PHOTON CONTROL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the first quarter ending March 31, 2010

(Unaudited)

This Management's Discussion and Analysis ("MD&A") of Photon Control Inc. (the "Company" or "Photon Control") is dated May 19, 2010. MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2010, and the Audited Consolidated Financial Statements and accompanying notes for the fiscal year ended December 31, 2009.

Forward-Looking Statements

This MD&A contains forward looking statements, including statements regarding the business and anticipated financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, uncertainty as to the Company's ability to successfully complete new purchase orders along the timelines expected; the Company's need for funds to achieve its goals and uncertainties as to the availability and cost of financing the Company; uncertainty as to the continued and future demand for the Company's products; the Company's present reliance on four major customers for the majority of its sales; the Company's reliance on the financial health of the semiconductor industry, a vital part of its sales; the Company's ability to continue and further enhance revenue diversification and open new market opportunities; the development of competing technologies and the possibility of increased competition; the effect of slow growth in the Canadian, United States and international economies generally and other economic trends and conditions in the markets that the Company and its customers serve; the effect of the risks associated with technical difficulties or delays in product introductions, improvements, implementation, product pricing or other initiatives of the Company and its competitors; factors that may result in a reduction in capital expenditures and/or delayed buying decisions affecting demand for the Company's products; currency fluctuations; and the possibility that the Company will pursue additional development projects in order to support existing customers or pursue other business opportunities.

Forward-looking statements are based on the beliefs, opinions and expectations of the Company's management at the time they are made, and the Company may but does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances, should change except as may be required by applicable securities laws. Readers should not place undue reliance on forward-looking statements.

BUSINESS OVERVIEW

Photon Control Inc. is a British Columbia company listed on the TSX Venture Exchange (TSX-V) under the symbol PHO. Photon Control commercializes and manufactures innovative optical sensor systems capable of use by customers in a variety of sectors. 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.

Photon Control's measurement and control instruments are intended for applications with high demands for precision, repeatable performance and quality assurance. The semiconductor manufacturers that are Photon Control customers set very high standards of supply chain management and Photon Control has satisfied these requirements.

Currently Photon Control supplies products to its 'Fortune 500' customer base through integrator contractors located in the USA, Europe, and Asia and directly supplies products to a second major capital equipment manufacturer located in Silicon Valley.

While focusing on manufacturing and distribution of high-quality products, Photon Control has established a strong business relationship with Photon Control R&D Ltd., an engineering and R&D company to which the Company had transferred its research and development division assets as of October 2008) for the purpose of converting the Company's intellectual property (consisting of 9 issued and 16 pending patents) into commercial products.

Photon Control has a strong and highly skilled employee base and has successfully managed to recruit and retain qualified personnel through competitive employment terms relative to the local labour market. As at March 31, 2010, Photon Control staff included 30 full-time personnel, representing an increase of 50% compared to 20 full-time personnel at the end of Q1 2009.

PRODUCTS AND BUSINESS TRENDS

The Company commercializes, manufactures and supplies commercial products to the following market verticals through direct sales and in some cases through distributors for particular territories.

Manufacturing - Semiconductor Capital Equipment:

- OEM sensing solutions (sensors for positioning, spacing, detection, and related controls, robot alignment and positioning jigs, analytical tools for inspection of silicon wafers) or Silicone Wafer Sensing
- Spectrometers
- Fiber optic temperature sensors

Oil, Gas & Petrochemical:

- Optical flow meters for measurement of stack emissions (greenhouse gases, flares), fuel gas, associated gas, coal bed methane, biogas
- Total sulphur analyser for measurement of total sulphur content in diesel, gasoline, kerosene, jet fuel and other processed hydrocarbons
- Fiber optic temperature and pressure sensors for down-hole monitoring

Power & Energy:

- Temperature Sensor Systems

Life Sciences:

- Spectrometers
- Fiber Optic Temperature Sensors

Institutional:

- Spectrometers
- Fiber Optic Temperature Sensors
- fMRI Response (LUMItouch®)

Food and Drug:

- Spectrometers

MARKETING

Photon Control has broad geographic representation with dedicated distributors in North America, Europe and Asia. In Q1 2010, Photon Control continued to evaluate new opportunities by focusing on marketing and business development and addressing both the current and future demands of its market.

In response to growing demand for the cost-efficient and robust fiber optic spectrometers, Photon Control participated in Photonic West 2010 show in San Francisco in February 2010. Also, Photon Control will demonstrate its advanced products for oil in gas industry at the major show NefteGaz-2010 in Moscow in June 2010.

In Q1 2010 Photon Control signed 2 additional distributorship agreements for temperature sensors and spectrometers, and renewed the distributor agreements with InnoTech Ltd, the Russian distributor of the Company's innovative flow meters. This validates the Company's expanded sales and marketing efforts, which is resulting in the successful securing of orders from new customers as well as follow-on orders from existing customers.

Also, Photon Control continued to penetrate the Asian market with its low-cost fiber optic temperature sensor product by developing a marketing alliance with a key distributor across this territory.

The Company is actively seeking new distributors for its temperature sensor, spectrometer and flare meter product lines in key International markets.

CORPORATE VISION AND STRATEGY

Photon Control remains focused and fully committed to its core values and long-term growth strategy in order to respond effectively to the economic and market challenges and demand volatility.

Some of Photon Control's key operational objectives are:

- To enhance its sales opportunities on a global scale
- Steadily expand manufacturing efficiency, capacity and recruitment in order to meet increased customer demands
- Implement operating cost structures that align with revenue growth
- Create efficient financial planning and maintain strong budget controls in order to quickly adapt to new and changing market conditions
- Renegotiate contracts with vendors and suppliers to obtain more favourable terms
- Adhere to strict inventory control procedures

These activities were underway during 2009 and Q1 2010 representing an integral part of the Company's liquidity management and organizational efficiency development.

FIRST QUARTER 2010

Highlights

- Q1 2010 Sales of $3.6 million compared to Q1 2009 Sales of $0.6 million
- Q1 2010 Operating Expenses of $0.6 million compared to Q1 2009 of $0.5 million
- Q1 2010 Profit of $894,158 compared to Q1 2009 Loss of $160,592
- Q1 2010 Gross Margin of 43% compared to 47% for Q1 2009
- Q1 2010 Order Backlog of $3.2 million compared to $0.3 million for Q1 2009

Sales

Sales revenue from Q1 2010 continued the strong upward trend from Q4 2009. During Q1 2010, Photon Control achieved a new sales and profit record for the quarter recording sales of $3.6 million compared to $0.6 million in Q1 2009, an increase of $3 million or 500%.

Expenses

General and administrative expenses totalled $305,012 in Q1 2010 compared to $153,518 in Q1 2009. This reflects the increase in financial department services and office administration costs due to the continued increase of business from the second half of 2009.

Engineering expenses totalled $199,966 in Q1 2010 compared to $225,807 in Q1 2009. This reflects a reduction in salaries, materials and premises expenses due to the separation of research and development services from Photon Control.

Business development and marketing expenses totalled $41,870 for Q1 2010. This increase of $9,008 when compared to Q1 2009 of $32,862 reflects the cost of business development and marketing salaries, travel and expenses related to researching and developing new markets for Photon Control's technical expertise and products.

Profit for the Period

The profit for Q1 2010 was $894,158 compared with a loss of $160,592 in the corresponding period of 2009. The achieved profitability in Q1 2010 followed the strengthening trend reported in the last half of 2009 and was in line with the Company's higher order volumes. This also reflected the increased sales through this period ($3,620,427 for Q1 2010 and $635,889 for Q1 2009) with a larger gross profit of $1,568,434 compared to $299,239 in Q1 2009.

RESULTS OF OPERATIONS

In 2008 and 2009, Photon Control took decisive actions to achieve effective cost-saving solutions, enhanced operational efficiency and lean manufacturing, which resulted in improved operating results in each of its business segments. In addition, Photon Control's focus on revenue diversification and quality of customer relationships was intended to secure consistent delivery of high quality and value-added services to its customers, open new market opportunities, and to develop a business and marketing alliance with new partners and distributors. In 2009, the Company experienced more stable market conditions, strong and steady sales volumes which resulted in achieving profitability for the year, making 2009 the first profitable year in Photon Control's history.

Q1 2010 Overview

Photon Control saw an encouraging start to the current fiscal year boosted by strong sales growth, which resulted in new sales and record profits for the quarter during Q1 2010. These results were mainly attributed to the significant recovery in the semiconductor market and improved order activity in combination with Photon Control's enhanced cost management and operational efficiency activities.

In Q1 2010, Photon Control's sales to the semiconductor sector increased by approximately 500% when compared to the same period last year and contributed significantly to the first quarter 2010 financial results. Also, during Q1 2010, Photon Control continued to record revenues in other sectors which included primarily the sale of analytical products for the semiconductor and non-semiconductor industries as well as sales of fibre optic temperature sensors and flare gas meters.

As at March 31, 2010 the Company's $500,000 bank line of credit was fully utilized. Although there can be no assurances, Photon Control believes that cash generated from operations, committed purchase orders, and the availability of the Company's line of credit will give Photon Control financial resources necessary to operate in the current year and the foreseeable future.

Product Sales and Operational Update

Product sales in Q1 2010 were $3.6 million compared to $0.6 million in Q1 2009, an increase of $3 million or 500% primarily due to the improved semiconductor market conditions and supported by a steady flow of non-semiconductor product orders. Following the improved business conditions in the second half of 2009 and in 2010, Photon Control was able to achieve its third consecutive profitable quarter in Q1 2010 with $894,158 profit compared to Q1 2009 Loss of $160,592.

The first quarter of 2010 saw a significant improvement in the semiconductor business environment which resulted in Photon Control's sales to this market increasing substantially from quarter to quarter, reaching a new record level for a quarter in Q1 2010 of $3.2 million. Photon Control also continued initiatives to diversify its product range which was reflected in Q1 2010 sales to non-semiconductor customers of $0.4 million, an increase of approximately 30% over Q1 2009 non-semiconductor sales.

Following the growing customer interest on environmental monitoring in Q4 2009, Photon Control commenced testing of its optical gas flow meters for expanded sizes of pipes from 8" to 30" to cover a majority of applications for flare gas measurement. In Q1 2010, Photon Control successfully completed testing and calibration of its Focus Probe flow meters, which was essential for the Company's long-term objective to expand its presence in the gas flow metering market and to enhance its diversification program and sustainability.

In response to increased interest in its Downhole Pressure and Temperature Sensors (DPTS), which are used in oil-sand SAGD (Steam-Assisted Gravity Drainage) applications, Photon Control signed its first distributorship agreement for selling DPTS in the Russian Federation and in CIS (Community of Independent States) in Q3 2009. After the successful commissioning of the first commercial DPTS in Q4 2008, and the subsequent repeat order from a major oil and gas company for one additional system in Q3 2009, Photon Control completed the installation of its DPTS system in Alberta in Q1 2010.

In order to fulfil the significant increase in orders and order backlog recorded in 2009 and 2010, Photon Control increased its employee base in Q1 2010 and improved / expanded its production capacity.

Gross Margin

The gross margin percentage for Q1 2010 of 43% decreased slightly from the Q1 2009 gross margin percentage of 47%. This small change in gross margin was primarily due to a change in the sales mix of less favourable margin products sold during the first quarter of 2010.

Operating Expenses

General and administrative expenses totalled $305,012 in Q1 2010 compared to $153,518 in Q1 2009. General and administrative expenses increased through:

- legal and accounting fees of $55,106
- other general and administrative expenses of $44,826
- office expenses of $28,980
- directors fees and expenses of $19,785
- insurance of $4,986

Engineering expenses totalled $199,966 in Q1 2010 compared to $225,806 in Q1 2009 primarily due to separation of the R&D business which started in Q4 2008.

Business development and marketing expenses totalled $41,870 in Q1 2010 compared to $32,862 in Q1 2009 due primarily to increases in:

- salaries of $11,073
- promotional expenses of $6,069

Offset by a decrease in:

- travel $5,585

Other Expenses

Photon Control's products are priced in U.S. dollars. A foreign exchange loss of $71,348 was recorded in Q1 2010 compared to a foreign exchange gain of $14,121 in Q1 2009 due to a larger portion of payments made in US dollar versus lower US Dollar receivables collected in Q1 2010 compared to Q1 2009.

Net Earnings

The net earnings for Q1 2010 were $894,158 compared to a loss of $160,592 in Q1 2009. The operating expenses in Q1 2010 were $570,491 compared to Q1 2009 of $468,150, an increase of $102,000 which reflects the increase in staffing in Q1 2010. Photon Control achieved a much larger volume and an increase in gross margin of $1,269,195 for a total gross margin of $1,568,434 in Q1 2010 compared to $299,239 in Q1 2009.

ORDER BACKLOG

The first quarter of 2010 continued to report a significant increase in Photon Control's order backlog and as at March 31, 2010 the Company's order backlog stood at $3.2 million, an increase of 2.9 million over Q1 2009. This represents the total value of committed sales orders fulfilled and/or waiting to be fulfilled in the second and third quarter of 2010.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of our financial results for the past eight quarters. Certain of the comparative figures in the following table have been reclassified to conform to the presentation adopted for Q1 2010.

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Revenue	$ 3,620,427	$ 2,577,936	$ 1,489,914	$ 653,113	$ 635,889	$ 1,420,234	$ 1,058,453	$ 1,519,366
Net income / loss	$ 894,158	$ 193,046	$ 343,340	$ (191,064)	$ (160,592)	$ 37,332	$ 37,793	$ (520,553)
Net income / loss per share Basic & Diluted	$ 0.01	$ 0.00	$ 0.00	$ (0.00)	$ (0.00)	$ 0.00	$ 0.00	$ (0.01)

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at March 31, 2010 had a balance of $13,893 compared to $12,955 as at December 31, 2009. The Company had working capital of $1,763,767 as at March 31, 2010 compared to working capital of $812,039 as at December 31, 2009. This increase in working capital has resulted from the continued use of cash for operations as detailed below.
Cash flow from operations totalled $3,419 in Q1 2010 compared to $251,847 used for operations in Q1 2009. Investing activities used cash of $2,481 in Q1 2010 compared to $12,305 in Q1 2009. There were no financing activities in Q1 2010 relating to the Company's credit facility compared to $157,622 cash provided from the credit facility in Q1 2009.

As at March 31, 2010, the Company's accounts payable and accrued liabilities was $1,654,189 which fall due for payment within twelve months of the balance sheet date. As at March 31, 2010, the Company was utilizing all of its $500,000 credit facility

Nature of and Continuing Operations

The Company's financial statements for the first quarter ended March, 31 2010 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's ability to continue as a going concern is dependant upon its ability to fund working capital and its ability to generate positive cash flows from operations.

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 is working with its bank to secure financing over and above the $500,000 line of credit it currently has. To this end, the Company has insured its receivables in order to receive additional asset-based financing.

Contractual Obligations

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.

Litigation:

In October 2001, a former member of management and director of the Company (the "Claimant") initiated arbitration proceeding 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 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 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.

RELATED PARTY 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., a private company owned or controlled by officers or directors of the Company. 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 engineering, research and development expenses are provided from shared space provided by the Company. 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.

Quarters ended:	Mar 31, 2010	Dec 31, 2009
Balance Sheet:		
Accounts Receivable	$ 810,676	626,419
Note Receivable	219,541	219,541
Accounts payable	217,617	30,971
Statement of operations:		
Recovery of premises and related expenses	266,364	1,562,859
Engineering, research and development services	138,849	351,131
Royalties	23,235	67,466

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.

In February 2010, the Company granted stock options to purchase an aggregate of 1,425,000 common shares of the Company at an exercise price of $0.10 per share for a term of 5 years. The stock options were granted to directors and a consultant of the Company and are subject to any necessary regulatory approvals. An aggregate of 1,605,000 outstanding stock options, having original exercise prices ranging from $0.145 to $0.62 per share, were also re-priced to $0.10 per share for the balance of their respective terms, subject to any necessary regulatory and disinterested shareholder approvals.

SUBSEQUENT EVENTS

As at the date of this report, Photon Control's order backlog stood at $2.7 million, compared to $3.2 million for Q1 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The first quarter 2010 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A summary of the significant accounting policies used in the preparation of our financial statements is included in note 2 of the consolidated financial statements for the quarter ended March 31, 2010. The measurement of certain assets and liabilities is dependent upon future events, the outcome of which will not be fully known until future reporting periods. Therefore, the preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results will vary from those estimated. Certain accounting policies are critical to understanding our reported financial results. These critical policies, which affect the reported amounts of revenue and the more significant areas involving management estimates, are described here.

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 an actual FIFO 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 hours input. Fixed and variable overhead are allocated to production activities in converting materials to finished goods.

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.

Engineering Costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the required criteria for deferral and amortization. There were no additional costs which were deferred in Q1 2010, after deferring $219,071 in 2008 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 Company has a balance of $189,938 of deferred development expenses as at March 31, 2010.

Stock-based Compensation Plans

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.

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.

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 and other amounts and 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. The adoption of these standards did not have an impact on the classification and valuation of financial instruments.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Recently adopted accounting pronouncements:

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC – 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The adoption of this section did not have a material impact on the Company's consolidated financial statements.

Financial Instruments, Disclosure and Presentation

Effective January 1, 2009, the Company has adopted the enhanced disclosure requirements of amended CICA Section 3862, Financial Instruments - Disclosures. Refer to note 12 for fair value measurement disclosures using a fair value hierarchy that reflects the significance of the inputs in making the measurements.

Goodwill and Intangible Assets

In February 2008, the CICA issued new CICA 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets, and CICA 3450, Research and Development Costs. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and U.S. GAAP. The effective date of adopting this standard for the Company is January 1, 2009. This standard is not expected to impact the Company's financial statements.

International Financial Reporting Standards

The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011. The Company is in the process of developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements.

The Company expects to make changes to processes and system before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2011 financial year reporting.

OUTLOOK, BUSINESS RISKS AND UNCERTAINTY

Sales Risks

Photon Control endeavours to reduce the risk of key client dependence and the semiconductor industry fluctuation by continuing its initiative to diversify its product range and develop relationships with new distributors for products for the oil and gas industry, low cost fibre optic temperature sensors and spectrometers.

Going Concern Risk

The Company's ability to continue as a going concern is dependant upon its ability to fund working capital and its ability to generate positive cash flows from operations. While 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, there can be no assurance that the Company will be successful in doing so or that the Company would be able to secure funding on acceptable terms when required. The consolidated 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.

Outlook, Market, Competition, and Foreign Exchange Risk

Although the overall economic climate continues to pose a challenge, Photon Control achieved strong sales and profit growth for a third consecutive quarter in the Q1 2010, demonstrating the resilience of the Company's business to generate revenue for the foreseeable future. Photon Control continues to be encouraged by the level of fulfilled and received purchase orders in 2010, running well ahead of the level from a year earlier, which should result in continued revenue growth.

While there can be no assurance of the ability of the Company to penetrate target markets, the Company endeavours to limit the effects of risk factors, including the competition risks, through its strategic planning, management processes and by scanning trade publications. The Company continues to focus on securing consistent delivery of high quality and value-added services to its customers.

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 of 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 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 March 31, 2010, the Company did not utilize any forward exchange contracts to mitigate any of the risks as mentioned above. Photon manages its exposure to foreign currency fluctuation by maintaining Canadian and U.S. dollar bank accounts to offset foreign currency payables and planned expenditures. As at March 31, 2010, the Company was not exposed to significant credit or interest rate risk.

OUTSTANDING SHARE DATA

As at March 31, 2010 and the date hereof, the Company had 101,352,018 common shares issued and outstanding. There were outstanding stock options to purchase an additional 4,092,500 common shares of the Company as at March 31, 2010.

ADDITIONAL INFORMATION

Additional information and other publicly filed documents relating to the Company are available through the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com.