



Consolidated Financial Statements of

**PHOTON CONTROL INC.**

For the three months ended March 31, 2013 and 2012

(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, MNP LLP, have not performed a review of these financial statements.

# PHOTON CONTROL INC.

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at March 31, 2013 and December 31, 2012

	March 31, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,581,628	\$ 3,607,507
Trade accounts receivable and other	1,791,574	1,288,206
Note receivable - related (note 9(a))	24,711	24,711
Due from related party (note 9(a))	1,356,144	833,522
Inventory (note 4)	1,131,938	1,442,599
Prepaid expenses and deposits	80,050	61,840
	<u>7,966,045</u>	<u>7,258,385</u>
Property and equipment (note 5)	232,694	245,684
Intangible assets (note 6)	178,595	187,328
Internally generated intangible assets (note 8)	148,824	148,825
Long term rental deposits	34,695	34,695
Note receivable - related (note 9(a))	137,972	142,953
Restricted cash (notes 14, 10(b))	903,744	903,744
Deferred taxes	5,303,841	5,303,841
<b>Total Assets</b>	<b>\$ 14,906,410</b>	<b>\$ 14,225,455</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Deferred revenue	\$ 160,474	\$ 152,430
Accounts payable and accrued liabilities (note 16)	557,652	718,872
Due to related party (note 9(a))	596,104	169,400
Provisions (note 10(b))	850,000	850,000
	<u>2,164,230</u>	<u>1,890,702</u>
Shareholders' equity (note 7):		
Share capital	28,246,173	28,246,173
Contributed surplus	2,115,997	2,099,797
Deficit	<u>(17,619,990)</u>	<u>(18,011,217)</u>
	12,742,180	12,334,753
Commitments and contingencies (note 10)		
Bank indebtedness (note 14)		
Subsequent events (note 17)		
<b>Total liabilities and Shareholders' Equity</b>	<b>\$ 14,906,410</b>	<b>\$ 14,225,455</b>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

"Christopher Weston", Director

"David C. Dueck", Director

# PHOTON CONTROL INC.

## Consolidated Statement of Comprehensive Income (Expressed in Canadian dollars)

For the three months ended December 31, 2013 and 2012

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenue	\$ 2,784,140	\$ 3,071,727
Cost of sales	1,831,970	1,874,309
	<b>952,170</b>	1,197,418
Operating expenses (notes 9 and 11):		
General and administrative	315,452	389,005
Engineering	234,315	116,872
Business development	106,103	61,066
	<b>655,870</b>	566,943
Net earnings before other earnings and tax	<b>296,300</b>	630,475
Other earnings (expenses):		
Interest and other earnings	9,119	5,467
Interest expense	(12)	(495)
Foreign exchange	85,820	(44,020)
	<b>94,927</b>	(39,048)
Net earnings from operating activities	<b>391,227</b>	591,427
Income tax (expense) recovery	-	-
Net earnings and total comprehensive income	<b>391,227</b>	591,427
Basic and diluted earnings (loss) per share		
Weighted average common shares used in computing	<b>102,909,518</b>	102,909,518
Diluted average common shares used in computing	<b>108,415,740</b>	106,397,925
Basic earnings per share	<b>\$ 0.00</b>	\$ 0.01
Diluted earnings per share	<b>\$ 0.00</b>	\$ 0.01

See accompanying notes to consolidated financial statements.

# PHOTON CONTROL INC

## Consolidated Statements of Changes in Equity (Expressed in Canadian dollars) As at March 31, 2013 and 2012

### For the three months ending March 31, 2012

	Share Capital		Contributed Surplus and Deficit		
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
<b>Balance at December 31, 2011</b>	<b>102,909,518</b>	<b>\$ 28,246,173</b>	<b>\$ 1,997,903</b>	<b>\$(21,047,985)</b>	<b>\$ 9,196,091</b>
Stock based compensation to employees	-	-	10,501	-	10,501
Total comprehensive income (loss)	-	-	-	591,427	591,427
<b>Balance at March 31, 2012</b>	<b>102,909,518</b>	<b>\$ 28,246,173</b>	<b>\$ 2,008,404</b>	<b>\$(20,456,558)</b>	<b>\$ 9,798,019</b>

### For the three months ending March 31, 2013

	Share Capital		Contributed Surplus and Deficit		
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
<b>Balance at December 31, 2012</b>	<b>102,909,518</b>	<b>\$ 28,246,173</b>	<b>\$ 2,099,797</b>	<b>\$(18,011,217)</b>	<b>\$ 12,334,753</b>
Stock based compensation to employees	-	-	16,200	-	16,200
Total comprehensive income (loss)	-	-	-	391,227	391,227
<b>Balance at March 31, 2013</b>	<b>102,909,518</b>	<b>\$ 28,246,173</b>	<b>\$ 2,115,997</b>	<b>\$(17,619,990)</b>	<b>\$ 12,742,180</b>

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

# PHOTON CONTROL INC.

## Consolidated Statement of Cash Flows

(Expressed in Canadian dollars)

For the three months ended March 31, 2013 and 2012

As at March 31	2013	2012
Cash provided by (used in):		
Operations:		
Net earnings	\$ 391,227	\$ 591,427
Non-cash items:		
Amortization of property, equipment and intangibles	25,833	33,494
Stock-based compensation	16,200	10,501
Amortization of deferred development costs	-	-
Deferred rent and sublease deposits	-	-
Accretion income	-	-
Amorization on gain on sale to R&D	-	-
Deferred tax	-	-
Changes in non-cash operating working capital:		
Trade accounts receivable and other	(603,369)	(558,581)
Inventory	310,661	366,387
Prepaid expenses and deposits	(18,210)	24,232
Accounts payable and accrued liabilities	(161,220)	196,175
Due to/from related party	4,082	(170,808)
Received from related party	-	2,427
Contingent liabilities	-	-
Deferred revenue	13,026	2,852
	(21,770)	498,106
Financing:		
Advances under credit facility	-	-
Repayment of sublease deposits	-	-
Repayment of inter-company debt	-	-
Receipt of long term deposits	-	-
Shares issued for cash	-	-
Proceeds from note receivable	-	-
	-	-
Investments:		
Restricted cash	-	-
Purchase of equipment	(4,110)	(14,501)
Purchase of intangible assets	-	-
Deferred development costs	-	-
	(4,110)	(14,501)
Increase (decrease) in cash and cash equivalents	(25,880)	483,605
Cash and cash equivalents, beginning of year	3,607,507	975,108
Cash and cash equivalents, end of year	3,581,627	1,458,713
Supplementary information:		
Cash received for interest	6,618	5,467
Cash paid for interest	(12)	(495)

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

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars, unless specifically indicated otherwise)

For the three months ended March 31, 2013 and 2012

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## 1. Nature of business and continuing operations:

Photon Control Inc. (the Company) is a publicly-traded company listed on the TSX Venture Exchange and is incorporated under the laws of British Columbia, Canada. The Company's head office is 200-8363 Lougheed Highway, Burnaby, British Columbia, Canada, V5A 1X3. The address of the registered office and records office is 19<sup>th</sup> Floor, 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3H4.

The Company designs and manufactures a wide range of optical sensors and instruments to measure temperature, pressure, position, and flow. These products are used by original equipment manufacturers (OEM) as well as end-users in the Semiconductor, Oil and Gas, Power, Life Science, and Manufacturing industries. On August 17, 2000, the Company completed an initial public offering of its common shares, which are listed on the TSX Venture Exchange ("TSX-V") under the trading symbol PHO. In 2002, the Company changed its name from Coldswitch Technologies Inc. to Photon Control Inc.

## 2. Significant accounting policies:

### (a) Basis of presentation and statement of compliance:

These condensed consolidated interim financial statements of the Company were prepared in compliance with International Accounting Standard (AIS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The condensed consolidated interim financial statements do not include all of the information for full annual financial statements.

The first date at which IFRS (International Financial Reporting Standards) were applied was January 1, 2011. In accordance with IFRS, the Company has:

- provided comparative financial information; and
- applied the same accounting policies throughout all periods presented.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are measured at fair market value. The consolidated financial statements are presented in Canadian (CAD) dollars which is the Company's functional currency.

### (b) Basis of consolidation:

The Company consolidates subsidiaries controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

Inter-company balances and transactions, including any income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries LAI Lightwave Aerospace Industries Ltd., CST Coldswitch Holdings Inc., The Lightswitch Company Inc., and Photon Control (Alberta) Inc., all of which are inactive.

### (c) 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 six months or less from the date of purchase, or they are redeemable prior to maturity.

### (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 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
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.

### (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 fees are fixed and determinable. Cash collected prior to revenue recognition criteria being met is recorded as deferred revenue on the consolidated statement of financial position.



# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

### (h) Research and development costs:

- i) Research costs are expensed as incurred. Development costs are expensed as incurred unless all of the following can be demonstrated:
- ii) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- iii) The intention to complete the intangible asset and use or sell it;
- iv) The ability to use or sell the intangible asset;
- v) How the intangible asset will generate probable future economic benefits;
- vi) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- vii) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

### (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 did not receive any government assistance during the months ended March 31, 2012 nor for the three months ended March 31, 2013.

### (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 are 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.

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

### (k) Income taxes:

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

#### *Current income tax*

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *Deferred tax*

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statements of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

### (l) Share issue costs:

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

### (m) Translation of foreign currencies:

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the Statement of Financial Position 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.

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

### (n) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in Note 7(c). The fair value of the services rendered is determined indirectly by reference to the fair value of the equity instruments granted. 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 of the goods or services received, unless the fair value of the equity instruments granted is more reliably determinable.

### (o) Warranty provision:

The Company accrues for the estimated obligations under warranty provisions at the time sales are recognized and any changes in estimates are recognized prospectively. The Company provides its customers with a limited right of return for defective products. All warranty returns must be authorized by the Company prior to acceptance.

### (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 comprehensive income. 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.

# PHOTON CONTROL INC.

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## 2. Significant accounting policies (continued):

### (q) Impairment of property, equipment, intangibles and internally generated intangible assets:

At each date of the statement of financial position, the Company's carrying amounts of its assets are reviewed to determine whether there are any indications of impairment. If such indication exists, the recoverable amount of the assets is estimated using the higher of (a) fair value less costs to sell, and (b) value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. When there are indicators that the conditions giving rise to the impairment previously recognized have reversed, then the reversal of the impairment loss is reversed in that period.

### (r) Use of estimates:

The preparation of these financial statements in conformity with IFRS requires management to make sufficient judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, application of accounting policies and the reporting of assets and liabilities at the dates of the financial statements and the reported revenue and expenses during the years.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and any future periods affected.

Significant items subject to such assumptions and estimation uncertainties that have a significant risk of a material adjustment are as follows:

- i) The Company makes estimates and utilizes assumptions in determining the fair value for stock based options and warrants.
- ii) The Company makes estimates related to the recovery of deferred development costs based on the expectation and assumption of realizing revenues from future commercial agreements that it anticipates will develop with companies for whom these projects have been untaken. Changes in these expectations and assumptions could result in a change in the recoverable amount calculated.
- iii) The Company makes estimates related to the useful lives of property and equipment, patents, and intangible assets and related amortization. The Company also periodically assesses the recoverability of long lived assets. The recoverability analysis requires the Company to make assumptions about future operations. Changes to one or more assumptions would result in a change in the recoverable amount calculated and/or amortization expensed.

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

- iv) The Company maintains an allowance for doubtful accounts for estimated losses that may occur if parties are unable to pay balances owing to the Company. This allowance is determined based on a review of specific parties' historical experience and economic circumstances. Non-Canadian export trade customers are covered by Export Development Canada (EDC) receivables insurance up to a maximum of USD \$1,500,000. Consequently, the estimates of allowance are primarily based on Canadian customers, none of whom are not covered by EDC insurance, but also include estimates for any EDC receivables insurance deductible amounts.
- v) The company makes estimates related to inventory. Inventory is valued at the lower of cost or net realizable value. However, the valuation of allowances for slow or obsolete inventory requires management to make estimates.
- vi) The Company makes estimates related to warranty provision. This provision is based on a periodic review of historical experience of warranty claims.
- vii) Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

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.

## 3. Accounting standards issued but not yet effective:

IFRS 7, Financial Instruments: Disclosures

The amendments to disclosure requirements in IFRS 7 emphasize the interaction between quantitative and qualitative disclosures and the nature and extent of risks and amends credit risk disclosures. The Company is currently evaluating the impact to its financial statements.

IFRS 10, Consolidated financial statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation-Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

# PHOTON CONTROL INC.

Notes to Consolidated Financial Statements  
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### 3. Accounting standards issued but not yet effective (continued):

#### IAS 19, Employee Benefits

In June 2011, the IASB issued an amended IAS 19. The Standard requires recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements. In addition there are modifications in accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits. The Company does not anticipate a significant impact on its financial statements.

#### IAS 28, Investments in Associates

The standard was amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 12. This amendment is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company does not anticipate the application of IAS 28 to have a significant impact on its financial statements.

#### IFRS 11, Joint Arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements, which supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The standard requires the Company to classify its interest in a joint arrangement as a joint venture or joint operation. This standard will eliminate the use of proportionate consolidation when accounting for joint ventures, as they will be accounted for using the equity method, whereas joint operations will be accounted for by recognizing the venturer's share of the assets, liabilities, revenue and expenses. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013. The Company is currently evaluating the impact IFRS 11 is expected to have on its financial statements.

#### IFRS 12, Disclosure of Interests in Other Entities

The IASB has issued IFRS 12 Disclosure of Interest in Other Entities, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard will become effective for annual periods beginning on or after July 1, 2013. Earlier adoption is permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this standard on its financial statements.

#### IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

# PHOTON CONTROL INC.

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### 3. Accounting standards issued but not yet effective (continued):

IAS 32, Financial Instruments: Presentation – Offsetting financial assets and financial liabilities

In December 2011, the IASB issued an amendment to IAS 32. The amendment clarifies the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Company does not anticipate a significant impact to its financial statements.

*IFRS 9, Financial instruments*

IFRS 9 *Financial Instruments: Classification and Measurement* will replace IAS 39 *Financial Instruments: Recognition and Measurement*. On December 16, 2011, the IASB amended the effective date of IFRS 9 to annual periods beginning on or after January 1, 2015, with early adoption permitted.

IFRS 9 introduces new requirements for the impairment of financial assets measured at amortized cost and classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

### 4. Inventory:

As at March 31	2013	2012
Raw materials	\$ 518,099	\$ 893,383
Work in process	281,649	431,824
Finished goods	332,190	355,619
	\$ 1,131,938	\$ 1,680,826

For the three months ended March 31, 2013, inventory recognized as an expense in cost of sales amounted to \$1,182,210 (March 31, 2012 - \$1,216,099). Included in the above amounts were inventory write downs of \$25,000 (March 31, 2012 - Nil). There were no reversals of previously recorded inventory write downs for 2013 (March 31, 2012 - Nil). As of March 31, 2013, the Company anticipates the net inventory will be realized within one year.

# PHOTON CONTROL INC.

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## 5. Property and equipment:

	Laboratory equipment	Computers, office furniture and equipment	Production equipment	Leasehold improvements	Total
<b>Asset Cost</b>					
Balance January 1, 2012	\$ 346,446	311,098	336,250	371,410	<b>1,365,204</b>
Additions	-	2,486	2,000	14,985	<b>19,471</b>
<b>Balance December 31, 2012</b>	<b>346,446</b>	<b>313,584</b>	<b>338,250</b>	<b>386,395</b>	<b>1,384,675</b>
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
<b>Balance March 31, 2013</b>	<b>\$ 346,446</b>	<b>313,584</b>	<b>338,250</b>	<b>386,395</b>	<b>1,384,675</b>
<b>Accumulated Amortization</b>					
Balance January 1, 2012	\$ 224,098	204,358	273,696	371,410	<b>1,073,562</b>
Amortization for period	22,440	21,391	19,068	2,530	<b>65,429</b>
<b>Balance December 31, 2012</b>	<b>246,538</b>	<b>225,749</b>	<b>292,764</b>	<b>373,940</b>	<b>1,138,991</b>
Amortization for period	2,088	4,392	5,886	624	<b>12,990</b>
Disposals	-	-	-	-	-
<b>Balance March 31, 2013</b>	<b>\$ 248,626</b>	<b>230,141</b>	<b>298,650</b>	<b>374,564</b>	<b>1,151,981</b>
<b>Carrying Amounts</b>					
At January 1, 2012	\$ 122,348	106,740	62,554	-	<b>291,642</b>
At December 31, 2012	\$ 99,908	87,835	45,486	12,455	<b>245,684</b>
At December 30, 2013	\$ 97,820	83,443	39,600	11,831	<b>232,694</b>



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## 6. Intangible assets:

	Patents	Trademarks	Computer software	Computer system (SW)	Total
<b>Asset Cost</b>					
Balance January 1, 2011	\$ 377,018	28,602	90,573	145,152	<b>641,345</b>
Additions	1,035	-	-	-	<b>1,035</b>
<b>Balance December 31, 2011</b>	<b>378,053</b>	<b>28,602</b>	<b>90,573</b>	<b>145,152</b>	<b>642,380</b>
Additions	-	-	4,110	-	<b>4,110</b>
<b>Balance March 31, 2012</b>	<b>\$ 378,053</b>	<b>28,602</b>	<b>94,683</b>	<b>145,152</b>	<b>646,490</b>
<b>Accumulated Amortization</b>					
Balance January 1, 2011	236,137	23,977	90,573	34,865	<b>385,552</b>
Amortization for period	35,216	1,200	-	33,084	<b>69,500</b>
<b>Balance December 31, 2011</b>	<b>\$ 271,353</b>	<b>25,177</b>	<b>90,573</b>	<b>67,949</b>	<b>455,052</b>
Amortization for period	6,582	300	171	5,790	<b>12,843</b>
<b>Balance March 31, 2012</b>	<b>\$ 277,935</b>	<b>25,477</b>	<b>90,744</b>	<b>73,739</b>	<b>467,895</b>
<b>Carrying Amounts</b>					
At January 1, 2011	\$ 140,881	4,625	-	110,287	<b>255,793</b>
At December 31, 2011	\$ 106,700	3,425	-	77,203	<b>187,328</b>
At December 31, 2012	\$ 100,118	3,125	3,939	71,413	<b>178,595</b>

Note: Above does not include any internally generated assets (see Note 2 (h)).

# PHOTON CONTROL INC.

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## 7. Share capital:

(a) Authorized:

Unlimited number of common shares without par value

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(b) Issued and outstanding:

### Common shares:

	Number of shares	Stated values
Issued and outstanding as at December 31, 2011	102,909,518	\$ 28,246,173
Shares issued in 2012	-	-
Issued and outstanding as at December 31, 2012	102,909,518	\$ 28,246,173
Shares issued in 2013	-	-
Issued and outstanding as at March 31, 2013	102,909,518	\$ 28,246,173

### Contributed Surplus:

	Amount
Balance, December 31, 2011	\$ 1,997,903
Stock-based compensation to employees in 2012	101,894
Balance, December 31, 2012	\$ 2,099,797
Stock-based compensation to employees	16,200
Fair value of options exercised	-
Balance, March 31, 2013	\$ 2,115,997

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## 7. Share capital (continued):

### (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, 2011, the Company's board of directors had reserved 10,290,952 options for issuance under the Company's stock option plan. As of March 31, 2013, there was no change in either the number of shares or the reserved 10,290,952 options. The stock option plan provides that options may be granted with an exercise price of no less than the market price of the Company's stock on the grant date less applicable discounts permitted by the TSX-V. The stock option plan also provides that the term of the options shall not exceed five years.

Stock option transactions are summarized as follows:

	Number of share options	Weighted average exercise price
Outstanding, December 31, 2011	3,532,500	\$ 0.10
Granted	2,820,000	0.10
Granted	(142,500)	0.10
Granted	(10,000)	0.13
Expired	(690,000)	0.10
Exercised	-	0.00
Outstanding, December 31, 2012	5,510,000	\$ 0.10
Granted	-	0.10
Cancelled	(10,000)	0.10
Expired	-	0.10
Exercised	-	0.00
Outstanding, March 31, 2013	5,500,000	\$ 0.10

Nil stock options were granted during the three months ended March 31, 2013 (three months ended March 31, 2012 – Nil)

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## 7. Share capital (continued):

### (c) Stock options (continued):

The following table summarizes the stock options outstanding at March 31, 2013:

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	5,460,000	2.86	\$ 0.100	4,005,000	\$ 0.100
\$0.105	10,000	2.50	\$ 0.105	5,000	\$ 0.105
\$0.11	20,000	2.85	\$ 0.110	7,500	\$ 0.110
\$0.115	10,000	2.70	\$ 0.115	5,000	\$ 0.115
	5,500,000	2.86	\$ 0.100	4,022,500	\$ 0.100

The options outstanding at March 31, 2013 expire between September 22, 2013 and October 25, 2017.

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:

	2013	2012
Expected option lives	5 years	5 years
Risk-free interest rate	1.28% to 2.59%	1.44% to 2.59%
Dividend yield	0%	0%
Volatility	123% to 380%	150% to 370%

During the three months ended March 31, 2013, the Company recorded \$16,200 (2012 - \$10,500) of compensation expense representing the fair value of the options and shares vesting during the year with a corresponding increase to contributed surplus.

### (d) Net earnings (loss) per share:

The weighted average number of shares outstanding as at March 31, 2013 of 102,909,518 (March 31, 2012 - 102,909,518) was used in the calculation of basic earnings per share for the three months ended March 31, 2013 and 108,415,740 (March 31, 2012 - 106,397,925) was used in the calculation of diluted earnings per share for the three months ended March 31, 2013.

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## 8. Internally generated assets:

		Internally Generated R&D Assets
<b>Asset Cost</b>		
Balance December 31, 2011	\$	219,071
Additions		-
<b>Balance December 31, 2012</b>		<b>219,071</b>
Additions		-
<b>Balance March 31, 2013</b>	\$	<b>219,071</b>

### Accumulated Amortization

Balance December 31, 2011	\$	68,455
Amortization for period		1,792
<b>Balance December 31, 2012</b>		<b>70,247</b>
Amortization for period		-
Disposals		-
<b>Balance March 31, 2013</b>	\$	<b>70,247</b>

### Carrying Amounts

At January 1, 2012	\$	150,616
At December 31, 2012	\$	148,824
At March 31, 2013	\$	148,824

The Company amortizes internally generated research and development costs, commencing with commercial production, over the expected future benefit period based upon quantities delivered compared to expected levels contracted to be delivered. The Company has a balance of internally generated intangible assets as at March 31, 2013 of \$148,824 (March 31, 2012 - \$150,616). Amount amortized or discounted for the three months March 31, 2013 was nil (March 31 2012 - nil).

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## 9. Related party balances and transactions:

### (a) Related company balances and transactions:

All transactions with related parties have been translated in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions include transactions with Photon Control R&D Ltd. and DCD Management Ltd. Photon Control R&D Ltd. commenced providing engineering consulting and research and development services to the Company on October 1, 2008 and, as a result, the Company has reduced its internal research and development operations. DCD Management Ltd. provides financial, payroll and IT services. The Company subleases space to Photon Control R&D Ltd. and DCD Management Ltd. at the same facility. The Company charges Photon Control R&D Ltd. and DCD Management Ltd. premises and related expenses to recover the Company's costs. Amounts outstanding with Photon Control R&D Ltd. and DCD Management Ltd. are non-interest bearing, unsecured and due on demand. These accounts are active and payments are received on a monthly basis, and the balance is paid out at least twice during the year.

As at March 31	2013	2012
<b>Statement of Financial Position</b>		
Accounts receivable	\$ 1,356,144	\$ 1,040,720
Note receivable	162,683	183,504
Accounts payable and accrued liabilities	596,104	209,623
<b>Statement of Comprehensive Income</b>		
Recovery of premises and related expenses	\$ 62,967	\$ 50,044
Payroll reimbursement	393,392	358,674
Engineering, research and development services expenses	221,137	97,740
Royalty expenses	130,201	112,598
Revenue from sales of products and services	53,253	38,552
Management services expenses	47,203	34,400

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for directors and officers of the Company.

During 2009, the Company finalized and amended the terms of its agreement to transfer its R&D workforce to Photon Control R&D Ltd. Under the finalized terms, Photon Control R&D Ltd. issued a \$315,000 promissory note to the Company as consideration for the transfer. The promissory note bears a coupon rate of 3% per annum, is repayable in equal monthly instalments of \$3,089 beginning April 1, 2010 and matures March 1, 2020. For accounting purposes, the transaction was recognized at the exchange amount and the promissory note was discounted at an estimated market rate of 10% resulting in a carrying value of the note receivable at issuance of \$217,487 and a deferred gain.

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## 9. Related party balances and transactions (continued):

The promissory note receivable is being accreted up to its face value of \$315,000 by the effective interest method and as at March 31, 2013, \$26,525 (2012 - \$18,025) in accretion was recognized in interest income.

As at March 31	2013	2012
Promissory note receivable – face value	\$ 315,000	\$ 315,000
Less: discount	(97,513)	(97,513)
	217,487	217,487
Accretion	26,525	18,025
Principal repayment	(81,329)	(52,008)
Carrying amount	167,664	183,504
Current portion	(24,711)	(26,985)
Long-term portion	\$137,972	\$ 156,519

### (b) Compensation of key management personnel:

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team. The Executive Leadership Team consists of the CEO and President, and the Chairman.

Total compensation expense for key management personal and the composition thereof, is as follows:

As at March 31	2013	2012
Short term benefits	\$ 40,385	\$ 54,092
Share-based compensation	15,629	2,150
Carrying Amount	\$ 56,014	\$ 56,262

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## 10. Commitments and contingencies:

### (a) Leases:

The Company has entered into premises leases requiring the following minimum lease payments and related costs (applicable sales taxes extra) as follows:

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2013	\$ 494,195
2014	701,044
2015	743,281
2016	785,643
	<hr/>
	\$ 2,724,163

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For the three months ended March 31, 2013, lease payments and related costs recognized as an expense amounted to \$164,732 (2012 - \$157,420)

### (b) Litigation:

In October 2001, a former member of management and President of the Company (the "Claimant") initiated an arbitration proceeding asserting that certain amounts were owing to him by the Company. The Company had commenced an action against the Claimant for a declaration that it had properly rescinded a loan agreement between the Company and the Claimant dated March 5, 2001 (the "Loan Agreement") and that the debt owed to the Claimant (the "Claimant Debt"), being \$340,887 as at the date of the Loan Agreement, was repayable in shares of the Company at a rate of one share per dollar of debt. In addition, the Claimant has filed a claim against the Company seeking unspecified damages for wrongful dismissal. The Company considered the allegations in the lawsuit to be without merit and subsequently proceeded to defend the action.

The Company's application to dismiss the claim was denied in September 2009. The trial commenced on May 9, 2011 but did not complete on May 20, 2011 as scheduled. The trial resumed on June 13 and was completed on June 17, 2011.

As announced in the Company's News Release dated August 2, 2011, the Supreme Court of British Columbia decided that the Company did not have the right to rescind the Loan Agreement and that this debt is repayable in accordance with the Loan Agreement. The amount of the Claimant Debt payable is \$374,562 including interest as at September 30, 2010 plus interest thereafter. The Court also ruled that the Claimant was dismissed without cause in 2001 and awarded 18 months notice at \$130,000 per year in salary plus the value of the benefits payable to him.



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Notes to Consolidated Financial Statements  
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## **10. Commitments and contingencies (continued):**

As announced in the Company's News Release dated September 12, 2011, Photon Control filed a Notice of Appeal from the decision of the Supreme Court of British Columbia in respect of the Court's decision on both rescission of the loan agreement and the dismissal of the Claimant from the Company. Subsequently, the Company's appeal of both the loan agreement decision and the wrongful dismissal decision was heard by the British Columbia Court of Appeal on March 15 and 16, 2012.

As announced in the Company's News Release dated August 16, 2012, the Court of Appeal dismissed the Company's appeal and upheld the trial decision. The Company is considering its options of further appeal regarding the decision.

A charge for the Claimant Debt in the amount of \$310,499 was previously taken by the Company as a long term liability and was reported on the Company's previous financial statements. Subsequently, the Company recorded an additional \$539,501 in Q4 2011 to reflect the decision of the Court and the current estimate of this claim. Both of these amounts, totalling \$850,000, were classified in Q4 2011 as a contingent liability (dependent upon the results of the appeal in the current fiscal 2012) per IAS 37. Related to this issue, the Company has provided a \$850,000 standby irrevocable letter of credit as a guarantee against this lawsuit (included in restricted cash). Appropriate adjustments to the charge will be made in the Company's future 2013 financial statements to reflect the decision of the Court.

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## 11. Supplementary information:

As at March 31	2013	2012
General and administrative:		
Salaries and fees	\$ 153,674	\$ 171,526
Stock option compensation expense (Non-directors)	6,600	4,200
Office premises expenses and rent	44,118	62,760
Travel	6,586	102
Supplies and postage	12,373	8,343
Audit	15,065	15,000
Insurance	32,192	43,673
Legal, filing fees	10,440	53,766
Legal judgements (Contingent)	-	-
Communications	5,156	6,690
Dues and subscriptions	28	381
Directors Fees including applicable stock option expense	8,850	4,650
Depreciation and amortization	10,977	8,302
Bad debt expense	-	-
Other expenses	9,393	9,612
	\$ 315,452	\$ 389,005
Engineering expenses:		
Salaries and fees	\$ -	\$ 4,601
Engineering support fees	135,000	-
Consulting fees	86,137	97,740
Certification and testing	6,436	5,149
Travel and entertainment	-	-
Depreciation and amortization	6,582	8,793
Other expenses	160	589
	\$ 234,315	\$ 116,872
Business development and marketing:		
Salaries and consulting fees	\$ 59,769	\$ 38,615
Travel expenses	2,319	5,799
Trade shows	37,440	12,691
Promotion	6,275	3,661
Depreciation and amortization	300	300
Other expenses	-	-
	\$ 106,103	\$ 61,066

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## 12. Financial instruments:

Fair Value of Financial Assets and Liabilities:

The Company has no financial instruments recorded at fair value as at March 31, 2013, nor as at March 31, 2012.

The note receivable from related party is measured at amortized cost. Its market value was determined at inception based upon discounting contractual cash flows at estimated market discount rates considering the credit risk of the counterparty. The estimated market value as at March 31, 2013 is estimated to approximate its carrying value.

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 or are discounted at market interest rates.

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. In November 2009, the Company entered into an agreement with Export Development Canada to insure its non-Canadian accounts receivable up to a maximum of USD \$1,500,000. As at March 31, 2013 the maximum credit risk, which is the total of its uninsured trade receivables (primarily Canadian based customers and intercompany), was \$1,414,572 or 44% (March 31, 2012 - \$1,146,974 or 36%) of the total outstanding accounts receivable balances.

The following table provides information regarding the aged trade receivables as at March 31, 2013:

Current	31-60 days	61-90 days	91 days +
51%	43%	1%	5%

The following table provides information regarding the aged trade receivables as at March 31, 2012:

Current	31-60 days	61-90 days	91 days +
50%	36%	4%	10%

The Company holds its cash and cash equivalents at a major Canadian banking institution. As at March 31, 2013, the Company was not exposed to significant credit or interest rate risk.

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## 12. Financial instruments (continued):

### Allowance for Doubtful Accounts

At each period end, the Company reviews the collectability of outstanding receivables. The specific accounts are only written off once all the collection avenues have been explored or when legal bankruptcy has occurred. The following is a reconciliation of the allowance account.

Reconciliation of the allowance for doubtful accounts	March 31, 2013	March 31, 2012
Balance, beginning of the year	\$ 157,126	\$ 143,135
Write-offs of specific accounts	-	-
Change in provision	-	-
<b>Balance, as at March 31</b>	<b>\$ 157,126</b>	<b>\$ 143,135</b>

The following table identifies the percentage of trade accounts receivable from individual customers comprising 10% or more of the Company's trade receivables:

	2013	2012
Customer A	46%	46%
Customer B	19%	23%
Customer C	11%	5%
Customer D	3%	9%
Customer E	7%	3%

### (b) Market, interest 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 Company is exposed to interest rate risk with regard to the cash, cash equivalents and amounts due under credit facility and its related party note receivable. The majority of the Company's sales revenues and trade receivables are denominated in United States dollars. As such, the Company may be subject to material, realized and unrealized exchange gains or losses resulting from above average changes in exchange rates between the Canadian and the United States dollar. As at March 31, 2013, the Company did not utilize any forward exchange contracts to mitigate any of the risks as mentioned above. The following table lists the United States dollar balances of monetary items denominated in United States dollars as at March 31:

Amounts denominated in U.S. dollars as at March 31	2013	2012
Cash	\$ 1,236,528	\$1,285,172
Trade accounts receivable	1,713,507	1,985,489
Trade accounts payable	80,012	55,513

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## 12. Financial instruments (continued):

The estimated impact on net earnings at March 31, 2013 with a +/- 10% change in foreign exchange rates is \$287,002 (March 31, 2012 - \$312,514).

The above sensitivity demonstrates the effect of a change in foreign exchange rates in isolation. In reality, there may be other contributing factors that will materially alter the estimated outcome. Furthermore, the financial position of the Company may vary at the time that a change in foreign currency exchange rates occurs, again, causing the impact on the Company's results to differ materially from the estimated outcome shown above.

### (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, 2013, the Company's accounts trade payable and accrued liabilities were \$557,652 (March 31, 2012 - \$1,046,519) which fall due for payment within twelve months of the balance sheet date. As at March 31, 2013, the Company had an unutilized maximum credit facility of \$1,000,000 (unutilized as at March 31, 2012). This credit facility currently remains unutilized. The Company has recorded a provision (contingent liability) of \$850,000 (March 31, 2012 - \$850,000) which may become due in 2013. However, an \$850,000 standby irrevocable letter of credit has been provided as a guarantee against this lawsuit (included in restricted cash).

Significant cash commitments in years subsequent to March 31, 2013 are as follows:

	1 year	2 years	3 years	4 years	5 years	Total
Accounts trade payable and accrued liabilities	\$ 557,652	\$ -	\$ -	\$ -	\$ -	\$ 557,652
Due to related party	596,104	-	-	-	-	596,104
Lease obligation	494,195	701,044	743,281	785,643	-	2,724,163

## 13. 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.

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## 13. Capital disclosure (continued):

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, 2013, the Company's capital is as follows:

As at March 31	2013	2012
Cash and cash equivalents	\$ 3,581,628	\$ 1,458,713
Credit Facility (debt)	-	-
Shareholders' equity	12,742,180	9,798,019
	<u>\$ 16,323,808</u>	<u>\$ 11,256,732</u>

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.

The Company was in compliance with the above noted covenants as at March 31, 2012, and as at March 31, 2013.

## 14. Bank credit facility and restricted cash:

In November 2007, the Company secured a bank operating line of credit facility of up to \$500,000 under the Export Development Canada's Master Accounts Receivable Guarantee (MARG) program. This credit facility was secured by 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. In September 2012, this bank operating line of credit facility was further increased up to maximum of \$1,000,000. This facility bears interest at the bank's prime plus 1.50% per annum. Formerly, this credit facility was additionally secured by a cash deposit of \$50,000 but this is no longer required and the deposit was returned plus interest earned thereon during Q2 2012.

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## 14. Bank credit facility and restricted cash (continued):

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.

In addition, restricted cash also includes \$850,000 as a guarantee against a lawsuit for which judgement in 2012 was rendered in favour of the Plaintiff. (See Note 10 (b) Litigation.)

As at March 31	2013	2012
Bank operating line of credit cash deposit	\$ -	\$ 50,000
Credit card cash deposit	53,744	53,744
Change in provisions	850,000	850,000
Balance as at March 31	\$ 903,744	\$ 953,744

## 15. Segmented information:

Photon Control Inc. designs and manufactures a wide range of optical sensors and instruments to measure temperature, pressure, position, and flow. These products are used by original equipment manufacturers (OEM) as well as end-users in the Semiconductor, Oil and Gas, Power, Life Science, and Manufacturing industries. Photon Control's products have competitive advantages in both performance and cost. Photon Control's approach to creating shareholder value has been to pursue Original Equipment Manufacturer (OEM) sales whether directly or through a distributor and to investigate the market potential of products by working directly with customers in select industries to foresee their sectors' requirements. These collaborations often include commitments to conduct trials of the new products on industrial sites.

### (a) Geographic information:

Information regarding revenue earned from major customers by geographic segments, based on the location of the customer, is as follows:

	For the three months ended	
	March 31, 2013	March 31, 2012
Revenue:		
Canada	\$ 81,585	\$ 100,344
United States	2,140,909	2,011,851
Europe	6,178	5,630
Taiwan	-	-
China	429,893	840,493
Russia	18,935	84,903
Other	106,640	28,506
	\$ 2,784,140	\$ 3,071,727

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## 15. Segmented information (continued):

### (b) Assets and liabilities.

The Company has only one operation in Burnaby, British Columbia, Canada. All of the Company's assets (including cash, inventory, property plant and equipment, intangible assets) and liabilities and are located in Canada.

### (c) Major customers:

The following table identifies the percentage of revenue generated from individual customers comprising 10% or more of the Company's revenue:

As at March 31	2013	2012
Entity A	47%	44%
Entity B	15%	27%
Entity C	14%	10%
Entity D	6%	5%
	82%	86%

## 16. Trade payables and accrued liabilities

As at March 31	2013	2012
Trade payables	\$ 294,634	\$ 548,575
Accrued liabilities	110,973	366,354
Warranty provision	152,045	131,590
	\$ 557,652	\$ 1,046,519

The following is a reconciliation of the warranty provision during the year.

Reconciliation of warranty provision as at March 31	2013	2012
Provision as at December 31, beginning of the year	\$ 130,131	\$ 137,792
Warranty costs incurred	(14,086)	(37,225)
Warranty provision - additions or changes	36,000	31,023
<b>Balance as at March 31</b>	<b>\$ 152,045</b>	<b>\$ 131,590</b>

Due to the uncertainty surrounding the timing of warranty returns, the entire provision has been classified as current.

## 17. Subsequent Events:

No subsequent events to report.