Consolidated Financial Statements of

PHOTON CONTROL INC.

For the six months ended June 30, 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 June 30, 2013 and December 31, 2012

		June 30, 2013		December 31, 2012
Assets				
Current assets:				
Cash and cash equivalents	$	3,872,033	$	3,607,507
Trade accounts receivable and other		2,285,483		1,288,206
Note receivable - related (note 9(a))		24,711		24,711
Due from related party (note 9(a))		1,313,321		833,522
Inventory (note 4)		1,299,346		1,442,599
Prepaid expenses and deposits		105,642		61,840
		8,900,536		7,258,385
Property and equipment (note 5)		219,704		245,684
Intangible assets (note 6)		165,410		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))		132,991		142,953
Restricted cash (notes 14, 10(b))		903,744		903,744
Deferred taxes		5,303,841		5,303,841
Total Assets	$	15,809,745	$	14,225,455
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	$	151,075	$	152,430
Accounts payable and accrued liabilities (note 16)		749,046		718,872
Due to related party (note 9(a))		415,483		169,400
Provisions (note 10(b))		992,096		850,000
		2,307,700		1,890,702
Shareholders' equity (note 7):				
Share capital		28,246,173		28,246,173
Contributed surplus		2,132,347		2,099,797
Deficit		(16,876,475)		(18,011,217)
		13,502,045		12,334,753
Commitments and contingencies (note 10)				
Bank indebtedness (note 14)				
Subsequent events (note 17)				
Total liabilities and Shareholders' Equity	$	15,809,745	$	14,225,455

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 and six months ended June 30, 2013 and 2012

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue	$ 3,651,744	$ 2,815,522	$ 6,435,884	$ 5,887,249
Cost of sales	2,179,219	1,772,935	4,011,448	3,647,244
	1,472,525	1,042,587	2,424,436	2,240,005
Operating expenses (notes 9 and 11):				
General and administrative	541,639	349,112	857,091	738,116
Engineering	222,102	80,515	456,417	197,387
Business development	99,178	41,767	205,022	102,833
Operating expenses	862,919	471,394	1,518,530	1,038,336
Net earnings before other earnings and tax	609,606	571,193	905,906	1,201,669
Other earnings (expenses):				
Interest and other earnings	11,301	7,431	20,419	12,898
Interest expense	(17)	(496)	(28)	(992)
Foreign exchange	122,626	44,725	208,446	705
	133,910	51,660	228,837	12,611
Net earnings from operating activities	743,516	622,853	1,134,743	1,214,280
Income tax (expense) recovery	-	-	-	-
Net earnings and total comprehensive income	743,516	622,853	1,134,743	1,214,280
Basic and diluted earnings (loss) per share				
Weighted average common shares used in computing	102,909,518	102,909,518	102,909,518	102,909,518
Diluted average common shares used in computing	108,412,612	106,372,529	108,412,612	106,372,529
Basic earnings per share	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Diluted earnings per share	$ 0.01	$ 0.01	$ 0.01	$ 0.01

See accompanying notes to consolidated financial statements.

PHOTON CONTROL INC

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
As at June 30, 2013 and 2012

For the six months ending June 30, 2012

	Share Capital		Contributed Surplus and Deficit		
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
Balance at December 31, 2011	**102,909,518**	**$ 28,246,173**	**$ 1,997,903**	**$ (21,047,985)**	**$ 9,196,091**
Stock based compensation to employees	-	-	10,501	-	10,501
Total comprehensive income (loss)	-	-	-	591,427	591,427
Balance at March 31, 2012	**102,909,518**	**$ 28,246,173**	**$ 2,008,404**	**$ (20,456,558)**	**$ 9,798,019**
Stock based compensation to employees	-	-	5,000	-	5,000
Total comprehensive income (loss)				622,853	622,853
Balance at June 30, 2012	**102,909,518**	**$ 28,246,173**	**$ 2,013,404**	**$ (19,833,705)**	**$ 10,425,872**

For the six months ending June 30, 2013

	Share Capital		Contributed Surplus and Deficit		
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
Balance at December 31, 2012	**102,909,518**	**$ 28,246,173**	**$ 2,099,797**	**$ (18,011,217)**	**$ 12,334,753**
Stock based compensation to employees	-	-	16,200	-	16,200
Total comprehensive income (loss)	-	-	-	391,227	391,227
Balance at March 31, 2013	**102,909,518**	**$ 28,246,173**	**$ 2,115,997**	**$ (17,619,990)**	**$ 12,742,180**
Stock based compensation to employees	-	-	-	-	-
Total comprehensive income (loss)			16,350	743,515	759,865
Balance at June 30, 2012	**102,909,518**	**$ 28,246,173**	**$ 2,132,347**	**$ (16,876,475)**	**$ 13,502,045**

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 six months ended June 30, 2013 and 2012

As at June 30	2013	2012
Cash provided by (used in):		
Operations:		
Net earnings	$ 1,134,743	$ 1,214,280
Non-cash items:		
Amortization of property, equipment and intangibles	52,008	67,216
Stock-based compensation	32,550	15,500
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	(1,097,278)	(938,973)
Inventory	143,253	410,592
Prepaid expenses and deposits	(43,802)	(39,287)
Accounts payable and accrued liabilities	172,269	(41,166)
Due to/from related party	(133,715)	(41,592)
Received from related party	-	2,426
Contingent liabilities	-	-
Deferred revenue	8,608	8,134
	268,636	657,130
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	-	50,000
Purchase of equipment	(4,110)	(15,685)
Purchase of intangible assets	-	-
Deferred development costs	-	-
	(4,110)	34,315
Increase (decrease) in cash and cash equivalents	264,526	691,445
Cash and cash equivalents, beginning of year	3,607,507	975,108
Cash and cash equivalents, end of year	3,872,033	1,666,553
Supplementary information:		
Cash received for interest	20,419	12,898
Cash paid for interest	(28)	(992)

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

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 19th 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 (the "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.

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.

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 six months ended June 30, 2012 nor for the six months ended June 30, 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.

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.

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.

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.

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 deductable 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 deductable 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 deductable 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.

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.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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

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.

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: 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 June 30	2013	2012
Raw materials	$ 544,994	$ 923,236
Work in process	366,777	361,826
Finished goods	387,575	351,559
	$ 1,299,346	$ 1,636,621

For the six months ended June 30, 2013, inventory recognized as an expense in cost of sales amounted to $2,579,995 (June 30,2012 - $2,320,027). Included in the above amounts were inventory write downs of $59,000 (June 30, 2012 – $19,565). There were no reversals of previously recorded inventory write downs for 2013 (June 30, 2012 - Nil). As of June 30, 2013, the Company anticipates the net inventory will be realized within one year.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

5. Property and equipment:

		Laboratory equipment	Computers, office furniture and equipment	Production equipment	Leasehold improvements	Total
Asset Cost						
Balance January 1, 2012	$	346,446	311,098	336,250	371,410	**1,365,204**
Additions		-	2,486	2,000	14,985	**19,471**
Balance December 31, 2012		**346,446**	**313,584**	**338,250**	**386,395**	**1,384,675**
Additions		-	-	-	-	**-**
Disposals		-	-	-	-	-
Balance June 30, 2013	**$**	**346,446**	**313,584**	**338,250**	**386,395**	**1,384,675**
Accumulated Amortization						
Balance January 1, 2012	$	224,098	204,358	273,696	371,410	**1,073,562**
Amortization for period		22,440	21,391	19,068	2,530	**65,429**
Balance December 31, 2012		**246,538**	**225,749**	**292,764**	**373,940**	**1,138,991**
Amortization for period		9,126	8,784	6,822	1,248	**25,980**
Disposals		-	-	-	-	-
Balance June 30, 2013	**$**	**255,664**	**234,533**	**299,586**	**375,188**	**1,164,971**
Carrying Amounts						
At January 1, 2012	$	122,348	106,740	62,554	-	**291,642**
At December 31, 2012	$	99,908	87,835	45,486	12,455	**245,684**
At June 30, 2013	$	90,782	79,051	38,664	11,207	**219,704**

(Expressed in Canadian dollars, unless specifically indicated otherwise)

6. Intangible assets:

		Patents	Trademarks	Computer software	Computer system (SW)	Total
Asset Cost						
Balance January 1, 2012	$	377,018	28,602	90,573	145,152	**641,345**
Additions		1,035	-	-	-	**1,035**
Balance December 31, 2012		**378,053**	**28,602**	**90,573**	**145,152**	**642,380**
Additions		-	-	4,110	-	**4,110**
Balance June 30, 2013	**$**	**378,053**	**28,602**	**94,683**	**145,152**	**646,490**
Accumulated Amortization						
Balance January 1, 2012		236,137	23,977	90,573	34,865	**385,552**
Amortization for period		35,216	1,200	-	33,084	**69,500**
Balance December 31, 2012	**$**	**271,353**	**25,177**	**90,573**	**67,949**	**455,052**
Amortization for period		13,164	600	684	11,580	**26,028**
Balance June 30, 2013	**$**	**284,517**	**25,777**	**91,257**	**79,529**	**481,080**
Carrying Amounts						
At January 1, 2012	$	140,881	4,625	-	110,287	**255,793**
At December 31, 2012	$	106,700	3,425	-	77,203	**187,328**
At June 30, 2013	$	93,536	2,825	3,426	65,623	**165,410**

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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, 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 June 30, 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
Stock-based compensation to employees	16,350
Fair value of options exercised	-
	-
Balance, June 30, 2013	$ 2,132,347

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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 June 30, 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, June 30, 2013	5,500,000	$	0.10

Nil stock options were granted during the three months ended June 30, 2013 (three months ended June 30, 2012 – 30,000)

(Expressed in Canadian dollars, unless specifically indicated otherwise)

7. Share capital (continued):

(c) Stock options (continued):

The following table summarizes the stock options outstanding at June 30, 2013:

	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	5,460,000	2.61	$ 0.100	4,012,500	$ 0.100
$0.105	10,000	2.25	$ 0.105	5,000	$ 0.105
$0.11	20,000	2.60	$ 0.110	7,500	$ 0.110
$0.115	10,000	2.45	$ 0.115	5,000	$ 0.115
	5,500,000	2.61	$ 0.100	4,030,000	$ 0.100

The options outstanding at June 30, 2013 expire between September 22, 2013 and December 2, 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%	123% to 377%

During the six months ended June 30, 2013, the Company recorded $32,550 (2012 - $15,501) 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 June 30, 2013 of 102,909,518 (June 30, 2012 - 102,909,518) was used in the calculation of basic earnings per share for the six months ended June 30, 2013 and 108,412,612 (June 30, 2012 - 106,372,529) was used in the calculation of diluted earnings per share for the six months ended June 30, 2013.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

8. Internally generated assets:

		Internally Generated R&D Assets
Asset Cost		
Balance December 31, 2011	$	219,071
Additions		-
Balance December 31, 2012		**219,071**
Additions		-
Balance June 30, 2013	**$**	**219,071**
Accumulated Amortization		
Balance December 31, 2011	$	68,455
Amortization for period		1,792
Balance December 31, 2012		**70,247**
Amortization for period		-
Disposals		-
Balance June 30, 2013	**$**	**70,247**
Carrying Amounts		
At January 1, 2012	$	150,616
At December 31, 2012	$	148,824
At June 30, 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 June 30, 2013 of $148,824 (June 30, 2012 - $150,616). Amount amortized or discounted for the six months June 30, 2013 was nil (June 30 2012 - nil).

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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. (See Note 17: Subsequent events). 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 June 30	2013	2012
Statement of Financial Position		
Accounts receivable	$ 1,313,321	$ 798,938
Note receivable	157,702	178,224
Accounts payable and accrued liabilities	415,483	97,056
Statement of Comprehensive Income		
Recovery of premises and related expenses	$ 153,178	$ 107,907
Payroll reimbursement	734,094	665,229
Engineering, research and development services expenses	412,568	163,484
Royalty expenses	302,600	201,569
Revenue from sales of products and services	145,306	61,792
Management services expenses	93,438	67,685

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.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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 June 30, 2013, $29,025 (2012 - $20,025) in accretion was recognized in interest income.

As at June 30	2013	2012
Promissory note receivable – face value	$ 315,000	$315,000
Less: discount	(97,513)	(97,513)
	217,487	217,487
Accretion	29,025	20,025
Principal repayment	(88,810)	(59,288)
Carrying amount	157,702	178,244
Current portion	(24,711)	(26,985)
Long-term portion	$132,991	$ 151,239

(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 June 30	2013	2012
Short term benefits	$ 161,481	$ 117,819
Share-based compensation	15,629	-
Carrying Amount	$ 177,110	$117,819

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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:

2013	$ 329,463
2014	701,044
2015	743,281
2016	785,643
	$ 2,559,431

For the six months ended June 30, 2013, lease payments and related costs recognized as an expense amounted to $329,464 (2012 - $314,840)

(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. 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.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

10. Commitments and contingencies (continued):

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.

As announced in the Company's News Release dated June 12, 2013, the Supreme Court of Canada has denied the Company's application for leave to appeal the decision of the British Columbia Court of Appeal.

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. Also, the Company recorded an additional $539,501 in Q1 2012 to reflect the decision of the Court and the current estimate of this claim. Both of these amounts, totalling $850,000, were classified in Q1 2012 as a contingent liability. 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). An additional $142,096 was added to the provision in Q2 2013 resulting in a total provision of $992,096 as at June 30, 2013.

Subsequently, in Q3 2013, the Company proceeded with payments to Claimant.

These payments to the Claimant have impacted provisions and restricted cash subsequent to June 30, 2013.

Provision as at June 30, 2013		$ 992,096
July 2013	- irrevocable letter of credit released to Claimant	(850,000)
August 2013	- related tax withholding deposited to Canada Revenue Agency	114,058
Remaining provision (for potential interest and costs) as of August 8, 2013		$ 28,038

As a result of above release of $850,000 irrevocable letter of credit, Restricted Cash was reduced from $903,744 as of June 30, 2013 to $53,744 as of August 8, 2013. Appropriate adjustments will be made in the Company's future 2013 financial statements to reflect the decision of the Court.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

11. Supplementary information:

As at June 30	2013	2012
General and administrative:		
Salaries and fees	$ 350,728	$ 328,229
Stock option compensation expense (Non-directors)	12,900	7,650
Office premises expenses and rent	95,083	115,702
Travel	13,161	7,780
Supplies and postage	28,015	19,058
Audit	32,215	29,555
Insurance	64,104	85,666
Legal, filing fees	38,996	68,825
Legal judgements	142,096	-
Communications	11,984	12,125
Dues and subscriptions	28	381
Directors Fees including applicable stock option expense	18,150	7,150
Depreciation and amortization	22,296	22,554
Bad debt expense	6,000	10,000
Other expenses	21,365	23,351
	$ 857,091	$ 738,116
Engineering expenses:		
Salaries and fees	$ -	$ 6,040
Engineering support fees	270,000	-
Consulting fees	142,568	163,484
Certification and testing	27,549	6,098
Travel and entertainment	2,976	3,420
Depreciation and amortization	13,164	17,586
Other expenses	160	759
	$ 456,417	$ 197,387
Business development and marketing:		
Salaries and consulting fees	$ 122,864	$ 79,068
Travel expenses	5,488	7,333
Trade shows	65,771	9,438
Promotion	10,299	6,394
Depreciation and amortization	600	600
Other expenses	-	-
	$ 205,022	$ 102,833

(Expressed in Canadian dollars, unless specifically indicated otherwise)

12. Financial instruments:

Fair Value of Financial Assets and Liabilities:

The Company has no financial instruments recorded at fair value as at June 30, 2013, nor as at June 30, 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 June 30, 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 June 30, 2013 the maximum credit risk, which is the total of its uninsured trade receivables (primarily Canadian based customers and intercompany), was $1,384,888 or 37% (June 30, 2012 - $991,191 or 31%) of the total outstanding accounts receivable balances.

The following table provides information regarding the aged trade receivables as at June 30, 2013:

Current	31-60 days	61-90 days	91 days +
57%	31%	1%	11%

The following table provides information regarding the aged trade receivables as at June 30, 2012:

Current	31-60 days	61-90 days	91 days +
36%	28%	20%	16%

The Company holds its cash and cash equivalents at a major Canadian banking institution. As at June 30, 2013, the Company was not exposed to significant credit or interest rate risk.

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	June 30, 2013	June 30, 2012
Balance, beginning of the year	$ 157,126	$ 143,135
Write-offs of specific accounts	-	-
Change in provision	6,000	10,000
Balance, as at June 30	$ 163,126	$ 153,135

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	49%	38%
Customer B	19%	23%
Customer C	13%	6%

(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 June 30, 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 June 30:

Amounts denominated in U.S. dollars as at June 30	2013	2012
Cash	$ 588,924	$ 688,097
Trade accounts receivable	2,122,378	2,247,699
Trade accounts payable	37,523	162,673

(Expressed in Canadian dollars, unless specifically indicated otherwise)

12. Financial instruments (continued):

The estimated impact on net earnings at June 30, 2013 with a +/- 10% change in foreign exchange rates is $281,228 (June 30, 2012 - $277,312).

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, 2013, the Company's accounts trade payable and accrued liabilities were $749,046 (June 30, 2012 - $809,178) which fall due for payment within twelve months of the balance sheet date. As at June 30, 2013, the Company had an unutilized maximum credit facility of $1,000,000 (unutilized as at June 30, 2012). This credit facility currently remains unutilized. The Company has recorded a provision (contingent liability) of $992,096 (June 30, 2012 - $850,000) which will become due in 2013. However, an $850,000 standby irrevocable letter of credit has been provided as a partial guarantee against this lawsuit (included in restricted cash).

Significant cash commitments in years subsequent to June 30, 2013 are as follows:

	1 year	2 years	3 years	4 years	5 years	Total
Accounts trade payable and accrued liabilities	$ 749,046	$ -	$ -	$ -	$ -	$ 749,046
Due to related party	415,483	-	-	-	-	415,483
Provision (unguaranteed)	142,096	-	-	-	-	142,096
Lease obligation	329,463	701,044	743,281	785,643	-	2,559,431

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.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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 June 30, 2013, the Company's capital is as follows:

As at June 30	2013	2012
Cash and cash equivalents	$ 3,872,033	$ 1,666,553
Credit Facility (debt)	-	-
Shareholders' equity	13,502,045	10,425,871
	$ 17,374,078	$ 12,092,424

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 June 30, 2012, and as at June 30, 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.

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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 June 30	2013	2012
Bank operating line of credit cash deposit	$ -	$ -
Credit card cash deposit	53,744	53,744
Change in provisions	850,000	850,000
Balance as at June 30	$ 903,744	$ 903,744

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		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenue:				
Canada	$ 136,444	$ 89,867	$ 218,028	$ 190,211
United States	2,678,048	1,971,401	4,818,958	3,983,252
Europe	15,363	2,360	21,540	7,990
Taiwan	-	-	-	-
China	604,758	680,270	1,034,651	1,520,763
Russia	81,109	15,975	100,044	100,878
Other	136,022	55,649	242,663	84,155
	$ 3,651,744	2,815,522	$ 6,435,844	$ 5,887,249

(Expressed in Canadian dollars, unless specifically indicated otherwise)

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 June 30	2013	2012
Entity A	46%	43%
Entity B	17%	26%
Entity C	16%	11%
Entity D	6%	7%
	85%	87%

16. Trade payables and accrued liabilities

As at June 30	2013	2012
Trade payables	$ 312,147	$ 389,066
Accrued liabilities	257,911	309,318
Warranty provision	178,988	110,794
	$ 749,046	$ 809,178

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

Reconciliation of warranty provision as at June 30	2013	2012
Provision as at December 31, beginning of the year	$ 130,131	$ 137,792
Warranty costs incurred	(33,143)	(86,490)
Warranty provision - additions or changes	82,000	59,492
Balance as at June 30	$ 178,988	$ 110,794

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

17. Subsequent Events:

See 10 (b) Litigation for subsequent events related to litigation.

In Q3 2013, outstanding balances (See Note 9 (a) Related party balances and transactions) with Photon Control R&D Ltd. have been changed to interest bearing from current non-interest bearing.