

Photon Control Reports Second Quarter 2016 Financial Results

Burnaby, B.C., August 24, 2016 – Photon Control Inc. (“Photon Control” or the “Company”) (TSX-V: PHO), a leading developer of optical measurement technologies, reported its unaudited financial results for the second quarter and six-month periods ended June 30, 2016. All results are reported in Canadian currency.

Q2 Financial and Operational Results

- Generated sales revenue of \$7.2 million, the Company’s second best quarterly total.
- Generated net earnings of \$1.9 million, down from \$3.8 million in Q2 2015, due in part to a demand spike in Q2 2015, and in 2016 a weaker US dollar, and non-recurring 2016 expenses incurred to recover funds from an unauthorized transfer and implement new internal controls.
- Increased sales order backlog to \$6.7 million, up 26% from last year.
- Achieved the initial phase of qualification of a new temperature sensor product expected to ship in second half of 2016.
- Initiated a comprehensive opportunity analysis to assess new market opportunities within core markets and diversified adjacent markets.

Highlights Subsequent to Quarter End

- Took decisive action to recover funds from an unauthorized \$4.5 million transfer and implemented a series of measures to improve governance and internal controls, including launching a forensic accounting audit, and conducting an intellectual property (IP) audit, including review of IP agreements.
- Fully recovered the \$4.5 million funds, including interest payments of approximately \$56,000, on July 25, 2016.
- Announced plans to eliminate all non-arms-length agreements.
- Appointed Michael Goldstein as Chairman and Acting Chief Executive Officer.
- Appointed Ronan McGrath as Director.
- Announced plans to double production capacity in 2017.
- Commenced lawsuit in the Supreme Court of British Columbia against Photon Control R&D Ltd. ("Photon R&D") and others to, among other things, set aside certain addenda to an October 1, 2008 agreement between the Company and Photon R&D and seek preservation of its property by the appointment of a custodian over the intellectual property of the Company in the possession or control of Photon R&D and developed by Photon R&D for Photon Control customers, an accounting of monies had and received by Photon R&D from the Company, a declaration of a constructive trust upon said monies, interlocutory and permanent injunctions restraining Photon R&D from certain conduct, and damages for, among other things, breach of contract and breach of fiduciary duty (the "Claim").

“We extended the considerable momentum we established in 2015 into Q2 by generating strong sales and growing our sales order back log by more than 25%,” said Michael Goldstein, Acting CEO of Photon Control Inc. “We expect to sustain this progress into the second half of the year with the launch of a new temperature sensor product for a semiconductor customer and by our expansion into new markets. Executing on our growth strategy will be our primary focus in the near term, even as we deal with the after-effects of the unauthorized transfer of funds.”

Key Highlights	Q2 2016	Q2 2015
Sales Revenue	\$7.2 M	\$9.0 M
Operating Expenses	\$1.6 M	\$0.9 M
Profit Before Taxes	\$1.9 M	\$3.8 M
Gross Margin	49.2%	53.5%
Sales Order Backlog	\$6.7 M	\$5.3 M
Cash & Cash Equivalents*	\$28.0 M	\$20.5 M
*Cash reflects balance after return of \$4.5 M cash		

Review of Financial Results

Revenue for Q2 2016 was \$7.2 million, down 19% from \$9.0 million generated in Q2 2015 when the Company benefitted from both a strong U.S. dollar and increasing customer demand. On a year-to-date basis, Photon Control generated revenue of \$14.4 million for the six-month period of 2016, down 8.7% from \$15.8 million for the six-month period of 2015. The decline was largely due to a weaker US dollar in 2016 (if the Q2 2016 average USD exchange rate was the same as Q1 2016, Q2 2016 revenue would have been approximately \$350,000 higher). In 2015, the Company experienced a gain on foreign currency. Nearly 95% of Company’s sales are in US currency, which are then converted into Canadian dollars.

Profit before taxes for Q2 2016 was \$1.9 million, down from \$3.8 million for Q2 of 2015. The decline was due to a number of factors, including higher operating expenses. The increase in operating expenses was driven by one-time costs of approximately \$384,000 relating to legal fees and the implementation of new internal controls as a result of the unauthorized transfer of \$4.5 million in funds. Profit before taxes on a year-to-date basis for 2016 was \$4.1 million, down from \$7.5 million for 2015. The decline was largely due to volatile foreign currency. For the six-month period of 2016, fluctuations in foreign exchange rates had a negative impact of \$0.7 million. In the same period of 2015, changes in the value of foreign currency generated a gain of \$1.0 million.

As at June 30, 2016, the Company had working capital of \$33.7 million, including cash and cash equivalents of \$23.5 million. This compares to working capital of \$26.9 million, including cash and cash equivalents of \$26.2 million as at June 30, 2015.

The second quarter of 2016 continued to demonstrate a solid sales order backlog, standing at \$6.7 million at June 30, 2016. This represents the value of sales orders already fulfilled or to be fulfilled in the fiscal year 2016. At the date of this news release, the Company’s sales order backlog stood at \$7.4 million.

Outlook

“Building on our recent progress and backed by a strong balance sheet, our near-term focus will centre on reinforcing our operating capabilities, strengthening our management team and ramping up sales of our new semiconductor sensor product,” added Mr. Goldstein. “We believe that we are well positioned to capitalize on the demand for precision measurement solutions that semiconductor manufacturers require due to the proliferation of smart devices and *the internet of things*. These growth opportunities are behind our decision to double our production capacity and move into new facilities in 2017.

“Over the longer term, we will focus on identifying new market opportunities for our sensor products and ensuring that we build our own world-class research and development capabilities within our new facilities. Having our own R&D capabilities will allow us to develop and take our products to market faster while ensuring that we retain all rights to ownership and potential licensing opportunities.”

Conference Call

Management will conduct a conference call on August 24, 2016 at 11:00 a.m. Pacific Time / 2:00 p.m. Eastern Time to review the Company's fiscal 2016 second quarter results. All interested parties can join the conference call by dialing 1-800-319-4610 (TF: Canada and US) or +1-604-638-5340 (International Toll). Please dial in 5 to 10 minutes prior to the scheduled start time.

The conference call will be archived for replay until Wednesday, August 31, 2016. To access the archived conference call, please dial 1-855-669-9658 (TF: Canada and US) or +1-604-674-8052 (Vancouver Toll) and enter the reply access code 0749.

About Photon Control Inc.

Photon Control Inc. designs, manufactures and distributes a wide range of optical sensors & 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 provide high accuracy and reliability in extreme conditions and are supported by a team of experts that offer onsite installation, training, and support. Photon Control Inc. also provides engineering services for customized optical measurement systems. Headquartered in an ISO 9001:2008 manufacturing facility in Burnaby, BC, Photon Control Inc. is listed on the TSX Venture Exchange, trading under the symbol “PHO”. Additional information about the company can be found at www.photon-control.com/investorrelations.html

Forward-Looking Statements

This News Release contains “forward-looking statements” within the meaning of applicable Canadian securities legislation. Such forward-looking statements concern the business and anticipated financial performance of the Company and include, without limitation, statements with respect to the unauthorized transfer of funds to Photon R&D; statements with respect to the Claim; further investigations and conclusions of the Independent Committee; additional controls and measures to be taken by the Company; the conclusions to be received from the forensic accounting audit and the IP audit; and the Company's objectives, goals, liquidity, sources of capital, expectations of sales and continued development of technologies and products.

These forward-looking statements are based on certain factors and assumptions, including, without limitation, the Company's ability to successfully transition management and board transitions; the results of the forensic accounting audit and the IP audit; the Company's evidence forming the basis of the Claim and its financial and management resources and ability to pursue the Claim; the Company's ability to successfully complete new purchase orders along the timelines expected; continued and future demand for the Company's products; continued sales to the Company's major customers; the continued financial health of the semiconductor industry; and the Company's ability to continue and further enhance revenue diversification and open new market opportunities.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation, the Company may face legal action as a result of the unauthorized transfer of funds to Photon R&D or arising from the matters that are the subject of the Claim; the Company may not be successful in obtaining the relief sought in the Claim and, therefore, may not have all of the intellectual property rights and goodwill that it believes that it has and should have; additional measures and controls may not be implemented as expected or along the timelines anticipated; uncertainties as to the results of the forensic accounting audit and the IP audit; uncertainties in the availability and cost of financing for the Company to enable the Company to achieve its goals; uncertainties relating to the market for the Company's products and maintaining a stable level of orders; fluctuations in revenue as a result of volatility in the markets and product mix; risks relating to the Company's present reliance on four major customers for the majority of its sales; risks relating to the Company's reliance on the financial health of the semiconductor industry; risks relating to the development of competing technologies and the possibility of increased competition; the effect of slow growth in the United States, the Company's principal market, as well as in Canada and other economies generally and other economic trends and conditions in the markets that the Company and its customers serve; risks associated with technical difficulties or delays in product introductions, improvements, implementation; uncertainties in product pricing or other initiatives of the Company and its competitors; uncertainties in factors that may result in a reduction in capital expenditures and/or delayed buying decisions affecting demand for the Company's products; risks relating to currency fluctuations, particularly between the Canadian and United States dollars; and risks in pursuing additional development projects to support existing customers or pursue other business opportunities.

The foregoing assumptions, risks and uncertainties are not exhaustive of the items that may affect our forward-looking statements. Should underlying assumptions prove to be incorrect or one or more of these risks and uncertainties materialize, actual results may vary materially from those described in the forward-looking statements. The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements included herein if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

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