

## **CRS Electronics Inc.**

### **Management Discussion and Analysis**

**Second Quarter, Fiscal 2010  
Ended June 30, 2010**

Prepared by management without audit

August 26, 2010

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of CRS Electronics Inc. (the "Company" or "CRS") and the financial performance for the three and six months ended June 30, 2010. This discussion and analysis should be read in conjunction with the unaudited Interim Financial Statements and related notes as at and for the period ended June 30, 2010 and the audited Financial Statements and related notes as at and for the year ended December 31, 2009. Reference should also be made to CRS's filings with Canadian securities regulatory authorities that are available at [www.sedar.com](http://www.sedar.com).

This MD&A is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure principally through its audit committee comprised of a majority of independent directors. The audit committee reviews and prior to its publication, approves, pursuant to the authority delegated to it by the Board of Directors, this disclosure.

All amounts are in Canadian dollars unless otherwise noted (tabular amounts are in thousands of Canadian dollars) and prepared in accordance with Canadian Generally Accepted Accounting Policies.

## **Forward-Looking Information**

The statements made in this MD&A, particularly those in the "Outlook" section that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address CRS's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at August 26, 2010.

For a description of material factors that could cause our actual results to differ materially from the forward-looking statements in this MD&A, please see the "Risk Factors" section.

## **Overview**

For over 12 years, CRS has been a developer and manufacturer of LED light products. As a manufacturer of LED light boards for its own school bus warning lights and under contract for other light applications, CRS realized that the improvement in light emitting diodes created an opportunity for CRS to supply LED based indoor and outdoor lighting. Throughout 2007 to 2010 inclusive, CRS expended a significant amount of time and capital to develop the LED MR16 halogen bulb replacement and to develop a LED streetlight engine. In 2010, to compliment the LED MR16 the Company developed an LED PAR series of interior lights.

CRS is currently focused on the introduction of its LED MR16 and LED PAR lights to the North American interior light replacement market. CRS' new LED MR16 was tested by the Department of Energy in the United States ("DOE") under the Commercially Available LED Product Evaluation and Reporting ("CALiPER") Program and received the highest ranking in several of the features tested. The Company developed and sold their LED decorative streetlight for test installations in approximately 10 cities in North America. Market penetration by LED lights in both the indoor and outdoor general lighting market is less than 1%. LED lighting products save energy, have attractive economic benefits and are good for the environment. Over the next few years, management believes that LED lighting products will gain market share. CRS continues to supply LED bus lights and LED light circuit boards for use in a variety of products such as LED road signs, accent lighting, tower warning lights, and vehicle warning lights to name a few. As CRS' customer's market share grows for their respective products, CRS believes their revenue from contract assembly will increase accordingly.

In addition to measures based on Canadian Generally Accepted Accounting Principles ("GAAP") in this MD&A, we use the term earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. In this MD&A, we may describe certain 'income' and 'expense' items as unusual or non-recurring. These terms are not defined by GAAP. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

## **Highlights for the Quarter**

CRS continues to execute on its strategic and operational initiatives as highlighted during the quarter and shortly thereafter:

*The Company achieved record revenues for the quarter of \$881,000, an increase of 35% over the prior quarter and the same period last year.*

*The Company completed the installation of the new production equipment that will increase annual plant capacity from approximately \$5.0 million in revenue to \$12.0 million in revenue.*

*Shortly after the end of the quarter, the Company completed a private placement financing for gross proceeds of \$1.1 million.*

## **Business Objectives and Milestones**

CRS' overall business objective is to gain market share in the LED general illumination market to provide an economic return to its shareholders. To achieve this overall objective, CRS set several business objectives to accomplish during 2010 and 2011.

### ***Sales Objectives and Milestones***

#### **Successful market introduction of the LED MR16 and LED PAR replacement lamps**

CRS' first sales objective is to be one of the top three suppliers by unit sales in the LED MR16 replacement market in North America. The first milestone that will indicate success in this market is to generate orders for 20,000 LED MR16's during any one quarter of 2010. Over 44,000,000 halogen MR16's are installed in commercial buildings in the United States. By CRS estimates over 80% of the halogen MR16 lights installed are 50 watt halogen lamps. Due to the combined lumen output and colour rendering, CRS' customers are successfully replacing up to and including 50 watt halogen MR16 lamps.

In 2010, the Company developed LED versions of PAR 20, PAR 30 and PAR 38 replacement lamps. The target market for the LED PAR series of lamps is the same market as LED MR16 lamps. The PAR series of lamps compliments MR16 sales and represents a significantly larger replacement market in commercial facilities. Management estimates the installed base of conventional PAR lamps in commercial facilities in the United States to be approximately 400,000,000 lamps. The market penetration of the LED versions of PAR lamps is less than 1%.

#### **Entry into the LED outdoor lighting market**

With respect to outdoor lighting, CRS has a similar sales objective to be one of the top three suppliers of LED streetlights in North America. To accomplish this objective, CRS will continue to supply LED light

engines for the use in decorative streetlights. CRS has conceptual designs for the cobra head style light. Approximately 131,000,000 streetlights are installed in the United States. A milestone will be the market introduction and sale of the CRS cobra head LED light. In 2009, CRS set a target to sell 3,500 LED streetlights during the second quarter of 2010. The Company did not achieve this objective as Municipalities and Government facilities are slower to adopt LED technology than originally anticipated. The Company anticipates that it may begin selling LED streetlights in the second half of 2011.

### **Continued growth of CRS' bus light business and contract LED light board manufacturing**

CRS' entry, ten years ago, into the LED lighting market was through the development of high brightness bus warning lights. The Company has set a milestone for bus light sales to be 10% greater in 2010 over 2009.

The quality of the LED bus lights were noticed by the world's leading manufacturers of LEDs. CRS' LED suppliers began referring customers to CRS to assist their customers to develop LED versions of their existing conventional light products under contract. Contract manufacturing could represent significant growth for CRS as additional light applications are converted from conventional lighting to LED based products. CRS has the LED manufacturing experience and production capacity to grow with their contract manufacturing customers.

### ***Product Development Objectives and Milestones***

The first major objective in the area of product development is to further develop the LED MR16 to enable CRS to reduce the cost thereof, and allow CRS to reduce the end user selling price. Due to the high quality of the light generated by its current MR16 models, CRS is successfully selling its current MR16 product, however, CRS has encountered price resistance from potential customers who do not feel that light quality is important for their installation. To compete with lower cost imports for sales to those potential customers, CRS is working on product modifications and cost reductions that are expected to result a version of the LED MR16 with a lower selling price in the fourth quarter.

The second product development objective is to research and develop a LED PAR lamp line ranging in size from PAR 20 to PAR 38 bulb form factors. Many projects require that both PAR lamps and MR16's be installed at the same location. The design of the LED PAR line of lamps will be optimized to appeal to a broad spectrum of buyers while maintaining CRS' high quality standards. The Company introduced the new line at a major trade show in May 2010. The Company plans to release the product for distribution in the fourth quarter of 2010.

The third product development objective is to complete the design, build a prototype, test and develop the manufacturing methods for the cobra head style LED streetlight. The development will include intelligence

in the light such as remote sensing, security features and other attributes in the operations of the LED light engine. The Company received a loan from the SODP to help finance the development of the cobra head product. Development of the cobra head light has been delayed to allow CRS' development team to dedicate time to the LED MR16 and LED PAR lamps. Also management believes that the penetration of LED streetlights into the conventional streetlight market will occur slowly with no significant penetration occurring to late 2011.

### ***Production Objectives and Milestones***

CRS' first production objective is to adopt lean manufacturing techniques to assist CRS in increasing production capacity from a current capacity of \$5,000,000 to a range of between \$12,000,000 to \$15,000,000 per year. To meet this objective, CRS will require additional production management staff, additional production staff, staff training and production equipment. An Equipment Loan Facility from PenFinancial and the loan from the SODP have enabled CRS to commence purchasing the required manufacturing equipment. The first milestone was to install the production equipment during the third quarter of 2009. The second milestone was to have the ability to produce 40,000 LED MR16's, and to meet the needs of its contract customers and bus light customers during the first quarter of 2010. The installation of the production equipment was delayed until the first and second quarter of 2010. The second milestone of increasing production capacity has now been completed.

### **Outlook**

CRS continues to see significant opportunities for increased sales growth as evidenced by the continued growth experienced this quarter. The most dramatic change in year over year revenues is expected to occur with the sale of CRS' LED MR16 and the LED PAR lamps. Incentive plans offered by governments and utilities in both Canada and the United States look favourably upon products that reduce energy consumption. Both CRS' indoor and outdoor LED lights will offer energy savings and lower operating costs to the end user.

## **Performance of CRS**

### ***Key performance indicators***

The key performance indicators for CRS are revenue growth, gross profit, EBITDA, and net income.

The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependent on the Company being able to increase its sales staff and expand production capacity to meet the anticipated demand for its products.

The Company is aiming to achieve gross profit percentages (defined as revenues less cost of sales and plant expenses as a percentage of revenues) of approximately 25.0% on an annual basis. Maintaining a consistent contribution margin will be an indicator of how well the Company is managing its production costs and customer contract negotiations.

Management believes that EBITDA is a measure of how efficiently and effectively the business is running. The Company is entering a period of rapid expansion and growth. Therefore selling and general administration costs will increase over the next eighteen months. To maintain an acceptable EBITDA, management will need to balance the increase in selling and general administration costs and revenue growth. Net income is also viewed as an important measure for determining the value created for shareholders.

### ***Measurement***

Below in “Quarterly Results” and “Results of Operations” are two tables the Company uses to assess performance. Table 1 presents the Company’s results for the last eight quarters. Table 2 sets out the Company’s results for the quarter and for the year compared with the same periods last year.

**Quarterly Results****Table 1**

<i>In Thousands of dollars</i>	<i>Fiscal</i>	Fiscal 2009				Fiscal 2008		
	<i>2010</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	\$881.3	\$653.8	\$572.1	\$878.7	\$651.3	\$430.0	\$450.6	\$667.8
Gross profit	\$231.9	\$134.3	\$101.4	\$227.5	\$190.5	\$122.8	134.3	264.3
<i>Gross profit %</i>	26.3%	20.5%	17.7%	25.9%	29.2%	28.6%	29.8%	39.6%
Select expenses								
Selling and marketing	208.5	114.0	130.8	191.2	86.2	68.6	122.6	88.1
General and administrative	418.4	258.1	283.2	263.1	194.4	143.3	70.5	202.6
Engineering and research	13.2	1.4	5.5	4.8	4.0	3.9	102.6	54.4
Foreign exchange (gain) loss	(2.7)	(1.1)	0.9	9.4	(27.3)	4.5	16.3	1.3
Total expenses	637.4	372.4	420.4	468.5	257.3	220.3	312.0	346.4
Income (loss) from operations	(405.5)	(238.1)	(319.0)	(241.0)	(66.8)	(97.5)	(177.7)	(82.1)
Add back: Depreciation and amortization	41.5	34.4	33.5	36.1	35.6	22.9	33.2	13.0
EBITDA	(364.0)	(203.7)	(285.5)	(204.9)	(31.2)	(74.6)	(144.5)	(69.1)
Interest expense	(9.4)	(7.9)	(11.5)	(14.9)	(23.8)	(16.5)	(15.8)	(12.1)
Refundable tax credit income (expense)	13.8	3.8	(6.5)	(4.0)	2.1	8.9	25.9	16.5
Depreciation	(40.3)	(27.9)	(17.0)	(26.9)	(27.6)	(16.3)	(19.9)	(13.0)
Amortization of product development costs	(8.8)	(6.5)	(16.5)	(9.2)	(8.0)	(6.6)	(13.2)	—
Stock-based compensation	(2.9)	0.0	(28.6)	(6.0)	(178.3)	0.0	—	—
Gain on sale of capital assets	0.0	1.9	—	—	—	—	—	—
Income taxes recovery	0.0	0.0	4.7	—	—	—	—	—
Net (loss) income	(\$411.6)	(\$240.4)	(\$360.9)	(\$265.9)	(\$266.8)	(\$105.1)	(\$167.5)	(\$77.7)
Loss per share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)



## Results of Operations

The following table sets out the Company's consolidated results for the three month period ended June 30, 2010 compared with the same period last year.

<i>In Thousands of dollars</i>	<b>Three months ended June 30</b>		<b>Table 2</b>	
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
Sales	\$881.3	\$651.3	\$230.0	35.3%
Gross profit	231.9	190.5	41.4	21.7%
<i>Gross profit percentage</i>	26.3%	29.2%		
Selling and marketing	208.5	86.2	122.3	141.9%
<i>As a % of sales</i>	23.7%	13.2%		
General and administrative	418.4	188.9	229.5	121.5%
<i>As a % of sales</i>	47.5%	29.0%		
Engineering and research	13.2	4.0		
Foreign exchange (gain) loss	(2.7)	(27.3)		
<i>Total operating expenses</i>	637.4	257.3		
<i>Income (loss) from operations</i>	(405.5)	(66.8)		
Add back depreciation and amortization	41.5	35.6		
EBITDA	(364.0)	(31.2)	(332.8)	-1,067.7%
Interest expense	(9.4)	(23.8)		
Refundable tax credit income	13.8	2.1		
Depreciation	(40.3)	(27.6)		
Amortization of product development	(8.8)	(8.0)		
Stock-based compensation	(2.9)	(178.3)		
Net loss	(\$411.6)	(\$266.8)	(144.8)	-54.3%

**Revenues**

Revenues for the three months ended June 30, 2010 increased 35.3% to \$881,300 from \$651,300 for the same period in 2009. Revenue in the quarter from the LED MR16 sales increased 128.1% to \$388,600 from \$170,400 in 2009. Revenue from bus light sales during the second quarter of 2010 decreased 8.8% to \$314,900 from \$345,200 for the same period in 2009. Revenues from contract manufacturing for the quarter were up 30.9% to \$177,800 from \$135,800 in 2009. CRS anticipates growth in the contract LED light circuit board sales as customers gain market share with their LED products.

Revenues for the six months ended June 30, 2010 increased 41.9% to \$1,534,800 from \$1,081,400 for the same period in 2009. Revenue in the six month period from the LED MR16 sales increased 139.5% to \$507,600 from \$212,000 in 2009. Revenue from bus light sales during the year-to-date period ended June 30, 2010 decreased 1.4% to \$723,200 from \$733,600 for the same period in 2009. Revenues from contract manufacturing for the first six months of 2010 were up 123.8% to \$304,000 from \$135,800 in 2009.

**Cost of Sales and Gross Profit**

The cost of sales is inclusive of direct material costs, plant labour, plant overheads, plant management salaries, depreciation on plant and equipment and the amortization of product development costs. For the three months ended June 30, 2010, gross profit percentage was 26% compared to 29% in the same period last year. For the six months ended June 30, 2010, gross profit percentage was 24% compared to 29% in the same period last year. The decrease is primarily attributed to an increase in fixed plant expenses and depreciation and amortization charged to cost of sales.

**Selling and marketing expenses**

For the three months ended June 30, 2010 selling and marketing expenses increased 141.9% to \$208,500 from \$86,200 for the same period in 2009. The Company had one additional sales employee and two sales consultants during the second quarter of 2010 compared to the second quarter of 2009. In addition during the second quarter of 2010, the Company incurred \$64,000 (2009 - \$8,000) in trade show costs and \$69,000 (2009 - \$3,000) in sales commissions.

For the six months ended June 30, 2010 selling and marketing expenses increased 52.0% to \$322,500 from \$154,800 for the same period in 2009. The Company had one additional sales employee and two sales consultants during the year-to-date period ended June 30, 2010 compared to the same period of 2009. In addition during the six months ended June 30, 2010, the Company incurred \$79,000 (2009 - \$8,000) in trade show costs and \$109,000 (2009 - \$3,000) in sales commissions.

While the increase in selling and marketing expenses is significant, the Company believes that this investment is necessary to increase product and company awareness. It is anticipated that these costs will be lower during the second half of 2010.

**General and administrative expenses**

For the three months ended June 30, 2010 general and administrative expenses increased 121.5% to \$418,400 from \$188,900 for the same period in 2009. The Company incurred significant non-recurring costs this quarter. The Company incurred approximately \$40,000 in legal fees related to an investigation into internal share trading activities, and incurred a further approximate \$100,000 in costs related to the resignation of the former Chief Financial Officer. Factoring out these non-recurring costs would have resulted in only \$278,400 in expenses being incurred this quarter which is consistent with the costs incurred during the first quarter of fiscal 2010. Excluding the non-recurring costs, fiscal 2010 costs are higher than those incurred during 2009 as the Company is now a public company and incurs additional costs public company costs for insurance, audit and investor relations.

For the six months ended June 30, 2010 general and administrative expenses increased 104.0% to \$671,100 from \$328,900 for the same period in 2009. The cost increases for the six month period are similar to those noted above.

**Engineering and Research**

Research costs are expensed in the year the costs are incurred. When a product is likely to be commercially viable in the form developed, the costs to complete the development are capitalized on the balance sheet. When commercial sales begin the development costs are amortized over the expected life of the product. The Company is not incurring significant costs as most efforts are currently directed to product development projects. In 2010, the engineering staff dedicated substantially all their time to the development of the LED PAR series of lights and to the LED MR16.

**Interest on Short-Term Debt**

Interest on short-term debt decreased to \$7,300 during the second quarter of 2010 from \$21,000 during the second quarter of 2009. For the six months ended June 30, 2010 interest on short-term debt decreased to \$12,900 from \$35,000 for the same period last year. The decrease in the expense in 2010 from 2009 resulted from a decrease in the average credit card debt and bank operating loans.

**Interest on Long-Term Debt**

Interest on long-term debt decreased to \$2,100 during the second quarter of 2010 from \$2,800 during the second quarter of 2009. For the six months ended June 30, 2010 interest on long-term debt decreased to \$4,400 from \$5,300 for the same period last year. The decrease in the expense in 2010 from 2009 resulted from a decrease in the average principal outstanding on long-term debt.

**Depreciation**

Depreciation increased to \$40,200 during the second quarter of 2010 from \$27,600 during the second quarter of 2009. For the six months ended June 30, 2010 depreciation increased to \$68,200 from \$43,800 for the same period last year. The increase is related primarily to additional production equipment put into operation.

***Amortization of Product Development Costs***

The amortization expense increased to \$8,800 during the second quarter of 2010 from \$8,000 during the second quarter of 2009. For the six months ended June 30, 2010 amortization expense increased to \$15,200 from \$14,600 for the same period last year. To June 30, 2010, CRS invested \$714,000 in deferred development costs for the development of the LED MR16 light, the LED streetlight, the Par Series of indoor lights and the G2Max bus safety light. During the quarter, the Company amortized the costs related to LED MR16 and the LED streetlight.

***Scientific Research and Experimental Development Tax Credit (“SRED”)***

The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development expenses. The tax credits that relate to research are recorded as a reduction in expenses on the statement of operations. The amount recorded as reduction to expenses for the three months ended June 30, 2010 was \$13,900 compared to \$2,100 in 2009. The amount for the six months ended June 30, 2010 was \$17,700 compared to \$11,000 for the same period last year.

***Foreign Exchange Losses***

In any year CRS sells on average 70% of its products in U.S. dollars. On average in any year, approximately 40% of its expenses are incurred in U.S. dollars. When the value of the U.S. dollar changes to the value of the Canadian dollar, CRS can experience a foreign currency gain or loss on monetary items such as accounts payable and accounts receivable held by CRS during the period of change. For the three months ended June 30, 2010, CRS incurred a foreign currency gain of \$2,700 compared to a gain of \$27,300 in 2009. For the six months ended June 30, 2010, CRS incurred a foreign currency gain of \$3,800 compared to a gain of \$22,800 in 2009.

***Loss before Income Taxes, Depreciation and Amortization (“EBITDA”)***

The negative EBITDA for the quarter ended June 30, 2010 was (\$364,000) compared to (\$31,200) for 2009. For the six months ended June 30, 2010 negative EBITDA (\$567,700) compared to (\$105,800) for the same period in 2009. The increase in revenues and related contribution margins in 2010 compared to 2009 did not offset the increase in selling and administrative costs.

***Net losses***

As a result of the above activities, the net loss for the quarter ended June 30, 2010 was (\$411,600), or (\$0.01) per share compared to a loss of (\$266,900), or (\$0.01) for the second quarter of 2009. For the six months ended June 30, 2010 the net loss was (\$652,500), or (\$0.02) per share compared to a loss of (\$371,900), or (\$0.02) for the same period in 2009.

## **Liquidity and Capital Resources**

The following table summarizes the key financial ratios of the Company.

<i>(in thousands of Canadian dollars except for ratios)</i>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Current Ratio	1.3:1	2.8:1
Cash	\$-	\$913,557
Available operating line	\$254,326	\$320,000
Working Capital	\$462,288	\$1,165,232
Total Assets	\$3,294,715	\$2,556,849
Total Debt	\$1,607,624	\$722,454
Total Equity	\$1,687,091	\$1,834,395
Debt to Equity Ratio	.95:1	.4:1

Subsequent to the quarter end, the Company completed a private placement financing for gross proceeds of approximately \$1.1 million and received the first reimbursement from SODP for \$180,000.

Management closely monitors the Company's current cash position and the short-term and long-term cash requirements. The Company is in a volatile market place that could generate significant orders for their LED products. The Company may be required to obtain additional funding to take advantage of the market opportunities. If additional funding is required, an issuance of common stock or a commitment to issue common stock will most likely be a component of the funding.

### ***Cash Flows***

During the quarter, CRS experienced negative cash flows used in operations of (\$562,100) compared to a negative cash flow of (\$611,600) in 2009. The change is primarily attributable to an increased net loss. The Company invested \$279,100 in equipment, development costs and patents in the quarter compared to \$118,600 in the prior year. The Company's various financing activities generated \$543,700 in cash flows for the quarter compared to \$807,100 in the same period last year.

During the six months ended June 30, 2010, CRS experienced negative cash flows used in operations of (\$673,200) compared to a negative cash flow of (\$717,700) in 2009. The decrease is primarily a result of high accounts payable and accruals offsetting higher losses and investment in inventory. The Company invested \$778,700 in equipment, development costs and patents in the same period compared to \$158,600 in the prior year. The significant increase is primarily a result of increasing production capacity. The Company's various financing activities generated \$548,400 in cash flows in the six month period compared to \$953,100 in the same period last year.

## Outstanding Share Data

As at August 26, 2010 the Company had the following items issued and outstanding:

- Common shares 32,625,652 (June 30, 2010 - 28,616,760).
- Common share purchase warrants as follows:

Name and Issue Date	Expiry date	Terms	Number of ½ warrants	Number of common shares to be issued
Series A September 30, 2009	September 30, 2010	½ warrant to purchase common shares at \$0.50	1,749,999	874,998
Series B December 29, 2009	December 29, 2010	½ warrant to purchase common shares at \$0.65	2,777,777	1,388,887
Series C July 5, 2010	July 5, 2012	½ warrant to purchase common shares at \$0.70	2,004,446	1,002,223

- Stock options:

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

- Charitable options:

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.

## Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of CRS including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

## Transactions with Related Parties

None.

## **Proposed Transactions**

CRS is not a party to any proposed transaction other than those previously discussed, that may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition.

## **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.

## **Critical Accounting Policies**

This MD&A should be read in conjunction with the Company's unaudited Financial Statements for the three and six months ended June 30, 2010, and the audited Financial Statements for the year ended December 31, 2009 and the notes thereto. Those Financial Statements outline the accounting principles and policies used to prepare our financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position. There has been no change in critical accounting policies since December 31, 2009.

## **International Financial Reporting Standards (“IFRS”)**

The accounting framework under which financial statements are prepared in Canada for all profit-oriented publicly accountable enterprises is scheduled to change to IFRS by January 1, 2011. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The Company is evaluating accounting policy differences between Canadian GAAP and IFRS based on management's current understanding of these standards. Management is currently assessing the impact of the transition to IFRS on its financial statements.

The Company will use a four phase approach to ensure successful conversion to IFRS, including:

- diagnostic impact assessment;
- design and planning;
- solution development; and
- Implementation.

The Company has not commenced the implementation of the IFRS conversion plan. During the third quarter of 2010, CRS intends to proceed with implementation of the selected accounting policies for the opening balance sheet on January 1, 2010, which will be used for comparative purposes once the IFRS conversion is effective on January 1, 2011. The Corporation will continue to assess the impact on business activities, accounting policies, information systems and internal control over financial reporting during the period to the transition date. To date, the Company has not determined that the transition to IFRS will result in a significant change to current accounting policies or financial statement presentation.

## **Financial Instruments and Other 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.

## **Risk Factors**

The Company is exposed to a variety of risks in the normal course of operations. Please refer to Management Discussion and Analysis for the year ended December 31, 2009. Reference should also be made to the Company's filings with Canadian securities regulatory authorities that are available at [www.sedar.com](http://www.sedar.com) under the corporate name CRS Electronics Inc.