Consolidated Financial Statements of

PHOTON CONTROL INC.

For the six months ended June 30, 2011 and 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, MNP LLP, have not performed a review of these financial statements.

PHOTON CONTROL INC.

Consolidated Balance Sheets

June 30, 2011, December 31 and January 1, 2010

	June 30, 2011	December 31, 2010 (Note 8)	January 1, 2010 (Note 8)
Assets			
Current assets:			
Cash and cash equivalents	$ 421,686	$ 933,503	$ 12,955
Trade accounts receivable and other	2,392,210	2,376,202	1,445,416
Note receivable (note 9)	15,431	29,600	24,668
Due from related party (note 9)	920,620	810,519	626,419
Inventory (note 4)	2,551,099	1,138,856	1,103,904
Prepaid expenses and deposits	61,057	122,980	19,658
	6,362,103	5,411,660	3,233,030
Property and equipment (note 5)	483,390	501,851	551,649
Intangible assets (note 6)	165,868	177,555	189,766
Deferred development costs (note 2(h))	152,724	152,724	189,938
Long term rental deposits	34,695	48,544	48,544
Note receivable (note 9)	169,121	169,121	194,873
Restricted cash (note 14)	103,744	103,744	102,890
	$ 7,471,645	$ 6,565,199	$ 4,510,690
Liabilities and Shareholders' Equity			
Current liabilities:			
Deferred revenue (note 9)	$ 208,157	$ 376,811	$ 263,935
Accounts payable and accrued liabilities	1,412,342	1,078,752	1,626,085
Due to related party (note 9)	117,460	221,346	30,971
Bank indebtedness (note 14)	-	-	500,000
	1,737,959	1,676,909	2,420,991
Other liabilities (note 10(a))	310,499	310,499	310,499
Deferred rent and sublease deposits (note 10)	43,043	76,124	131,365
Shareholders' equity (note 7):			
Share capital	28,246,173	28,246,173	28,148,968
Contributed surplus	1,996,724	1,951,100	1,910,415
Deficit	(24,862,753)	(25,695,606)	(28,411,548)
	5,380,144	4,501,667	1,647,835
Commitments and contingencies (note 9 and 10)			
Subsequent events (note 16)			
	$ 7,471,645	$ 6,565,199	$ 4,510,690

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 Operations, Comprehensive Income (Loss) and Deficit

For the three and six months ended June 30, 2011 and 2010

	Three Months		Six Months	
	2011	2010	2011	2010
Revenue	$ 3,513,782	$ 3,868,535	$ 6,764,085	$ 7,451,432
Cost of sales	2,119,558	2,242,911	3,932,409	4,276,025
	1,394,224	1,625,624	2,831,676	3,175,407
Operating expenses (notes 9 and 11):				
General and administrative	699,522	465,449	1,362,289	796,105
Engineering	207,566	190,170	390,196	396,484
Business Development	58,161	34,544	110,832	76,414
	965,249	690,163	1,863,319	1,269,003
	428,975	935,461	968,357	1,906,404
Other earnings (expenses):				
Interest and Other earnings	2,043	2,176	4,209	2,260
Interest expense	(99)	(3,670)	(99)	(9,195)
Foreign exchange	(53,730)	75,688	(139,614)	4,340
	(51,786)	74,194)	(135,504)	(2,595)
Net earnings (loss) and comprehensive income (loss)	377,189	1,009,655	832,853	1,903,809
Deficit, beginning of year	(25,695,606)	(25,695,606)	(25,695,606)	(28,411,548)
Deficit, end of year	$(25,239,942)	$(24,862,753)	$(24,862,753)	$(26,507,739)
Basic and diluted earnings (loss) per share				
Weighted average common shares used in computing	102,844,360	101,352,018	102,844,360	101,352,018
Diluted average common shares used in computing	107,245,532	105,852,376	107,245,532	105,852,376
Basic earnings per share	$ 0.00	$ 0.01	$ 0.01	$ 0.02
Diluted earnings per share	$ 0.00	$ 0.01	$ 0.01	$ 0.02

See accompanying notes to consolidated financial statements.

PHOTON CONTROL INC

Statements of Changes in Equity
For the Six months ended June 30, 2011 and 2010

	Share Capital		Contributed Surplus and Deficit		
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	101,352,018	$ 28,148,968	$ 1,910,415	$ (28,411,548)	$ 1,647,835
Stock-based compensation to employees			$ 41,883		
Total comprehensive income (loss) for the period				$ 1,903,809	$ 1,903,809
Balance at June 30, 2010	**101,352,018**	**$ 28,148,968**	**$ 1,952,298**	**$ (26,507,739)**	**$ 3,551,644**
Shares issued for employee service	1,400,000	42,000	-	-	42,000
Shares issued on exercise of stock options	157,500	55,205	-	-	55,205
Stock-based compensation to employees	-	-	72,106	-	72,106
Fair value of options exercised	-	-	(39,454)	-	(39,454)
Incremental fair value related to option modification	-	-	8,150	-	8,150
Treasury shares issued to employees and R&D transferred employees	-	-	(42,000)	-	(42,000)
Total comprehensive income (loss) for the period	-	-	-	812,133	812,133
Balance at December 31, 2010	**102,909,518**	**$ 28,246,173**	**$ 1,951,100**	**$ (25,695,606)**	**$ 4,459,784**
Stock Based compensation to employees	-	-	45,624	-	45,624
Reserve	-	-	-	-	-
Share	-	-	-	-	-
Total comprehensive income (loss) for the period	-	-	-	832,853	832,853
Balance at June 30, 2011	**102,909,518**	**$ 28,246,173**	**$ 1,996,724**	**$ (24,862,753)**	**$ 5,338,261**

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

PHOTON CONTROL INC.

Consolidated Statements of Cash Flows

For the six months ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 832,854	$ 1,903,809
Non-cash items:		
Amortization of property, equipment and intangibles	117,823	101,418
Stock-based compensation	45,624	41,883
Amortization of deferred development costs	-	-
Deferred rent and sublease deposits	(33,081)	(27,414)
Changes in non-cash operating working capital:		
Trade accounts receivable and other	(65,434)	(734,549)
Inventory	(1,412,243)	(52,511)
Prepaid expenses and deposits	61,923	(71,677)
Accounts payable and accrued liabilities	218,300	(218,649)
Due to/from related party	(213,986)	(222,316)
Advances to related party	14,169	
Long term receivables	13,850	
Deferred revenue	-	-
	(420,203)	(719,994)
Financing:		
Advances under credit facility	-	(500,000)
Repayment of inter-company debt	-	6,940
Shares issued for cash	-	-
Proceeds from note receivable	-	-
	-	(493,060)
Investments:		
Restricted cash	-	-
Purchase of equipment	(79,025)	(4,812)
Purchase of intangible assets	(8,650)	-
	(87,675)	(4,812)
Increase (decrease) in cash and cash equivalents	(507,730)	222,122
Cash and cash equivalents, beginning of year	929,564	12,955
Cash and cash equivalents, end of year	$ 421,686	$ 235,077
Supplementary information:		
Cash received for interest	$ 4,209	$ 17,035
Cash paid for interest	(99)	(21,922)

1. Nature of and continuing operations:

Photon Control Inc. (the Company) is incorporated under the laws of British Columbia. 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 Stock Exchange 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:

These interim consolidated financial statements of the Company were prepared in accordance with IFRS, as issued by the IASB. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, Interim Financial Reporting and by IFRS 1, First-time adoption of IFRS. These interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in Note 8 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity and earnings.

These financial statements were prepared on a going concern basis, under the historical cost convention, as modified be the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss. These financial statements consolidate the accounts of the Company and its subsidiary companies. These subsidiary companies are inactive and all material intercompany balances and transactions have been eliminated.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

(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 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.

2. Significant accounting policies (continued):

(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 2011
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 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. The Company deferred no further development costs in 2010 or 2011 (2009 - $ nil) relating to development of a portable sulphur analyzer product. The Company amortizes previously deferred 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 amount amortized in current fiscal 2011 was nil (2010 - $37,214). The Company has a balance of deferred development expenses as at June 30, 2011 of $152,724 (June 30, 2010 - $189,938).

2. Significant accounting policies (continued):

(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 year ended December 31, 2010 nor for the six months ended Q2 2011.

(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 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 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.

2. Significant accounting policies (continued):

(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(c). 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”.

2. Significant accounting policies (continued):

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 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 with the IFRS financial statement presentation adopted in the current year.

3. Changes in accounting policies:

(a) Adoption of International Financial Reporting Standards

The CICA's Accounting Standards Board announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011. The company's financial statements are now presented in accordance with IFRS. Subsequent reviews will ensure that the company will be 100% compliant by December 31, 2011. See also Note 8.

4. Inventory:

As at June 30	2011	2010
Raw materials	$ 1,353,832	$ 707,073
Work in process	838,158	252,724
Finished goods	359,109	196,629
	$ 2,551,099	$ 1,156,426

5. Property and equipment:

	2011			2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Lab equipment	$ 346,446	$ 213,746	$ 132,700	$ 317,153	$ 188,909	$ 128,246
Computers, office furniture and equipment	308,663	191,208	117,455	307,403	162,342	145,061
Computer software	90,573	90,573	-	90,572	90,572	-
Computer system (SW)	145,153	26,514	118,639	-	-	-
Production equipment	336,250	258,258	77,991	333,057	229,238	103,819
Leasehold improvements	369,199	332,594	36,605	369,030	276,807	92,2213
	$ 1,596,283	$1,112,893	$ 483,390	$ 1,417,215	$ 865,566	$ 469,347

During the six months ended June 30, 2011, the Company recorded amortization related to property and equipment of $97,486 (2010 - $82,302) and purchases of property and equipment totalled $79,025 (2010 - Nil).

6. Intangible assets:

	2011			2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Licenses	$ 373,172	$ 373,172	$ -	$ 373,172	$ 373,172	$ -
Patents	372,100	212,317	159,783	341,139	171,843	169,296
Trademarks	28,602	22,517	6,085	28,602	22,436	6,166
	$ 773,874	$ 608,006	$ 165,868	$ 742,913	$ 567,451	$ 175,462

During the six months ended June 30, 2011, the Company recorded amortization related to intangible assets of $20,337 (2010 - $19,116). Purchases of intangible assets totalled $8,650 in 2011 (2010 - $4,811).

7. 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, 2010	$	102,909,518	$ 28,246,173
Shares issued in 2011		-	-
Issued and outstanding as at June 30, 2011	$	102,909,518	$ 28,246,173

Contributed surplus		Amount
Balance, December 31, 2009	$	1,910,415
Stock-based compensation to employees		113,989
Fair value of options exercised		(39,454)
Incremental fair value related to option modification		8,150
Treasury shares issued to employees and R&D transferred employees		(42,000)
Balance, December 31, 2010	$	1,951,100
Stock-based compensation to employees		45,624
Fair value of options exercised		
Incremental fair value related to option modification		
Balance, June 30, 2011	$	1,996,724

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, 2010, the Company's board of directors had reserved 10,290,952 (2009 - 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 market price of the Company's stock on the grate date less applicable discounts permitted by the TSX-V. The plan also provides that the term of the options shall not exceed five years.

Stock option transactions are summarized as follows:

	Number of shares		Weighted average exercise price
Outstanding, December 31, 2009	4,330,000	$	0.19
Granted	2,830,000		0.10
Cancelled	(846,250)		0.19
Expired	(1,563,750)		0.18
Exercised	(157,500)		0.10
Outstanding, December 31, 2010	4,592,500	$	0.10
Granted	20,000		0.12
Cancelled	(52,500)		0.10
Expired	(20,000)		0.10
Exercised			0.00
Outstanding, June 30, 2011	4,540,000	$	0.10

20,000 stock options were granted during the three months ended June 30, 2011 (three months ended 2010 – Nil,).

7. Share capital (continued):

(c) Stock options (continued):

The following table summarizes the stock options outstanding at June 30, 2011:

	Options outstanding			Options exercisable	
Exercise price	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$0.10	4,500,000	2.83	$ 0.100	3,253,125	$ 0.100
$0.105	10,000	4.29	$ 0.105	2,500	$ 0.105
$0.11	10,000	4.19	$ 0.110	2,500	$ 0.105
$0.115	10,000	4.46	$ 0.115		$ 0.110
$0.135	10,000	4.90	$ 0.135		$ 0.105
	4,540,000	2.84	$ 0.100	3,258,125	$ 0.100

The options outstanding at June 30, 2011 expire between July 17, 2011 and May 23, 2016.

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:

	2010	2009
Expected option lives	5 years	5 years
Risk-free interest rate	2.33%	2.65%
Dividend yield	0%	0%
Volatility	219%	124%

During the six months ended June 30, 2011, the Company recorded $45,624 (2010 - $41,883) of compensation expense representing the fair value of the options and shares vesting during the year with a corresponding increase to contributed surplus.

7. Share capital (continued):

(d) Net earnings (loss) per share:

The weighted average number of shares outstanding as at June 30, 2011 of 102,844,360 (June 30, 2010 - 101,352,018) was used in the calculation of basic earnings per share and 107,245,532 (June 30, 2010 - 101,352,018) was used in the calculation of diluted earnings per share. Exercise of all of the stock options and share purchase warrants referred to in Notes 7(c) and 7(d) are anti-dilutive for all years presented.

8. Explanation of Transition to IFRS:

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements the comply with IFRS and these interim financial statements were prepared as described in note 1, including the application of IFRS 1, IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, is also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

8. Explanation of Transition to IFRS (continued):

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

(i) Property Plant, and Equipment – IAS 16 provides the option for an entity to use the cost model for the valuation of property, plant, and equipment, of the revaluation model. The revaluation model requires the restatement of property, plant and equipment to fair market values on an annual basis. Given the existence of equipment only, the Company has elected to use the cost model for valuation.

Presentation Reclassifications

Statement of Operations:

1. RECLASSIFICATION OF AMORTIZATION AND DEPRECIATION

Canadian GAAP – Amortization and depreciation presented separately on the face of the income statement.
IFRS – Amortization and depreciation to be included in each “Function” when using the “cost of sales” method.

2. RECLASSIFICATION OF WARRANTY EXPENSE

Canadian GAAP – The transaction for a sale is netted of any trade or volume discounts, returns and allowances, claims for damaged goods and certain taxes.
IFRS - Revenue is netted of items as in GAAP as well as estimates for warranty claims.

Balance Sheet:

No adjustments were required to convert Canadian GAAP to IFRS.

PHOTON CONTROL INC.

GAAP to IFRS Reconciliation of Previous Year's Statement of Operations for the **six months ended June 30, 2010**

	Canadian GAAP Unaudited	Effect of transition to IFRS		IFRS
Revenue	$ 7,514,475	(63,043)	Note 8 (1)	$ 7,451,432
Cost of sales	4,308,054	(63,043)	Note 8 (1)	4,276,025
		31,014	Note 8 (2)	
Gross Margin	3,206,421			3,175,407
Operating expenses :				
General and administrative	744,817	51,288	Note 8 (1)	796,105
Engineering services	377,458	19,026	Note 8 (1)	396,484
Business development	76,324	90	Note 8 (1)	76,414
Amortization	101,418	(101,418)	Note 8 (1)	-
	1,906,404			1,906,404
Other earnings (expenses):				
Interest and other earnings	2,260			2,260
Interest expense	(9,195)			(9,195)
Foreign exchange	4,340			4,340
	(2,595)			(2,595)
Net earnings	1,903,809			1,903,809
Deficit, beginning of year	(28,411,548)			(28,411,548)
Deficit, end of year	$ (26,507,739)			$ (26,507,739)
Basic and diluted earnings per share	$ 0.02			$ 0.02
Weighted average common shares used in computing:				
Basic earnings per share	101,352,018			101,352,018

PHOTON CONTROL INC.

GAAP to IFRS Reconciliation of Previous Year's Statement of Operations for the **three months ended June 30, 2010**

	Canadian GAAP Unaudited	Effect of transition to IFRS		IFRS
Revenue	$ 3,894,048	(25,513)	Note 8 (1)	$ 3,868,535
Cost of sales	2,256,061	(25,513)	Note 8 (1)	2,242,911
		12,363	Note 8 (2)	
Gross Margin	1,637,987			1,625,624
Operating expenses :				
General and administrative	439,805	25,644	Note 8 (1)	465,449
Engineering services	177,492	12,678	Note 8 (1)	190,170
Business development	34,454	90	Note 8 (1)	34,544
Amortization	50,775	(50,775)	Note 8 (1)	-
	935,461			935,461
Other earnings (expenses):				
Interest and other earnings	2,177			2,177
Interest expense	(3,670)			(3,670)
Foreign exchange	75,688			75,688
	74,195			74,195
Net earnings	1,009,656			1,009,656
Deficit, March 31, 2010	(27,517,390)			(27,517,390)
Deficit, end of year	$ (26,507,739)			$ (26,507,739)
Basic and diluted earnings per share	$ 0.01			$ 0.01
Weighted average common shares used in computing:				
Basic earnings per share	101,352,018			101,352,018

PHOTON CONTROL INC.

Reconciliation of Balance Sheet from Canadian GAAP to IFRS as at January 1, 2010

	Canadian GAAP	Effect of transitions to IFRS *Adjustments*	Effect of transition to IFRS *Reclassifications*	IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 12,955	$ -	$ -	$ 12,955
Trade accounts receivable and other	1,445,416	-	-	1,445,416
Note receivable	24,668	-	-	24,668
Due from related party	626,419	-	-	626,419
Inventory	1,103,904	-	-	1,103,904
Prepaid expenses and deposits	19,658	-	-	19,658
	3,233,030	-	-	3,233,030
Property and equipment	551,649	-	-	551,649
Intangible assets	189,766	-	-	189,766
Deferred development costs	189,938	-	-	189,938
Long term rental deposits	48,544	-	-	48,544
Note receivable	194,873	-	-	194,873
Restricted cash	102,890	-	-	102,890
	$ 4,510,690	$ -	$ -	$ 4,510,690
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	$ 263,935	$ -	$ -	$ 263,935
Accounts payable and accrued liabilities	1,626,085	-	-	1,626,085
Due to related party	30,971	-	-	30,971
Bank indebtedness	500,000	-	-	500,000
	2,420,991	-	-	2,420,991
Other liabilities	310,499	-	-	310,499
Deferred rent and sublease deposits	131,365	-	-	131,365
Shareholders' equity:				
Share capital	28,148,968	-	-	28,148,968
Contributed surplus	1,910,415	-	-	1,910,415
Deficit	(28,411,548)	-	-	(28,411,548)
	1,647,835	-	-	1,647,835
	$ 4,510,690	$ -	$ -	$ 4,510,690

Note: No adjustments were required to convert Canadian GAAP to IFRS.

PHOTON CONTROL INC.

Reconciliation of Balance Sheet from Canadian GAAP to IFRS as at December 31, 2010

	Canadian GAAP	Effect of transitions to IFRS *Adjustments*	Effect of transition to IFRS *Reclassifications*	IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 933,503	$ -	$ -	$ 933,503
Trade accounts receivable and other	2,376,202	-	-	2,376,202
Note receivable	29,600	-	-	29,600
Due from related party	810,519	-	-	810,519
Inventory	1,138,856	-	-	1,138,856
Prepaid expenses and deposits	112,980	-	-	112,980
	5,411,660	-	-	5,411,660
Property and equipment	501,851	-	-	501,851
Intangible assets	177,555	-	-	177,555
Deferred development costs	152,724	-	-	152,724
Long term rental deposits	48,544	-	-	48,544
Note receivable	169,121	-	-	169,121
Restricted cash	102,744	-	-	102,744
	$ 6,565,199	$ -	$ -	$ 6,565,199
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	$ 376,811	$ -	-	$ 376,811
Accounts payable and accrued liabilities	1,078,752	-	-	1,078,752
Due to related party	221,346	-	-	221,346
Bank indebtedness	-			-
	1,676,909	-	-	1,676,909
Other liabilities	310,499	-	-	310,499
Deferred rent and sublease deposits	76,124	-	-	76,124
Shareholders' equity:				
Share capital	28,246,173	-	-	28,246,173
Contributed surplus	1,951,100	-	-	1,951,100
Deficit	(25,695,606)	-	-	(25,695,606)
	4,501,666	-	-	4,501,666
	$ 6,565,199	$ -	$ -	$ 6,565,199

Note: No adjustments were required to convert Canadian GAAP to IFRS.

9. Related party 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. 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. The Company subleases space to Photon Control R&D Ltd. at the same facility. The Company charges Photon Control R&D Ltd. premises and related expenses to recover the Company's costs. Amounts outstanding with Photon Control R&D Ltd. are non-interest bearing, unsecured and due on demand. This account is active and payments are received on a monthly basis, and the balance is paid out at least twice during the year.

As at June 30	2011	2010
Balance Sheet		
Accounts receivable	$ 920,620	$ 893,075
Note receivable	184,552	212,601
Accounts payable and accrued liabilities	117,460	75,311
Statement of operations		
Recovery of premises and related expenses	$ 575,014	$ 606,210
Engineering, research and development services expenses	260,254	264,637
Royalties	85,124	62,189
Revenue from sales of products and services	117,227	44,625

9. Related party balances and transactions (continued):

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. The deferred gain of $24,668 is recognized in income as principal payments on the note receivable are collected by the Company. The promissory note receivable is being accreted up to its face value of $315,000 by the effective interest method and as at June 30, 2011, $4,184 (2010 - $2,054) in accretion was recognized in interest income.

As at June 30	2011	2010
Promissory note receivable – face value	$315,000	$ 315,000
Less: discount	(97,513)	(97,513)
	217,487	217,487
Accretion	5,545	2,198
Principal repayment	(38,480)	(7,084)
Carrying amount	184,552	212,601
Current portion	(15,431)	(24,668)
Long-term portion	$169,121	$ 187,933

10. Commitments and contingencies:

(a) Leases:

The Company has entered into premises leases requiring the following minimum lease payments as follows:

2011 (as of June 30)	$	324,670
2012		216,443
	$	541,113

The above lease commitment amounts are prior to rental expense recoveries of $17,805 per annum for 2011 and $ nil in 2012 in relation to sub-lease agreements executed in 2006 and 2007.

(b) Litigation:

(a) In October 2001, a former member of management and President of the Company (the “Claimant”) initiated 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 considers the allegations in the lawsuit to be without merit and intends 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.

Subsequently, as announced in the News Release dated August 2, 2011, the Supreme Court of British Columbia has released a decision 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.

A charge for the Claimant Debt in the amount of $310,499 was previously taken by the Company for long term liability on its financial statements and will now be a short-term liability. Appropriate adjustments to the charge will be made to reflect the decision of the Court in the Company's Q3 2011 financial statements.

10. Commitments and Contingencies (continued):

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.

The Court has not made a decision on the issue of the final costs to be paid in relation to this litigation and accordingly, the Company is unable to confirm the final charge to be taken on its Q3 2011 financial statements. Also, during the current third quarter, the Company is considering its options regarding the decision.

(b) As announced in the News Release dated September 22, 2010 and the Company's Management's Discussion and Analysis, Photon Control has filed two lawsuits in the United States, the first in the United States District Court, Northern District of California at San Francisco against Azbil North America, Inc. ("Azbil") (formerly Yamatake Sensing Control, Ltd.), a California company with offices in Santa Clara, California, and the second in the Superior Court of the State of California, County of Santa Clara, against Yamatake Corp. ("Yamatake"), a Japanese company with offices in Tokyo, Japan, which is the parent company of Azbil. The disputes related to Photon Control's proprietary and trade secret fiber optic temperature sensor technology.

As announced in the News Release dated May 24, 2011, Photon Control resolved its disputes with Azbil and Yamatake and both litigations have been dismissed without prejudice. The parties have agreed to continue their working relationship and have entered into a new agreement with the expectation that all parties involved will benefit from continued cooperation in the development and supply of fiber optic temperature sensors to their customers throughout the world. Photon Control will continue to provide products and technical support and assistance in the area of optical temperature sensors to both Azbil and its customers. Moreover, the parties have agreed to work together to develop and protect their intellectual property in the area of optical temperature sensors.

11. Supplementary information:

As at June 30		2011		2010
General and administrative:				
Salaries and fees	$	316,402	$	119,315
Office premises expenses		126,605		107,975
Legal, filing fees and auditing		626,972		210,399
Audit		56,749		142,753
Insurance		82,984		61,081
Directors fees (stock option compensation expense)		7,470		33,715
Depreciation and Amortization		74,641		37,570
Other expenses		70,466		83,297
	$	1,362,289	$	796,105
Engineering expenses:				
Salaries and fees	$	106,595		111,286
Materials		935		7,430
Certification and testing		-		1,850
Travel and Entertainment		2,672		-
Consulting fees		259,753		255,955
Depreciation and Amortization		20,241		19,026
Other expenses		-		937
	$	390,196	$	396,484
Business development and marketing:				
Salaries and fees	$	42,876	$	47,916
Travel expenses		4,400		4,962
Trade shows		51,690		9,386
Promotion		9,799		14,060
Depreciation and Amortization		96		90
Other expenses		1,971		-
	$	110,832	$	76,414

12. Financial instruments:

Fair Value of Financial Assets and Liabilities:

The Company has no financial instruments recorded fair value as at June 30, 2011, nor as at December 31, 2010.

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 June 30, 2011 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. As at June 30, 2011 the maximum credit risk, which is the total of its uninsured trade receivables, was $1,091,311or 33% (2009 - $987,179 or 45%) of the total outstanding accounts receivable balances as of December 31, 2010.

The following table provides information regarding the aging of trade receivables as at June 30, 2011:

Current	31-60 days	61-90 days	91 days +
44%	23%	9%	24%

The following table provides information regarding the aging of trade receivables as at June 30, 2010

Current	31-60 days	61-90 days	91 days +
56%	29%	13%	2%

The Company holds its cash and cash equivalents at a major Canadian banking institution. As at June 30, 2011, the Company was not exposed to significant credit or interest rate risk.

12. Financial instruments (continued):

(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'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 June 30, 2011, 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 US dollars as at June 30:

Amounts denominated in US dollars as at June 30	2011	2010
Cash	$ 257,114	$ 113,957
Trade accounts receivable	2,283,184	1,987,576
Trade accounts payable	411,619	389,493

The estimated impact on net earnings at June 30, 2011 with a +/- 10% change in foreign exchange rates is $212,868 (June 30, 2010 - $171,204).

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 June 30, 2011, the Company's accounts payable and accrued liabilities were $1,412,342 (2010 - $1,407,436) which fall due for payment within twelve months of the balance sheet date. As at June 30, 2011, the Company had an unutilized credit facility of $500,000 (unutilized as at June 30, 2010).

12. Financial instruments (continued):

(c) Liquidity risk (continued):

Significant cash commitments in years subsequent to June 30, 2011 are as follows:

	1 year	2 years	3 years	Total
Accounts payable and accrued liabilities	$ 1,412,342	$ -	$ -	$1,412,342
Due to related party	117,460	-	-	229,540
Lease obligation	486,999	54,111	-	541,110
Credit facility	-	-	-	-

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.

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 June 30, 2011, the Company's capital is as follows:

	2011	2010
Credit facility	$ -	$ -
Cash	421,686	235,076
Net debt	421,686	235,076
Shareholders' equity	5,380,144	3,593,527
	$ 5,801,830	$ 3,828,603

13. Capital disclosure (continued):

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 December 31, 2010, and for the six months ended June 30, 2011.

14. 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 plus interest earned thereon, 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.

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		For the six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue:				
Canada	$ 117,676	$ 220,730	$ 226,457	$ 328,068
United States	2,634,873	2,897,531	4,996,880	5,566,109
Europe	7,416	107,354	13,114	173,242
Taiwan	809	-	5,265	4,423
China	656,700	693,478	1,197,017	1,194,121
Russia	18,044	153	28,594	74,269
Other	78,264	73,671	296,758	111,200
	$ 3,513,782	$ 3,992,917	$ 6,764,085	$ 7,451,432

All of the Company's equipment and intangible assets are located in Canada.

(b) Major customers:

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

	2011	2010
Entity A	38%	26%
Entity B	18%	16%
Entity C	13%	16%
Entity D	11%	14%
	80%	72%

16. Subsequent Events:

See Note 10 (b) for subsequent events with respect to litigation issues.