

CRS Electronics Inc.

Management Discussion and Analysis

**Fourth Quarter and Year Ended
December 31, 2010**

April 28, 2011

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 year ended December 31, 2010. This discussion and analysis should be read in conjunction with the Audited Financial Statements and related notes as at and for the year ended December 31, 2010. Reference should also be made to CRS's filings with Canadian securities regulatory authorities that are available at www.sedar.com.

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

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

Forward-Looking Information

The statements made in this MD&A, particularly those in the "Outlook" section that are not historical facts contain forward-looking information that involves risk and uncertainties. All statements, other than statements of historical facts, which address CRS's expectations, should be considered forward-looking statements. Such statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as contained in the Company's filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. The forward-looking statements made in this MD&A describe our expectations as at April 28, 2010.

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

Overview

For over 12 years, CRS has been a developer and manufacturer of 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 LEDs created an opportunity for CRS to supply LED based indoor and outdoor lighting. Throughout 2007 to 2010 inclusive, CRS expended a significant amount of time and capital to develop the LED MR16 halogen bulb replacement and to develop an LED streetlight engine. In 2010, to compliment the LED MR16 the Company developed an LED PAR series of interior lights.

CRS is currently focused on the introduction of its LED MR16 and LED PAR lights to the North American interior light replacement market. LED lighting products save energy, have attractive economic benefits and are good for the environment. CRS' 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. Market penetration by LED lights in both the indoor and outdoor general lighting market is less than 1%. Over the next few years, management believes that LED lighting products will gain market share. CRS continues to supply LED bus lights and LED light circuit boards for use in a variety of products such as LED road signs, accent lighting, tower warning lights, and vehicle warning lights to name a few. As CRS' customer's market share grows for their respective products, CRS believes their revenue from contract assembly will increase accordingly.

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

Highlights for the Year

CRS continues to execute on its strategic and operational initiatives:

The Company achieved record revenues for the year of \$3.1 million, an increase of 24 % over the prior year's \$2.5 million.

The Company realised total unit sales of 41,600 this year, an increase of 140% over the prior year. These results were supported by the success of the MR 16 product line which sold 33,700 units this year, an increase of 260% over 2009 volumes.

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

The Company signed a contribution agreement with the Southern Ontario Development Corporation (SODC) for a no interest, 6 year unsecured loan.

During the year the Company completed a private placement financing for gross proceeds of \$1.1 million. Additional proceeds of \$0.2 million were received from the exercise of warrants.

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.

FISCAL 2010

Sales Objectives

1. 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. By CRS estimates, there are over 40,000,000 halogen MR16s installed in commercial buildings in the United States. Our goal is to ship 20,000 LED MR16s in any one quarter in fiscal 2010. Shipments over the last eight quarters have been as follows:

	2010 Q4	2010- Q3	2010- Q2	2010- Q1	2009- Q4	2009- Q3	2009- Q2	2009- Q1
MR16 units	15,010	7,258	8,642	2,816	2,577	3,512	2,540	720

2. PAR replacement lamps

In 2010, the Company set a goal of developing LED versions of PAR 20, PAR 30 and PAR 38 replacement lamps. The target market for the LED PAR series of lamps is the same market as LED MR16 lamps. The PAR series of lamps compliments MR16 sales and represents a significantly larger replacement market in commercial facilities. Management estimates the installed base of conventional PAR lamps in commercial facilities in the United States to be approximately 400,000,000 lamps. The market penetration of the LED versions of PAR lamps is less than 1%. CRS's goal was to ship its first order of PAR lamps by the fourth quarter of 2010. CRS expects that PAR lights will commence deliveries in the 3rd quarter of 2011.

3. LED outdoor lighting market

With respect to outdoor lighting, CRS set a similar sales objective to be one of the top three suppliers of LED streetlights in North America. To accomplish this objective, CRS supplied LED light engines for the use in decorative streetlights. CRS has conceptual designs for the cobra head style light. Approximately 131,000,000 streetlights are installed in the United States. A milestone will be the market introduction and sale of the CRS cobra head LED light. In 2009, CRS set a target to sell 3,500 LED streetlights during the second quarter of 2010. The Company did not achieve this objective as Municipalities and Government facilities are slower to adopt LED technology than originally anticipated. The launch of streetlights has been deferred to 2013.

4. Bus light business and contract LED light board manufacturing

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

Annual sales of bus lighting are down \$ 90,700 or 7.2% vs. the same period last year as a result of budget constraints in school districts across the USA, CRS' primary market for these products.

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. CRS set an objective of increasing contract manufacturing revenues by 15% compared to 2009.

Sales of contract manufactured goods totalled \$500,000, a decrease of 28% compared to 2009. This segment is not a primary focus for CRS, however CRS continues to develop new applications with its partners.

Product Development Objectives and Milestones**1. Product cost reduction**

The first major objective in the area of product development is to further develop the LED MR16 to enable CRS to reduce the cost thereof, and allow CRS to reduce the end user selling price. Due in part to the high quality of the light generated by its current MR16 models, CRS is successfully selling its current MR16 product, however management expects the product's price point to increasingly factor into buying decisions as the Company targets a larger market. To compete with lower cost imports, CRS is working on product modifications and implementing cost reductions that are expected to result in a version of the LED MR16 which will allow for a lower selling price to take effect in the second quarter of 2011.

2. PAR lamp

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

3. Design and build LED outdoor lighting

The third product development objective is to complete the design, build a prototype, test and develop the manufacturing methods for outdoor LED lighting. The development will include intelligence in the light such as remote sensing, security features and other attributes in the operations of the LED light engine. The Company received a loan from the SODP to help finance the development of outdoor LED lighting products. Development of the outdoor LED lighting has been delayed to allow CRS' development team to dedicate time to the LED MR16 and LED PAR lamps. Also management believes that the penetration of LED streetlights into the conventional streetlight market will occur slowly in Canada with no significant penetration occurring until 2013.

Production Objectives and Milestones

1. CRS' first production objective was 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 required additional production management staff, additional production staff, staff training and production equipment. An Equipment Loan Facility from PenFinancial and the loan from the Southern Ontario Development Corporation (SODP) has enabled CRS to purchase the required manufacturing equipment. The first milestone was to install the production equipment during the third quarter of 2009. The second milestone was to have the ability to produce 40,000 LED MR16's, and to meet the needs of its contract customers and bus light customers during the

first quarter of 2010. The installation of the production equipment was delayed until subsequent quarters and successfully completed in 2010.

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Sales Objectives

1. Retail LED Sales

CRS' first sales objective is launch its retail strategy under the Energizer Licensing agreement. This objective incorporates a) the creation of 2-3 select partnerships with top brand retail stores for distribution of the lamps, b) successfully launch a North American marketing campaign in Q3 of 2011, followed by c) a product roll out into select top brand retail chain stores. The target sales volume during the 2011 roll out is \$2 million with significantly higher sales anticipated in 2012 (the first full year of product roll out).

2. Commercial LED Sales

CRS's second sales objective is achieve \$ 3 million in sales through its existing sales and distribution channels. The sales target include a mix of the existing high output LED MR16, the new lower cost LED MR16, and the PAR series of lamps (20, 30 and 38).

3. Bus light business and contract LED light board manufacturing

CRS continues to commit itself to its partners in these sectors and to developing new LED applications. While these market sectors have been through difficult economic times and continue to be constrained by budget cut-backs, CRS is targeting sales of \$1.6 million in the coming year.

Product Development Objectives and Milestones

1. Product cost reduction

CRS expects continued demand for a lower cost offering for customers who do not feel that they require the high light output provided by CRS's premier MR16 model. The first major objective in the area of product development is to finalize development on the low cost LED MR16 and GU10 models while maintaining CRS's high standard of lighting quality. The target completion date is in the second quarter of 2011.

2. Expand versatility of LED interior lamp

While researching its entry into the retail sector CRS's marketing group encountered strong consumer confidence with the Energy Star certification for selection of sound, energy efficient products. Additionally the market encompasses a much larger array of fixtures with product colour requirements outside of the standard black ICELED product. The second major objective is to achieve Energy Star approval for the full CRS product line and to broaden the LED MR16, GU10, and PAR lamp series appeal. The objective is to be met by the third quarter of 2011.

3. Design and build LED outdoor lighting

The third product development objective is to complete the design, build a prototype, test and develop the manufacturing methods for outdoor LED lighting. 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. Research is scheduled to begin in the fourth quarter of 2011.

Production Objectives and Milestones

1. Expand production capacity

CRS expects that the Energizer brand products will surpass the existing capacity of \$12,000,000 to \$15,000,000 as we enter 2012. Accordingly, a second assembly line and enhanced SMT equipment is planned to double this capacity by the 4th quarter of 2011.

2. Automate packaging process

The second major objective in the area of manufacturing is the automation of product packing to enable an in-line process that packs and skids finished goods at the point of assembly completion.

Outlook

CRS continues to see significant opportunities for increased sales growth. 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 in commercial sector.

CRS anticipates its superior retail suite of LED lighting products, marketed under the brand name Energizer, will grow rapidly as consumers embrace the long life and eco-friendly nature of LED lighting.

Selected Annual Financial Information

Twelve months ended December 31,	2010	2009	2008
Revenues	\$3,145,425	\$2,532,115	\$2,288,382
Gross Profit	\$678,432	\$642,151	\$709,330
Net Loss	(\$1,420,176)	(\$998,691)	(\$231,369)
Loss per share	(\$0.05)	(\$0.05)	(\$0.01)
Current assets	\$1,828,508	\$1,807,313	\$623,702
Total assets	\$3,358,744	\$2,556,849	\$1,011,033
Current liabilities	\$960,664	\$642,081	\$1,014,573
Total liabilities	\$1,281,943	\$722,454	\$1,081,712
Shareholders' equity (deficit)	\$2,076,801	\$1,834,395	(\$70,679)

Performance of CRS

Key performance indicators

The key performance indicators for CRS are revenue growth, gross profit, EBITDA, net income, and increasing patent protection on intellectual property.

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. “Quarterly Results” presents the Company’s results for the last eight quarters, followed by a comparison of the Company’s fiscal year to the prior year.

Quarterly Results

<i>In Thousands of dollars</i>	Fiscal 2010				Fiscal 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	\$905.9	\$704.4	\$881.3	\$653.8	\$572.1	\$878.7	\$651.3	\$430.0
Gross profit	\$121.3	\$190.9	\$231.9	\$134.3	\$101.4	\$227.5	\$190.5	\$122.8
<i>Gross profit %</i>	13.4%	27.1%	26.3%	20.5%	17.7%	25.9%	29.2%	28.6%
Select expenses								
Selling and marketing	83.9	97.8	208.5	114.0	130.9	191.2	86.2	68.6
General and administrative	316.1	306.1	418.4	252.6	275.2	257.6	191.1	140.2
Engineering and research	45.1	(13.6)	13.2	1.4	5.5	4.8	4.0	3.9
Foreign exchange (gain) loss	17.3	14.5	(2.7)	(1.1)	0.9	9.4	(27.3)	4.5
Total expenses	462.4	404.8	637.4	366.9	412.5	463.0	254.0	217.2
Income (loss) from operations	(341.1)	(213.9)	(405.5)	(232.6)	(311.1)	(235.5)	(63.5)	(94.4)
Add back: Depreciation and amortization	110.3	58.3	41.5	28.9	25.5	30.6	32.3	19.8
EBITDA	(230.8)	(155.6)	(364.0)	(203.7)	(285.6)	(204.9)	(31.2)	(74.6)
Interest expense	(10.3)	(17.3)	(9.4)	(7.9)	(11.5)	(14.9)	(23.8)	(16.5)
Refundable tax credit income (expense)	(7.2)	4.3	13.8	3.8	(6.5)	(4.0)	2.1	8.9
Depreciation	(61.9)	(55.2)	(40.3)	(27.9)	(16.9)	(26.9)	(27.6)	(16.3)
Amortization of product development costs	(65.7)	(11.0)	(8.8)	(6.5)	(16.5)	(9.2)	(8.0)	(6.6)
Stock-based compensation	(149.5)	—	(2.9)	0.0	(28.6)	(6.0)	(178.3)	0.0
Gain (loss) on sale of capital assets	(5.0)	(3.0)	—	1.9	—	—	—	—
Income taxes recovery	—	—	—	—	4.7	—	—	—
Net (loss) income	(\$530.4)	(\$237.8)	(\$411.6)	(\$240.3)	(\$360.9)	(\$265.9)	(\$266.8)	(\$105.1)
Loss per share	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

Results of Operations

The following table sets out the Company's consolidated results for the year ended December 31, 2010 compared with the same period last year.

<i>In Thousands of dollars</i>	Year ended December 31		Increase (Decrease)	% Increase (Decrease)
	2010	2009		
Sales	\$3,145.4	\$2,532.1	\$613.3	24.2%
Gross profit	678.4	642.2	61.4	9.6%
<i>Gross profit percentage</i>	21.6%	25.4%		
Selling and marketing	504.2	477.0	27.2	5.7%
<i>As a % of sales</i>	16.0%	18.8%		
General and administrative	1,293.2	864.2	429.0	49.6%
<i>As a % of sales</i>	41.1%	34.2%		
Engineering and research	46.1	18.1		
Foreign exchange (gain) loss	28.0	(12.5)		
<i>Total operating expenses</i>	1,871.5	1,346.8		
<i>Income (loss) from operations</i>	(1,193.1)	(704.6)		
Add back depreciation and amortization	232.1	108.1		
EBITDA	(961.0)	(596.5)	(364.5)	(61.1%)
Interest expense	(45.0)	(66.6)		
Refundable tax credit income	14.8	0.6		
Depreciation	(178.6)	(87.7)		
Amortization of product development	(92.0)	(40.4)		
Stock-based compensation	(152.3)	(212.8)		
Gain (loss) on sale of capital assets	(6.1)	-		
Income taxes recovery	-	4.7		
Net loss	(\$1,420.2)	(\$998.7)	(421.5)	(42.2%)

Revenues

Revenues for the three months ended December 31, 2010 increased 58% to \$905,900 from \$572,100 for the same period in 2009. Revenue in the quarter from the LED MR16 sales increased 381% to \$627,600 from \$130,500 in 2009. Revenue from bus light sales during the fourth quarter of 2010 decreased 33% to \$163,100 from \$243,800 for the same period in 2009. Revenues from contract manufacturing for the quarter decreased 42% to \$115,300 from \$197,700 in 2009.

Revenues for the year ended December 31, 2010 increased 24.2% to \$3,145,400 from \$2,532,100 in 2009. Revenue in the year from the LED MR16 sales increased 180.6% to \$1,455,500 from \$518,700 in 2009. Revenue from bus light sales during the year ended December 31, 2010 decreased 7.2% to \$1,165,500 from \$1,256,200 for the same period in 2009. Revenues from contract manufacturing for the year 2010 were down 27.9% to \$524,400 from \$726,900 in 2009. Budget cut-backs and difficult economic conditions for manufacturers contributed to the decline in bus light and contract manufacturing sales.

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, 2010, gross profit percentage was 13.4% compared to 17.7% in the same period last year. For the year ended December 31, 2010, gross profit percentage was 21.6% compared to 25.4% in the same period last year. The decrease is primarily attributed to an increase in fixed plant expenses and depreciation and amortization charged to cost of sales. Amortization charges during the year include a \$40,501 (2009 - \$0) impairment loss on product development costs related to outdoor LED applications.

Selling and marketing expenses

For the three months ended December 31, 2010 selling and marketing expenses decreased 35.9% to \$83,883 from \$130,900 for the same period in 2009. The reduction results from a combination of Southern Ontario Development Corporation program support (SODP) of marketing initiatives and from the Company streamlining the number of trade shows it attends based on experience gained from the prior year.

For the year ended December 31, 2010 selling and marketing expenses increased 5.7% to \$504,232 from \$477,000 for the same period in 2009. During the year ended December 31, 2010, the Company incurred \$114,600 (2009 - \$44,700) in trade show costs and \$148,500 (2009 - \$37,100) in sales commissions. While the increase in selling and marketing expenses is significant, the Company believes that this investment is necessary to increase product and company awareness.

General and administrative expenses

For the three months ended December 31, 2010 general and administrative expenses increased 14.9% to \$316,100 from \$275,200 for the same period in 2009.

For the year ended December 31, 2010 general and administrative expenses increased 49.6% to \$1,293,200 from \$864,200 for the same period in 2009. During the year the Company incurred approximately \$40,000 in legal fees related to an investigation into internal share trading activities, and incurred a further approximate \$100,000 in costs related to the resignation of the former Chief Financial Officer after which costs returned to a normal level. Excluding \$140,000 of non-recurring costs incurred in during the year, the cost increases for the year are higher than those incurred during 2009 as the Company was a public company for a full year and incurred higher public company costs for insurance, audit and investor relations.

Engineering and Research

Research costs are expensed in the year the costs are incurred. When a product is likely to be commercially viable in the form developed, the costs to complete the development are capitalized on the balance sheet. When commercial sales begin the development costs are amortized over the expected life of the product. The Company is not incurring significant costs as most efforts are currently directed to product development projects. For the year ended December 31, 2010 net research and development expenses increased 64.3% to \$46,000 from \$28,000 for the same period in 2009.

Interest on Short-Term Debt

Interest on short-term debt decreased to \$(810) during the fourth quarter of 2010 from \$9,600 during the fourth quarter of 2009. For the year ended December 31, 2010 interest on short-term debt decreased to \$23,100 from \$57,500 for the same period last year. The decrease in the expense in 2010 from 2009 resulted from a decrease in the average credit card debt and bank operating loans.

Interest on Long-Term Debt

Interest on long-term debt increased to \$11,200 during the fourth quarter of 2010 from \$1,800 during the fourth quarter of 2009. For the year ended December 31, 2010 interest on long-term debt increased to \$21,900 from \$9,100 for the same period last year. The increase in the expense in 2010 from 2009 resulted from an increase in the average principal outstanding on long-term debt.

Depreciation

Depreciation increased to \$61,900 during the fourth quarter of 2010 from \$16,900 during the fourth quarter of 2009. For the year ended December 31, 2010 depreciation increased to \$178,600 from \$87,700 for the same period last year. The increase is related primarily to additional production equipment put into operation.

Amortization of Product Development Costs

The amortization expense increased to \$65,700 during the fourth quarter of 2010 from \$16,500 during the fourth quarter of 2009. During the 4th quarter, the Company amortized \$25,200 related to LED MR16, the G2Max bus safety light, and \$40,500 related to the write off of LED outdoor lights (no longer met capitalization criteria). For the year ended December 31, 2010 amortization expense increased to \$92,000 from \$40,400 for the same period last year. To December 31, 2010, CRS invested a gross amount of \$777,500 in deferred development costs for the development of the LED MR16 light, the LED streetlight, the PAR Series of indoor lights and the G2Max bus safety light.

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

The tax credits that relate to the deferred development costs are recorded on the balance sheet as a reduction of deferred development expenses. The tax credits that relate to research are recorded as a reduction in expenses on the statement of operations. The amount recorded as reduction to expenses for the three months ended December 31, 2010 was \$1,800 compared to \$6,500 in 2009. The amount for the year ended December 31, 2010 was \$14,823 compared to \$551 for the same period last year.

Foreign Exchange Losses

In any year CRS sells on average 76% 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, 2010, CRS incurred a foreign currency loss of \$17,300 compared to a loss of \$900 in 2009. For the year ended December 31, 2010, CRS incurred a foreign currency loss of \$28,000 compared to a gain of \$12,500 in 2009.

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

The negative EBITDA for the quarter ended December 31, 2010 was (\$230,800) compared to (\$285,600) for 2009. For the year ended December 31, 2010 negative EBITDA (\$954,100) compared to (\$596,300) or the same period in 2009. The increase in revenues in 2010 compared to 2009 did not offset the increase in selling and administrative costs.

Net losses

As a result of the above activities, the net loss for the quarter ended December 31, 2010 was (\$530,400), or (\$0.02) per share compared to a loss of (\$360,900), or (\$0.01) for the fourth quarter of 2009. For the year ended December 31, 2010 the net loss was (\$1,420,200), or (\$0.05) per share compared to a loss of (\$998,700), or (\$0.05) for the same period in 2009.

Liquidity and Capital Resources

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

<i>(in of Canadian dollars except for ratios)</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Current Ratio	1.9:1	2.8:1
Cash	\$338,180	\$913,557
Available operating line	\$37,847	\$320,000
Net Working Capital	\$867,844	\$1,165,232
Total Assets	\$3,358,744	\$2,556,849
Total Debt	\$1,281,943	\$722,454
Total Equity	\$2,076,801	\$1,834,395
Debt to Equity Ratio	.62:1	.39:1

Subsequent to the end of the year the Company received a refund of \$33,400 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”). Additionally, the Company received \$309,000 in respect of its 3rd and 4th funding applications to the Southern Ontario Development Corporation (SODP). The company also filed its 5th and final claim for \$177,000. Total anticipated funding is \$667,000 increasing the amount repayable to SODP in 2011. No payments are required until April 1, 2011. The contribution amount is then repayable in 60 equal monthly payments April 1, 2010 to March 1, 2016. No interest is payable on the outstanding balance of the contribution amount.

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

Cash Flows

During the quarter, CRS experienced negative cash flows used in operations of (\$47,800) compared to a negative cash flow of (\$239,200) in 2009. The change is primarily attributable to a reduction of accounts payable. The Company invested \$94,600 in equipment, development costs and patents in the quarter compared to \$271,900 in the prior year. The Company's various financing activities generated \$205,100 in cash flows for the quarter compared to \$1,240,300 in the same period last year.

During the year ended December 31, 2010, CRS experienced negative cash flows used in operations of (\$1,403,300) compared to a negative cash flow of (\$1,197,100) in 2009. The increase is primarily a result of higher net loss. The Company invested \$1,057,300 in equipment, development costs and patents in the same period compared to \$508,700 in the prior year. The significant increase is primarily a result of increasing production capacity. The Company's various financing activities generated \$1,885,200 in cash flows in the current year compared to \$2,608,800 in the same period last year.

Outstanding Share Data

As at December 31, 2010 and April 28, 2011 the Company had the following items issued and outstanding:

at December 31, 2010:

- Common shares 31,160,078
- Common share purchase warrants as follows:

Name and Issue Date	Expiry date	Terms	Number of ½ warrants	Number of common shares to be issued
Series C July 5, 2010	July 5, 2012	½ warrant to purchase common shares at \$0.70	2,004,446	1,002,223

- Stock options:

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

- Charitable options:

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

at April 28, 2011:

- Common shares 40,562,402
- Common share purchase warrants as follows:

Name and Issue Date	Expiry date	Terms	Number of ½ warrants	Number of common shares to be issued
Series C July 5, 2010	July 5, 2012	½ warrant to purchase common shares at \$0.70	2,004,446	1,002,223
Series D April 28, 2011	April 28, 2014*	½ warrant to purchase common shares at \$0.65	9,379,156	4,689,578

*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.

- Stock options:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.30	950,156	33 months	\$0.31
\$0.51	330,000	52 months	\$0.58
Total	1,280,156	38 months	\$0.38

- Charitable options:

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

- Agent options:

As compensation for services related to the April 28, 2011 offering, the Company issued a total of 530,022 non-transferable compensation options to the lead agent, each option entitles the agent to subscribe for one Unit at a price of \$0.55 until October 28, 2012.

Off-Balance Sheet Arrangement

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

Transactions with Related Parties

None.

Proposed Transactions

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

Subsequent Events

a) Subsequent to the end of the year the Company received a refund of \$33,400 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) Subsequent to the year-end, the Company received \$309,011 in respect of its 3rd and 4th funding applications to the Southern Ontario Development Corporation (SODP). The company also filed its 5th 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 April 1, 2010 to March 1, 2016. While no interest is payable on the outstanding balance, the loan is presented at fair value.

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

Subsequent Events, continued

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.

Critical Accounting Policies

This MD&A should be read in conjunction with the Company's audited Financial Statements for the year ended December 31, 2010 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.

Patent and trademark costs

The Company capitalizes patent and trademark costs as these costs are expected to benefit the Company over their useful life. Patent and trademark costs include primarily outside legal fees related to filings, searches and other work to establish a patent. Ongoing maintenance of patents is expensed as incurred. The Company annually evaluates patent and trademark costs to consider whether these costs continue to meet criteria for deferral. Amortization of patent and trademark costs commence at the start of the date that a patent or trademark becomes effective and runs for the life of the respective patent and trademark.

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.

International Financial Reporting Standards (“IFRS”)

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company’s first consolidated financial statements presented in accordance with IFRS will be for the three-month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

PHASE	DESCRIPTION AND STATUS
<p><i>PRELIMINARY PLANNING AND SCOPING</i></p>	<p>This phase involved development of an IFRS conversion plan and internal diagnostic review designed to understand, identify and assess the overall effort required to produce financial information under IFRS. The IFRS diagnostic review has been completed. This review included high level consideration of the impacts of IFRS on the Company’s consolidated financial statements, internal control over financial reporting and information systems.</p> <p>Based on management’s review of IFRS and current Company processes, minimal impact is expected on information systems.</p> <p>The IFRS diagnostic review included a high level impact assessment of IFRS effective in 2009, as relevant to the Company. This initial assessment identified standards of high or medium priority to the Company, including standards on foreign currency translation, income tax, stock-based compensation and first time adoption of IFRS. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company’s adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate. During the fourth quarter the Company determined that the transition to IFRS would result in one significant change to current financial statement presentation; under IFRS CRS’s functional currency will be the US dollar.</p>
<p><i>DETAILED IMPACT ASSESSMENT</i></p>	<p>This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company’s consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company’s conversion to IFRS. Management has completed its detailed component evaluation being the detailed review of IFRS relevant to the Company and identification of key differences.</p>

<i>IMPLEMENTATION</i>	This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective January 1, 2011. Management has identified adjustments under IFRS related to the computation of stock-based compensation, and foreign exchange adjustments related to functional currency considerations. The opening consolidated IFRS statement of financial position as at January 1, 2010 and as at December 31, 2010, as drafted by management, and using IFRS accounting policies, is being reviewed by the Company's external auditors. Management has also prepared draft shell interim consolidated financial statements which are being reviewed by the Company's external auditors.
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Financial Instruments and Other Instruments

The Company has various financial instruments comprising of cash and cash equivalents (bank indebtedness), accounts receivable, accounts payable and accrued liabilities, notes payable, 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.

Amounts 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, amounts receivable and accounts payable and accrued liabilities and notes payable equals fair market value due to the short-term nature of their maturities. The fair value of long-term debt approximates carrying value as the instruments bear interest at market rates.

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.

Management of Growth, continued

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.

Fluctuation of Operating Results and Margins, continued

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.

Intellectual Property, continued

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 and obligations, 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 represents 18.5% of accounts receivable at December 31, 2010 (26.4% - December 31, 2009). The Company has purchased insurance from the export development corporation to compensate for this risk in addition to monitoring the status of 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, 2010	\$336,113	\$253,383	\$63,948	\$48,194	\$701,638
Year ended December 31, 2009	\$200,458	\$93,640	\$38,893	\$28,530	\$361,521

Foreign Currency Risk

In any year CRS sells on average 76% 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.

Reliance on Suppliers, continued

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.

Taxes, continued

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.