Photon Control Inc.

Management's Discussion and Analysis

For the three months ended March 31, 2020

(in Canadian dollars, amounts in thousands except number of shares and per share amounts)

DATED May 6, 2020

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PHOTON CONTROL

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides information for the three months ended March 31, 2020, and up to and including May 6, 2020. This MD&A is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with Photon Control Inc.'s (the "Company" or "Photon Control") unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2020, and the consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018. These documents, along with additional information about the Company, including the Annual Information Form ("AIF"), are available at www.photoncontrol.com and www.sedar.com.

This MD&A contains certain forward-looking statements and assumptions. See "Cautionary Note Regarding Forward Looking Statements" section of this MD&A for more information.

The financial data contained in this report and in the unaudited condensed interim consolidated financial statements and accompanying notes of the Company for the three months ended March 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in Canadian dollars, unless otherwise noted.

In addition to the results reported in accordance with IFRS, the Company uses various non-GAAP financial measures, which are not recognized under IFRS, as supplemental indicators of the Company's operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of the Company's historical and current financial performance and its prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of the Company's core operating results and ongoing operations and provide a more consistent basis for comparison between quarters and years. Details of such non-GAAP financial measures and how they are derived are provided in conjunction with the discussion of the financial information reported.

Since non-GAAP financial measures do not have any standardized meanings prescribed by IFRS, other companies may calculate these non-IFRS measures differently and our non-GAAP financial measures may not be comparable to similar titled measures of other companies. Accordingly, investors are cautioned not to place undue reliance on them and are also urged to read all IFRS accounting disclosures presented in the unaudited condensed interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2020, and the consolidated financial statements and the accompanying notes for years ended December 31, 2019 and 2018.

OVERVIEW

Photon Control Inc. designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. These products improve performance and enable innovation for our customers, and are used in the semiconductor and other high technology industries. Photon Control Inc.'s high quality products provide industry-leading accuracy, reliability and quality in the most extreme conditions and are backed by a team of experts providing a variety of on-site and remote services including custom design, installation, training, and support. The Company is headquartered in an ISO 9001:2015 manufacturing facility in Vancouver, British Columbia ("BC"), Canada, has sales and engineering offices in California, and a sales distribution network across the globe. Photon Control Inc. is listed on the Toronto Stock Exchange (the "TSX"), trading under the symbol "PHO".

COMPANY HIGHLIGHTS

The following significant corporate and financial events have taken place during the three months ended March 31, 2020, and up to and including May 6, 2020:

- On January 14, 2020, the Company announced it successfully completed a surveillance audit of its quality management system to maintain its ISO 9001:2015 certification; and,
- On April 3, 2020, the Company acquired certain assets of Micronor Inc., a supplier of fiber optic kinetic sensors based in Camarillo, California, USA, for cash consideration of $844.

PRODUCTS AND INDUSTRIES

Semiconductor Industry: Temperature and Position Sensors

The semiconductor capital equipment industry offers several significant and growing applications for our technology and is the primary source of revenue for our business. The Company designs and produces precision temperature and position sensors used by semiconductor wafer fabrication equipment ("WFE") manufacturers in our ISO-certified manufacturing facility. The manufacturing of silicon wafers for semiconductors involves a multitude of complex processes; monitoring and maintaining the correct wafer position and wafer temperature during these processes is critical to achieving the product yield and productivity required for high-volume manufacturing. The measurement accuracies required of such sensors are becoming more challenging as semiconductor devices scale to atomic level dimensions and become more three-dimensional ("3D") in nature. Furthermore, these sensors must maintain their accuracy in harsh environments encountered in critical semiconductor equipment, such as the strong radio frequency electromagnetic fields encountered in plasma etch and plasma-assisted deposition systems. Photon Control's fiber optic sensors are immune to radio frequency interference and are thus able to deliver the high accuracies required for state-of-the-art process control.

The need for scaling semiconductor devices to atomic level dimensions has also created a need for more measurement points inside the chamber. Temperature and position anomalies have a greater impact on yield at these atomic level dimensions and must be measured and controlled more precisely, which increases the value and use of fiber optic sensors. In addition, as semiconductor equipment has gone from 28 nm node to sub-10 nm nodes, the number of measurement points and etch steps has increased more than four-fold. Similarly, the proliferation of 3D and advanced logic chip designs have become more common and comprise an increasingly significant percentage of total chips manufactured. These factors have driven and are expected to continue to drive demand for the Company's products.

SALES, MARKETING AND DISTRIBUTION

Photon Control sells its products globally with sales to original equipment manufacturers ("OEMs") primarily in the United States who in turn sell their products to manufacturers in the United States, Asia and Europe. We also sell through a network of distributors who sells our products to OEMs in their home markets.

MARKET LANDSCAPE

In addition to the increasing number of measurement points, there are several other market and technology trends that we expect will contribute to the fiber optic sensor market in semiconductor manufacturing:

- Semiconductors have revolutionized all aspects of our economy and lives – among the technologies fueled by semiconductors today and in the future are smartphones, 5G mobile, the cloud, autonomous driving, and artificial intelligence. As a critical building block of these technologies, semiconductors will continue to enable innovation and transform industries, and hence, chip makers are expected to increase production to meet this growing market.
- The need for more storage capacity and computing power also continues to drive the scaling of semiconductor devices to smaller dimensions and to be more "3D". These advanced technologies are more complex which require more process steps, equipment and sensors.
- The scaling of semiconductor devices requires patterning of semiconductor materials at atomic level dimensions. This is achieved by a process called "multi-patterning" which requires extra plasma etch and deposition steps compared to standard patterning, and these equipment segments have been outpacing the overall WFE market. The Company's fiber optic sensors are used mostly in plasma etch and deposition equipment.
- The semiconductor capital equipment market has historically experienced certain cycles of growth and contraction due to variations in product supply and demand, changing customer requirements and rapid technological change. The Company has identified a number of non-semiconductor market segments as potential targets for its fiber optic sensing products to diversify its revenue stream in the future.

SELECTED FINANCIAL INFORMATION

The following table highlights key financial information for the three months ended March 31, 2020 as compared to the prior comparable period:

	Three months ended March 31, 2020	Three months ended March 31, 2019	Variance ($)	Variance (%)
Revenue	$ 17,312	$ 8,032	$ 9,280	116%
Cost of sales	6,724	3,802	2,922	77%
Gross profit	10,588	4,230	6,358	150%
Gross profit %	*61.2%*	*52.7%*		
Operating expenses				
General and administrative	2,155	1,525	630	41%
Engineering	1,255	1,277	(22)	-2%
Sales and marketing	687	674	13	2%
Total operating expenses	4,097	3,476	621	18%
Operating income	6,491	754	5,737	761%
Finance income	154	143	11	8%
Accretion expense on contingent consideration	(122)	(143)	21	-15%
Change in fair value of contingent consideration	(88)	98	(186)	-190%
Foreign exchange gain (loss)	2,682	(586)	3,268	-558%
	2,626	(488)	3,114	-638%
Net income before taxes	9,117	266	8,851	3327%
Income taxes	2,478	196	2,282	1164%
Net income	6,639	70	6,569	9384%
Other comprehensive gain on foreign exchange translation of subsidiary	16	50	(34)	-68%
Total comprehensive income	$ 6,655	$ 120	$ 6,535	5446%
Basic earnings per share	$ 0.06	$ 0.00	$ 0.06	100%
Diluted earnings per share	$ 0.06	$ 0.00	$ 0.06	100%

Operating income is a non-GAAP measure and is therefore not universally defined. The Company defines operating income as earnings before finance income; accretion expense on contingent consideration; change in fair value of contingent consideration; foreign exchange gain (loss); and income taxes.

4 (In Canadian dollars, amounts in thousands except number of shares and per share amounts

The following table highlights key financial information as at March 31, 2020 and December 31, 2019:

Financial Position	March 31, 2020	December 31, 2019	Variance ($)	Variance (%)
Cash and cash equivalents	$ 41,214	$ 33,400	$ 7,814	23%
Total assets	72,106	58,101	14,005	24%
Total liabilities	15,958	8,723	7,235	83%
Total shareholders' equity	56,148	49,378	6,770	14%

The following table provides the details of our EBITDA for the three months ended March 31, 2020 and 2019:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Net income for the period	$ 6,639	$ 70
Add (deduct)		
Finance income	(154)	(143)
Accretion expense on contingent consideration	122	143
Income taxes	2,478	196
Depreciation of property and equipment	365	393
Amortization of intangible assets	196	243
Foreign exchange (gain) loss	(2,682)	586
EBITDA[1] for the period	**$ 6,964**	**$ 1,488**

(1) EBITDA is a non-GAAP measure and is therefore not universally defined. The Company defines EBITDA as earnings before finance income, accretion expense, income taxes, depreciation, amortization and foreign exchange (gain) loss.

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OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

Revenue

Total revenues for the three months ended March 31, 2020 increased 116% over the prior comparable period due to an increase in wafer fabrication equipment spending by original equipment manufacturers primarily due to the semiconductor cycle. Revenues also increased due to accelerated shipments to customers in response to the COVID-19 pandemic and revenues earned from new products.

The following table provides a summary of our revenues by territory:

	Three months ended March 31,		Variance	
	2020	**2019**	**($)**	**(%)**
Asia	$ 9,622	$ 3,500	$ 6,122	175%
United States	7,690	4,532	3,158	70%
Total	**$ 17,312**	**$ 8,032**	**$ 9,280**	**116%**

For the three months ended March 31, 2020, revenues generated from customers located in Asia and the United States increased over the prior comparable period due to strong near-term demand experienced in the semiconductor capital equipment market.

Gross Profit

Gross profit of $10,588 and margin of 61.2% increased for the three months ended March 31, 2020 over the prior comparable period of $4,230 and 52.7%, respectively. The variability of gross margin is a function of overall revenues, sales volume and product and customer mix.

Operating Expenses

Total operating expenses for the three months ended March 31, 2020 were $4,097 compared to $3,476 in the prior comparable period.

General and Administrative

General and administrative totaled $2,155 for the three months ended March 31, 2020 compared to $1,525 in the prior comparable period. The increase for the quarter was the result of a higher proportion of current year's incentive compensation costs recognized in the quarter due to the Company's record financial performance.

Engineering

Engineering totaled $1,255 for the three months ended March 31, 2020 compared to $1,277 in the prior comparable period. The Company maintained its investments in new product development and disruptive technologies as part of its growth strategy.

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Sales and Marketing

Sales and marketing totaled $687 for the three months ended March 31, 2020 compared to $674 in the prior comparable period. The Company's sales and marketing focus in 2020 is to serve existing markets and expand to new markets, supported by technology, innovation and new product development.

Contingent Consideration

Contingent consideration relates to the acquisition of certain assets of Photon Control R&D Ltd. ("Photon R&D") in 2017. It is determined using a discount model applied to royalties on revenues earned from defined products from January 1, 2017 to December 31, 2021. Accretion expense represents the calculated increase of contingent consideration resulting from the passage of time.

Change in fair value of contingent consideration resulted in a loss of $88 for the three months ended March 31, 2020, compared to a gain of $98 in the prior comparable period. Change in fair value of contingent consideration is based on revisions to management's estimate of the potential total amount of contingent consideration compared to the estimate made at the end of the preceding quarter. The loss for the current period resulted from an increase in management's estimate of future royalties payable to Photon R&D due to the Company's business performance in the quarter.

Foreign Exchange Gain/Loss

The Company is subject to foreign exchange risk as its products are priced in United States dollars ("USD"), while the majority of its expenses and assets are denominated in Canadian dollars. The Company does have a partial "natural hedge" against foreign exchange risk, as some of its component parts and accounts payable are priced and or valued in USD. The foreign exchange gain for the three months ended March 31, 2020 was due to a rapid decline of the Canadian dollar relative to the US dollar in the month of March 2020.

Income Taxes

Income taxes for the three months ended March 31, 2020 were $2,478 compared to $196 in the prior comparable period.

EBITDA

EBITDA is defined as earnings before finance income, accretion expense, income taxes, depreciation, amortization and foreign exchange gain or loss. EBITDA for the quarter ended March 31, 2020 was $6,964 compared to $1,488 in the prior comparable period, with the increase due to the Company's strong financial performance.

Order Backlog

Order backlog was $30,905 on March 31, 2020, an increase from $20,840 at December 31, 2019 and $10,757 at March 31, 2019. Order backlog represents the unfulfilled value of sales orders received and scheduled for fulfillment in the next 6 months. The increase in order backlog versus December 31, 2019 reflects an improved wafer fabrication equipment spending environment.

SUMMARY OF QUARTERLY RESULTS

The global semiconductor industry is fast-paced, competitive and constantly innovating to increase processing speed and power. The ability to anticipate these technological changes and innovate to meet them without compromising quality is a key competitive advantage in this market. As a supplier of componentry to semiconductor WFE manufacturers, Photon Control's key strengths include our rapid prototyping capabilities, our ISO-certified production facility and Copy Exact ("CE") methods, and our ability to manufacture to our customers' exacting standards with our highly trained workforce. In addition to our high-quality manufacturing strengths, our products include unique proprietary characteristics which both differentiate our products and allow us to outperform competitive offerings.

The following table provides a summary of the Company's financial results for the eight most recently completed quarters:

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Revenue	$ 14,565	$ 10,052	$ 8,233	$ 8,032	$ 7,106	$ 8,742	$ 8,850	$ 17,312
Gross profit	$ 8,288	$ 5,193	$ 4,287	$ 4,230	$ 3,891	$ 4,791	$ 4,653	$ 10,588
Gross margin %	57%	52%	52%	53%	55%	55%	53%	61%
Net income	$ 3,853	$ 1,249	$ 2,699	$ 70	$ 109	$ 1,487	$ 705	$ 6,639
Basic EPS	$ 0.03	$ 0.01	$ 0.03	$ 0.00	$ 0.00	$ 0.01	$ 0.01	$ 0.06
Diluted EPS	$ 0.03	$ 0.01	$ 0.03	$ 0.00	$ 0.00	$ 0.01	$ 0.01	$ 0.06
Cash and cash equivalents	$ 40,794	$ 42,651	$ 42,407	$ 37,264	$ 31,422	$ 34,025	$ 33,400	$ 41,214

Following a period of industry growth that continued through the second quarter of 2018, the Company's revenue levels declined as a result of a multi-quarter downturn in semiconductor wafer fabrication equipment spending, which is cyclical by nature, as the industry experienced a period of weakness in the memory market. The industry downturn affected revenue levels through 2019, but early signs of a market recovery emerged during the year. Revenues in the second half of 2019 increased 16% over the first half of 2019, followed by a 96% increase in the first quarter of 2020 as compared to the fourth quarter of 2019.

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LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's working capital as at March 31, 2020 and December 31, 2019:

		March 31, 2020		December 31, 2019		Variance
Cash and cash equivalents	$	41,214	$	33,400	$	7,814
Trade and other receivables		8,475		4,051		4,424
Income taxes receivable		-		714		(714)
Inventories		7,574		6,459		1,115
Prepaid expenses and deposits		593		575		18
Total current assets		**57,856**		**45,199**		**12,657**
Accounts payable and accrued liabilities		6,630		4,318		2,312
Income taxes payable		5,035		-		5,035
Current portion of contingent consideration		1,534		1,419		115
Current portion of lease liabilities		276		272		4
Total current liabilities		**13,475**		**6,009**		**7,466**
Working capital	**$**	**44,381**	**$**	**39,190**	**$**	**5,191**

Management believes the Company will be able to continue to meet its liabilities and commitments as they become due and will generate sufficient amounts of cash and cash equivalents from the continued design, manufacturing and distribution of existing products and the commercialization of new products. This cash will be used to maintain capacity, meet planned growth and development activities and other corporate initiatives. The Company continues to monitor all expenditures and implement cash management strategies to ensure that it has adequate cash reserves to fund identified expenditure requirements.

Notwithstanding the Company's positive working capital position, the Company may require financing in order to satisfy future growth activities. The Company may also need additional capital to fund specific growth projects or acquisitions in the future, and while no such projects are planned at this time, a change in circumstances could result in the need for additional capital.

Capital Risk Management

The Company considers shareholders' equity as capital, the book value of which totaled $56,148 at March 31, 2020 (December 31, 2019 - $49,378).

The Company manages its capital structure to safeguard its ability to operate as a going concern, to provide sufficient resources to meet day-to-day operating requirements, to allow it to enhance existing product offerings as well as develop new ones, and to have the financial ability to expand the size of its operations by taking on new customers and new markets. In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the upfront cost of taking on new clients and expanding to new markets.

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The Company's officers and senior management are responsible for managing the Company's capital and do so through regular meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

Working Capital

The increase in working capital over December 31, 2019 was the result of the Company's strong financial performance in the quarter.

Cash and Cash Equivalents

At March 31,2020, the Company held cash and cash equivalents of $41,214 compared to $33,400 as at December 31, 2019. The increase was attributable to the Company's effective cash conversion of its operating profit, impact of favourable currency exchange rates and timing of taxes received in the period.

Trade and Other Receivables

Trade and other receivables of $8,475 increased from $4,051 as at December 31, 2019 and is consistent with revenues earned in the period.

Inventories

Inventories as at March 31, 2020 totaled $7,574 compared to $6,459 as at December 31, 2019 with the increase is consistent with the strength of the order backlog.

The Company follows a CE standard in providing its products to its customers and is required to maintain adequate inventory on hand to fulfill purchase orders from its customers. As a result, and due to the fact that the timing and quantum of such purchase orders cannot be forecasted with complete accuracy, the Company's inventory supply must be planned to protect against variation between the forecast and actual customer demand. These variances in demand and revenue can have a short-term effect on the Company's liquidity from time to time.

Accounts Payable and Accrued Liabilities

As at March 31, 2020, the Company's accounts payable and accrued liabilities, which are due for payment within 12 months of the balance sheet date, were $6,630 compared to $4,318 as at December 31, 2019. The increase is due to inventory purchases to support the record order backlog position and manage the impact of the COVID-19 pandemic, and accrued incentive compensation costs related to the Company's financial performance.

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements other than short-term lease agreements and a credit card facility.

RELATED PARTY TRANSACTIONS

The remuneration of key management for the three months ended March 31, 2020 and 2019 is as follows:

	Three months ended	
	March 31, 2020	**March 31, 2019**
Cash-based payments	**$ 542**	$ 190
Share-based payments	**56**	37
Total	**$ 598**	$ 227

Cash-based payments include salaries, bonuses, consulting fees, and other benefits.

FINANCIAL INSTRUMENTS AND FAIR VALUES

Measurement categories, fair values and valuation methods

The Company's financial assets and liabilities, with the exception of contingent consideration liability, are measured using amortized costs which approximates fair value due to the nature of these instruments:

	March 31, 2020		**December 31, 2019**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets	**$ 49,689**	**$ 49,689**	$ 37,451	$ 37,451
Financial liabilities	**6,630**	**6,630**	4,318	4,318

Fair value hierarchy

The following financial assets and liabilities are measured at fair value on a recurring basis using quoted prices in active markets for identifiable assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

			Fair value	
March 31, 2020	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 2,847	$ -	$ -	$ 2,847

			Fair value	
December 31, 2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 2,892	$ -	$ -	$ 2,892

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The Company used a discontinued cash flow valuation technique in calculating the fair value of the contingent consideration. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company (20%). The fair value measurements are sensitive to the discount rate used in calculating the fair values. A 1% increase in the discount rate would reduce the fair value of the contingent consideration by $19. During the three months ended March 31, 2020, the Company recorded accretion expense of $122 (2019 - $143) in relation to contingent consideration, reflecting the change in fair value of liability that is attributable to market risk.

Financial risk factors

The Company is exposed to a number of risks. These risks include credit risk, liquidity risk and market risk. The Company has established policies and procedures to manage these risks, with the objective of minimizing the adverse effects that changes in the variable underlying these risks could have on the Company's condensed interim consolidated financial statements.

Credit risk

The following table provides information regarding the aging of trade and other receivables as at March 31, 2020 and December 31, 2019:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
As at March 31, 2020	**86%**	**13%**	**1%**	**0%**	**0%**
As at December 31, 2019	93%	5%	2%	0%	0%

As at March 31, 2020, 14% (December 31, 2019 – 7%) of the Company's trade and other receivables was past due. The definition of items that are past due was determined by reference to the Company's standard credit terms, net of any provisions for losses. At March 31, 2020, the provision against trade and other receivables was $nil (December 31, 2019 - $nil). At each period end, the Company reviews the collectability of outstanding receivables. Specific accounts are only written off once all collection efforts have been explored or when legal bankruptcy has occurred. During the three months ended March 31, 2020, the Company did not incur any bad debt expense (2019 – $nil).

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters that could delay the collection of funds at an early stage.

Liquidity risk

At March 31, 2020, the Company had a $220 credit card facility (December 2019 - $220) with a Canadian Chartered bank.

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Market risk

Foreign exchange risk

At March 31, 2020, the Company held net current monetary assets in USD equal to $33,114 (December 31, 2019 - $23,659). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be $3,311 (December 31, 2019 - $2,366).

Interest rate risk

The Company is exposed to interest rate risk by virtue of holding cash and cash equivalents. The Company's objective in managing its cash is to provide sufficient funds to meet day-to-day requirements and placing excess cash in short-term deposits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments, estimates, assumptions applied in the condensed interim consolidated financial statements, including key sources of estimation uncertainty, were the same as those applied in the most recent annual consolidated financial statements for the years ended December 31, 2019 and 2018.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the condensed interim consolidated financial statements were the same as those applied in the most recent annual consolidated financial statements for the years ended December 31, 2019 and 2018.

Uncertain tax position

The Company's uncertain tax position consists of payments received from the Canadian tax authority related to foreign tax credits claimed on historical tax returns from 2013 to 2017. The Company evaluates the tax position for recognition by determining whether it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The amount of the liability to recognize is measured as the maximum amount which is more likely than not to be realized. The tax position is derecognized when it is no longer more likely than not that the position will be sustained on audit and the Company will adjust income tax expense accordingly in the period in which the position changes.

Future accounting pronouncements

The Company reviewed future accounting pronouncements and determined that there are no standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting period and on foreseeable future transactions.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

The Company has disclosure controls and procedures in place that are designed to provide reasonable assurance that information relating to the Company that is required to be disclosed under applicable securities laws is recorded, processed, summarized, and reported in the manner specified by such laws. Management has reviewed and evaluated, or caused to be evaluated under their supervision, the design of the Company's disclosure controls and procedures as of March 31, 2020.

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have reviewed and evaluated the design of the Company's disclosure controls and procedures related to the preparation of Management's Discussion and Analysis and the Company's condensed interim consolidated financial statements as at March 31, 2020. The Company's CEO and CFO have concluded that the Company's disclosure controls and procedures were designed, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's Discussion and Analysis and the condensed interim consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

The Company's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, in order to provide reasonable assurance regarding the reliability and accuracy of the Company's financial reporting and the preparation of its financial statements for external purposes in accordance with IFRS.

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design of the Company's internal control over financial reporting as of March 31, 2020.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO will certify Photon Control's quarterly filings with the Canadian securities regulatory authorities.

SUBSEQUENT EVENT

On April 3, 2020, the Company acquired certain assets of Micronor Inc., a supplier of fiber optic kinetic sensors based in Camarillo, California, USA, for cash consideration of $844. The Company will account for the transaction as a business combination in accordance with IFRS 3. Management is in the process of gathering the relevant information that existed at the acquisition date to determine the fair value of the net identifiable assets acquired.

OUTSTANDING SHARE DATA

As at March 31, 2020, the Company had 104,513,571 common shares issued and outstanding. As at May 6, 2020, the Company had 104,553,873 common shares issued and outstanding.

As at March 31, 2020 the Company had 3,452,000 stock options outstanding entitling the holders to purchase one common share for each option held. As at May 6, 2020, the Company had 3,443,250 stock options outstanding.

As at March 31, 2020, the Company had restricted share units outstanding for 43,000 common shares. As at May 6, 2020, the Company had no restricted share units outstanding.

RISKS AND UNCERTAINTIES

Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. The risks and uncertainties in the Company's most recently filed AIF, which is available on the Canadian System for Electronic Document Analysis and Retrieval website ("SEDAR") (www.sedar.com) are those that we currently believe to be material, and do not represent all of the risks that we face. Additional risks and uncertainties, not presently known to us, may become material in the future or those risks that we currently believe to be immaterial may become material in the future. If any of the following risks actually occur, alone or in combination, our business, financial condition and results of operations, as well as the market price of our common shares, could be materially adversely affected.

SEDAR

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements and information that are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of Canadian securities laws (collectively, "forward-looking statements"), including our business outlook for the short and longer-term and statements regarding our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer-term plans, expectations and prospects. We caution you that forward-looking statements may not be appropriate for other purposes.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are not promises or guarantees of future performance; they represent our current views and may change significantly. Forward-looking statements are based on a number of material assumptions, including, but not limited to, those listed below, which could prove to be significantly incorrect:

- our ability to develop, manufacture and sell new products that meet the needs of our customers and gain commercial acceptance;
- our ability to continue to sell our products in line with expected quantity, price and delivery times;
- our ability to attract new business;
- continued and future demand for the Company's products;
- continued sales to the Company's major customers;
- our operations not being adversely affected by supply, operating, cyber security, litigation or regulatory risks;
- our ability to react to the cyclical nature of the semiconductor industry;
- our ability to enhanced revenue diversification and open new market opportunities; and,
- our expectations regarding market risk, including interest rate changes, tax changes and foreign currency fluctuations.

The forward-looking statements included in this report include, without limitation, statements relating to:

- factors that we expect to drive continued demand for the Company's products;
- expected growth within the semiconductor industry and the Company's reliance on the financial health of the semiconductor industry from which it derives its sales;
- the market for the Company's products;
- sources of our revenues from operations in the future;
- continued international expansion and the effect of such expansion on our operations;
- potential acquisitions in the future and the effect of such acquisitions on our operations;
- fluctuation of the price of the common shares of the Company in the future;
- potential inability of investors to sell their common shares of the Company;

- our future performance being dependent on our ability to hire and retain qualified personnel; and
- the Company is not anticipating paying any dividends in the foreseeable future.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the forward-looking statements. Such uncertainties and factors include, among others:

- risks associated with the Company's ability to retain its major customers;
- risks associated with a lengthy sales cycle;
- risks related to our dependency on the semiconductor industry and our ability to respond to industry cyclicality;
- risks associated with the Company's ability to expand its manufacturing capacity or reduce costs in response to rapid shifts in demand for the Company's products;
- risks associated with continuous technological change, evolving industry standards, shifting customer needs and new product introductions and enhancements;
- risks associated with failure to operate our business in accordance with our business plan;
- uncertainty relating to the timing of product development and commercial launch;
- risks associated with competition;
- operational risks associated with manufacturing and our dependence on sole or limited source suppliers;
- risks associated with compliance with customers' requirements;
- uncertainty relating to operating results;
- risks related to legal, regulatory and tax environments in which we conduct our business;
- risks associated with product liability claims;
- risks related to product pricing;
- risks related to inability to use or access information systems, or related to breaches of our network security;
- risks associated with manufacturing interruptions or delays;
- risks relating to legal proceedings and with the Company's intellectual property;
- risks associated with infringing on the intellectual property rights of others;
- uncertainty relating to general economic conditions;
- risks related to tariffs or other trade restrictions;
- risks related to future mergers or acquisitions;
- uncertainty related to international operations, including currency fluctuations, additional development projects, other business opportunities and disruption due to the spread of the COVID-19 virus;
- risks associated with the adverse impact of climate change;
- risks related to the volatility of the trading price and volume of the common shares of the Company;
- risks associated with maintaining an active market for the common shares of the Company;
- risks associated with our directors and officers;
- risks associated with attracting and retaining qualified personnel; and
- risks associated with compliance with various federal, provincial, local and international laws governing the environment.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this report under the heading “Risks and Uncertainties”.

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.