



Condensed Interim Consolidated Financial Statements of

**PHOTON CONTROL INC.**

For the three months ended March 31, 2017

## **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 (Unaudited)

(In thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets		
Cash	\$ 32,112	\$ 32,508
Trade and other receivables	7,152	5,173
Note receivable (note 7(a))	68	17
Due from related party (note 7(a))	-	189
Inventories (note 4)	5,512	3,247
Prepaid expenses and deposits	933	230
<b>Total current assets</b>	<b>45,777</b>	<b>41,364</b>
Property and equipment (note 5)	3,782	755
Intangible assets	73	80
Long-term rental deposits	-	25
Note receivable (note 7(a))	-	56
Restricted cash (note 11)	652	652
Deferred income taxes	259	259
<b>Total assets</b>	<b>\$ 50,543</b>	<b>\$ 43,191</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,749	\$ 2,035
Due to related party (note 7(a))	-	1,814
Income taxes payable	274	420
Deferred revenue	50	50
<b>Total current liabilities</b>	<b>10,073</b>	<b>4,319</b>
Shareholders' equity (note 6)		
Share capital	28,773	29,137
Contributed surplus	3,758	3,494
Retained earnings	7,939	6,241
<b>Total shareholders' equity</b>	<b>40,470</b>	<b>38,872</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 50,543</b>	<b>\$ 43,191</b>

Commitments (note 8)  
Litigation (note 13)  
Subsequent event (note 14)

See accompanying notes to the unaudited condensed interim consolidated financial statements

Approved on behalf of the Board  
"Scott Edmonds", Director

"Neil McDonnell", Director

# PHOTON CONTROL INC.

## Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands of Canadian dollars, except number of shares and per share amounts)

	Three months ended	
	March 31, 2017	March 31, 2016
Revenue	\$ 11,879	\$ 7,191
Cost of sales	4,763	3,388
Gross profit	7,116	3,803
Operating expenses		
General and administrative	3,622	598
Engineering	805	219
Sales and marketing	217	210
Total operating expenses	4,644	1,027
Operating income	2,472	2,776
Finance income	30	21
Foreign exchange loss	(140)	(656)
	(110)	(635)
Net income before tax	2,362	2,141
Income tax expense	664	554
Net income and total comprehensive income	\$ 1,698	\$ 1,587
Basic and diluted earnings per share		
Weighted average number of shares outstanding, basic	108,525,341	104,167,991
Weighted average number of shares outstanding, diluted	112,713,458	112,395,480
Basic earnings per share	\$ 0.02	\$ 0.02
Diluted earnings per share	\$ 0.02	\$ 0.01

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# PHOTON CONTROL INC.

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited) (In thousands of Canadian dollars)

Three months ended March 31, 2017				
	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
<b>Balance at December 31, 2016</b>	<b>\$ 29,137</b>	<b>\$ 3,494</b>	<b>\$ 6,241</b>	<b>\$ 38,872</b>
Net income and total comprehensive income			1,698	1,698
Share issuance	248			248
Re-purchase of shares for cancellation	(612)			(612)
Share-based payments		264		264
<b>Balance at March 31, 2017</b>	<b>\$ 28,773</b>	<b>\$ 3,758</b>	<b>\$ 7,939</b>	<b>\$ 40,470</b>

Three months ended March 31, 2016				
	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>Balance at December 31, 2015</b>	<b>\$ 28,218</b>	<b>\$ 3,694</b>	<b>\$ (275)</b>	<b>\$ 31,637</b>
Net income and total comprehensive income			1,587	1,587
Share issuance	56			56
Re-purchase of shares for cancellation	(92)			(92)
Share-based payments		102		102
<b>Balance at March 31, 2016</b>	<b>\$ 28,182</b>	<b>\$ 3,796</b>	<b>\$ 1,312</b>	<b>\$ 33,290</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# PHOTON CONTROL INC.

## Consolidated Statements of Cash Flows (Unaudited) (In thousands of Canadian dollars)

	Three months ended	
	March 31, 2017	March 31, 2016
Operating activities		
Net income for the period	\$ 1,698	\$ 1,587
Adjustments for		
Depreciation of property and equipment	66	33
Amortization of intangible assets	7	13
Share-based payments	264	102
Accretion income	(3)	3
Net change in non-cash working capital items		
Trade and other receivables	(1,979)	(184)
Due to/from related party (net)	(1,625)	90
Inventories	(2,265)	(97)
Prepaid expenses and deposits	(678)	(335)
Accounts payable and accrued liabilities	7,714	241
Income taxes payable	(146)	(246)
Contingent liabilities	-	(28)
Net cash provided by operating activities	<b>3,053</b>	1,179
Financing activities		
Re-purchase of common shares for cancellation	(612)	(92)
Proceeds from exercise of stock options	248	56
Proceeds from note receivable	8	2
Net cash used in financing activities	<b>(356)</b>	(34)
Investing activities		
Purchase of property and equipment	(3,093)	(63)
Purchase of intangible assets	-	(9)
Net cash used in investing activities	<b>(3,093)</b>	(72)
Net (decrease) increase in cash	<b>(396)</b>	1,073
Cash, beginning of period	<b>32,508</b>	26,227
Cash, end of period	<b>\$ 32,112</b>	\$ 27,300
Supplementary information		
Interest received	\$ 25	\$ 18
Income taxes paid	<b>810</b>	1,050

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
For the three months ended March 31, 2017

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## 1. Nature of business and continuing operations

Photon Control Inc. ("Photon Control" or the "Company") is a publicly-traded company listed on the TSX Venture Exchange (the "TSX-V") and is incorporated under the laws of British Columbia, Canada. The Company's head office is 130-13500 Verdun Place, Richmond, BC, Canada, V6V 1V2. The address of the registered office and records office is 595 Burrard Street, PO Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, Canada, V7X 1L3.

The consolidated financial statements of the Company for the three months ended March 31, 2017 comprise the Company and its (inactive) subsidiaries. The financial statements were authorized for issue by the Board of Directors on May 29, 2017.

Photon Control designs, manufactures and distributes 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. The Company's common shares are listed on the TSX-V under the trading symbol PHO.

## 2. Basis of presentation

### (a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed interim consolidated financial statements have been prepared on a basis consistent with and should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The results for the three months ended March 31, 2017 may not be indicative of the results that may be expected for the full year or any other period.

### (b) Use of estimates

The preparation of these consolidated 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 consolidated financial statements and the reported revenue and expenses during the years.

## 3. Significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the year ended December 31, 2016.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
 (Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
 For the three months ended March 31, 2017

## 4. Inventories

	March 31, 2017		December 31, 2016	
Raw materials	\$	3,192	\$	1,538
Work in progress		1,146		614
Finished goods		1,174		1,095
<b>Total</b>	<b>\$</b>	<b>5,512</b>	<b>\$</b>	<b>3,247</b>

For the three months ended March 31, 2017, inventories recognized as an expense in cost of sales amounted to \$2,473 (2016 - \$1,908). Included in the above amount for the three months ending March 31, 2017 were inventory write downs of \$27 (2016 – \$27).

## 5. Property and equipment

	Computers, office								
	Laboratory equipment	furniture and equipment	Production equipment	Leasehold improvements	Construction in progress	Total			
<b>Cost</b>									
Balance January 1, 2016	\$ 346	\$ 368	\$ 697	\$ 398	\$ -	\$ 1,809			
Additions	-	70	340	3	25	438			
Balance December 31, 2016	346	438	1,037	401	25	2,247			
Additions	-	30	395	-	2,668	3,093			
<b>Balance March 31, 2017</b>	<b>\$ 346</b>	<b>\$ 468</b>	<b>\$ 1,432</b>	<b>\$ 401</b>	<b>\$ 2,693</b>	<b>\$ 5,340</b>			
<b>Accumulated Depreciation</b>									
Balance January 1, 2016	\$ 295	\$ 274	\$ 379	\$ 382	\$ -	\$ 1,330			
Depreciation for the period	9	22	121	10	-	162			
Balance December 31, 2016	304	296	500	392	-	1,492			
Depreciation for the period	2	7	49	8	-	66			
<b>Balance March 31, 2017</b>	<b>\$ 306</b>	<b>\$ 303</b>	<b>\$ 549</b>	<b>\$ 400</b>	<b>\$ -</b>	<b>\$ 1,558</b>			
<b>Carrying Amounts</b>									
At December 31, 2016	\$ 42	\$ 142	\$ 537	\$ 9	\$ 25	\$ 755			
<b>At March 31, 2017</b>	<b>40</b>	<b>165</b>	<b>883</b>	<b>1</b>	<b>2,693</b>	<b>3,782</b>			



# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
For the three months ended March 31, 2017

## 6. Share capital

(a) Authorized

Unlimited number of common shares without par value

(b) Issued and outstanding

	Number of Common Shares	Share Capital	Contributed Surplus
<b>Balance as at December 31, 2015</b>	<b>103,971,518</b>	<b>\$ 28,218</b>	<b>\$ 3,694</b>
Issued upon exercise of stock options	5,851,500	1,314	-
Re-purchase of shares for cancellation	(319,500)	(85)	(202)
Re-purchase of shares for treasury	(1,155,000)	(310)	(731)
Share-based payments	-	-	733
<b>Balance as at December 31, 2016</b>	<b>108,348,518</b>	<b>29,137</b>	<b>3,494</b>
Issued upon exercise of stock options	717,000	248	-
Re-purchase of shares for cancellation	(579,800)	(612)	-
Share-based payments	-	-	264
<b>Balance as at March 31, 2017</b>	<b>108,485,718</b>	<b>\$ 28,773</b>	<b>\$ 3,758</b>

On December 24, 2015, the Company was authorized to undertake a Normal Course Issuer Bid ("NCIB"), in compliance with the requirements of the TSX-V allowing it to repurchase, for cancellation, up to 5,000,000 shares in its own stock from January 4, 2016 to January 3, 2017. On December 29, 2016, the NCIB was renewed for a period from January 4, 2017 to January 3, 2018. For the three months ended March 31, 2017, the Company re-purchased 579,800 of its common shares for a total cost of \$612. As at March 31, 2017, all of the re-purchased common shares had been cancelled.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
 (Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
 For the three months ended March 31, 2017

(c) Stock options

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise
<b>Options outstanding, January 31, 2016</b>	<b>8,478,000</b>	<b>\$ 0.28</b>
Granted	2,667,000	0.71
Exercised	(5,543,500)	0.11
Forfeited	(1,295,000)	0.60
Expired	(20,000)	0.49
<b>Options outstanding, December 31, 2016</b>	<b>4,286,500</b>	<b>0.67</b>
Granted	10,000	1.00
Exercised	(717,000)	0.35
Forfeited	(17,500)	0.30
Expired	-	-
<b>Options outstanding, March 31, 2017</b>	<b>3,562,000</b>	<b>\$ 0.59</b>

The following table summarizes the stock options outstanding as at March 31, 2017:

Exercise price	Options Outstanding	Weighted average remaining term (yrs)	Options Exercisable	Weighted average remaining term (yrs)
C\$0.010 - 0.299	320,000	1.03	315,000	1.02
C\$0.300 - 0.499	70,000	2.26	37,500	2.17
C\$0.500 - 0.699	1,345,000	2.95	1,102,500	2.73
C\$0.700 - 0.899	1,817,000	4.25	470,000	4.08
C\$0.900 - 1.999	10,000	4.76	-	0.00
	<b>3,562,000</b>	<b>3.43</b>	<b>1,925,000</b>	<b>2.77</b>

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:

	March 31, 2017	March 31, 2016
Expected option life	5 years	5 years
Risk-free interest rate	0.46%	0.66% to 1.89%
Dividend yield	0%	0%
Volatility	43%	95% to 208%

During the three months ended March 31, 2017, the Company recorded \$175 (2016 - \$102) of share-based payments representing the fair value of the options and shares vesting during the period with a corresponding increase to contributed surplus.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
 (Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
 For the three months ended March 31, 2017

(d) Restricted Share Units (“RSUs”)

RSU transactions are summarized as follows:

	Number of RSU	Weighted average exercise price
<b>RSUs outstanding, January 1, 2016</b>	-	\$ -
Granted	1,132,000	0.71
Exercised	(308,000)	0.72
Forfeited	(172,000)	0.71
Expired	-	-
<b>RSUs outstanding, December 31, 2016</b>	<b>652,000</b>	<b>0.71</b>
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
<b>RSUs outstanding, March 31, 2017</b>	<b>652,000</b>	<b>\$ 0.71</b>

The following table summarizes the RSUs outstanding as at March 31, 2017:

Exercise price	RSU Outstanding	Weighted average remaining term (yrs)	RSU Exercisable	Weighted average remaining term (yrs)
C\$0.500 - 0.699	86,000	2.31	-	-
C\$0.700 - 0.899	566,000	2.33	-	-
	<b>652,000</b>	<b>2.33</b>	-	-

During the three months ended March 31, 2017, the Company recorded \$89 (2016 - \$Nil) of share-based payments relating to the vesting of RSUs during the period with a corresponding increase to contributed surplus.

## 7. Related party balances and transactions

(a) Related company balances and transactions

Up to and including Q3 2016, related party transactions included transactions with Photon Control R&D Ltd. (“Photon R&D”) and DCD Management Ltd. (“DCD”). During Q3 2016, the Company terminated all non-arm’s length relationships with Photon Control R&D Ltd. and DCD Management Ltd. and all subsequent transactions were considered at arm’s length. As at March 31, 2017, all balances with Photon R&D and DCD were included in trade and other receivables and accounts payable and accrued liabilities.

On June 3, 2016, the sum of \$4.5 million was transferred from the Company to Photon Control R&D Ltd. However, the transaction had not been approved by the Board of Directors prior to the transfer of funds and therefore involved a breach of corporate governance as well as regulatory requirements. The \$4.5 million plus \$56 in interest was returned to Photon Control Inc. in full on July 25, 2016.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
 (Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
 For the three months ended March 31, 2017

The events following the above transaction as described in Note 13 led to the termination of contracts with Photon Control R&D Ltd. and DCD Management Ltd. and thus their status as related parties.

In 2009, Photon Control R&D Ltd. issued a \$315 promissory note to the Company. As at March 31, 2017, the promissory note bore a coupon rate of 3% per annum, was repayable in equal monthly instalments of \$3 which began on April 1, 2010 and was to mature on March 1, 2020.

The promissory note receivable was being accreted up to its face value of \$315 by the effective interest method. As at March 31, 2017, \$57 (2016 - \$45) to date in accretion was recognized in interest income.

	March 31, 2017	March 31, 2016
Promissory note receivable - face value	\$ 315	\$ 315
Less: discount	(97)	(97)
	218	218
Accretion	57	45
Principal repayment	(207)	(174)
Carrying amount	68	89
Current portion	(68)	(19)
<b>Long-term portion</b>	<b>\$ -</b>	<b>\$ 70</b>

While the litigation between the parties as described in Note 13 was pending, the Company had stopped making certain payments related to the agreements with Photon Control R&D Ltd. Subsequent to March 31, 2017, the Company reached a settlement with Photon Control R&D Ltd. and all outstanding balances between the parties as at December 31, 2016, including the note receivable, were repaid in full on April 14, 2017.

(b) Compensation of key management:

The Company's key management 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 executive officers.

Total compensation expense for key management personnel for the three months ended March 31, 2017 and 2016 is as follows:

	March 31, 2017	March 31, 2016
Cash-based payments	\$ 491	\$ 77
Share-based payments	194	43
<b>Total</b>	<b>\$ 685</b>	<b>\$ 120</b>

Cash-based payments include salaries, bonuses, consulting fees, severance and other benefits.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
For the three months ended March 31, 2017

## 8. Commitments

As at March 31, 2017, the Company had entered into premises leases requiring the following future minimum lease payments and related costs as follows:

Remainder of 2017	\$	250
2018		334
2019		334
2020		297
2021 and onwards		1,139
<b>Total</b>	<b>\$</b>	<b>2,354</b>

## 9. Financial instruments

### *Risk Management:*

The Company manages its exposure to financial risk, including credit and interest rate risk, liquidity risk, and foreign exchange risk. The Company's Board of Directors oversees management's risk management practices. The following describes the types of risks that the Company is exposed to and its objectives and policies for managing those risk exposures.

### (a) Credit risk:

The following table provides information regarding the aged trade and other receivables as at March 31, 2017:

	<b>Current</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91 days +</b>
As at March 31, 2017	69%	25%	1%	5%
As at December 31, 2016	70%	24%	3%	3%

The Company is exposed to credit risk associated with its trade and other receivables. Credit risk is minimized substantially by ensuring the credit worthiness of the entities with which it carries on business. At each period end, the Company reviews the collectability of outstanding receivables. Specific accounts are only written off once all collection efforts have been explored or when legal bankruptcy has occurred. During the three months ended March 31, 2017, the Company did not incur any bad debts expense (2016 - \$Nil).

The Company has an agreement with Export Development Canada insuring its non-Canadian accounts receivable up to a maximum of \$1,500 in United States dollars ("US dollars"). As at March 31, 2017 the maximum credit risk, which is the total of its uninsured trade and other receivables, was \$203 or 3% (December 31, 2016 - \$279 or 6%) of the net amounts outstanding.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
For the three months ended March 31, 2017

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(b) Market and foreign exchange risk:

The majority of the Company's 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.

At March 31, 2017, the Company held net current monetary assets in US dollars equal to \$27,518 (December 31, 2016 - \$8,433). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be \$2,752 (December 31, 2016 - \$843).

(c) Interest rate risk:

The company is not subject to significant interest rate risk as at March 31, 2017 or December 31, 2016.

(d) Liquidity risk:

As at March 31, 2017, the Company had access to a credit facility of \$1,000. This credit facility currently remains unutilized (December 31, 2016 - unutilized).

The company is not subject to significant liquidity risk as at March 31, 2017 or December 31, 2016.

## 10. Capital disclosure

The Company considers shareholders' equity as capital, the book value of which totaled \$40,470 at March 31, 2017 (December 31, 2016 - \$38,872).

## 11. Restricted cash

The Company obtained a corporate credit card in September 2007. The credit card is secured by a \$53 cash deposit. The facility is subject to periodic review by the bank annually.

In October 2016, Photon Control R&D Ltd in connection with the litigation proceedings as described in Note 13, obtained a court order to garnish \$599 regarding disputed accounts payable from the Company. These funds were deposited with the Court pending completion of judgment by the Court, the Company's application to the Court to release these funds or an out of court agreement between the two parties. A settlement agreement was successfully completed in April 2017 and the Company is pursuing the return of the garnished funds.

	March 31, 2017		December 31, 2016	
Credit card cash deposit	\$	53	\$	53
Garnished funds (held in trust by the Court)		599		599
<b>Total</b>	<b>\$</b>	<b>652</b>	<b>\$</b>	<b>652</b>

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, unless specifically indicated otherwise)  
For the three months ended March 31, 2017

## 12. Segmented information

(a) Geographic information:

Information regarding revenue earned from customers by geographic segment is as follows:

	March 31, 2017	March 31, 2016
United States	\$ 7,246	\$ 5,257
Asia, excluding China	3,125	887
China	1,474	832
Canada	25	141
Europe	9	74
<b>Total</b>	<b>\$ 11,879</b>	<b>\$ 7,191</b>

(b) Assets and liabilities:

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

(c) Major customers:

Sales to the Company's four largest customers accounted for approximately 87% of the Company's sales for the three months ended March 31, 2017 (2016 - 84%).

## 13. Litigation

The following describes, as at March 31, 2017, the litigation proceedings between the Company and Photon R&D, all of which have been resolved as of the date of these financial statements.

In connection with a restructuring of the Company in 2008 to outsource its research and development division, the Company entered into an agreement dated as of October 1, 2008 (the "R&D Agreement") with Photon R&D. As Photon R&D had directors and shareholders in common with the Company, consisting of the Company's Chairman and largest shareholder, as well as the Company's President and CEO, the R&D Agreement was considered a related party transaction under applicable securities regulation and stock exchange rules ("R&D Transaction").

Between 2009 and 2013, pursuant to various addenda ("Addenda") entered into between the Company and Photon R&D, the R&D Agreement came to include not just payments for services but also standby payments for engineering services, royalty payments ranging from 10% to 25% of product sales, as well as including certain rights for R&D to own and control or share control over certain of the products and intellectual property produced under the R&D Agreement. Administrative tasks and management were added to the relationship.

In August 2016, the Company commenced a lawsuit in the Supreme Court of British Columbia (the "Court") against Photon R&D and others (the "Claim"). In the Claim, the Company claimed that the Addenda, which in effect purported to limit the Company's rights and impose obligations on the Company and constituted material changes to the R&D Agreement, should be set aside as null and void.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
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For the three months ended March 31, 2017

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In September 2016 and in December, 2016, the Company applied to the Court for interlocutory relief pending trial of the Claim. The Court granted the Company, among other things, a right of access to all IP developed by Photon R&D for the Company, prohibited Photon R&D from initiating contact with the Company's customers and prohibited Photon R&D from manufacturing products for the Company's customers, with minor exceptions.

At March 31, 2017, the outcome of this lawsuit was indeterminable and nothing has been recorded in the financial statements other than the accruals to Photon R&D based on the terms of the then existing R&D Agreement. As per Note 7, these amounts were no longer being paid to Photon R&D after Q3, but, as at March 31, 2017, the Company had continued to accrue them until the disposition of the lawsuit.

The Claim was resolved in April, 2017. See Note 14 "Subsequent Event" for details.

## **14. Subsequent event**

On April 9, 2017, the Company signed a binding Settlement Agreement with Photon R&D which sets out the terms of the settlement reached among the parties to resolve all legal actions commenced by the Company against Photon R&D and certain others, as well as the counter-claims filed by Photon R&D against the Company. This Settlement Agreement is effective as of April 14, 2017. Pursuant to the terms of the Settlement Agreement, the Company acquired full ownership of all intellectual property, products, trademarks and other assets previously under dispute, and Photon R&D employees were transferred to the Company.

As consideration, the Company will pay a percentage of sales revenue to Photon R&D commencing January 1, 2017 for a period of 5 years, equal to 4.25% of revenues from sales of products currently under license from or incorporating intellectual property developed by Photon R&D. Also the Company is committed to paying the former CEO, who resigned on June 26, 2016, the sum of \$400 and purchase the inventory and equipment of Photon R&D for \$130 and \$640 respectively. The Company will also pay Photon R&D for past due royalty amounts to December 31, 2016.