

**CRS ELECTRONICS INC.**

**FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2010 and 2009**

**CRS ELECTRONICS INC.**

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December 31, 2010

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## Independent Auditors' Report

To the Shareholder of  
CRS Electronics Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of CRS Electronics Inc., which comprise the balance sheets as at December 31, 2010 and December 31, 2009, and the statements of operations and comprehensive loss, statements of cash flows and statements of shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CRS Electronics Inc. as at December 31, 2010 and December 31, 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: "**MSCM LLP**"

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
April 28, 2011

**CRS ELECTRONICS INC.**

## Balance Sheets

As at December 31

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 338,180	\$913,557
Accounts receivable (Note 4)	703,841	391,219
Government incentives receivable (Note 14)	147,902	40,404
Inventory (Note 5)	552,689	414,386
Deposits and prepaid expenses	85,896	47,747
	<u>1,828,508</u>	<u>1,807,313</u>
<b>Long-term assets</b>		
Equipment, furniture and leaseholds (Note 6)	670,270	416,180
Patents and trademarks (Note 7)	203,546	—
Deferred development costs (Note 8)	656,420	333,356
	<u>\$ 3,358,744</u>	<u>\$2,556,849</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 9)	\$ 282,153	\$ —
Accounts payable and accrued liabilities	559,373	378,811
Notes payable (Note 10)	38,171	204,559
Current portion of long-term debt (Note 11)	76,549	51,926
Current portion of capital lease obligations (Note 12)	4,418	6,785
	<u>960,664</u>	<u>642,081</u>
<b>Long-term liabilities</b>		
Long-term debt (Note 11)	320,497	75,173
Capital lease obligations (Note 12)	782	5,200
	<u>1,281,943</u>	<u>722,454</u>
<b>Commitments and contingencies (Note 20)</b>		
<b>Subsequent events (Note 21)</b>		
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 15)	3,970,534	2,646,577
Shares to be issued (Note 15)	10,000	—
Warrants (Note 15)	246,980	198,129
Contributed surplus (Note 15)	488,933	209,159
(Deficit)	(2,639,646)	(1,219,470)
	<u>2,076,801</u>	<u>1,834,395</u>
	<u>\$3,358,744</u>	<u>\$2,556,849</u>

Nature of operations (Note 1)

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

APPROVED BY THE BOARD OF DIRECTORS:

Signed "Scott Riesebosch" DirectorSigned "Jason Sparaga" Director

**CRS ELECTRONICS INC.**

## Statements of Operations and Comprehensive Loss

	Years ended	
	December 31,	
	2010	2009
<b>SALES (Note 17)</b>	<b>\$3,145,425</b>	<b>\$2,532,115</b>
Cost of sales	2,466,993	1,889,964
<b>GROSS PROFIT</b>	<b>678,432</b>	<b>642,151</b>
<b>EXPENSES</b>		
Engineering, research and development	46,048	18,097
Sales and marketing	504,232	476,968
General and administrative	1,293,212	864,154
Stock-based compensation (Note 15)	152,342	212,849
SRED refundable tax credits and grant funding	(14,823)	(551)
Foreign exchange losses (gains)	28,036	(12,498)
Interest on short-term debt	23,097	57,520
Interest and accretion on long-term debt	21,911	9,083
Loss on sale of equipment	6,070	—
Amortization	38,483	19,927
	<b>2,098,608</b>	<b>1,645,549</b>
(LOSS) BEFORE INCOME TAXES	(1,420,176)	(1,003,398)
FUTURE INCOME TAX RECOVERY (Note 13)	—	4,707
<b>NET (LOSS) AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(\$1,420,176)</b>	<b>(\$998,691)</b>
(Loss) per share - basic and fully diluted	(\$0.05)	(\$0.05)
Weighted average number of common shares outstanding - basic and fully diluted	<b>29,575,997</b>	<b>20,895,813</b>

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

**CRS ELECTRONICS INC.**

## Statements of Cash Flows

	Years ended	
	December 31	
	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net (loss) for the year	(\$1,420,176)	(\$998,691)
Items not affecting cash		
Stock-based compensation	152,342	212,849
Amortization of product development costs	51,480	40,395
Impairment loss on product development costs	40,501	—
Amortization	178,578	87,726
Accretion expense	3,965	—
Future income tax recovery	—	(4,707)
Loss on sale of capital assets	6,070	—
	<b>(987,240)</b>	<b>(662,428)</b>
Net change in non-cash working capital items relating to operating activities		
Accounts receivable	(312,622)	(187,349)
Government incentives receivable	(107,498)	87,010
Inventory	(138,303)	(133,070)
Deposits and prepaid expenses	(38,149)	(47,157)
Prepaid transaction costs	—	27,438
Accounts payable and accrued liabilities	180,562	(281,524)
	<b>(1,403,250)</b>	<b>(1,197,080)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment, furniture, and leaseholds	(445,052)	(254,877)
Proceeds on sale of capital assets	6,315	844
Patent and trademark costs	(203,546)	—
Deferred development costs	(415,044)	(254,689)
Cash (used in) investing activities	<b>(1,057,327)</b>	<b>(508,722)</b>
<b>FINANCING ACTIVITIES</b>		
Long-term debt advances, net of repayments	265,980	18,203
Line of credit (repayment)	282,153	(296,391)
Advances (to) shareholder	—	(765)
Capital lease obligation repayments	(6,785)	(7,674)
Note payable advances, net of repayments	(166,388)	204,558
Issuance of common shares in Qualifying Transaction	—	678,408
Issuance of common shares and warrants	1,510,240	2,012,508
Cash provided by financing activities	<b>1,885,200</b>	<b>2,608,847</b>
Net (decrease) increase in cash and cash equivalents	<b>(575,377)</b>	<b>903,045</b>
Cash and cash equivalents, beginning of year	<b>913,557</b>	<b>10,512</b>
Cash and cash equivalents, end of year	<b>\$ 338,180</b>	<b>\$913,557</b>
The following cash flows are included in operating activities:		
Income taxes (paid) refunded	\$ —	\$88,624
Interest (paid)	(\$41,043)	(\$66,603)

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

**CRS ELECTRONICS INC.**

## Statements of Shareholders' Equity (Deficiency)

As at December 31, 2010

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
<b>Balance, December 31, 2008</b>	<b>\$ 150,100</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$(220,779)</b>	<b>\$(70,679)</b>
Net (loss) for the year	—	—	—	(998,691)	(998,691)
Issuance of common shares and warrants	2,012,508	—	—	—	2,012,508
Value attributed to warrants on private placement	(198,129)	198,129	—	—	—
Issuance of common shares in Qualifying Transaction	678,408	—	—	—	678,408
Stock based compensation	—	—	212,849	—	212,849
Transfer from contributed surplus on exercise of stock options	3,690	—	(3,690)	—	—
<b>Balance, December 31, 2009</b>	<b>2,646,577</b>	<b>198,129</b>	<b>209,159</b>	<b>(1,219,470)</b>	<b>1,834,395</b>
Net (loss) for the year	—	—	—	(1,420,176)	(1,420,176)
Issuance of common shares and warrants	1,500,240	—	—	—	1,500,240
Shares to be issued	10,000	—	—	—	10,000
Value attributed to warrants on private placements	(246,980)	246,980	—	—	—
Value attributed to expired warrant subscriptions	—	(184,426)	184,426	—	—
Stock based compensation	—	—	152,342	—	152,342
Transfer from contributed surplus on exercise of stock options	56,994	—	(56,994)	—	—
Transfer from warrants on exercise	13,703	(13,703)	—	—	—
<b>Balance, December 31, 2010</b>	<b>\$3,980,534</b>	<b>\$246,980</b>	<b>\$488,933</b>	<b>\$(2,639,646)</b>	<b>\$2,076,801</b>

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

## **1. NATURE OF OPERATIONS**

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

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

### **Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and expressed in Canadian dollars unless otherwise noted.

On May 20, 2009 Podium Capital Corporation (“Podium”) and CRS Electronics Inc. (the “Company” or “CRS”) completed a Qualifying Transaction as defined in and 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 shareholders’ equity accounts as at May 19, 2009 of Podium represented the gross proceeds of the issuance of common shares. A statutory amalgamation of Podium and CRS was completed effective September 1, 2009 and the sole continuing corporation was named CRS Electronics Inc.

### **Measurement uncertainty**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include, but are not limited to, the composition of future income tax assets and related valuation allowance, the allowance for doubtful accounts receivable, the allowance for obsolete inventory, the valuation of deferred development costs, the valuation of patents and trademarks, and the valuation of options and warrants issued. Actual results may differ from these estimates.

The Black-Scholes option pricing model used by the Company to determine fair values of options and warrants was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. Given the nature of the Company and the relatively small but volatile stock trading, which impacts the assumptions required to be used in the model, there can be significant variation in the estimate of the fair value of the options.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Revenue recognition**

The Company’s accounting policy for each 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 lighting boards based on designs from a specific customer. Customers send parts to the Company to manufacture LED lighting 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.

**Cash and cash equivalents**

Cash includes cash on hand and when applicable short-term, highly liquid deposits with original maturities of less than 90 days at the date of acquisition. The composition of cash and cash equivalents at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Cash	<b>\$338,180</b>	\$163,557
Term deposit	—	750,000
	<b><u>\$338,180</u></b>	<b><u>\$913,557</u></b>

**Inventory**

Inventory is recorded at the lower of actual cost, based on a first-in first out basis, and 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### Equipment, furniture and leaseholds

Equipment, furniture and leaseholds are stated at cost, which is defined as the cost of the assets, taxes, freight-in and installation costs, and are amortized using the methods and rates that follow:

Office furniture and equipment	20% diminishing balance
Vehicles	30% diminishing balance
Production equipment	20% diminishing balance
Computer equipment	30% diminishing balance
Computer software	30% diminishing balance
Tools, moulds and dies	3 years straight-line
Leasehold improvements	5 years straight-line

### Patents and trademarks

Patents and trademarks are stated at cost, which primarily consist of legal costs in relation to their applications. Patents and trademarks are amortized using the straight-line method over the estimated useful life thereof.

### 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 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, patents and trademarks, equipment, furniture and leaseholds 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### 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.

### Loss per share

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.

### 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.

### Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

### 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.

### Financial instruments

The Company has classified its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, notes payable and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

### 3. NEW ACCOUNTING PRONOUNCEMENTS

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

In February 2008 the Canadian Accounting Standards Board (“AcSB”) announced that 2011 is the changeover date for publicly-listed companies to replace Canadian GAAP with IFRS. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The conversion to IFRS will impact the Company’s accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company has developed and is implementing a plan to convert its financial statements to IFRS. As part of this plan, the Company is in the process of assessing the differences between IFRS and the Company’s current accounting policies, as well as alternatives available upon adoption. The Company has not fully quantified the effect of adopting IFRS.

### 4. ACCOUNTS RECEIVABLE

As at December 31, 2010 and 2009.

	<b>2010</b>	2009
Trade accounts receivable	<b>\$701,638</b>	\$361,521
Other receivables	<b>10,000</b>	3,092
HST recoverable	<b>3,561</b>	36,606
Allowance for doubtful accounts	<b>(11,358)</b>	(10,000)
	<b><u>\$703,841</u></b>	<u>\$391,219</u>

A bus manufacturer based in the United States represents 18.5% of the trade accounts receivable on December 31, 2010,(26.4% on December 31, 2009).

A reconciliation of the allowance for doubtful accounts is as follows:

	<b>2010</b>	2009
Opening balance	<b>\$10,000</b>	\$29,000
Provision for impairment of accounts receivable	<b>1,358</b>	10,000
Bad debt recoveries	<b>-</b>	(29,000)
Closing balance	<b><u>\$11,358</u></b>	<u>\$10,000</u>

**5. INVENTORY**

As at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Raw materials	\$ 304,727	\$ 169,816
Finished goods	199,796	211,536
Inventory in transit	48,166	21,993
Sample inventory	-	11,041
	<u>\$ 552,689</u>	<u>\$ 414,386</u>

During the year ended December 31, 2010, the Company recorded inventory write-downs of \$15,791 (2009 – \$59,467) and made no reversals of previous inventory write-downs.

**6. EQUIPMENT, FURNITURE AND LEASEHOLDS**

As at December 31, 2010

	Annual Depreciation Rates	Asset at Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	20%	\$ 79,284	\$ 36,490	\$ 42,794
Tools, moulds and dies	33% S.L.	163,395	74,975	88,420
Computer equipment	30%	58,175	20,252	37,923
Computer software	30%	54,471	31,140	23,331
Vehicles	30%	17,454	17,161	293
Production equipment	20%	659,635	296,554	363,081
Assets under capital lease	Various	21,399	11,207	10,192
Leasehold improvements	20% S.L.	154,503	50,267	104,236
		<u>\$ 1,208,316</u>	<u>\$ 538,046</u>	<u>\$ 670,270</u>

As at December 31, 2009

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

**6. EQUIPMENT, FURNITURE AND LEASEHOLDS - CONTINUED**

The Company wrote off \$31,460 of fully amortized computer equipment in 2010 since these pieces of equipment were no longer in service.

Amortization of equipment, furniture and leaseholds and amortization of assets under capital leases was reported on the Statement of Operations and Comprehensive Loss as follows:

	Year ended December 31,	
	2010	2009
Cost of sales	\$ 140,095	\$ 67,799
Amortization expense	38,483	19,927
	<u>\$ 178,578</u>	<u>\$ 87,726</u>

**7. PATENTS AND TRADEMARKS**

The cost for the applications of patents and trademarks in relation to the products of the Company incurred in 2010 was \$203,546 (2009 - \$Nil). These applications were pending for approval as at December 31, 2010 and there was no indication that such approval would be declined. No amortization has been taken to date.

**8. DEFERRED DEVELOPMENT COSTS**

As at December 31, 2010

	Asset at Cost	Accumulated Amortization	Net Book Value
Product development	\$ 761,525	\$ 105,105	\$ 656,420

As at December 31, 2009

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

Deferred development costs are amortized over five years from the time the product is ready for sale. During the year ended December 31, 2010, amortization expense of \$51,480 (2009 - \$40,395) was recorded. In addition, an impairment loss of \$40,501 was recorded as non-recoverable deferred development costs charged to cost of sales.

**9. BANK INDEBTEDNESS**

Bank indebtedness as at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Operating line of credit	<u>\$ 282,153</u>	<u>\$ —</u>

The Company has an operating line of credit in the amount of \$320,000.

The operating line of credit (and certain long-term debt, see Note 11) is secured by a general security agreement, representing a first and fixed floating charge over the assets and undertakings of the Company, assignment of adequate public liability and fire insurance, acknowledging the Credit Union Syndicate, a creditor, as first loss payees and a personal guarantee by two of the shareholders and officers in the amount of \$200,000. Interest is charged on a monthly basis at a rate of prime plus 1.5% per annum. The prime rate at December 31, 2010 was 3% (2009 – 2.25%).

**10. NOTES PAYABLE**

As at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Supplier loan for tooling - non-interest bearing, payable when certain parts are shipped. The final payment was made in March, 2010.	\$ —	\$ 32,252
Extended payments on debt with a law firm - non-interest bearing, 12 monthly payments on principal equal to \$15,513 commencing August 27, 2009 maturing July 29, 2010.	—	124,100
Settlement on a debt with a consultant - non-interest bearing, with the remaining principal repayments of \$10,500 per month to December 15, 2009. The final payment on the note was made in January 2010.	—	10,500
Settlement on a debt with a past employee - non-interest bearing, principal repayments of \$9,461 per month to May 7, 2010. The final payment was made in May 2010.	—	37,707
Extended payments on insurance – bearing interest at 15.95% per annum with 10 monthly payments of \$493 commencing May 30, 2010 maturing February 29, 2011.	967	—
Extended payments on insurance – bearing interest at 4.988% per annum with 10 monthly payments of \$6,149 commencing August 16, 2010 maturing May 16, 2011.	30,364	—
Extended payments on insurance – bearing interest at 4.988% per annum with 10 monthly payments of \$1,385 commencing August 20, 2010 maturing May 20, 2011.	6,840	—
	<u>\$ 38,171</u>	<u>\$ 204,559</u>

**11. LONG-TERM DEBT**

As at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
PenFinancial Credit Union - Prime plus 2% payable in blended monthly installments of \$3,844, due October, 2010	\$ —	\$ 29,419
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of \$1,038, maturing March 29, 2012	<b>16,199</b>	26,680
PenFinancial Credit Union - 8% interest, payable in blended monthly installments of \$1,440, maturing December 20, 2014	<b>59,015</b>	71,000
PenFinancial Credit Union - 9% interest, payable in blended monthly installments of \$3,921, maturing June 14, 2015	<b>173,662</b>	-
Advances received under the Southern Ontario Development Plan (SODP) as described in detail (Note 14) below.	<b>148,170</b>	-
	<b>397,046</b>	127,099
Less principal due within one year	<b>(76,549)</b>	<b>(51,926)</b>
	<b>\$ 320,497</b>	<b>\$ 75,173</b>

The PenFinancial loans (and the operating line of credit, see Note 9) are secured by a registered general security agreement, representing a first fixed and floating charge over the assets and undertakings of the Company. There is also a personal guarantee for \$200,000 executed by two shareholders and officers of the Company.

The principal amounts due in each of the next five years are as follows:

2011	\$ 76,549
2012	79,390
2013	83,946
2014	91,142
2015	57,109
Thereafter	8,910
	<u>\$ 397,046</u>

**12. OBLIGATIONS UNDER CAPITAL LEASES**

The following is a schedule of minimum lease payments under the capital leases expiring in 2011 and 2012, together with the balance of the obligation:

Years ending	2011	\$ 5,111
	2012	<u>798</u>
		5,909
Less: amount representing interest at 12%		<u>(709)</u>
		5,200
Less: current portion		<u>(4,418)</u>
		<u>\$ 782</u>

**13. FUTURE INCOME TAXES**

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory rate of 30% (2009 - 31%) to the amount recognized in the Statement of Operations and Comprehensive Loss:

	<u>2010</u>	<u>2009</u>
Loss before recovery of income taxes	\$ (1,420,176)	\$ 1,003,398
Expected income tax recovery	\$ (426,053)	\$ (311,053)
Permanent differences	63,862	1,287
Tax rate changes and other adjustments	117,205	73,355
Effects of research and development and other credits	12,795	(75,584)
Increase in valuation allowance	<u>232,191</u>	<u>307,288</u>
Income tax recovery reflected in the Statement of Operations	<u>\$</u>	<u>\$ (4,707)</u>

The Company's income tax (recovery) is allocated as follows:

Current tax expense	\$	—	\$	—
Future tax recovery		—		<u>(4,707)</u>
	<u>\$</u>	—	<u>\$</u>	<u>(4,707)</u>

The Company's future income tax assets and liabilities as at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Non-capital losses	\$ 511,479	\$ 325,249
Capital assets and assets under capital lease	15,253	16,267
Deferred charges	(33,169)	(83,692)
Share issue costs	37,322	39,373
Other	-	1,497
	<u>530,885</u>	<u>298,694</u>
Valuation allowance	<u>(530,885)</u>	<u>(298,694)</u>
Net future tax assets (liability)	<u>\$ -</u>	<u>\$ -</u>

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

2027	\$ 264,420
2028	232,494
2029	409,545
2030	<u>1,139,458</u>
	<u>\$ 2,045,917</u>

**14. GOVERNMENT INCENTIVES RECEIVABLE**

The Scientific Research and Experimental Development Tax Credits (“SRED”), offered by the Government of Canada and the Innovation Tax Credits (“ITC”) offered by the Ontario Provincial Government are awarded for expenditures on research and development. The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development 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 in the current and future periods. The Company continues to file for both the SRED and ITC. A valuation allowance for the SRED tax credit receivable is provided for until such time that the Company is reasonably certain the benefit of the SRED tax credit will be realized.

During fiscal 2010, the Company incurred \$667,054 of qualifying expenditures under the Southern Ontario Development Corporation (SODP) program. As a result of these expenditures the Company received a non-interest bearing advance of \$180,334 during the year and an additional \$309,011 subsequent to year end. The difference between the fair value of the loan and the loan proceeds amounted to \$90,217, of which \$54,088 is considered receivable at December 31, 2010 and has been recorded as a government grant. As a result of the recognition of the government grant, the cost of equipment, furniture and leasehold improvements has been reduced by \$38,066, deferred development costs have been reduced by \$24,210 and the cost of patents and trademarks has been reduced by \$6,464.

As at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Ontario Innovation Tax Credit	\$ 93,814	\$ 40,404
Scientific Research and Experimental Development Tax Credit	160,694	76,862
Valuation allowance	(160,694)	(76,862)
SODP program grant receivable	54,088	-
	<u>\$ 147,902</u>	<u>\$ 40,404</u>

The SRED and ITC amounts claimed represent management’s best estimate based on research and development costs incurred. Realization is subject to government approval. Any adjustment to the amounts claimed will be recognized in the year in which the adjustment occurs.

**15. SHARE CAPITAL**

**Shares**

**Authorized**

Unlimited number of common shares

**Issued and outstanding**

31,140,078 common shares

The common share transactions over the year are as follows:

	Number of shares	Amount
Balance December 31, 2008	37,666,667	\$ 150,100
Common shares of CRS Electronics Inc. redeemed in exchange for common shares of Podium Capital Corporation	(37,666,667)	—
Common shares of Podium Capital Corporation issued for common shares of CRS Electronics Inc.	15,887,427	—
Common shares issued in the Qualifying Transaction	6,648,667	678,408
Issuance of common shares for cash	5,399,253	1,814,379
Transfers from contributed surplus on exercise of options	—	3,690
Balance December 31, 2009	27,935,347	2,646,577
Issuance of common shares for cash	<b>3,204,731</b>	<b>1,253,260</b>
Transfers from contributed surplus and warrants on exercise of options and warrants	—	<b>70,697</b>
Balance December 31, 2010	<b>31,140,078</b>	<b>\$3,970,534</b>

**Shares to be issued**

20,000 common shares

	Number of shares	Amount
Balance December 31, 2010	<b>20,000</b>	<b>\$ 10,000</b>

**[a] Common stock**

**Issuance of common shares for cash:**

Exercise of agents options

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

Exercise of stock options

During the year, 750,945 common shares were issued through the exercise of stock options under the Employee Stock Option Plan at a price of \$0.30 per common share for gross proceeds of \$225,281.

## 15. SHARE CAPITAL - CONTINUED

### [a] Common stock, continued

#### Exercise of warrants

During the year, 403,333 common shares were issued through the exercise of warrants at a price of \$0.50 per common share for gross proceeds of \$201,667. The 20,000 common shares to be issued at December 31, 2010 were part of this exercise of warrants.

#### Private Placement May 20, 2009

In conjunction, and, conditional on closing the Qualifying Transaction, by way of a private placement, the Company issued 550,000 common shares at \$0.30 per share for total gross proceeds equal to \$165,000. A director of the Company subscribed for 50,000 of these common shares. The common shares were restricted from trading until September 19, 2009.

#### Private Placement September 30, 2009

The Company completed a private placement of 1,749,999 common share units for aggregate gross proceeds of \$525,000. The units were comprised of one common share and one half warrant and the units were issued at a price of \$0.30 per unit. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.50 per common share no later than September 30, 2010. The warrants are not registered for trading and all common shares issued directly or through the exercise of warrants are restricted from trading until February 1, 2010. The private placement was a non-brokered private placement, but, a finders' fee equal to \$2,500 was paid to an agent not related to the Company. Other closing costs for legal expenses and filings fees were \$9,578.

The value of the warrants, net of an allocation of the closing costs, were determined to be \$29,727 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 75.0%, risk-free interest rate of 1.3% and an expected life of 1 year.

#### Private Placement December 29, 2009

The Company completed a private placement of 2,777,777 common share units for aggregate gross proceeds of \$1,250,000. The units were comprised of one common share and one half warrant and the units were issued at a price of \$0.45 per unit. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.65 per common share no later than December 22, 2010. The warrants are not registered for trading and all common shares issued directly or through the exercise of warrants are restricted from trading until April 24, 2010. No commissions or finders' fees were paid on the transaction. Closing costs for legal expenses and filings fees were \$11,857.

The value of the warrants, net of an allocation of the closing costs, were determined to be \$168,402 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 73.1%, risk-free interest rate of 1.42% and an expected life of 1 year.

## 15. SHARE CAPITAL - CONTINUED

### [a] Common stock, continued

#### Private Placement July 15, 2010

The Company completed a private placement financing and issued 2,004,446 units at a price of \$0.55 per unit for gross proceeds of \$1,102,445. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.70 per common share no later than July 5, 2012. The warrants are not registered for trading and all common shares issued through the exercise of warrants before November 6, 2010 were restricted from trading until that date. The private placement was a non-brokered private placement, but, a finders' fee equal to \$33,000 was paid to an agent not related to the Company. Other closing costs for legal expenses and filings fees were \$5,955.

The value of the warrants, net of an allocation of the closing costs, were determined to be \$246,980 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%, expected volatility of 119%, risk-free interest rate of 1.41% and an expected life of 2 years.

### [b] Warrants

#### **Series A warrants**

On September 30, 2009, the Company issued 1,749,999 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitled the holder to acquire one common share upon payment of \$0.50 per common share no later than September 30, 2010. The warrants were not registered for trading and all common shares issued through the exercise of warrants were restricted from trading until February 1, 2010. As at September 30, 2010, 806,666 half-warrants were exercised. The remaining warrants expired.

#### **Series B warrants**

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

#### **Series C warrants**

On July 5, 2010 the Company issued 2,004,446 common share units. The units were comprised of one common share and one half-warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.70 per common share no later than July 5, 2012. The warrants are not registered for trading and all common shares issued through the exercise of warrants before November 6, 2010 were restricted from trading until that date. As at December 31, 2010, 2,004,446 half-warrants, entitling the warrant holders to purchase 1,002,223 common shares, are outstanding.

**15. SHARE CAPITAL - CONTINUED****[c] Stock options****Employee Stock Option Plan**

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

A summary of the Company's stock option activity during the years ended December 31, 2010 and December 31, 2009 is as follows:

	2010		2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	1,705,436	\$0.31	1,450,553	\$0.30
Cancellation of CRS employee options	—	—	(1,450,553)	0.30
Replacement options to CRS employees	—	—	880,070	0.30
Podium stock options	—	—	664,866	0.30
Granted	340,833	0.59	215,000	0.36
Exercised	(750,945)	0.30	(54,500)	0.30
Outstanding, end of period	1,295,324	\$0.38	1,705,436	\$0.31

Stock options granted during the year vest after a four month period. At the time of grant the stock options are valued using the Black-Scholes option pricing model. On January 4, 2010, three employees were issued 2,500 stock options each with an exercise price of \$0.59 per share. The stock options were valued using the following rates and assumptions: dividend yield, 0%; risk-free rate of return, 2.52%; expected volatility, 81%; expected life, 5 years.

On September 1, 2010, 300,000 stock options were granted at a price of \$0.59 each. These options were valued using the following rates and assumptions: dividend yield, 0%; risk-free rate of return, 2.1%; expected volatility, 116%; expected life, 5 years.

During 2010, a former employee of the Company was granted an additional 33,333 options with an exercise price of \$0.30 each, which he exercised in the same year.

The remaining number of options available to be granted under the plan is 1,818,684.

**15. SHARE CAPITAL - CONTINUED**

**[c] Stock options, continued**

The following table summarizes information about options outstanding as at December 31, 2010:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
<b>\$0.30 - \$0.50</b>	965,324	33 months	\$0.31
<b>\$0.51 - \$0.70</b>	330,000	52 months	\$0.58
<b>Total</b>	<b>1,295,324</b>	<b>38 months</b>	<b>\$0.38</b>

**Agent's options and charitable options**

On April 1, 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 266,977 agent's options were exercised for gross proceeds equal to \$80,093. During 2010, 66,007 agent's options were exercised for gross proceeds equal to \$19,802. The remaining 349 options expired unexercised on April 2, 2010.

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

**[d] Contributed surplus**

Contributed surplus was generated from issuing stock-based awards to employees and consultants and from the expiry of warrants associated with the common share units. The changes in contributed surplus during the year were comprised of the following:

	<b>2010</b>	2009
Opening Balance	<b>\$ 209,159</b>	\$ —
From the granting of employee stock options	<b>152,342</b>	212,849
Transfers to common stock on exercise of options	<b>(56,994)</b>	(3,690)
Transfers from expired warrants	<b>184,426</b>	—
Closing Balance	<b>\$ 488,933</b>	\$ 209,159

## **16. CAPITAL MANAGEMENT**

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

The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. In the future, the Board of Directors will review on a quarterly basis the level of dividends paid to the Company's shareholders and monitor all other capital management activities. The Company has margin requirements on its operating line and certain long-term debt that may require increases in capital. As at December 31, 2010 the Company had drawn \$282,153 on the line of credit (2009 - \$Nil) and is in compliance with its reporting requirements.

## **17. ECONOMIC DEPENDENCE**

The Company has one customer that accounted for 27.6% of sales during the year ended December 31, 2010 (2009 - 39.6%).

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

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

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.

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

As of December 31, 2010, the carrying amounts of cash and bank indebtedness, accounts 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 long-term debt approximates carrying value as the instruments bear interest at market rates.

## **19. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. There have been no changes in the risks, objectives, policies and procedures during the year ended December 31, 2010.

**19. FINANCIAL INSTRUMENTS RISK EXPOSURE AND RISK MANAGEMENT - CONTINUED**

**[a] Credit risk**

The Company is exposed to credit risk in the event of non-performance to pay outstanding trade accounts receivable. One customer represents 18.5% of accounts receivable at December 31, 2010 (2009 - 26.4%). The Company has purchased insurance from the Export Development Corporation to mitigate 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
<b>Year ended December 31, 2010</b>	<b>\$336,113</b>	<b>\$253,383</b>	<b>\$63,948</b>	<b>\$48,194</b>	<b>\$701,638</b>
Year ended December 31, 2009	\$200,458	\$ 93,640	\$38,893	\$28,530	\$361,521

**[b] Interest rate risk**

The Company is exposed to interest rate risk related to its short-term credit facilities since the interest rate charged on these facilities fluctuates with the general level of interest rates.

	2010	2009
Bank indebtedness	<b>\$ 282,153</b>	\$ -

A 5% change in the average interest rate during the year would have a \$14,108 effect on the net loss and comprehensive loss.

**[c] Foreign currency risk**

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

Cash	<b>\$ 297,809</b>
Trade accounts receivable	<b>\$ 252,589</b>
Trade accounts payable	<b>(\$ 189,806)</b>

A 10% change in the closing exchange rate between the Canadian and U.S. dollars would have a \$36,100 effect on the net loss and comprehensive loss, in Canadian dollars. The Company does not hedge its U.S. exchange rate risk.

**20. COMMITMENTS AND CONTINGENCIES**

The Company has the following commitments outstanding:

- a) The Company leases its premises under a lease agreement that expires July 31, 2013 at a rate of \$5,146 per month.

## 20. COMMITMENTS AND CONTINGENCIES - CONTINUED

b) The Company leases a photocopier requiring quarterly payments of \$2,009 until June 2011.

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

## 21. SUBSEQUENT EVENTS

a) Subsequent to the end of the year the Company received a refund of \$33,279 from Canada Revenue Agency with respect to the reassessment of the period ended May 19, 2009 after acceptance of Scientific Research and Experimental Development Tax Credits ("SRED").

b) During 2010, the Company received \$180,334 from its 1<sup>st</sup> and 2<sup>nd</sup> funding applications to the Southern Ontario Development Corporation (SODP). Subsequent to the year-end, the Company received \$309,011 in respect of its 3<sup>rd</sup> and 4<sup>th</sup> funding applications thereto. The Company also filed its 5<sup>th</sup> and final claim for \$177,709. Total anticipated funding is \$667,054, increasing the amount repayable to SODP in 2011 (Note 11). No payments are required until April 1, 2011. The contribution amount is then repayable in 60 equal monthly payments from April 1, 2011 to March 1, 2016. While no interest is payable on the outstanding balance, the loan is presented at fair value (Note 14).

c) Subsequent to the year-end, the Company signed an exclusive license agreement with Eveready Battery Company, Inc. (the "Exclusive Agreement"), a subsidiary of Energizer Holdings, Inc., for the Company to manufacture a suite of LED lighting products under the brand name Energizer. The term of the Exclusive Agreement is from January 1, 2011 to December 31, 2015.

In accordance with the Exclusive Agreement, the minimum guaranteed royalty over the term thereof is as follows:

<u>Year</u>	<u>Minimum Guaranteed Royalty</u>
2011	\$ 157,000
2012	\$ 274,000
2013	\$ 539,000
2014	\$ 688,000
2015	\$ 760,000

d) On April 28, 2011 the Company closed a brokered private placement equity financing issuing 9,379,156 units at a price of \$0.55 per unit for gross proceeds of \$5,158,535. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share upon payment of \$0.65 per common share no later than April 28, 2014 subject to acceleration of the expiry date if the 20 day volume weighted average trading price of the common shares of the Company is greater than \$1.00. The warrants are not registered for trading and all common shares issued through the exercise of warrants before August 28, 2014 will be restricted from trading until that date.

## 22. COMPARATIVE FINANCIAL STATEMENTS

Certain amounts reported for the year ended December 31, 2009 have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.