

PHOTON CONTROL INC.

Financial Statements

For the three months ended March 31, 2008

(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, KPMG LLP, have not performed a review of these financial statements.

PHOTON CONTROL INC.

Balance Sheets

March 31, 2008 and December 31, 2007

	2008	2007
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 580,256	\$ 1,004,447
Accounts receivable	664,782	762,307
Inventory	701,854	635,082
Prepaid expenses and deposits	277,341	311,443
	<u>2,224,233</u>	<u>2,713,279</u>
Equipment	817,738	753,476
Intangible assets	194,027	199,853
Restricted cash	101,750	51,750
	<u>\$ 3,337,748</u>	<u>\$ 3,718,358</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 977,145	\$ 762,502
Deferred revenue	100,563	75,000
	<u>1,077,708</u>	<u>837,502</u>
Other liabilities	310,499	310,499
Deferred Rent	203,595	200,704
Shareholders' equity (note 3)		
Share capital	28,149,066	28,149,882
Contributed surplus	1,747,726	1,692,641
Deficit	(28,150,846)	(27,472,870)
	<u>1,745,946</u>	<u>2,369,653</u>
	<u>\$ 3,337,748</u>	<u>\$ 3,718,358</u>

Future operations (note 1)

See accompanying notes to financial statements

Approved on behalf of the Board

"S. Robert Blair" Director

"Ivan Melnyk" Director

PHOTON CONTROL INC.

Statements of Operations and Deficit

For the Periods Ended March 31, 2008 and 2007

	Three months ended March 31	
	2008 (Unaudited)	2007 (Unaudited)
Revenue	\$ 1,352,327	\$ 1,828,446
Cost of sales	848,558	1,040,519
	503,769	787,927
Operating expenses:		
General and administrative	286,231	365,508
Research and development	755,683	690,748
Business development and marketing	103,401	56,216
Amortization	59,496	59,233
	1,204,811	1,171,705
	(701,042)	(383,778)
Other earnings (expenses):		
Interest and other earnings	5,329	19,854
Interest expense	(972)	(1,130)
Foreign exchange	18,709	(18,182)
Loss on disposal and impairment of assets	-	0
	23,066	542
Loss for the period	(677,976)	(383,236)
Deficit, beginning of period	(27,472,870)	(25,061,921)
Deficit, end of period	\$ (28,150,846)	\$ (25,445,157)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average common shares, used in computing loss per share basic and diluted	101,352,018	89,865,349

See accompanying notes to financial statements

PHOTON CONTROL INC.

Statements of Cash Flows

For the Periods Ended March 31, 2008 and 2007

	Three months ended	
	March 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operations:		
Loss for the period	\$ (677,976)	\$ (383,236)
Non-cash items:		
Amortization	59,496	59,233
Amortization of stock based compensation	55,085	50,917
Loss (gain) on disposal of assets	-	2,719
Deferred rent	2,891	114,489
Change in non-cash operating working capital:		
Accounts receivable	97,525	(166,242)
Inventory	(66,772)	(26,589)
Prepaid expenses and deposits	34,101	52,845
Accounts payable and accrued liabilities	214,643	(447,032)
Deferred revenue	25,563	-
	(255,444)	(742,896)
Investments:		
Restricted cash	(50,000)	-
Purchase of equipment	(113,327)	(69,515)
Proceeds from disposal of assets	-	1,000
Purchase of intangible assets	(4,604)	(6,658)
	(167,931)	(75,173)
Financing:		
Proceeds from issue of common shares	-	436,305
Share issue costs	(816)	(63,683)
	(816)	372,622
Increase (decrease) in cash and cash equivalents	(424,191)	(445,447)
Cash and cash equivalents, beginning of period	1,004,447	2,435,006
Cash and cash equivalents, end of period	\$ 580,256	\$ 1,989,559
Supplementary information:		
Cash received for interest	\$ 5,329	\$ 19,854
Cash paid for interest	972	1,130
Non-cash financing and investing activities:		
Fair value of agent's warrants granted on share issuance (note 3(e))		20,943

See accompanying notes to financial statements

PHOTON CONTROL INC.

(Formerly Coldswitch Technologies Inc.)

Notes to Financial Statements

For the three months ended March 31, 2008

1. Future operations:

These unaudited financial statements have been prepared on a going-concern basis, which assumes that Photon Control Inc. (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. The Company's future operations are dependent upon the market's acceptance of its products in order to ultimately generate future profitable operations, and the Company's ability to secure sufficient financing to fund future operations. There can be no assurance that the Company's new products will be able to secure market acceptance. These unaudited financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In November 2007 the Company received net proceeds of \$730,104 from a non-brokered private placement for the purpose of accelerating commercialization of selected optic product lines and for working capital. In addition, restructuring was undertaken in the third quarter of 2007 to reduce product development expenses in order to conserve working capital and in November 2007 the Company secured a \$500,000 bank working line of credit for additional working capital if required. The above activities in 2007 along with expected commercialization of new products in 2008 and the potential of raising further financing from equity issuances form the basis of management's opinion that the Company will meet its liabilities and commitments as they become due.

2. 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 under Canadian generally accepted accounting principles. 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. Certain of the comparative figures have been reclassified to conform with the presentation adopted for the current year. 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, 2007, and should be read in conjunction with those financial statements and notes thereto. The Company's auditors have not reviewed these financial statements.

PHOTON CONTROL INC.

(Formerly Coldswitch Technologies Inc.)

Notes to Financial Statements

For the three months ended March 31, 2008

3. Share Capital:

(a) Authorized:

Unlimited number of common shares, without par value

Unlimited number of preferred shares, without par value

(b) Issued and outstanding:

As at September 30, 2007, there were 101,352,018 common shares issued and outstanding, excluding 1,400,000 common shares held in treasury (see note 3(c)).

(c) Treasury shares:

Pursuant to Purchase and Sale Agreements dated April 5, 2000 between the Company and certain individuals, the Company acquired all of the issued and outstanding shares of CST Coldswitch Holdings Inc. in exchange for the issuance of 1,400,000 of the Company's common shares. The sole asset of CST Coldswitch Holdings Inc. was 1,400,000 of the Company's common shares, which were assigned a value of \$700,000. These shares have been recorded as treasury shares, and accordingly, the cost of the shares had been deducted from share capital.

(d) Stock options:

The number of shares reserved for the plan is 10% of the issued and outstanding shares of the Company. Accordingly, as at March 31, 2008, the Company's board of directors had reserved 10,135,202 options for issuance under the 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 Company has granted options with an exercise price equal to the market price at the date of grant. 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 period of 25% per six month period.

PHOTON CONTROL INC.

(Formerly Coldswitch Technologies Inc.)

Notes to Financial Statements

For the three months ended March 31, 2008

3. Share Capital (continued):

(d) Stock options (continued):

Stock option transactions for the three months ended March 31, 2008 are summarized as follows:

	Number of shares	Weighted average exercise price
Outstanding, December 31, 2007	6,785,000	\$ 0.35
Granted	10,000	0.10
Exercised	-	-
Forfeited	(153,750)	0.23
Outstanding, March 31, 2008 (unaudited)	6,641,250	\$ 0.25

The following table summarizes the stock options outstanding at March 31, 2008:

Range of Exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$0.13 to \$0.20	3,722,500	4.24	\$ 0.12	751,250	\$ 0.12
\$0.22 to \$0.50	1,908,750	2.11	0.34	1,566,250	0.34
\$0.52 to \$1.00	1,010,000	2.48	0.59	770,000	0.61
	6,641,250	3.36	\$ 0.25	3,087,500	\$ 0.36

The options outstanding at March 31, 2008 expire between June 22, 2008 and January 21, 2013. The per share weighted average fair value of stock options granted during the three months ended March 31, 2008 was \$0.07.

PHOTON CONTROL INC.

(Formerly Coldswitch Technologies Inc.)

Notes to Financial Statements

For the three months ended March 31, 2008

3. Share Capital (continued):

(d) Stock options (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:

Expected option lives	5 years
Risk-free interest rate	3.28%
Dividend yield	0%
Volatility	147.41%

The Company has applied the fair value based method of accounting for stock options granted after January 1, 2003. During the three months ended March 31, 2008, the Company recorded \$55,085 of compensation expense representing the fair value of the options vested during the three months with a corresponding increase to contributed surplus.

(e) Share purchase warrants:

At March 31, 2008 the Company had the following share purchase warrants outstanding:

(Unaudited)	Number of warrants	Expiry date	Exercise price
Share purchase warrants	7,437,099	May 17, 2008	\$0.21
Agents' compensation warrants ⁽¹⁾	1,123,269	November 17, 2008	\$0.15
Share purchase warrants	1,108,549	June 13, 2008	\$0.21
Agents' compensation warrants ⁽¹⁾	123,800	December 13, 2008	\$0.15
Share purchase warrants	1,454,350	August 15, 2009	\$0.21
Agents' compensation warrants ⁽¹⁾	232,695	February 15, 2009	\$0.15
Outstanding, March 31, 2008	11,479,762		\$0.20

⁽¹⁾ 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.

PHOTON CONTROL INC.

(Formerly Coldswitch Technologies Inc.)

Notes to Financial Statements

For the three months ended March 31, 2008

3. Share Capital (continued):

(e) Share purchase warrants (continued):

As at March 31, 2008, 100% of the outstanding warrants had exercise prices above the market value of the stock, which closed at \$0.08 on that date.

During the three months ended March 31, 2008, no share purchase warrants were exercised and no share purchased warrants expired.

4. Supplemental statement of operations information

The following information for the three months ended March 31, 2008 is provided pursuant to the requirements of the British Columbia Securities Commission:

General and administrative:	
Salaries and fees	\$ 158,902
Office and premises expenses	49,669
Legal and accounting	35,450
Insurance	23,742
Investor Relations	2,676
Directors fees and expenses ⁽¹⁾	4,729
Other	11,063
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	\$ 286,231
Research and development:	
Salaries and fees	\$ 338,213
Engineering materials and supplies	220,817
Certification and testing	2,311
Consulting fees	136,973
Government grants received	-
Other	57,369
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	\$ 755,683
Business development and marketing:	
Salaries ⁽²⁾	\$ 47,667
Travel	16,253
Consulting fees	21,687
Promotional expense	17,794
Other	-
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	\$ 103,401

(1) Directors fees and expenses include stock based compensation expense of \$2,719.

(2) Includes 80% of President's salary expense.