>84,400</b>
		<u><b>\$1,181,102</b></u>	<u><b>\$422,680</b></u>	<u><b>\$758,422</b></u>



**CRS Electronics Inc.**  
**Notes to the Interim Financial Statements**  
**June 30, 2010**

**5. EQUIPMENT, FURNITURE AND LEASEHOLDS CONTINUED**

As at December 31, 2009

	Annual Depreciation Rates	Asset at Cost	Accumulated Depreciation	Net Book Value
Office furniture and equipment	20%	\$47,440	\$28,177	\$19,263
Tools, moulds and dies	33% S.L.	95,959	32,062	63,897
Computer equipment	30%	85,716	41,895	43,821
Computer software	30%	45,876	18,739	27,137
Vehicles	30%	17,454	17,035	419
Production equipment	20%	406,552	232,814	173,738
Assets under capital lease	various	21,399	7,232	14,167
Leasehold improvements	20% S.L.	101,029	27,291	73,738
		<u>\$821,425</u>	<u>\$405,245</u>	<u>\$416,180</u>

Depreciation was reported on the Statement of Operations as follows:

	Six months ended June 30	
	2010	2009
Cost of sales	<u>\$54,937</u>	\$13,026
Depreciation expense	<u>13,218</u>	3,257
	<u>\$68,155</u>	<u>\$16,283</u>

**6. DEFERRED DEVELOPMENT COSTS**

As at June 30, 2010

	Asset at Cost	Accumulated Amortization	Net Book Value
Product development	<u>\$714,065</u>	<u>\$68,846</u>	<u>\$645,219</u>

As at December 31, 2009

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

Deferred development costs are amortized over five years from the time the product is ready for sale. During the six months ended June 30, 2010, amortization expense of \$15,222 was charged to cost of sales (2009 - \$14,630).

**7. BANK INDEBTEDNESS**

The Company has an operating line of credit in the amount of \$320,000. The operating line of credit (and certain long-term debt, see note 9) is secured by a general security agreement, representing a first and fixed floating charge over the assets and undertakings of the Company, assignment of adequate public liability and fire insurance acknowledging the Credit Union Syndicate as first loss payees and a personal guarantee by two of the shareholders and officers of the Company in the amount of \$200,000. Interest on the outstanding balance is charged on a monthly basis at a rate of prime plus 1.5% per annum.

**8. NOTES PAYABLE**

As at June 30, 2010 and December 31, 2009 notes payable consisted of:

	<u>2010</u>	<u>2009</u>
Supplier loan for tooling - non-interest bearing, payable when certain parts are shipped. The final payment was made in March, 2010.	\$ —	\$32,252
Extended payments on debt with a law firm - non-interest bearing, 12 monthly payments on principal equal to \$15,513 commencing August 27, 2009 maturing July 29, 2010.	<b>31,022</b>	124,100
Settlement on a debt with a consultant - non-interest bearing, with the remaining principal repayments of \$10,500 per month to December 15, 2009. The final payment on the note was made in January 2010.	—	10,500
Settlement on a debt with a past employee - non-interest bearing, principal repayments of \$9,461 per month to May 7, 2010. The final payment was made in May 2010.	—	37,707
Extended payments on insurance – bearing interest at 15.95% per annum with 10 monthly payments of \$493 commencing May 30, 2010 maturing February 29, 2011.	<b>3,720</b>	—
	<b><u>\$34,742</u></b>	<b><u>\$204,559</u></b>

**9. LONG-TERM DEBT**

The long-term debt as at June 30, 2010 and December 31, 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
PenFinancial Credit Union - Prime plus 2% payable in blended monthly installments of \$3,844, due to August 30, 2010	<b>\$6,905</b>	\$29,419
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of \$1,038, maturing March 29, 2012	<b>21,554</b>	26,680
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of \$1,440, maturing December 20, 2014	<b>65,088</b>	71,000
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of \$3,921, maturing June 14, 2015	<b>187,900</b>	-
	<b><u>281,447</u></b>	<u>127,099</u>
Less principal due within one year	<b><u>(52,338)</u></b>	<u>(51,926)</u>
	<b><u>\$229,109</u></b>	<b><u>\$75,173</u></b>

The PenFinancial loans (and the operating line of credit, see note 7) are secured by a registered general security agreement, representing a first fixed and floating charge over the assets and undertakings of the Company. There is also a personal guarantee for \$200,000 executed by two shareholders and officers of the Company.

## 9. LONG-TERM DEBT *CONTINUED*

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

In March 2010, the Company signed a Contribution Agreement with the Southern Ontario Development Program (“SODP”), a program administered by the Government of Canada for a maximum contribution amount of \$825,595. The contribution amount is based on 50% of eligible capital costs and 75% of eligible non-capital costs for projects to develop indoor and outdoor lighting and to increase the production capacity of the Company’s facility in Welland, Ontario. The contribution amount is repayable over six years. No payments are required until April 1, 2011. The contribution amount is then repayable in 60 monthly payments equal to \$13,760 from April 1, 2011 to March 1, 2016. No interest is payable on the undrawn balance of the contribution amount. No assets of the Company currently owned or to be acquired under the CA will be pledged as security. As at June 30, 2010, no contributions had been received under the CA. The Company has applied for reimbursement of approximately \$179,000 of eligible expenditures made in the first quarter of fiscal 2010 and is in the process of applying for reimbursement of approximately \$85,000 of eligible expenditures made in the second quarter of fiscal 2010.

## 10. OBLIGATIONS UNDER CAPITAL LEASES

The following is a schedule of minimum lease payments under capital leases:

Years ending	2010	\$4,275
	2011	<u>4,421</u>
		8,696
Less: amount representing interest at 10.8%		<u>(848)</u>
		7,848
Less current portion		<u>(4,975)</u>
		<u>\$2,873</u>

## 11. INCOME TAXES RECEIVABLE

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

As at June 30, 2010 and December 31, 2009

	<u>2010</u>	<u>2009</u>
Ontario Innovations Tax Credit	\$69,809	\$40,404
Scientific Research and Experimental Development Tax Credit	117,485	76,882
Valuation allowance	<u>(117,485)</u>	<u>(76,882)</u>
	<u>\$69,809</u>	<u>\$40,404</u>

**11. INCOME TAXES RECEIVABLE *CONTINUED***

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

**12. SHARE CAPITAL**

**Shares**

**Authorized**

Unlimited number of common shares

**Issued and outstanding**

28,616,760 common shares. The common share transactions over the period are as follows:

	Number of shares	Amount
Balance December 31, 2008	37,666,667	\$150,100
Common shares of CRS Electronics Inc. redeemed for exchange for common shares of Podium Capital Corporation	(37,666,667)	—
Common shares of Podium Capital Corporation issued for common shares of CRS Electronics Inc.	15,887,427	—
Common shares issued in the Qualifying Transaction	6,648,667	678,408
Issuance of common shares for cash	5,399,253	1,814,379
Transfers from contributed surplus on exercise of options	—	3,690
Balance December 31, 2009	27,935,347	\$2,646,577
Issuance of common shares for cash	<b>681,413</b>	<b>204,421</b>
Transfers from contributed surplus on exercise of options	—	<b>38,134</b>
<b>Balance June 30, 2010</b>	<b>28,616,760</b>	<b>\$2,889,132</b>

**[a] Common stock**

**Issuance of common shares for cash:**

**Exercise of agents options**

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

**Exercise of stock options**

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

During the second quarter, 210,810 common shares were issued through the exercise of stock options under the Employee Stock Option Plan at a price of \$0.30 per common share for gross proceeds of \$63,243.

## 12. SHARE CAPITAL CONTINUED

### [b] Warrants

#### Series A warrants

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

#### Series B warrants

On December 29, 2009, the Company issued 2,777,777 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.65 per common share no later than December 22, 2010. The warrants are not registered for trading and all common shares issued through the exercise of warrants are restricted from trading until April 24, 2010. As at June 30, 2010, 2,777,777 half-warrants, that entitled the warrant holders to purchase 1,388,887 common shares, were outstanding.

### [c] Stock options

#### Employee Stock Option Plan

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

A summary of the Company's stock option activity during the six months ended June 30, 2010 and during the year ended December 31, 2009 are as follows:

	2010		2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of period	1,705,436	\$0.31	1,450,553	\$0.30
Cancellation of CRS employee options	—	—	(1,450,553)	0.30
Replacement options to CRS employees	—	—	880,070	0.30
Podium stock options	—	—	664,866	0.30
Granted	7,500	0.44	215,000	0.36
Exercised	(615,406)	0.30	(54,500)	0.30
Outstanding, end of period	1,097,530	\$0.31	1,705,436	\$0.31

## 12. SHARE CAPITAL CONTINUED

Stock options granted during the year vest after a four month period. At the time of vesting the stock options are valued using the Black-Scholes option pricing model. On January 4, 2010, three employees were issued 2,500 stock options each. The stock options were valued using the following rates and assumptions, dividend yield, 0%; risk-free rate of return, 2.52%; expected volatility, 81%; expected life, 5 years.

Under the Plan the total number of stock options that may be outstanding at any time is equal to 10% of the common shares outstanding. The remaining number of options available to be granted under the plan is 1,764,146.

The following table summarizes information about options outstanding as at June 30, 2010:

Range of exercise prices		Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.30	\$0.50	1,067,530	26 months	\$0.30
\$0.51	\$0.70	30,000	40 months	\$0.52
Total		1,097,530	27 months	\$0.31

### Agent's options and charitable options

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

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

### [d] Contributed surplus

Contributed surplus was generated from issuing stock-based remuneration to employees, directors and consultants. The changes in contributed surplus during the period compared for the six months ended June 30, 2010 and for the year ended December 31, 2009 were comprised of the following:

	2010	2009
Opening balance	\$209,159	\$ —
From the granting of employee stock options	2,872	212,849
Transfers to common stock on exercise of options	(38,134)	(3,690)
Closing balance	\$173,897	\$209,159

### **13. CAPITAL MANAGEMENT**

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

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

The Company has margin requirements and covenants on its operating line and certain long-term debt that may require increases in capital. As at June 30, 2010 the Company is in compliance with its covenants.

### **14. ECONOMIC DEPENDENCE**

The Company has one customer that accounted for 35.6% of sales during the six month period ended June 30, 2010 (for the year ended December 31, 2009 – 39.9%).

### **15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company has various financial instruments comprising of cash and cash equivalents (bank indebtedness), accounts receivable, accounts payable and accrued liabilities, notes payable, long-term debt and obligations under capital leases.

Cash and cash equivalents (bank indebtedness) consists of cash on hand with a financial institution in Canada. Cash and cash equivalents are designated as held-for-trading and are carried at fair value.

Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, notes payable, long-term debt and obligations under capital leases are classified as other financial liabilities, which are measured at amortized cost.

As of June 30, 2010, the carrying amounts of amounts receivable and accounts payable and accrued liabilities and notes payable equals fair market value due to the short-term nature of their maturities. The fair value of bank indebtedness, long-term debt and capital lease obligations approximates carrying value as the instruments bear interest at market rates.

## 16. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. There have been no changes in the risks, objectives, policies and procedures during the period ended June 30, 2010.

### [a] Credit risk

The Company is exposed to credit risk in the event of non-performance to pay outstanding trade accounts receivable. One customer represents 32.6% of the accounts receivable at period end (26.4% - December 31, 2009). The Company has purchased insurance from the Export Development Corporation to compensate for this risk in addition to monitoring the status of the account on a regular basis.

Trade accounts receivable are past due when a customer fails to make a payment when contractually due. The following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
As at June 30, 2010	\$272,280	\$185,536	\$167,894	\$91,353	\$717,063
As at December 31, 2009	\$200,458	\$93,640	\$38,893	\$28,530	\$361,521

### [b] Interest rate risk

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

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

### [c] Foreign currency risk

The Company is exposed to currency risk as the Company has purchases and sales which are transacted in U.S. currency and therefore is exposed to exchange rate fluctuations. At June 30, 2010 and December 31, 2009 the following accounts were denominated in U.S. dollars:

	2010	2009
Cash	\$48,748	\$26,115
Trade accounts receivable	\$527,878	\$235,901
Trade accounts payable	(\$690,489)	(\$78,384)
Short-term notes payable	\$ —	(\$30,625)

As at June 30, 2010 a 10% change in the average exchange rate between Canadian and U.S. dollars on the above financial instruments would have an effect of \$11,000 on the net loss, in Canadian dollars.



## **17. COMMITMENTS AND CONTINGENCIES**

The Company has the following commitments outstanding:

- a) The Company leases its premises under a lease agreement that expires July 31, 2013 at a rate of \$5,146 per month.
- b) The Company leases a photocopier requiring quarterly payments of \$2,009 until June 2011.

The Company may be subject to various contingent liabilities that occur in the normal course of operations. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

## **18. SUBSEQUENT EVENTS**

- a) Effective July 5, 2010 the Company closed a non-brokered private placement for gross proceeds of \$1,102,445. The Company sold 2,004,446 units at a price of \$0.55 per unit. Each unit consists of one common share and one-half of a common share purchase warrant. Each full warrant entitles the holder to acquire one common share upon payment of \$0.70 per common share for a period of 24 months. The Company had received \$297,891 prior to closing and this amount is shown as common shares to be issued on the financial statements.
- b) Subsequent to the period end, 66,666 stock options were exercised for the issuance of 66,666 common shares for gross proceeds equal to \$20,000.
- c) Subsequent to the quarter end, the Company received \$180,000 from the SODP in respect of its first application.

## **19. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

Some amounts reported for comparative periods have been reclassified from statements previously presented to conform to the presentation of these financial statements.