

Consolidated Financial Statements of

PHOTON CONTROL INC.

For the three months ended March 31, 2010

(Unaudited)

NOTICE OF NO-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The Company’s external auditors, KPMG LLP, have not performed a review of these financial statements.

PHOTON CONTROL INC.

Consolidated Balance Sheets

March 31, 2010 and December 31, 2009

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,893 | \$ 12,955 |
| Trade accounts receivable and other | 2,112,687 | 1,445,416 |
| Note Receivable | 24,668 | 24,668 |
| Due from related party | 810,676 | 626,419 |
| Inventory (note 2(d)) | 1,352,330 | 1,103,914 |
| Prepaid expenses and deposits | 85,254 | 19,658 |
| | <u>4,399,508</u> | <u>3,233,030</u> |
| Property and equipment (note 2(e)) | 510,498 | 551,649 |
| Note Receivable - long term | 194,873 | 194,873 |
| Intangible assets (note 2(f)) | 182,755 | 189,766 |
| Deferred development costs (note 2(h)) | 189,938 | 189,938 |
| Long-term rental deposits | 48,544 | 48,544 |
| Restricted cash (note 6) | 102,890 | 102,890 |
| | <u>\$ 5,629,006</u> | <u>\$ 4,510,690</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,654,189 | \$ 1,626,085 |
| Due to related party | 217,617 | 30,971 |
| Credit facility (note 6) | 500,000 | 500,000 |
| Deferred revenue (note 2(g)) | 263,935 | 263,935 |
| | <u>2,635,741</u> | <u>2,420,991</u> |
| Other liabilities | 310,499 | 310,499 |
| Deferred rent and sublease deposits | 116,797 | 131,365 |
| Shareholders' equity | | |
| Share capital | 28,148,968 | 28,148,968 |
| Contributed surplus | 1,934,391 | 1,910,415 |
| Deficit | (27,517,390) | (28,411,548) |
| | <u>2,565,969</u> | <u>1,647,835</u> |
| Continuing operations (note 1) | | |
| Commitments and contingencies | | |
| Subsequent events | | |
| | <u>\$ 5,629,006</u> | <u>\$ 4,510,690</u> |

See accompanying notes to financial statements

Approved on behalf of the Board

"Christopher Weston"

Director

"David C. Dueck"

Director

PHOTON CONTROL INC.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

For the Periods Ended March 31, 2010 and 2009

| | Year | Year |
|---|-----------------|-----------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Revenue | \$ 3,620,427 | \$ 635,889 |
| Cost of sales | 2,051,993 | 336,650 |
| | 1,568,434 | 299,239 |
| Operating expenses (note 4) | | |
| General and administrative | 305,012 | 153,518 |
| Engineering Services | 199,966 | 225,807 |
| Business development and marketing | 41,870 | 32,862 |
| Amortization | 50,643 | 55,963 |
| | 597,491 | 468,150 |
| | 970,943 | (168,911) |
| Other earnings (expenses): | | |
| Interest and other earnings | 83 | - |
| Interest expense | (5,519) | (5,802) |
| Foreign exchange | (71,348) | 14,121 |
| | (76,784) | 8,319 |
| Net earnings and comprehensive income (loss) for the year | 894,158 | (160,592) |
| Deficit, beginning of year | (28,411,548) | (28,596,274) |
| Deficit, end of year | \$ (27,517,390) | \$ (28,756,866) |
| Basic and diluted gain / (loss) per share | \$ 0.01 | \$ (0.00) |
| Weighted average common shares, used in computing loss per share basic and diluted | 101,352,018 | 101,352,018 |

See accompanying notes to financial statements

PHOTON CONTROL INC.

Consolidated Statements of Cash Flows

For the Periods Ended March 31, 2010 and 2009

| | 2010 | 2009 |
|--|------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Profit (Loss) for the year | \$ 894,158 | \$ (160,592) |
| Non-cash items: | | |
| Amortization of property, equipment and intangibles | 50,643 | 55,963 |
| Amortization of stock-based compensation | 23,976 | 28,880 |
| Loss on disposal and impairment of assets | - | - |
| Amortization of deferred development costs | - | - |
| Deferred rent and sublease deposits | (14,567) | (15,428) |
| Changes in non-cash operating working capital: | | |
| Trade accounts receivable and other | (667,271) | 419,573 |
| Inventory | (248,416) | (109,566) |
| Prepaid expenses and deposits | (65,596) | 43,472 |
| Accounts payable and accrued liabilities | 28,103 | (323,631) |
| Net due from related party | 2,389 | (190,518) |
| Deferred revenue | - | - |
| | 3,419 | (251,847) |
| Investments: | | |
| Restricted cash | - | - |
| Purchase of equipment | (2,481) | (2,749) |
| Proceeds from disposal of equipment | - | - |
| Purchase of intangible assets | - | (9,556) |
| Deferred development costs | - | - |
| | (2,481) | (12,305) |
| Financing: | | |
| Advances under credit facility | - | 157,622 |
| Issuance of intercompany debt | - | - |
| Share issue costs | - | - |
| | - | 157,622 |
| Increase / (Decrease) in cash and cash equivalents | 938 | (106,529) |
| Cash and cash equivalents, beginning of year | 12,955 | 108,582 |
| Cash and cash equivalents, end of period | \$ 13,893 | \$ 2,053 |
| Supplementary information: | | |
| Cash received for interest | \$ 83 | \$ - |
| Cash paid for interest | (5,519) | (5,802) |
| Income taxes paid | - | - |
| Non-cash financing and investing activities: | | |
| Fair value of agent's warrants granted on share issuance | - | - |

See accompanying notes to financial statements

PHOTON CONTROL INC.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

1. Nature of and continuing operations:

Photon Control Inc. (the Company) is incorporated under the laws of British Columbia. Photon Control commercializes and manufactures innovative optical sensor systems capable of use by customers in a variety of sectors. On August 17, 2000, the Company completed an initial public offering of its common shares, which are listed on the TSX Venture Stock Exchange under the trading symbol PHO. In 2002, the Company changed its name from Coldswitch Technologies Inc. to Photon Control Inc.

During the three months ended March 31, 2010, the Company had net income of \$894,158 and in the three months ended March 31, 2009, the Company had incurred a loss of \$160,592. At March 31 2010, the Company had an accumulated deficit of \$27,517,390 (2009 - \$28,756,866).

These financial statements have been prepared by management on a going-concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption become inappropriate.

The Company has made efforts to diversify the industries that it serves in an attempt to reduce the impact of a downturn on any one segment. The continued manufacturing and distribution of existing products and the commercialization of new products in 2010; form the basis of management's opinion that the Company will meet its liabilities and commitments as they become due. The Company is currently monitoring all expenditures and implementing cash management strategies to ensure that it has adequate cash reserves to fund identified expenditure requirements.

The Company is working with its' bank to secure financing over and above the \$500,000 line of credit it currently offers. To this end, the Company has insured its' receivables to receive additional asset-based financing.

2. Significant accounting policies:

(a) Basis of presentation:

The accompanying unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all information and note disclosures required for an annual set of financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented, have been made. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period. These financial statements have been prepared using the same accounting policies used in the preparation of the Company's audited financial statements for the year ended December 31, 2009, and should be read in conjunction with those financial statements and notes thereto. The Company's auditors have not reviewed these financial statements.

PHOTON CONTROL INC.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

(b) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash. Short-term investments have maturity dates of three months or less from the date of purchase, or they are redeemable prior to maturity.

(c) Use of estimates:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenue and expenses during the years. Significant items subject to such estimates and assumptions include the recoverable amount of equipment, deferred development costs and intangible assets, and valuation allowances for receivables and inventory and assumptions used in determining the fair value of options and warrants.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(d) Inventory:

Inventory consists of optical, mechanical and electronic components and finished goods and is valued at the lower of cost or net realizable value. Cost is determined on a first in first out cost basis and includes the cost of direct material, direct labour and other overhead costs. Labour costs are allocated to items based on actual labour rates. Fixed and variable overhead are allocated to production activities in converting materials to finished goods.

(e) Property and equipment:

Property and equipment are stated at cost. Amortization is provided on the declining balance basis at the following annual rates:

| Asset | Rate 2010 |
|---|--|
| Lab equipment | 20% |
| Computers, office furniture and equipment | 20% |
| Computer software | 100% |
| Production equipment | 30% |
| Leasehold improvements | Over the lesser of the initial term of the lease and the useful life of assets |

(f) Intangible assets:

The costs of acquiring intangible assets, consisting of licenses, patents and trademarks are capitalized. Costs are amortized over the lesser of the estimated useful life of the intangible asset or the license term.

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Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

(g) Revenue recognition:

Revenue from sales of products is recognized when goods are shipped and title passes, there is persuasive evidence of an arrangement, collection is probable and the fee is fixed and determinable. Cash collected prior to revenue recognition criteria being met is recorded as deferred revenue on the consolidated balance sheet.

(h) Research and development costs:

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the required criteria for deferral and amortization.

(i) Government assistance:

The Company makes periodic applications for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets, while government assistance relating to current expenses is recorded as a reduction of such expenses. The benefits of government assistance are recognized when there is reasonable assurance that they will be realized. Reasonable assurance is considered to have occurred when the relevant authorities have indicated that the Company's research and development activities qualify for government assistance. The Company received no government assistance during the period ended March 31, 2010 and 2009.

(j) Earnings (loss) per share:

Basic earnings (loss) per share amounts are calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of additional options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

(k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. The resulting future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those 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 recognized in income in the period in which the change in tax rate is enacted or substantively enacted. Future income tax assets are evaluated and, if realization is not considered "more likely than not", a valuation allowance is provided.

(l) Share issue costs:

The costs of issuing common shares are applied to reduce the stated value of such shares.

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Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

(m) Translation of foreign currencies:

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings.

(n) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in note 7(d). The Company accounts for employee stock options using the fair value based method. Under the fair value based method, compensation cost attributable to options granted to employees and directors is measured at the fair value at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period of the underlying option. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting. Compensation expense is recognized for stock-based payments to non-employees using the fair value based method.

(o) Warranty provision estimate:

The company accrues for the estimated obligation under warranty provisions at the time sales are recognized and any changes in estimates are recognized prospectively.

(p) Financial Instruments:

The Company has classified its financial instruments as follows:

- Cash and cash equivalents and bank indebtedness, if any, as "held-for-trading".
- Trade accounts receivable, the note receivable and amounts due from related parties are classified as "loans and receivables".
- Accounts payable and accrued liabilities, amounts due to related parties and advances under credit facility are classified as "other financial liabilities".

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the Consolidated Statements of Operations. Financial assets classified as "loans and receivables" and "other financial liabilities" are carried at amortized cost using the effective interest rate method. The fair values are based on quoted market bid process if available, otherwise fair value is obtained using discounted cash flow analysis. Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception, and are recognized over the term of the assets or liabilities using the effective interest method.

(q) Impairment of property, equipment, intangibles and deferred development costs:

The Company determines if any impairment exists when events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is then required if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash

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For the three months ended March 31, 2010

flows expected to result from its use and eventual disposition. The amount of loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value.

(r) Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

3. Share capital:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued and outstanding:

Common shares:

| | Number of shares | Stated values |
|--|---------------------|------------------|
| Issued and outstanding as at December 31, 2007 | 101,352,018 | 28,149,882 |
| Share issue costs | - | (914) |
| Issued and outstanding as at March 31, 2009 and 2010 | 101,352,018 | \$ 28,148,968 |

Common shares:

| Contributed surplus | Amount |
|---|--------------|
| Balance, December 31, 2008 | \$ 1,839,751 |
| Stock-based compensation to employees | 48,737 |
| Stock-based compensation to non-employees | 21,927 |
| Balance, December 31, 2009 and March 31, 2010 | \$ 1,910,415 |

The Company issued 800,000 common shares to employees with a fair value of \$24,000 based upon the quoted market price of common shares at the regulatory approval date. The common shares were accounted for in 2009 and were issued March 16, 2010.

(c) Stock options:

The number of options reserved for issuance under the Company's stock option plan is equal to 10% of the issued and outstanding shares in the Company. Accordingly, as at December 31, 2009, the Company's board of directors had reserved 10,135,202 (2008 - 10,135,202) options for issuance under the Company's stock option plan. The plan provides that options may be granted with an exercise price of no less than the greater of 75% of the market price of the Company's stock on the date of the grant and \$0.10. The plan also provides that the term of the options shall not exceed five years and that the minimum option vesting period shall be 18 months with a maximum vesting of 25% per six month period.

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Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

3. Share capital (continued):

(d) Stock options (continued):

Stock option transactions are summarized as follows:

| | Number of shares | Weighted average exercise price |
|--------------------------------|---------------------|---------------------------------------|
| Outstanding, December 31, 2008 | 5,713,750 | \$ 0.25 |
| Granted | 140,000 | 0.10 |
| Cancelled | (820,000) | 0.43 |
| Expired | (703,750) | 0.36 |
| Outstanding, December 31, 2009 | 4,330,000 | \$ 0.19 |
| Re-priced | (1,605,000) | 0.36 |
| Re-priced | 1,605,000 | 0.10 |
| Granted | 1,445,000 | 0.10 |
| Cancelled | (85,000) | 0.10 |
| Expired | (1,597,500) | 0.10 |
| Outstanding, March 31, 2010 | 4,092,500 | \$ 0.10 |

On Feb 10, 2010 1,605,000 options to purchase stock at \$0.145 to \$0.62 were re-priced to \$0.10.

On Feb 10, 2010, 1,425,000 stock options were granted to a consultant and the directors of the Company.

The following table summarizes the stock options outstanding at March 31, 2010:

| Exercise price | Options outstanding | | | Options exercisable | |
|----------------|---------------------|---|--|-------------------------------------|--|
| | Number of shares | Weighted Average Remaining Contractual life (years) | Weighted average exercise price | Number of options exercisable | Weighted average exercise price |
| \$0.10 | 4,092,500 | 2.97 | \$ 0.10 | 4,092,500 | \$ 0.10 |
| | 4,092,500 | 2.97 | \$ 0.10 | 4,092,500 | \$ 0.10 |

The options outstanding at March 31, 2010 expire between June 2, 2010 and February 10, 2015. The per share weighted average fair value of stock options granted during 2009 was \$0.10 (2009 - \$0.10).

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions at March 31:

| | 2010 | 2009 |
|-------------------------|---------|---------|
| Expected option lives | 5 years | 5 years |
| Risk-free interest rate | 2.40% | 2.10% |
| Dividend yield | 0% | 0% |
| Volatility | 150% | 328% |

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Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

3. Share capital (continued):

(d) Stock options (continued):

During the period ended March 31, 2010, the Company recorded \$24,223 (Q1-09 \$31,054) of compensation expense representing the fair value of the options and shares vesting during the period with a corresponding increase to contributed surplus.

(e) Warrants:

There was no activity in warrants during Q1, 2010. Information related to the Company's share purchase warrant activity for the year ended December 31, 2009 was as follows:

| Expiry dates | Exercise price | Balance, December 31, 2008 | Issued | Exercised | Expired | Balance, December 31, 2009 |
|-------------------|------------------------|----------------------------|--------|-----------|-----------|----------------------------|
| August 15, 2009 | \$ 0.21 | 1,454,350 | - | - | 1,454,350 | - |
| February 15, 2009 | \$ 0.15 ⁽ⁱ⁾ | 232,695 | - | - | 232,695 | - |
| | | 1,687,045 | - | - | 1,687,045 | - |

⁽ⁱ⁾ These are agents' options to purchase units, which are issued as commissions with respect to private placements. Each unit consists of one common share and one half of one common share purchase warrant.

(f) Net earnings (loss) per share:

The weighted average number of shares outstanding during the period ended March 31, 2010 of 101,352,018 (2009 - 101,352,018) was used in the calculation of basic and diluted earnings per share.

4. Supplementary statement of operations information:

The following information for the three months ended March 31, 2010 is provided pursuant to the requirements of the British Columbia Securities Commission:

| | |
|-----------------------------|------------|
| General and administrative: | |
| Salaries and fees | \$ 55,258 |
| Office premises expenses | 52,659 |
| Legal and accounting | 95,663 |
| Insurance | 10,506 |
| Investor relations | 421 |
| Directors fees | 25,637 |
| Other | 64,868 |
| | \$ 305,012 |

PHOTON CONTROL INC.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2010

| | | |
|--|----|---------|
| Engineering: | | |
| Salaries and fees | \$ | 56,980 |
| Materials | | 1,986 |
| Certification and testing | | 1,850 |
| Consulting fees | | 138,860 |
| Government grants received | | - |
| Amortization of deferred development costs | | - |
| Other | | 290 |
| | \$ | 199,996 |
| Business development and marketing: | | |
| Salaries and fees | \$ | 19,664 |
| Travel expenses | | 564 |
| Consulting fees | | 4,850 |
| Promotion | | 16,792 |
| Other | | - |
| | \$ | 41,870 |

5. Financial instruments – Risk Management Objectives & Policies:

The fair value of the Company's cash and cash equivalents, trade accounts receivable and other amounts due under credit facility, amounts due to and from related parties, accounts payable and accrued liabilities approximate their respective carrying amounts due to their short maturities.

Risk Management

(a) Credit and interest rate risk:

The Company is exposed to credit risk associated with its trade accounts receivable and related party receivables. Credit risk is minimized substantially by ensuring the credit worthiness of the entities with which it carries on business. The Companies maximum credit risk is the total of its uninsured trade receivables which were \$ 29,107 as at March 31, 2010 (all non-Canadian receivables are insured with EDC).

The Company is exposed to interest rate risk with regard to the cash, cash equivalents and amounts due under credit facility. The Company holds its cash and cash equivalents at a major Canadian banking institution. As at March 31, 2009, the Company was not exposed to significant credit or interest rate risk.

(b) Market and foreign exchange risk:

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Company's net earnings or the values of financial instruments. The majority of the Company's sales revenues and trade receivables are denominated in United States dollars. As such the Company's may be subject to, material, realized and unrealized exchange gains or losses resulting from above average changes in exchange rates between the Canadian and United States dollar. As at March 31, 2009, the Company did not utilize any forward exchange contracts to mitigate any of the risks as mentioned above.

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For the three months ended March 31, 2010

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The ability to do this relies on the Company being able to successfully rely on external financing as well as the timely collection of its outstanding trade accounts receivable. As at March 31, 2010, the Company's accounts payable and accrued liabilities were \$ 1,654,189 of which all are due for payment within twelve months of the balance sheet date. As at March 31, 2010, the Company was utilizing all of its \$500,000 credit facility.

6. Capital Disclosure:

The Company's objectives when managing capital are:

- To maintain its ability to continue as a going concern.
- To provide adequate working capital.
- To maintain cash on hand in highly liquid and highly rated financial instruments.
- Meet the debt covenants imposed by the Company's banking institution.

The Company includes the following items in the management of capital; cash, cash equivalents, credit facility and shareholders' equity comprised of issued capital, contributed surplus and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. The company may adjust its capital structure in the future, by issuing shares and adjusting debt utilization. As at March 31, 2010 the Company's capital is as follows:

| | | |
|----------------------|----|-----------|
| Credit facility | \$ | 500,000 |
| Cash | | (13,893) |
| Net debt (cash) | | 486,107 |
| Shareholders' equity | | 2,565,969 |
| | \$ | 3,052,076 |

The Company is subject to the following capital requirements relating to the covenants and conditions of its bank line of credit;

- The working capital ratio shall not be less than 1.1:1.
- The debt to tangible net worth ratio shall not at any time exceed 2.75:1.
- There will be no dividends, reduction in loans from shareholders, subsidiaries or related parties, or other withdrawals of similar nature without the prior consent of the bank.
- The bank reserves the right to require foreign receivables to be insured by the EDC with direction by the Company to pay all insurance proceeds to the bank.

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7. Bank credit facility and restricted cash:

In November 2007, the Company secured a bank operating line credit facility of up to \$500,000 under the Export Development Canada's Master Accounts Receivable Guarantee (MARG) program. This credit facility is secured by a cash deposit of \$50,000 which was paid in January 2008, a general security agreement, a general assignment of book debts and a \$450,000 MARG program with Export Development Canada and assignment of all risk insurance coverage. This facility bears interest at the bank's prime plus 1.25% per annum. The Company also obtained a corporate credit card in June 2007. The credit card is secured by a \$51,750 cash deposit. The deposit earns interest at prime minus 2.35%. The facility is subject to periodic review by the bank not less frequently than annually. All amounts outstanding under the credit facility are due on demand.