PHOTON CONTROL INC.

Interim Financial Statements (Unaudited)

For the nine months ended September 30, 2010

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.

PHOTON CONTROL INC.

Consolidated Balance Sheets

September 30, 2010 and December 31, 2009

	30-Sep-10 (Unaudited)	31-Dec-09 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 489,850	$ 12,955
Trade accounts receivable and other	2,248,483	1,445,416
Note Receivable	24,668	24,668
Due from related party (Note 2(p) & 7)	1,060,020	626,419
Inventory (note 2(d))	1,409,064	1,103,914
Prepaid expenses and deposits	71,166	19,658
	5,303,250	3,233,030
Property and equipment (note 2(e))	432,586	551,649
Note Receivable - long term	180,992	194,873
Intangible assets (note 2(f))	172,502	189,766
Deferred development costs (note 2(h))	184,511	189,938
Long-term rental deposits	48,544	48,544
Restricted cash (note 9)	102,890	102,890
	$ 6,425,276	$ 4,510,690
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,118,815	$ 1,626,085
Due to related party (note 2(p))	167,657	30,971
Credit facility (note 9)	-	500,000
Deferred revenue (note 2(g))	432,589	263,935
	1,719,061	1,807,085
Other liabilities (note 8(b))	310,499	310,499
Deferred rent and sublease deposits (note 8)	91,105	131,365
Shareholders' equity		
Share capital	28,148,968	28,148,968
Contributed surplus	2,024,201	1,910,415
Deficit	(25,868,558)	(28,411,548)
	4,304,611	1,647,835
Continuing operations (note 1)		
Commitments and contingencies (note 8)		
Subsequent events		
	$ 6,425,276	$ 4,510,690

See accompanying notes to financial statements

Approved on behalf of the Board

"Christopher Weston" Director *"David C. Dueck"* Director

PHOTON CONTROL INC.

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

For the Nine months ended September 30, 2010 and 2009

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	$ 3,009,302	$ 1,489,914	$ 10,523,777	$ 2,809,774
Cost of sales	1,547,478	809,255	5,855,532	1,518,503
	1,461,824	680,659	4,668,245	1,291,271
Operating expenses (note 10)				
General and administrative	418,373	236,592	1,163,191	643,548
Engineering Services	189,954	(21,352)	567,412	342,220
Business development and marketing	71,009	34,058	147,333	105,250
Amortization	47,237	56,721	148,655	166,010
	726,573	306,019	2,026,591	1,257,028
	735,251	374,640	2,641,654	34,243
Other earnings (expenses):				
Interest and other earnings	2,176	17,035	4,436	17,035
Interest expense	(1,614)	(5,607)	(10,809)	(16,661)
Foreign exchange	(96,631)	(42,728)	(92,291)	(42,935)
	(96,069)	(31,300)	(98,664)	(42,561)
Net earnings / (loss) and comprehensive income (loss)	639,182	343,340	2,542,990	(8,318)
Deficit, beginning of year	(28,411,548)	(28,596,274)	(28,411,548)	(28,596,274)
Deficit, end of year	$ (27,772,366)	$ (28,252,934)	$ (25,868,558)	$ (28,604,592)
Basic and diluted earnings / (loss) per share	$ 0.01	$ 0.00	$ 0.02	$ (0.00)
Weighted average common shares, used in computing loss per share basic and diluted	102,752,018	101,352,018	102,752,018	101,352,018

See accompanying notes to financial statements

PHOTON CONTROL INC.
Consolidated Statements of Cash Flows

For the nine months ended September 30, 2010 and 2009

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operations:				
Profit (Loss) for the year	$ 639,181	$ 343,339	$ 2,542,990	$ (8,318)
Non-cash items:				
Amortization of property, equipment and intangibles	18,465	56,721	119,883	166,010
Amortization of stock-based compensation	71,903	22,613	113,786	72,935
Loss on disposal and impairment of assets	-	-	-	-
Amortization of deferred development costs	5,427	-	5,427	-
Deferred rent and sublease deposits	(12,845)	(15,428)	(40,259)	(46,283)
Changes in non-cash operating working capital:				
Trade accounts receivable and other	(79,648)	(417,970)	(814,197)	41,433
Inventory	(252,639)	(199,977)	(305,150)	(280,441)
Prepaid expenses and deposits	20,169	209,196	(51,508)	196,507
Accounts payable and accrued liabilities	(264,396)	162,644	(483,045)	(71,805)
Net due from related party	(73,047)	(96,271)	(302,303)	(339,983)
Repayment from related party	6,941	-	13,881	-
Deferred revenue	168,654	-	168,654	5,388
	248,164	64,867	968,158	(264,556)
Investments:				
Restricted cash	-	(1,140)	-	(1,140)
Purchase of equipment	3,992	(3,246)	(820)	(6,411)
Proceeds from disposal of equipment	-	-	-	-
Purchase of intangible assets	17,264	(6,841)	17,264	(18,448)
Deferred development costs	-	(967)	-	(11,607)
	21,256	(12,194)	16,444	(37,606)
Financing:				
Advances under credit facility	(12,764)	(52,671)	(512,764)	193,581
Repayment of intercompany debt	(6,940)	-	-	-
Share issue costs	-	-	-	-
	(19,704)	(52,671)	(512,764)	193,581
Decrease in cash and cash equivalents	254,773	2	476,895	(108,581)
Cash and cash equivalents, beginning of year	235,077	(1)	12,955	108,582
Cash and cash equivalents, end of year	$ 489,850	$ 1	$ 489,850	$ 1
Supplementary information:				
Cash received for interest	$ -	$ 669	$ 4,436	$ -
Cash paid for interest	(5,251)	(4,293)	(10,809)	$ (5,802)
Income taxes paid			-	-
Non-cash financing and investing activities:				
Fair value of agent's warrants granted on share issuance	-	-	-	-

See accompanying notes to financial statements

1. Nature of and continuing operations:

Photon Control Inc. (the Company) is incorporated under the laws of British Columbia. Photon Control, a leading developer of innovative measurement technologies, is much more than a world leader in measuring. The Company specializes in custom engineered solutions and value-added system integration along with manufacturing in a variety of sectors in Oil & Gas, Semiconductor and Power & Utilities industries. On August 17, 2000, the Company completed an initial public offering of its common shares, which are listed on the TSX Venture Exchange under the trading symbol PHO. In 2002, the Company changed its name from Coldswitch Technologies Inc. to Photon Control Inc.

During the three months ended September 30, 2010, the Company had net income of $639,181 and in the three months ended September 30, 2009, the Company had a net income of $343,340. At September 30, 2010, the Company had an accumulated deficit of $25,868,559 (2009 - $28,596,274).

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

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

The Company has secure financing available in the form of a $500,000 line of credit. To this end, the Company has insured its' receivables to receive additional asset-based financing if required.

2. Significant accounting policies:

(a) Basis of presentation:

The accompanying unaudited financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all information and note disclosures required for an annual set of financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented, have been made. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period.

These financial statements have been prepared using the same accounting policies used in the preparation of the Company's audited financial statements for the year ended December 31, 2009, and should be read in conjunction with those financial statements and notes thereto. The Company's auditors have not reviewed these financial statements.

(b) Cash and cash equivalents:

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

(c) Use of estimates:

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

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

(d) Inventory:

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

(e) Property and equipment:

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

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

(f) Intangible assets:

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

(g) Revenue recognition:

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

(h) Research and development costs:

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

(i) Government assistance:

The Company makes periodic applications for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets, while government assistance relating to current expenses is recorded as a reduction of such expenses. The benefits of government assistance are recognized when there is reasonable assurance that they will be realized. The Company received no government assistance during the period ended September 30, 2010 and 2009.

(j) Earnings (loss) per share:

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

(k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. The resulting future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change in tax rate is enacted or substantively enacted. Future income tax assets are evaluated and, if realization is not considered "more likely than not", a valuation allowance is provided.

(l) Share issue costs:

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

(m) Translation of foreign currencies:

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

(n) Stock-based compensation plans:

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

(o) Warranty provision estimate:

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

(p) Financial Instruments:

The Company has classified its financial instruments as follows:

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

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the Consolidated Statements of Operations. Financial assets classified as "loans and receivables" and "other financial liabilities" are carried at amortized cost using the effective interest rate method.

The fair values are based on quoted market bid process if available, otherwise fair value is obtained using discounted cash flow analysis. Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception, and are recognized over the term of the assets or liabilities using the effective interest method.

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

The Company determines if any impairment exists when events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is then required if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value.

(r) Comparative figures:

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

3. Share capital:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued and outstanding:

Common shares:

	Number of shares	Stated values
Issued and outstanding as at December 31, 2007	102,752,018	28,149,882
Share issue costs	-	(914)
Issued and outstanding as at September 30, 2009 and 2010	102,752,018	$ 28,148,968

Common shares:

Contributed surplus	Amount
Balance, December 31, 2009	$ 1,910,415
Stock-based compensation to employees	10,512
Stock-based compensation to non-employees	43,047
Balance, September 30, 2010	$ 1,963,974

(c) Stock options:

The number of options reserved for issuance under the Company's stock option plan is equal to 10% of the issued and outstanding shares in the Company. Accordingly, as at December 31, 2009, the Company's board of directors had reserved 10,275,202 (2008 - 10,135,202) options for issuance under the Company's stock option plan. The plan provides that options may be granted with an exercise price of no less than the greater of 75% of the market price of the Company's stock on the date of the grant and $0.10.

The plan also provides that the term of the options shall not exceed five years and that the minimum option vesting period shall be 18 months with a maximum vesting of 25% per six month period.

3. Share capital (continued):

(d) Stock options (continued):

Stock option transactions are summarized as follows:

	Number of shares		Weighted average exercise price
Outstanding, December 31, 2009	4,330,000	$	0.19
Re-priced	(1,605,000)		0.36
Re-priced	1,605,000		0.10
Granted	1,445,000		0.10
Cancelled	(85,000)		0.10
Expired	(1,580,000)		0.10
Cancelled	(20,000)		0.10
Expired	(135,000)		0.61
Outstanding, June 30, 2010	3,955,000	$	0.10
Expired	90,000		0.10
Expired	90,000		0.62
Cancelled	10,000		0.55
Cancelled	40,000		0.52
Granted	1,345,000		0.10
Balance, September 30, 2010	5,070,000	$	0.12

At the 2010 Annual General Meeting of Shareholders of the Company, held on September 28, 2010, the disinterested shareholders of the Company approved the re-pricing of outstanding stock options granted to insiders, to purchase an aggregate of 405,000 common shares of the Company to $0.10 per share.

In Q3 2010, 1,345,000 stock options were granted to certain directors, officers, employees and a consultant of the Company, subject to any necessary regulatory approvals.

The following table summarizes the stock options outstanding at September 30, 2010:

	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	5,050,000	3.25	$ 0.10	2,735,000	$ 0.10
$0.11	20,000	4.93	$ 0.11	0	$ 0.11
	5,070,000	3.25	$ 0.10	2,735,000	$ 0.10

The options outstanding at September 30, 2010 expire between November 22, 2010 and September 28, 2015. The per share weighted average fair value of stock options granted during 2010 was $0.10 (2009 - $0.10).

3. Share capital (continued):

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions at September 30:

	2010	2009
Expected life of options	5 years	5 years
Risk-free interest rate	2.01%	2.34%
Dividend yield	0%	0%
Volatility	150%	338%

(d) Stock options (continued):

During the period ended September 30, 2010, the Company recorded $102,256 (Q3 2009 $70,475) of compensation expense representing the fair value of the options and shares vesting during the period with a corresponding increase to contributed surplus.

(e) Warrants:

There was no activity in warrants during Q3 2010. Information related to the Company's share purchase warrant activity for the year ended December 31, 2009 was as follows:

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

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

(f) Net earnings (loss) per share:

The weighted average number of shares outstanding during the period ended September 30, 2010 of 102,752,018 (2009 - 101,352,018) was used in the calculation of basic and diluted earnings per share. Exercise of all of the stock options and share purchase warrants referred to in notes 4(d) and 4(e) are anti-dilutive for all years presented.

4. Supplementary statement of operations information:

The following information for the nine months ended September 30, 2010 is provided pursuant to the requirements of the British Columbia Securities Commission:

General and administrative:		
Salaries and fees	$	176,645
Office premises expenses		431,352
Legal and accounting		340,217
Insurance		91,741
Investor relations		16,377
Directors fees		92,871
Other		13,988
	$	1,163,191
Engineering Services:		
Salaries and fees	$	159,751
Materials		10,200
Certification and testing		1,850
Consulting fees		394,034
Government grants received		
Amortization of deferred development costs		-
Other		1,577
	$	567,412
Business development and marketing:		
Salaries and fees	$	78,867
Travel expenses		24,477
Consulting fees		15,917
Promotion		22,323
Other		5,749
	$	147,333

5. Financial instruments – Risk Management Objectives & Policies:

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

Risk Management

(a) Credit and interest rate risk:

The Company is exposed to credit risk associated with its trade accounts receivable and related party receivables. Credit risk is minimized substantially by ensuring the credit worthiness of the entities with which it carries on business. The Companies maximum credit risk is the total of its uninsured trade receivables which were $190,055 as at September 30, 2010 (all non-Canadian receivables are insured with EDC).

The Company is exposed to interest rate risk with regard to the cash, cash equivalents and amounts due under credit facility. The Company holds its cash and cash equivalents at a major Canadian banking institution. As at September 30, 2010, the Company was not exposed to significant credit or interest rate risk.

(b) Market and foreign exchange risk:

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Company's net earnings or the values of financial instruments. The majority of the Company's sales revenues and trade receivables are denominated in United States dollars. As such the Company's may be subject to, material, realized and unrealized exchange gains or losses resulting from above average changes in exchange rates between the Canadian and United States dollar. As at September 30, 2010, the Company did not utilize any forward exchange contracts to mitigate any of the risks as mentioned 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 September 30, 2010, the Company's accounts payable and accrued liabilities were $1,118,815 of which all are due for payment within twelve months of the balance sheet date. As at September 30, 2010, the Company was not utilizing any of the available $500,000 credit facility.

6. Capital Disclosure:

The Company's objectives when managing capital are:

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

The Company includes the following items in the management of capital: cash, cash equivalents, credit facility and shareholders' equity comprised of issued capital, contributed surplus and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. The company may adjust its capital structure in the future, by issuing shares and adjusting debt utilization. As at September 30, 2010 the Company's capital is as follows:

Cash	489,850
Shareholders' Equity	4,304,615
	$ 4,794,465

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.

7. Related party balances and transactions:

All transactions with related parties have been transacted 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 a private company, Photon Control R&D Ltd., partially owned or controlled by officers or directors of the Company. The related entity commenced providing engineering consulting and research and development services to the Company on October 1, 2008 as the Company has substantially reduced its internal research and development operations. The engineering, research and development expenses are provided from shared space provided by the Company. The Company charges the related party premises and related expenses to recover its costs. Amounts outstanding with the private entity are non-interest bearing, unsecured and due on demand. Royalty payment amounts are included in cost of sales in the period incurred.

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.

8. Commitments and contingencies:

(a) Leases:

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

2010	849,314
2011	667,132
2012	216,443
	$ 1,732,889

The above lease commitment amounts are prior to rental expense recoveries of $213,657 per annum for 2010 plus $17,805 in 2011 in relation to sub-lease agreements executed in 2006 and 2007.

The Company entered into a lease agreement in June 2006 and in 2009 has recorded $105,240 (2008: $119,808) in deferred rent to account for reduced rent benefits received. In Q3 2010 the Company sub-leased a portion of unused office space for a recovery of $12,710.37 per annum, and subsequently sub-leased the remainder of unused office space in October 2010.

(b) Litigation:

In October 2001, a former member of management and director of the Company (the Claimant) initiated arbitration asserting that certain amounts were owing to him by the Company. The Company denies that it owes these amounts.

In addition, the Claimant has filed a claim against the Company seeking unquantified damages for wrongful dismissal. The Company considers the allegations in the lawsuit to be without merit and intends to defend the action. The Company has also filed a counterclaim.

The Company's application to dismiss the claim was denied in September 2009 and trial of claims and cross-claims is scheduled to commence in September 2010.

It is not possible to determine the likely outcome of these litigation matters, nor is it possible to determine the nature and amount of consideration, if any, which the Company may have to pay or which it may collect as a result of these proceedings. Provision has been made in the accounts of the Company for these actions.

9. Bank credit facility and restricted cash:

In November 2007, the Company secured a bank operating line credit facility of up to $500,000 under the Export Development Canada's Master Accounts Receivable Guarantee (MARG) program. This credit facility is secured by a cash deposit of $50,000 which was paid in January 2008, a general security agreement and a general assignment of book debts. This facility bears interest at the bank's prime plus 4% 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.