CRS Electronics Inc.

Management Discussion and Analysis

Fourth Quarter and the Year Ended December 31, 2009

Dated: April 16, 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 months and year ended December 31, 2009. This discussion and analysis should be read in conjunction with the audited Annual Financial Statements and related notes as at and for the year ended December 31, 2009. Reference should also be made to CRS' filings with Canadian securities regulatory authorities that are available at www.sedar.com under the corporate name CRS Electronics Inc.

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. The audit committee reviews and prior to its publication, the Board of Directors reviews and approves this disclosure.

On May 20, 2009, 3542114 Canada Inc. carrying on business as CRS Electronics ("CRS Electronics"), completed a business combination transaction (the "Qualifying Transaction") with Podium Capital Corporation ("Podium"), a Capital Pool Company listed on the TSX Venture Exchange. Immediately after the closing the Qualifying Transaction (i) CRS Electronics became a direct, wholly-owned subsidiary of Podium and (ii) the former CRS Electronic shareholders collectively obtained control over Podium. Effective September 1, 2009, Podium and CRS Electronics completed a short-form vertical amalgamation. The two corporations became one corporation named CRS Electronics Inc. For additional information on the Qualifying Transaction please refer to the Description of Securities section in this MD&A.

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' 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. Forward-looking information is based, in part, on assumptions that may change, thus causing actual future results or anticipated events to differ materially from those expressed or implied in any forward-looking information. Such assumptions include, but are not limited in any manner to, the improvement of general economic conditions, viability of the business model and stability of costs, sufficient working capital for development and operations, access to adequate services and supplies, availability of markets for products, commodity prices, foreign currency exchange rates, interest rates, access to capital markets and other sources of financing and associated cost of funds, availability of a qualified work force, availability of manufacturing equipment and no material changes to the tax regime. 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 and in the "Risk Factors" section of this MD&A. Such risks include, but are not limited to, viability of the business plan, reliance on channel partners, management of growth, strategic opportunities, fluctuation of operating results and margins, additional financing requirements and access to capital, reliance on key and qualified personnel, competition, intellectual property, foreign currency, international sales, rising fuel costs, LED diode manufacturers producing end products, customers producing own LED light engines, development and acceptance of new products, expansion into new markets, market share, sourcing automation equipment, customer demand and capacity, production yields, reliance on suppliers, government funding, customer satisfaction, taxes, and catastrophic events. 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, except as required by law. 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 April 16, 2010.

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. Our usage of these terms may vary from the usage adopted by other companies. 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.

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 10 years, CRS has been a developer and manufacturer of light-emitting-diode ("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 2009 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.

CRS is currently focused on the introduction of its LED MR16 to the North American halogen 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. Based on the technology developed by CRS, in 2010, the Company plans to introduce additional LED indoor lighting models. 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' customers' market share grows for their respective products, CRS believes their revenue from contract assembly will increase accordingly.

Highlights for the Year

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

> *From the time the Company completed the Qualifying Transaction on May 20, 2009 to December 31, 2009, revenues increased 31.0% over the corresponding period in 2008. Revenues for the year increased 10.7% over the previous year.*
>
> *During the year, CRS sold its 12,500th LED MR16. Sales by units of MR16's are up 300% over 2008.*
>
> *In March 2009, the Company introduced a second generation LED MR16 that increased the lumen output from 150 lumens to 300 lumens and reduced the number of LED's from 9 to 7. The product received top ratings of all LED MR16's tested under the DOE CALiPER testing program.*
>
> *New customers served during the year were Starbucks head office in Seattle, WA; Ikea Property Inc. in Conshohocken, PA; Humber College in Toronto, ON; Harvard University in Cambridge, MA; Glaxo Smith Kline in Mississauga, Ontario; One Beacon Court in New York, NY and several other key accounts.*
>
> *The Company completed the Qualifying Transaction under the Capital Pool Company program offered by the TSX Venture Exchange raising a net $678,000 and commenced trading on the TSX Venture Exchange under the symbol **LED.***
>
> *The Company signed an equipment loan facility for $467,000 with PenFinancial Credit Union. The facility carries an 8% per annum interest rate and a five year amortization period.*

In September 2009, the Company completed a private placement of 1,749,999 common share units at $0.30 per unit, consisting of one common share and one-half warrant to purchase common shares, for aggregate gross proceeds of $525,000.

In December 2009, the Company completed a private placement of 2,777,777 common share units at $0.45 per unit, consisting of one common share and one-half warrant to purchase common shares, for aggregate gross proceeds of $1,250,000. A division of Dundee Capital became CRS' first institutional investor through the investment of $1,000,000 in the private placement.

Also in December 2009, the Company received notification from the Southern Ontario Development Corporation ("SODC"), a Government of Canada Crown Corporation, for a non-interest bearing stimulus loan equal to $825,000. The loan can be drawn against certain marketing, training and research expenses and certain capital expenditures. Principal repayments commence after 12 months equally for the next 60 months.

CRS was approved for grants equal to $100,000 from the Government of Ontario under the Yves Landry Foundation for training in new technologies and processes and through the SMART Program administered by the Canadian Manufacturers & Exporters to purchase equipment to improve productivity.

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 2009 and 2010.

Sales Objectives and Milestones

Successful market introduction of the LED MR16 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 40,000 LED MR16's during the second 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. To adequately replace a halogen 50 watt lamp, an LED replacement MR16 should have approximately 300 lumens or more.

In March 2009, CRS released a second LED MR16 replacement with approximately a 300 lumen output, an 85% energy savings and a colour rendering index ("CRI") of 93. CRS' new MR16 was tested by the

DOE under the CALiPER Program. Three of the key attributes used to compare LED replacements lamps are:

- Lumen output is a measurement of the output of light,
- CRI which is an assessment of the quality of the light compared to natural light with 100 representing natural light, and
- The number of watts the lamp draws is a measure of the electrical consumption.

Table 1 is a comparison of the top three lights evaluated in the March 2009 round of CALiPER testing:

Table 1

Lamp reference	Total power (watts)	Output (Initial Lumens)	CRI
CRS' MR16	6	291	93
Number 2	5	177	87
Number 3	3	150	84

Due to the combined lumen output and colour rendering, CRS' customers are successfully replacing up to and including 50 watt halogen MR16 lamps.

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 and CRS tested a prototype of a version of a CRS cobra head 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. The sales of streetlights were delayed during 2009, in part, as a result of buyers delaying purchases to apply for "Stimulus" Funding expected from the US and Canadian Governments. In 2009, CRS set a target to sell 3,500 LED streetlights during the second quarter of 2010. The Company does not believe it will achieve the sales objective of selling 3,500 LED streetlights during the second quarter of 2010. The Company is deferring the sales objective of selling 3,500 LED streetlights to the first quarter 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. CRS' bus light business was expected to grow in 2009 over 2008 due to an increase in a contract with its major bus customer. The milestone for the bus business was to achieve an increase in revenue of 15% higher in 2009 over 2008. Due to cash constraints during the first five months of 2009 and in part due to the economy, the bus light business decreased 32.7% during the first five months. After the completion of the Qualifying Transaction and the resultant injection of cash, bus light sales increased 10.9% in the second half of 2009. In January 2010, the Company finalized a new supply contract with their largest bus customer. A price discount was given in return for an increase in the number of different lights the Company will supply on an exclusive. The price decrease will take effect in the second quarter of 2010. The Company has set a milestone for CRS' 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. In 2009, management set a milestone for the contract manufacturing business to exceed $750,000 in 2010. In 2009, contract manufacturing sales increased to $541,000 for an increase of 43.9% over 2008 sales of $376,000. Due to the nature of the contract manufacturing business, management believes contract manufacturing revenues in 2010 will be greater than in 2009, but cannot state with certainty that the milestone of achieving $750,000 in contract manufacturing revenues will occur.

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 cost thereof, and therefore, 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 light offering. CRS has encountered price resistance from potential customers who do not feel the 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.

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 plans to release the line in 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 SODC 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.

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. The proceeds of the Qualifying Transaction, the private placements in September and December 2009 and the Equipment Loan Facility 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, 3,500 LED streetlight engines, 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 quarter of 2010. The second milestone of increasing production capacity is postponed to the second quarter of 2010.

Outlook

CRS management believes that opportunities exist to generate significant sales of CRS' range of products. The Company's traditional business of providing LED bus lights should stabilize in 2010. Lower margins in the bus light business should be offset by an increase in volume. Contract manufacturing of LED light circuit boards should increase in 2010 over 2009 due to the sector by sector adoption of LED based products offered by the Company's customers.

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.

Selected Annual Financial Information

Table 2

Twelve months ended December 31,	2009	2008	2007
Revenues	$2,532,115	$2,288,382	$1,588,804
Net Loss	($998,691)	($231,369)	($323,534)
Loss per share	($0.05)	($0.01)	($0.02)
Current assets	$1,807,313	$623,702	$579,729
Total assets	$2,556,849	$1,011,033	$814,499
Current liabilities	$642,081	$1,014,573	$722,568
Total liabilities	$722,454	$1,081,712	$837,145
Shareholders' equity (deficit)	$1,834,395	($70,679)	($22,646)

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 3 presents the Company’s results for the last eight quarters. Table 4 sets out the Company’s results for the quarter and for the year compared with the same periods last year.

Quarterly Results

Table 3

	Fiscal 2009				Fiscal 2008			
In Thousands of dollars	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	$572.1	$878.7	$651.3	$430.0	$450.6	$667.8	$784.4	$385.6
Gross profit	101.4	227.5	190.5	122.8	134.3	264.3	243.5	67.2
Gross profit percentage	17.7%	25.9%	29.2%	28.6%	29.8%	39.6%	31.0%	17.4%
Select expenses								
Selling	130.8	191.2	86.2	68.6	122.6	88.1	40.7	37.0
General and administrative	283.2	263.1	194.4	143.3	70.5	202.6	103.3	80.8
Engineering and research	5.5	4.8	4.0	3.9	102.6	54.4	17.5	40.9
Foreign exchange (gain) loss	0.9	9.4	(27.3)	4.5	16.3	1.3	(0.1)	(11.1)
Total expenses	420.4	468.5	257.3	220.2	312.0	346.4	159.4	147.6
Income (loss) from operations	(319.0)	(241.0)	(66.8)	(97.5)	(177.7)	(82.1)	84.1	(80.4)
Add back: Depreciation and amortization	33.5	36.1	35.6	22.9	33.2	13.0	13.0	13.0
EBITDA	(285.5)	(204.9)	(31.2)	(74.6)	(144.5)	(69.1)	97.1	(67.4)
Interest expense	(11.5)	(14.9)	(23.8)	(16.5)	(15.8)	(12.1)	(12.2)	(13.0)
Refundable tax credit income (expense)	(6.5)	(4.0)	2.1	8.9	25.9	16.5	16.5	18.8
Depreciation	(17.0)	(26.9)	(27.6)	(16.3)	(19.9)	(13.0)	(13.0)	(13.0)
Amortization of product development costs	(16.5)	(9.2)	(8.0)	(6.6)	(13.2)	—	—	—
Stock-based compensation	(28.6)	(6.0)	(178.3)	—	—	—	—	—
Income Taxes recovery	4.7	—	—	—	—	—	—	—
Net (loss) income	($360.9)	($265.9)	($266.8)	($105.1)	($167.5)	($77.7)	$88.4	($74.6)
Loss per share	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.00)	$0.01	($0.00)

Results of Operations

The following table sets out the Company's consolidated results for the periods ended December 31, 2009, compared with the same period last year.

Table 4

	Three months ended December 31		Increase	% Increase	Year ended December 31		Increase	% Increase
In Thousands of dollars	2009	2008	(Decrease)	(Decrease)	2009	2008	(Decrease)	(Decrease)
Sales	$572.1	$450.6	$121.4	26.9%	$2,532.1	$2,288.4	$243.7	10.7%
Gross profit	101.4	134.3	(32.9)	-24.5%	614.2	709.3	(67.1)	-9.5%
Gross profit percentage	17.7%	29.8%			25.4%	31.0%		
Select expenses								
Selling	130.8	122.6	8.2	6.7%	476.8	288.4	188.4	65.3%
As a % of sales	22.9%	27.2%			18.8%	12.6%		
General and administrative	283.2	70.5	212.7	301.8%	884.4	455.1	429.3	94.3%
As a % of sales	49.5%	15.6%			34.9%	19.9%		
Engineering and research	5.5	102.6	(97.1)	-94.6%	18.1	215.4	(197.3)	-91.6%
As a % of sales	1.0%	22.8%			0.7%	9.4%		
Foreign exchange (gain) loss	0.9	16.3	(15.4)	-94.5%	(12.5)	6.4	(18.9)	-295.3%
As a % of sales	0.2%	3.6%			-0.5%	0.3%		
Total operating expenses	420.4	312.0			1,366.8	965.3		
Income (loss) from operations	(319.0)	(177.7)			(724.6)	(256.0)		
Add back depreciation and amortization	33.5	33.2	.03	0.9%	128.1	72.2	55.9	77.4%
As a % of sales	33.0%	7.4%			5.1%	3.2%		
EBITDA	(285.5)	(144.5)	(141.0)	-97.6%	(596.5)	(183.8)	(412.7)	-224.5%
Interest expense	(11.5)	(15.8)	4.3	-27.2%	(66.6)	(53.1)	(13.5)	25.4%
As a % of sales	-2.0%	-3.5%			-2.6%	-2.3%		
Refundable tax credit income	(6.5)	25.9	32.4	-125.1%	.6	77.7	(77.1)	-99.2%
As a % of sales	3.0%	5.7%			0.1%	3.4%		
Depreciation	(17.0)	(19.9)	(2.9)	-14.6%	(87.7)	(59.0)	(28.7)	48.6%
As a % of sales	-2.9%	-4.4%			-3.5%	-2.6%		
Amortization of product development	(16.5)	(13.2)	3.3	25.0%	(40.4)	(13.2)	(27.2)	206.1%
As a % of sales	-2.9%	-2.9%			-1.6%	-0.6%		
Stock-based compensation	(28.6)	0.0	28.6	0.0%	(212.8)	0.0	(212.8)	
As a % of sales	-5.0%	0.0%			-8.4%	0.0%		
Income taxes recovery	4.7	0.0	4.7	0.0%	4.7	0.0	4.7	
As a % of sales	.8%	0.0%			0.2%			
Net loss	($360.9)	($167.5)	($193.4)	-115.5%	($998.7)	($231.4)	($767.3)	-331.6%

For the Year Ended December 31, 2009

Revenues

Revenues for the year ended December 31, 2009 increased 10.7% to $2,532,115 from $2,288,382 for the same period in 2008. Revenue in the year from the LED MR16 sales increased to $554,500 from $139,816 in 2008. During 2009, revenue from the sale of LED MR16's increased from $41,127 in Q1 2009, to $179,353 in Q2 2009, to $207,950 in Q3 2009 and decreased to $135,070 in Q4 2009. Revenue from bus light sales was $1,401,000 for 2009, compared to $1,575,000 for the same period in 2008. In the first five months of 2009, CRS' financial position constrained the Company's ability to manage the supply contract with its major customer. The improvement in CRS' financial position following the Qualifying Transaction, allowed CRS to improve on the timely ordering of parts and execution of the contract. Revenues from contract manufacturing for fiscal 2009 were up 43.9% to $541,000 from $361,000 in 2008. CRS anticipates growth in the contract LED board sales as customers gain market share with their LED products. The sale of streetlight light engines decreased 80.7%, from $191,700 in 2008 to $37,200 in 2009. In 2008, municipal buyers were purchasing outdoor lighting for trial operations. The general consensus within the outdoor LED lighting industry is that in 2009 most municipal buyers continued to evaluate LED lighting and did not place full replacement orders. The increases in revenues from the LED MR16 light and contract manufacturing offset the decrease in bus light and streetlight sales for the year.

Cost of Sales and Gross Profit

The cost of sales is inclusive of direct material costs, plant labour, plant overheads, plant management salaries, depreciation of equipment, amortization of leasehold improvement, and the amortization of product development costs. For the year fiscal 2009, the gross profit percentage dropped to 25.4% from 31.0% for the same period in 2008. Increases in depreciation and amortization charged to cost of sales accounted for 2.2% points of the difference between the gross profit percentages from 2009 to 2008. Other contributing factors to a lower gross profit percentage were: an increase in fixed plant expenses related to the growth in sales in the last seven months of 2009; a reduction in selling prices to Company's major bus light customer; and an expected reduction in MR16 unit costs was not experienced by the Company until the last few months of the year. The Company expects the gross margins for 2010 on an annual basis to be approximately 25.0%.

Selling expenses

For the year ended December 31, 2009 selling expenses increased 65.3% to $476,800 from $288,400 for the same period in 2008. A one-time expense related to a settlement with an employee accounted for a significant portion of the year to year increase. The addition of one sales person, general selling expenses such travel and participation at trade shows accounted for the remaining increase in selling expenses from 2008 to 2009.

General and administrative expenses

For fiscal 2009 administrative costs increased 94.3% to $884,400 from $455,100 for the same period in 2008. The increase in costs was attributed to an increase in salaries over the previous year and to the additional costs related to being a public company such as legal fees, audit costs, investor relations expenses and insurance costs. The addition of a Chief Financial Officer in June 2008 and additional travel and other related expenses to seeking financing also contributed to the increase in general administrative expenses.

Engineering, Research and Development Costs

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. For the year to date in 2009, research expenses were $18,100 compared to $215,400 for 2008. In 2008, a significant portion of management and staff time was allocated to engineering costs that were expensed to a variety of research projects and therefore expensed on the Statement of Operations. During the last three quarters of 2008 and in 2009, development costs of the LED MR16, the LED streetlight, the PAR series of indoor LED lights and the G2Max bus warning light were capitalized.

Interest on Short-Term Debt

During 2009, interest on short-term debt increased to $57,500 from $41,300 in 2008. The increase in the expense in 2009 over 2008 resulted from an increase in the average credit card debt and bank operating loans. At the end of fiscal 2009, the Company decreased its operating bank debt to nil.

Interest on Long-Term Debt

For fiscal 2009, interest on long-term debt decreased to $9,100 from $11,800 for fiscal 2008. The decrease in the expense resulted from the reduction in the average principal of long-term debt to $69,000 in 2009 from $121,000 in 2008.

Depreciation

Depreciation was reported on the Statement of Operations as follows:

	Year ended December 31	
	2009	2008
Cost of sales	$67,799	$47,216
Depreciation expense	19,927	11,804
	$87,726	$59,020

The increase in depreciation resulted from the acquisition of assets in 2009 required to support the growth in the business.

Amortization of Product Development Costs

During 2009, amortization of product development costs increased 206.1% to $40,400 from $13,200 in 2008. To December 31, 2009, CRS incurred development costs equal to $386,981 for the development of the LED MR16 light, the LED streetlight, the PAR Series of indoor lights and the G2Max bus safety light. To December 31, 2008 the Company accumulated product development costs equal to $132,292 and commenced amortization of the costs in the fourth quarter of 2008.

Scientific Research and Experimental Development Tax Credit

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 expenses. The tax credits that relate to research are recorded as a reduction of expenses on the statement of operations. When CRS was a privately held company both the SRED and ITC were refundable tax credits and were normally paid to the Company in the year following the year the tax credits were claimed. As a result of becoming a publicly traded company in May 2009, the SRED tax credit rate decreased to 20% from 35% of expenditures and the SRED is no longer a refundable tax credit payable in cash to the Company but can only be applied against income taxes payable. 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.

For fiscal 2009, the SRED and ITC income was $600 compared to $77,700 in 2008. The reduction in the SRED tax credits resulted from lower research activities from the corresponding period in 2008 and due to the valuation reserve for the SRED tax credits.

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 year ended December 31, 2009, the Company recorded a foreign currency gain equal to $12,500 compared to loss equal to ($6,400) in 2008.

Stock Based Compensation

In 2008, CRS established a stock option plan for its directors, officers, employees and consultants. As a condition of the Qualifying Transaction, the CRS stock option plan was terminated. CRS employees who held stock options under the CRS stock option plan were issued 880,070 stock options in the Podium stock option plan. Two of the employees of CRS became officers and insiders of Podium. Included in the number of stock options issued to the CRS employees were 228,532 stock options issued to each of the two officers. All stock options issued to the CRS employees were vested on closing of the Qualifying Transaction. The stock options issued are exercisable at a price of $0.30 per share until November 14, 2013. The fair value of the 880,070 stock options was calculated to be $163,870 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 81%, risk-free interest rate of 2.17% and an expected life of 5 years.

Other stock options granted during the year valued using the Black-Scholes option pricing model were as follows:

Date granted	May 20, 2009	August 31, 2009	October 2, 2009	November 4, 2009
Number of stock options	80,000	50,000	55,000	30,000
Exercise price	$ 0.30	$ 0.35	$ 0.35	$ 0.52
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	60.0%	71.0%	71.0%	71.0%
Risk-free interest rate	2.6%	2.6%	2.5%	2.7%
Expiry date	May 19 2014	August 30 2014	October 1 2014	November 4 2014
Value of stock options granted	$14,400	$6,985	$16,112	$12,596

On May 20, 2009, stock options to purchase a total of 50,000 common shares of the Company were granted to a new director of the Company. On August 31, 2009, stock options to purchase 50,000 common shares of the Company were granted to another director of the Company. Both grants of options to the directors expire five years after the date of the grant.

Losses

The net loss for the year ended December 31, 2009 was ($998,700) or ($0.05) per share compared to a loss of ($231,400) or ($0.01) per share for the year ended December 31, 2008. From mid 2008 to the present, CRS increased management staff and increased marketing expenses to introduce the LED MR16 and LED streetlight. In Q4 2009, selling and administrative costs, inclusive of depreciation, increased by $220,900 to $414,000 from $193,100 in Q4 2008.

The weighted average number of common shares outstanding during the fiscal year 2009 was 20,895,813 compared to 15,590,441 for the same period in 2008. The calculation of loss per common share is based on the reported net loss divided by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated on the treasury stock basis. As potentially dilutive equity instruments are anti-dilutive, basic and diluted earnings per share are the same.

Loss before Income Taxes, Depreciation and Amortization ("EBITDA")

The negative EBITDA for the year ended December 31, 2009 was ($596,500) compared to ($183,800) for 2008. The increase in revenues and related contribution margin in 2009 compared to 2008 did not offset the increase in selling and administrative costs.

For the Fourth Quarter Ended December 31, 2009

Revenues

Revenues for the three months ended December 31, 2009 increased 26.9% to $572,100 from $450,600 for the same period in 2008. Revenue in the quarter from the LED MR16 sales increased 369.1% to $135,100 from $28,800 in 2008. Revenue from bus light sales during the fourth quarter of 2009 was $256,100, compared to $255,100 for the same period in 2008. Revenues from contract manufacturing for the quarter in 2009 were up 491.1% to $180,300 from $30,500 in 2008. CRS anticipates growth in the contract LED light circuit board sales as customers gain market share with their LED products. During the last quarter of fiscal 2008, CRS' revenue from outdoor lighting was $128,300 compare to nil in 2009. In 2008, municipal buyers were purchasing outdoor lighting for trial operations. The general consensus within the outdoor lighting industry was that during 2009 most municipal buyers continued to evaluate LED lighting and very few orders to replace all their outdoor lighting with LED lights were received.

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 December 31, 2009, gross profit percentages decreased to 17.7% from 29.8% in 2008. The change is attributed to an increase in fixed plant expenses and higher inventory unit costs that resulted from an adverse change in exchange rates during in the first nine months of the year that flowed through cost of sales in the fourth quarter of 2009. Also during the fourth quarter of 2009, the Company and its largest customer agreed to a reduction of 5% in bus light selling prices. The year-end book to physical inventory adjustment, packaging costs, and tooling charges accounted for 7.0% of the difference. To avoid the re-occurrence of year-end inventory adjustments, the Company put additional control systems in place to monitor and control inventory throughout the year.

Selling expenses

For the three months ended December 31, 2009 selling expenses increased 6.7% to $130,800 from $122,600 for the same period in 2008. The Company had one additional sales employee during the fourth quarter of 2009 compared to the fourth quarter of 2008.

General and administrative expenses

For the three months ended December 31, 2009, general and administrative expenses increased 301.8% to $283,200 from $70,500 for the same period in 2008. A bonus to three senior management and insiders to Company equal to $37,500 in total was paid in the fourth quarter of 2009. In the fourth quarter of 2008, management salaries incurred throughout 2008 that related to research were transferred to research and development expense. The increase in costs also resulted from an increase in salaries over the previous year and to the additional costs related to being a public company such as legal fees, audit costs, investor relations expenses and insurance costs.

Engineering, Research and Development Costs

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. In the fourth quarter of 2009, engineering, research and development costs decreased to $5,500 from $102,600 for the same period in 2008. During the fourth quarter in 2008 and 2009, development costs of the LED MR16, the PAR series of indoor LED lights, the LED streetlight and the G2Max bus warning light were capitalized. In the fourth quarter of 2008, management salaries incurred throughout 2008 that related to research were transferred to research and development expense.

Interest on Short-Term Debt

Interest on short-term debt decreased to $9,600 during the fourth quarter of 2009 from $13,800 during the fourth quarter of 2008. The decrease in the expense in 2009 from 2008 resulted from a decrease in the average credit card debt and bank operating loans. At the end of the fourth quarter in 2009, the Company decreased its operating bank debt to nil.

Interest on Long-Term Debt

For the three months ended December 2009, interest on long-term debt decreased to $1,800 from $2,100 in 2008. The decrease in the expense resulted from the reduction in the average principal on long-term debt to $75,800 in 2009 from $120,900 in 2008.

Depreciation

Depreciation was reported on the Statement of Operations as follows:

	Three months ended December 31	
	2009	2008
Cost of sales	$12,567	$15,950
Depreciation expense	4,439	3,988
	$17,006	$19,938

Amortization of Product Development Costs

The amortization expense for the fourth quarter of 2009 was $16,500 compared to $13,200 during the fourth quarter of 2008. To December 31, 2009, CRS incurred development costs equal $386,981 for the development of the LED MR16 light, the LED streetlight, the PAR Series of indoor lights and the G2Max bus safety light. To December 31, 2008 the Company accumulated product development costs equal to $132,292 and commenced amortization of the costs in the fourth quarter of 2008.

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 of expenses on the statement of operations. The amount recorded for the three months ended December 31, 2009 was an expense of $6,500 compared to income of $25,900 in 2008. The reduction resulted from adjustments to the valuation allowance for the SRED tax credits and also from lower research activities from the corresponding period in 2008.

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 December 31, 2009, CRS incurred a foreign currency loss of $900 compared to a loss of $16,300 in 2008.

Stock Based Compensation

During the fourth quarter of 2009, stock options to purchase 85,000 common shares of the Company were granted to four employees. The fair value of the options expensed during the fourth quarter of 2009 was $28,600 using the Black-Scholes option pricing model.

Losses

The net loss for the quarter ended December 31, 2009 was ($360,500), or ($0.01) per share compared to a loss of ($167,500), or ($0.01) for the fourth quarter of 2008. From mid 2008 to the present, CRS increased management staff and increased marketing expenses to introduce the LED MR16 and LED streetlight. In Q4 2009, selling and administrative costs, inclusive of depreciation, increased by $220,900 to $414,000 from $193,100 in Q4 2008.

The weighted average number of common shares outstanding during the fourth quarter 2009 was 25,253,076 compared to 15,887,427 for the same period in 2008. The calculation of loss per common share is based on the reported net loss divided by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated on the treasury stock basis. As potentially dilutive equity instruments are anti-dilutive, basic and diluted earnings per share are the same.

Loss before Income Taxes, Depreciation and Amortization ("EBITDA")

The negative EBITDA for the quarter ended December 31, 2009 was ($285,500) compared to the fourth quarter 2008 negative EBITDA of ($144,500). The increase in revenues and related contribution margins in 2009 compared to 2008 did not offset the increase in selling and administrative costs.

Liquidity and Capital Resources

Please refer to the Condensed Balance Sheets presented in Schedule 1. The following Table 5 summarizes the key financial ratios and monetary values that are indicative of the financial health of the Company.

Table 5

(in thousands of Canadian dollars except for ratios)	December 31, 2009	December 31, 2008
Current Ratio	2.8: 1	.61 : 1
Cash	$913,557	$10,512
Available operating line	$320,000	$23,609
Working Capital	$1,165,232	($390,871)
Total Assets	$2,556,849	$1,011,033
Total Debt	$722,454	$1,081,712
Total Equity	$1,829,688	($70,679)
Debt to Equity Ratio	.4 : 1	15.3 : 1

The Qualifying Transaction In May 2009 and the private placements in September 2009 and December 2009 resulted in a significant improvement in the liquidity of the Company. The transactions allowed the Company to bring liabilities to a current position, increase production capacity and fund the growth in sales. As at December 31, 2009, CRS had working capital of $1,165,232 compared to a working capital deficiency ($390,871) at December 31, 2008. The current ratio and debt to equity ratio have improved from unacceptable levels to good levels given these economic times.

In 2008, management recognized the need for CRS to implement a financial plan to resolve the working capital deficiency and to provide liquidity for future operations. The financial plan was to complete the Qualifying Transaction with Podium and to arrange capital leases or long-term loans to acquire research and production equipment. The Qualifying Transaction closed May 20, 2009. CRS arranged for debt financing under a commitment letter from PenFinancial Credit Union for a maximum of $467,000 for a fixed term of 5 years, with amortization of 7 years, at an interest rate of 8.0%, for the purpose of funding a portion of CRS' projected 2009 and 2010 equipment purchases. Notwithstanding the maximum amount of $467,000, the total amount of the loan will not exceed 65% of equipment purchases. The existing operating line of $320,000 is in place and available for use.

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 shares or a commitment to issue common shares will most likely be a component of the funding.

Cash Flows

During 2009, CRS experienced negative cash flows used in operations of ($1,197,080) compared to a positive cash flow of $66,360 in 2008. In 2009, revenues increased 10.7% over the previous year. The revenue in the fourth quarter of 2009 was 26.9% higher than the fourth quarter of 2008. Accordingly, the net period end balances of inventory, accounts receivable and accounts payable at December 31, 2009 and December 31, 2008 were $430,203 and ($154,823) respectively. The increase in working capital requirements, equal to $585,023, and the change in loss from operations, as outlined above, accounted for a significant portion of the change in cash provided from or used in operations for the period.

Description of the Securities

[a] Common shares

The authorized capital of CRS consists of an unlimited number common shares. On December 31, 2009 27,935,347 common shares were issued and outstanding [15,887,427 – December 31, 2008].

Qualifying Transaction

On May 20, 2009 Podium and the Company completed the Qualifying Transaction pursuant to the policies of the TSX Venture Exchange. As a result of the Qualifying Transaction, CRS became a direct, wholly-owned subsidiary of Podium. The Qualifying Transaction was treated as an issuance of common shares by the continuing corporation, CRS Electronics Inc. The net proceeds from the Qualifying Transaction were $678,408.

Issuance of common shares for cash

The Company issued the following common shares for cash during 2009:

Table 6

Date	Nature of transaction	Terms	Number of common shares	Net Cash Proceeds
May 20, 2009	Private Placement	$0.30 per share	550,000	$ 165,000
September 30, 2009	Private Placement	$0.30 per unit consisting of 1 common share and ½ warrant to purchase common shares at $0.50	1,749,999	$512,922 (1)
December 29, 2009	Private Placement	$0.45 per unit consisting of 1 common share and ½	2,777,777	$1,149,571 (1)

Date	Nature of transaction	Terms	Number of common shares	Net Cash Proceeds
		warrant to purchase common shares at $0.65		
During the fourth quarter of 2009	Exercise of agent options	$0.30 per share	266,917	$80,093
During the fourth quarter of 2009	Exercise of options	$0.30 per share	54,500 (2)	$16,350

(1) Prior to the allocation to value of the warrants.
(2) Including exercise of 20,000 stock options granted to an officer of the Company for gross proceeds of $6,000.

[b] Warrants

The Company issued the following warrants during the year. All are outstanding on December 31, 2009.

Table 7

Name and Date	Nature of transaction	Terms	Number of 1/2 warrants	Potential number of common shares to be issued
Series A September 30, 2009	Private Placement	warrant to purchase common shares at $0.50 expire September 20, 2010	1,749,999	874,998
Series B December 29, 2009	Private Placement	warrant to purchase common shares at $0.65 expire December 22, 2010	2,777,777	1,388,887

[c] Stock options

Stock Option Plan

In 2008, CRS established a stock option plan for its directors, officers, employees and consultants. As a condition of the Qualifying Transaction, the CRS stock option plan was terminated. CRS employees who held stock options under the CRS stock option plan were issued 880,070 stock options in the Podium stock option plan. Two of the employees of CRS became officers and insiders of Podium. Included in the number of the stock options issued to the CRS employees were 228,532 stock options issued to each of the two officers.

On May 20, 2009, stock options to purchase a total of 50,000 common shares of the Company were granted to a new director of the Company. On August 31, 2009, stock options to purchase 50,000 common shares of the Company were granted to another director of the Company. Both grants of options to the directors expire fives after the date of the grant.

Table 7 is a summary of the Company's stock option activity during the year.

Table 8

	2009		2008	
	No. of shares	**Weighted average exercise price**	No. of shares	Weighted average exercise price
Outstanding, beginning of year	**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	**215,000**	**0.36**	1,450,553	0.30
Expired	**—**	**—**	—	—
Exercised	**(54,500)**	**0.30**	—	—
Outstanding, end of year	**1,705,436**	**$0.31**	1,450,553	0.30

Under the current stock option plan, the total number of common shares under stock options granted cannot exceed 10% of the common shares outstanding. As at December 31, 2009, the remaining number of common shares under stock options available to be granted under the plan was 1,088,099.

The following Table 8 summarizes information about options outstanding as at December 31, 2009.

Table 8

Range of exercise prices		Number outstanding	Weighted average remaining contractual life	Weighted-average exercise price
0.00	0.50	1,675,436	2.5 years	$0.30
0.51	0.75	30,000	4.9 years	$0.52
Total		1,705,436	2.5 years	$0.31

Agent's options and charitable options

On March 27, 2008, Podium completed an Initial Public Offering. The brokerage firm who acted as agent for Podium was granted 333,333 options to purchase shares of Podium at an exercise price of $0.30 with an expiry date of April 2, 2010. During 2009, 266,917 agent's options were exercised for gross proceeds equal to $80,093. The balance at the end of the period was 66,416.

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 (or on the 90th day from the date the charitable organization ceases to be an Eligible Charitable Organization as defined in the policies of the TSX Venture Exchange).

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

There were no transactions with related parties.

Subsequent Events

a) Subsequent to the end of the year, the following grant of stock option and issuances of common shares occurred:

1. 7,500 stock options were issued to three employees at an exercise price per common share equal to $0.44.
2. 66,007 agent's options were exercised for the issuance of 66,007 common shares with gross proceeds equal to $19,802.
3. 404,596 stock options were exercised for the issuance of 404,596 common shares with gross proceeds equal $121,379. Fifty-thousand (50,000) of the stock options exercised subsequent to the year end were exercised by an officer and insider of the Company.

b) Renewal of facility lease

Subsequent to the end of the year, the lease was renewed for a period from April 1, 2010 through July 31, 2013 at the rate of $3,831 per month (previously $3,600 per month). The Company also has an option that expires June 1, 2010, on a second unit in the same facility at a rate of $1,315 per month for the period from August 1, 2010 through July 31, 2013.

c) Contribution Agreement with the Southern Ontario Development Corporation ("SODC")

Subsequent to the year end, the Company signed a Contribution Agreement ("CA") with the SODC, a Crown Corporation of 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, 2010 to March 1, 2016. No interest is payable on the outstanding balance the contribution amount. No assets of the Company currently owned or to be acquired under the CA will be pledged as security.

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 the contingent liability becomes know to the Company.

Proposed Transactions

CRS is not a party to any proposed transaction, with the exception of expansion plans mentioned above, that may have an effect on the financial condition, results of operations or cash flows of the Company; or, involve assets or business acquisitions or dispositions.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's audited Financial Statements for the year ended December 31, 2009 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. A summary of the critical accounting policies is as follows:

Revenue recognition

The Company's accounting treatment by type of revenue is as follows:

Revenue from sales of child safety systems, LED lighting products manufactured by the Company and lighting products bought and re-sold by the Company are recognized when the products are shipped by the Company to the customer and collectability is reasonably assured. Ownership transfers at the point of shipment from the Company's plant.

The Company manufactures custom light circuit boards based on designs from a specific customer. Customers send parts to the Company to manufacture LED light circuit boards. The costs of the parts supplied by the customer are not recorded in the Company's accounts. Revenues are recognized when the products are shipped to the customer and collectability is reasonably assured. Ownership transfers at the point of shipment from the Company's plant.

Inventory

Inventory is recorded at the lower of actual cost, based on a first-in first out basis, and the estimated net realizable value based on current selling prices less the cost to convert the product to a saleable basis. The cost of finished goods inventory consists of raw materials, in-coming freight, duty, brokerage and non-recoverable taxes, and the cost to convert the raw materials to saleable products. Conversion costs include variable manufacturing expenses and fixed manufacturing overhead costs.

Research and development costs

Research and development costs are charged to expenses as incurred, net of related tax credits, unless a development project meets the Canadian GAAP criteria for deferral and amortization. Research and development costs include the following direct operating expenses: salaries and benefits, administration, contracting, consulting and professional fees.

Development costs are capitalized for clearly defined, technically feasible technologies which management intends on producing and promoting to an identified future market with existing or estimated future resources. The Company annually evaluates deferred development costs to consider whether these costs continue to meet criteria for deferral. Amortization of development costs commence at the start of commercial production of the product. Costs are amortized on a straight-line basis over a five year period based on recoverability of unamortized deferred development costs.

Impairment of long-lived assets

Long-lived assets, which comprise product development costs, equipment, furniture and leaseholds and assets under capital leases, are reviewed for impairment at least annually or if events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverability of long-lived assets is determined by evaluating whether the carrying value of such assets can be recovered from estimated undiscounted future operating cash flows. If the sum of the undiscounted future cash flows expected from use and the residual value is less than the carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its fair value.

Foreign currency translation

The Company's functional currency is the Canadian dollar, which it also uses as its reporting currency.

Transactions denominated in currencies other than the functional currency are recorded in the functional currency using the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rate. Exchange gains and losses are included in the statement of operations for the year.

Stock-based compensation

The Company applies the fair value method of accounting for its stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option pricing model. The fair value of all stock options granted is recorded as a charge to operations and a credit to contributed surplus over the period the stock options vest. Any consideration paid upon exercise of stock options is recorded as an increase in share capital and the recorded fair value of the related stock option is reclassified from contributed surplus to share capital.

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 the purchase of equipment and other expenditures. The Company recognizes government assistance on an accrual basis when all requirements to earn the assistance have been completed and receipt is reasonably assured. Government grants relating to capital expenditures are reflected as a reduction of the cost of such assets. Government grants relating to operating expenses are reflected as a reduction of the expense.

Accounting policy changes including initial adoption

Effective January 1, 2009, the Company adopted the following sections of the Handbook of the Canadian Institute of Chartered Accountants ("CICA"):

(a) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064 "Goodwill and intangible assets", replacing Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning January 1, 2009. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this section had no material impact on the financial statements.

(b) EIC-173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The adoption of this EIC had no material impact on the financial statements.

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 second 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 identified key internal personnel with expertise to manage its transition to IFRS. The Corporation will develop an IFRS changeover plan, which will includes a detailed timeline for assessing, resourcing, training and analyzing key differences, along with selecting accounting policies under IFRS and IFRS 1 exemptions. 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

CRS is not a party to any financial instrument, as the term is defined in National Instrument 51-102F1, paragraph 1.14.

Risk Factors

Risks Related to CRS' Business

Failure of Business Strategy

There is no assurance that CRS' business strategy will succeed. The success of CRS' business strategy will depend on a number of factors. There is no assurance that CRS will be able to achieve its planned growth, that modifications to its strategy will not be required or that CRS will be able to effectively manage expanded operations and enhance profitability.

CRS has only recently begun the implementation of its business model involving the LED MR16, the LED PAR lamps, street lighting and contract manufacturing. CRS has a limited history of operations under this business model and upon which investors may base an assessment of its potential. There is no assurance that CRS' business model and proposed operations will be successful or that CRS will meet its stated business objectives.

Reliance on Channel Partners

CRS relies, in part, on channel partners as agents and distributors to expand distribution channels for its products and to grow its sales in indoor lighting, PAR lamps, street lighting and contract manufacturing. Failure by channel partners to expand CRS' customer and product base may have a material adverse effect on CRS' operating results. In the last two years, CRS has expanded into new business channels that are different from those that CRS has historically operated in. If CRS is unable to penetrate these new distribution channels to ensure its products are reaching the appropriate customer base, CRS' financial results may be impacted. In addition, if CRS successfully penetrates these new distribution channels, it cannot guarantee that customers will accept its products or that it will be able to manufacture and deliver them in the timeline established by its customers.

Management of Growth

CRS may face challenges managing its growth. CRS has experienced a period of significant growth over the past year that may challenge its management and other resources. CRS is also in the process of expanding its business to include additional product lines. In order to manage growth and change in business strategy effectively, CRS will continue to: expand sales, marketing and distribution; implement and improve operating and information technology systems; maintain adequate manufacturing facilities and equipment to meet customer demand; maintain a sufficient supply of component parts to support its growth; expand the skills and capabilities of current management team; add experienced senior level managers; attract and retain qualified people with experience in engineering, design, sales and marketing; and recruit and retain qualified manufacturing employees.

CRS expects to spend substantial amounts of money in supporting its growth and may have additional unexpected costs. CRS may not be able to expand quickly enough to exploit potential market opportunities. CRS' future operating results will also depend on expanding sales and marketing, research and development and administrative functions. If CRS cannot attract qualified people or manage growth and change effectively, its business, results of operations and financial condition could be adversely affected.

Strategic Opportunities

CRS will evaluate strategic opportunities available to it for product, technology or business acquisitions. If CRS chooses to make acquisitions, it will face certain risks, such as failure of the acquired business to meet CRS' performance expectations, diversion of management attention, retention of existing customers of its current and acquired business, and difficulty in integrating the acquired business's operations, personnel and financial and operating systems into its current business. CRS may not be able to successfully address these risks. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any acquisition could adversely affect CRS' business, results of operations and financial condition.

Risks Related to CRS' Operations

Fluctuation of Operating Results and Margins

CRS has experienced significant fluctuation in revenue, earnings and margins over the past three years, and it may experience significant fluctuations in revenue, earnings and margins in the future. Historically, the prices of LED products have declined based on market trends. CRS attempts to maintain its margins by constantly developing improved or new products, which provide greater value and result in higher prices, or by lowering the cost of its existing LED products. If CRS is unable to do so, its margins will decline. CRS' operating results and margins may vary significantly in the future due to many factors, including the following: average sales prices for its products declining at a greater rate than anticipated; fluctuations in foreign currency as more of its revenue may be in U.S. dollars; ability to develop, manufacture and deliver products in a timely and cost-effective manner; variations in the amount of usable product produced during manufacturing; ability to improve yields and reduce costs in order to allow lower product pricing without margin reductions; increased reliance on and ability to ramp up capacity at its production facility; ability to ramp up production of new products; ability to produce higher brightness and more efficient LED products that satisfy customer design requirements; ability to continue improving current products and develop new products to specifications that meet the evolving needs of customers; changes in demand for products and customers' products that may cause fluctuations in revenue and possible inventory obsolescence; raw material price fluctuations, including certain commodities consumed in the production process; effects of an economic slowdown on both consumer and non-consumer spending on products that incorporate CRS' products; changes in the competitive landscape, such as inventions of new technology, availability of higher brightness LED products, higher volume production and lower pricing from competitors; changes in the mix of products CRS sells, which may vary significantly; product returns or exchanges due to quality-related matters or improper use of products; changes in purchase commitments permitted under the contracts with large customers; changes in production capacity and variations in the utilization of that capacity; disruptions of manufacturing that could result from fire, flood, drought or other disasters, particularly in the case of the single production facility; changes in legislation, regulations, or tax or accounting rules or changes in their interpretation; and costs to protect the intellectual property rights. These or other factors could adversely affect CRS' future operating results and margins.

Additional Financing Requirements and Access to Capital

CRS currently relies on revenue and borrowings to fund its daily operations and activities. If CRS is unable to generate sufficient operating cash flow or is unable to secure adequate debt or equity financing to cover its operating requirements, CRS' financial position may deteriorate. In addition, CRS may seek to obtain additional funds through a variety of sources including public or private equity or debt financing. There is no assurance that additional funding will be available if required, or that CRS will be able to establish any necessary banking arrangements or credit facilities, on acceptable terms or at all.

Reliance on Key and Qualified Personnel

CRS currently relies on its management team to oversee its core research, marketing, business development, operational and financing activities. If CRS loses the services of any of its management team and is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of CRS may be materially adversely affected. The successful implementation of the business plan also depends on the identification, engagement, training and retention of qualified inside sales, marketing communications and pre-sales engineering personnel. Failure to obtain and retain such qualified personnel may have an adverse impact on CRS' business, financial condition and results of operations.

Competition

The LED lighting market is highly competitive and has evolving technology standards. Competition is expected to intensify with increasing demand for LED products in the marketplace and government support of the industry. CRS' success will depend, among other things, upon the establishment of the CRS brand and the demonstration to customers of the benefits of CRS' products. There is no assurance that other companies with greater financial and technological resources will not develop a similar business model with greater perceived benefits or that CRS will be able to compete successfully against existing competitors or future entrants into the market. These competitors may reduce average sales prices faster than CRS' cost reduction, and competitive pricing pressures may accelerate the rate of decline of CRS' average sales prices. Therefore, CRS' ability to provide higher performance LEDs at lower costs will be critical to its success. Competitors may also try to align with some of CRS' strategic customers. This could mean lower prices for CRS' products, reduced demand for its products and a corresponding reduction in CRS' ability to recover development, engineering and manufacturing costs. Competitors also could invent new technologies that may make CRS' products obsolete. Any of these developments could have an adverse effect on CRS' business, results of operations and financial condition.

Intellectual Property

CRS' intellectual property consists of "know-how". CRS also keeps various trade secrets regarding its technology, marketing and other business operations. While CRS makes every effort to manage this information properly, there is no assurance that this information will not enter the public domain. Any unanticipated leak of such information or improper use of such information by a third party could have a material adverse effect on CRS' business, financial condition and results of operations.

CRS is in the process of applying for patents and may seek patent protection for its technology in the future. The patent protection that CRS may obtain for its technology may not be adequate. If CRS is unable to maintain protection from direct competition or if its patents are ineffective, CRS' business, financial condition and results of operations could be materially adversely affected.

In the future, CRS may have to defend against potential litigation in connection with intellectual property rights, which will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which will adversely affect CRS' results of operation and financial position unless covered by insurance or recovered from third parties.

Risks Related to CRS and its Business Generally

Credit risk

The Company is exposed to credit risk in the event of non-performance to pay outstanding trade accounts receivable. One customer that represents 26.4% of accounts receivable at period end (56.1% - December 31, 2008). 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 following is an aging of trade accounts receivable:

	Current	30-60 days	60-90 days	Over 90 days	Total
Year ended December 31, 2009	$200,458	$93,640	$38,893	$28,530	$361,521
Year ended December 31, 2008	$95,747	$29,739	$54,879	$32,047	$212,412

Foreign Currency Risk

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. CRS has not entered into any foreign currency derivative financial instruments; however, it may choose to do so in the future in an effort to manage or hedge the foreign exchange rate risk.

International Sales

CRS is subject to risks related to international sales. CRS expects that revenue from international sales will continue to represent the majority of its total revenue. International sales are subject to a variety of risks, including risks arising from currency fluctuations, tariffs, trade barriers, collection issues and taxes. International sales are subject to variability as prices become less competitive in countries with currencies that are low or are declining in value against the Canadian dollar and more competitive in countries with currencies that are high or increasing in value against the Canadian dollar. In addition, international sales are subject to numerous Canadian and foreign laws and regulations, including, without limitation, regulations relating to import-export control, and technology transfer restrictions. If CRS fails to comply with these laws and regulations, it could be liable for administrative, civil or criminal liabilities, and in the extreme case, its export privileges could be suspended, which could have a material adverse effect on CRS' business.

Rising Fuel Costs

CRS requires fuel in production and for transportation of purchased parts and shipments to customers. Fuel costs contribute to an increasing portion of CRS' operating costs and adversely impacted CRS' level of profitability. CRS will need to adopt measures to decrease the impact of high fuel costs. CRS may be able to reduce inbound freight costs by ordering parts in larger volumes. CRS also plans to ship to regional fulfillment centers in volume for distribution locally.

LED Diode Manufacturers Producing End Products

Currently, very few LED diode manufacturers produce lighting products or LED light engines. The diode manufacturers sell batches of lights to LED engine manufacturers, who in turn sell the LED light engine to fixture manufacturers. A trend is emerging that LED diode manufacturers are developing LED light engines for direct sale to LED fixtures manufacturers, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. In addition, LED diode manufacturers are producing fully equipped fixtures to the end users. CRS can deal with this risk by producing low cost, high quality light engines and end user fixtures. CRS is positioning itself, through vertical marketing, to end user industry sectors.

Customers Producing Own LED Light Engines

Existing or future customers may decide to produce LED light engines for their own products, which may reduce CRS' market share and materially adversely affect CRS' business, financial position and results of operation. The risk may not be that significant due to the complexity of the manufacturing and assembly of light engines. In addition, a customer's volume may not justify the equipment and tooling costs.

Development and Acceptance of New Products

CRS' operating results are substantially dependent on the development and acceptance of new products based on CRS' technology. CRS' future success may depend on its ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. CRS must introduce new products in a timely and cost-effective manner, and it must secure production orders for those products from its customers. The development of new products is a highly complex and lengthy process. The successful development and introduction of these products depends on a number of factors, including the following: achievement of technology breakthroughs required to make commercially viable devices; the accuracy of predictions of market requirements and evolving standards; acceptance of new product designs; acceptance of new technology in certain markets; availability of qualified research and development personnel; timely completion of product designs and development; ability to expand sales and influence key customers to adopt CRS' products; ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales; CRS' customers' ability to develop competitive products incorporating its products; and acceptance of CRS' customers' products by the market. If any of these or other factors become problematic, CRS may not be able to develop and introduce these new products in a timely or cost-effective manner.

Expansion Into New Markets

As a result of CRS' entry into and continued expansion into new markets, such as LED MR16 sales, its traditional customers may reduce orders. Through organic growth, CRS has moved into and continues to expand in new markets, such as LED MR16 and LED streetlights, where some of its current customers may now perceive CRS as a competitor. In response, CRS' customers may reduce their orders for CRS' products. This reduction in orders could occur faster than CRS' sales growth in these new markets, which could adversely affect CRS' business, results of operations and financial condition.

Market Share

Although the emerging and rapidly expanding LED lighting market holds significant opportunities, there is no assurance that CRS will achieve adequate market presence or market share required to achieve profitable operations.

Sourcing Automation Equipment

CRS requires equipment to reduce manpower costs per unit. If suitable equipment is not located, CRS can mitigate the risk by using additional manpower. CRS will need to control costs in the other areas of the manufacturing process to offset the additional manpower costs.

Customer Demand and Capacity

CRS' results of operations, financial condition and business would be harmed if it were unable to balance customer demand and capacity. As customer demand for CRS' products, particularly new products, changes, CRS must be able to ramp up or adjust its production capacity to meet demand. CRS will be taking steps to address its manufacturing capacity needs for its products. If CRS is not able to increase its capacity or if CRS increases its capacity too quickly, its business and results of operations could be adversely impacted. If CRS experiences delays or unforeseen costs associated with adjusting its capacity levels, it may not be able to achieve its financial targets.

Production Yields

Variations in CRS' production yields impact CRS' ability to reduce costs and could cause margins to decline and operating results to suffer. All of CRS' products are manufactured using technologies that are highly complex. The number of usable items, or yield, from the production processes may fluctuate as a result of many factors, including but not limited to the following: variability in the process repeatability and control; contamination of the manufacturing environment; equipment failure, power outages or variations in the manufacturing process; lack of consistency and adequate quality and quantity of piece parts; losses from human errors; defects in packaging; and any transitions or changes in the production process, planned or unplanned.

If the yields decrease, CRS' costs could increase, CRS' margins could decline and CRS' operating results would be adversely affected. In the past, CRS has experienced difficulties in achieving acceptable yields on new products, which has adversely affected its operating results. CRS may experience similar problems in the future and it cannot predict when they may occur or their severity. In some instances, CRS may offer products for future delivery at prices based on planned yield improvements. Reduced yields or failure to achieve planned yield improvements could continue to significantly affect CRS' margins and operating results.

Reliance on Suppliers

CRS relies on a few key suppliers for certain components, services and equipment used in manufacturing its products, including key materials and equipment used in critical stages of CRS' manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to three months or longer. Where possible, CRS is attempting to identify alternative sources for suppliers. CRS generally purchases these items with purchase orders, and has limited guaranteed supply arrangements with such suppliers. CRS does not control the time and resources that these suppliers devote to CRS' business and it cannot be sure that these suppliers will perform their obligations to CRS. In the past, CRS has experienced decreases in its production yields when suppliers have varied from previously agreed upon specifications that have impacted CRS' cost of sales. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent CRS from meeting commercial demand for its products. If CRS loses key suppliers, the key suppliers are unable to support CRS' demand or CRS is unable to identify and qualify alternative suppliers, CRS' manufacturing operations could be interrupted or hampered significantly.

Government Funding

If government agencies discontinue or curtail their funding for CRS' research and development programs, CRS' business may suffer. Historically, government agencies have funded a significant portion of CRS' research and development activities. When the government changes budget priorities, CRS' funding has the risk of being redirected to other programs. If government funding is discontinued or reduced, CRS' ability to develop or enhance products could be limited, and its business, results of operations and financial condition could be adversely affected.

Customer Satisfaction

If CRS' products fail to perform or meet customer requirements, CRS could incur significant additional costs. The manufacture of products involves highly complex processes. CRS' customers specify quality, performance and reliability standards that CRS must meet. If CRS' products do not meet these standards, CRS may be required to replace or rework the products. In some cases, CRS products may contain undetected defects or flaws that only become evident after shipment. CRS has experienced product quality, performance or reliability problems from time to time. Defects or failures may occur in the future. If failures or defects occur, CRS could: lose revenue; incur increased costs, such as warranty expense and costs associated with customer support; experience delays, cancellations or rescheduling of orders for its products; write down existing inventory; or experience product returns.

Taxes

Changes in CRS' effective tax rate may have an adverse effect on its results of operations. CRS' future effective tax rates may be adversely affected by a number of factors including: changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles; the jurisdiction in which profits are determined to be earned and taxed; the resolution of issues arising from tax audits with various authorities; changes in the valuation of deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development; and changes in available tax credits.

Any significant increase in future effective tax rates could adversely impact net income for future periods. In addition, the determination of income tax provision requires significant judgment. To the extent CRS' income tax liability materially differs from CRS' income tax provisions and accruals due to factors, including the above, that were not anticipated at the time CRS estimated its tax provision, its net income or cash flows could be adversely affected.

Catastrophic Events

Catastrophic events or geo-political conditions in North America may disrupt CRS' business. A disruption or failure of CRS' systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack or other catastrophic event could cause delays in completing sales or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption to the supply chain or any of the critical business or information technology systems could severely affect CRS' ability to conduct normal business operations and, as a result, CRS' operating results could be adversely affected. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could result in an adverse effect on CRS' business and results of operations.

Schedule 1

CRS ELECTRONICS INC.
Condensed Balance Sheets

As at December 31	**2009**	2008
ASSETS		
Current Assets		
Cash and cash equivalents	**$913,557**	$10,512
Accounts receivable	**391,219**	203,870
Income taxes receivable	**40,404**	127,414
Inventory	**414,386**	281,316
Deposits and prepaid expenses	**47,747**	590
	1,807,313	623,702
Long-term Assets		
Equipment, furniture and leaseholds	**402,013**	230,206
Assets under capital leases	**14,167**	10,624
Deferred development costs	**333,356**	119,063
Deferred transaction costs	—	27,438
	$2,556,849	$1,011,033
LIABILITIES		
Current liabilities		
Bank indebtedness	**$—**	$296,391
Accounts payable and accrued liabilities	**375,403**	640,006
Customer Deposits	**3,408**	20,411
Notes payable	**204,559**	—
Current portion of long-term debt	**51,926**	52,793
Current portion of capital lease obligations	**6,785**	4,972
	642,081	1,014,573
Long-term liabilities		
Long-term debt	**75,173**	56,867
Capital lease obligations	**5,200**	5,565
Future taxes payable	—	4,707
	722,454	1,081,712
SHAREHOLDERS EQUITY (DEFICIT)		
Share capital	**2,646,577**	150,100
Warrants	**198,129**	—
Contributed surplus	**209,159**	—
Retained deficit	**(1,219,470)**	(220,779)
	1,834,395	(70,679)
	$2,556,849	$1,011,033

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