PHOTON CONTROL

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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

DATED November 5, 2020

This Management's Discussion and Analysis ("MD&A") provides information for the three and nine months ended September 30, 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 and nine months ended September 30, 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 forward-looking information within the meaning of Canadian securities laws, and the use of non-GAAP measures. Refer to "Cautionary Statement Regarding Forward-Looking Statements" and "Cautionary Statement Regarding Certain Non-GAAP Performance Measures" included within this MD&A.

The financial data contained in this report and in the unaudited condensed interim consolidated financial statements and accompanying notes of the Company for the nine months ended September 30, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in Canadian dollars, unless otherwise noted.

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1 OVERVIEW AND HIGHLIGHTS

1.1 Photon Control

Photon Control was incorporated on September 6, 1988 and 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 industry. Photon Control'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 Richmond, British Columbia, Canada, has manufacturing, sales and research and development offices in California, and a sales distribution network across the globe. Photon Control is listed on the Toronto Stock Exchange (the "TSX"), trading under the symbol "PHO".

1.2 2020 Highlights and Outlook

The following significant corporate and financial events have taken place in 2020:

- In November 2020, the Company reported its second highest ever revenues of $16,330 for the three months ended September 30, 2020 and net income of $3,607.
- In September 2020, the Company entered into a distribution agreement with Woowon Technology Co., Ltd., a leading Korean distributor.
- In August 2020, the Company reported its second highest ever revenues, prior to the release of Q3 2020 revenues, of $16,098 for the three months ended June 30, 2020 and net income of $2,673.
- In July 2020, the Company announced the strategic partnership with FiSens GmbH ("FiSens") for a worldwide license and distribution agreement for Fiber Bragg Grating ("FBG") sensor solutions.
- In May 2020, the Company announced the appointment of Damian Towns as its new Chief Financial Officer ("CFO") and Corporate Secretary.
- In May 2020, the Company reported record quarterly revenues of $17,312 for the three months ended March 31, 2020 and net income of $6,639.
- In April 2020, the Company completed the acquisition of certain tangible and intangible assets of Micronor Inc. ("Micronor"), a supplier of fiber optic kinetic sensors based in Camarillo, California, United States for cash consideration of $844.
- In January 2020, the Company announced it successfully completed a surveillance audit of its quality management system to maintain its ISO 9001:2015 certification.

For Q4 2020, our expectation for revenues are between $12,000 and $14,000 which is lower than our quarterly revenues to date but consistent with the decrease in our order backlog.

We continue to focus on three key areas: managing through the global COVID-19 pandemic, achieving our stated growth strategy and strengthening our underlying business.

Managing through COVID-19

Our primary goal is ensuring the health and safety of our employees, customers, suppliers, and their families. We are continuing to serve our customers and in addition have implemented social distancing measures, additional safety and cleaning protocols at our manufacturing facilities and we have adopted additional protective measures that our customers employ.

Photon Control meets the definition of an essential service in British Columbia and the United States. The impact of COVID-19 on our operations has so far been minimal and our manufacturing operations were not subjected to any closures.

Achieving our stated growth strategy

Our new product introduction ("NPI") funnel remains a key area of focus. We continue to progress with design wins for prototype introduction and our NPI revenues grew sequentially over the prior quarter. In addition we are also investing in disruptive technologies such as FBG through the FiSens license agreement.

The acquisition of Micronor's assets is a complementary expansion to Photon Control's offering in the semiconductor and other high-tech industries as it provides a new range of fiber optic encoders and positioning and signaling sensors. This acquisition also provides us with a site located in Camarillo, California.

Our ability to benefit from the FiSens' license agreement and Micronor acquisition has been impacted by the COVID-19 environment, primarily due to travel restrictions but we look forward to being able to fully leverage off these in due course.

Strengthening our underlying business

We have augmented our team with the introduction of our new CFO, Damian Towns in May 2020. We further developed our internal team with the recent promotions of Eva Valencia to VP Semiconductor Sales and Phil Schick to VP Technology & Operations. Our year to date 2020 revenues have already exceeded our highest ever revenues of $46,704, achieved in 2018, with the strong capital expenditure in the semi-conductor industry being the principal driver of these record sales. Current industry estimates have Wafer Fabrication Equipment ("WFE") spend between $52 and $58 billion in 2020 with strong growth continuing into 2021.

Our focus for the remainder of the year will be on maintaining on time deliveries and development initiatives for our semiconductor customers, whilst integrating our new product lines from FiSens and Micronor that will serve as enablers in delivering our growth initiatives. We will also continue to build and strengthen our team and underlying business in order to capitalize on the opportunities ahead.

1.3 Industry, Market and Products

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 Photon Control. The Company designs and produces precision temperature and position sensors used by semiconductor 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.

Market Landscape

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 exactly 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.

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 High-Performance Computing (HPC) demand for gaming, 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 complex and advanced technologies 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 these critical plasma etch and deposition systems.
- The semiconductor capital equipment market has historically experienced 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.

Sales, Marketing and Distribution

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

2 SEPTEMBER 2020 FINANCIAL PERFORMANCE OVERVIEW

The following table highlights key financial information for the three and nine months ended September 30, 2020 as compared to the prior comparable periods:

	Three months ended				Nine months ended			
	September 30,		Variance		September 30,		Variance	
Table 1: Financial Performance	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
Revenue	$ 16,330	$ 8,742	$ 7,588	87%	$ 49,740	$ 23,880	$ 25,860	108%
Cost of sales	6,125	3,951	2,174	55%	19,225	10,968	8,257	75%
Gross profit	10,205	4,791	5,414	113%	30,515	12,912	17,603	136%
Gross profit %	*62%*	*55%*			*61%*	*54%*		
Operating expenses								
General and administrative	1,918	1,426	492	35%	5,924	5,122	802	16%
Research and development	1,507	1,289	218	17%	3,916	3,605	311	9%
Sales and marketing	1,028	355	673	190%	2,635	1,486	1,149	77%
Total operating expenses	4,453	3,070	1,383	45%	12,475	10,213	2,262	22%
Operating income	5,752	1,721	4,031	234%	18,040	2,699	15,341	568%
Finance income	7	133	(126)	-95%	188	502	(314)	-63%
Accretion expense on contingent consideration	(84)	(127)	43	-34%	(312)	(404)	92	-23%
Change in fair value of contingent consideration	(153)	50	(203)	-406%	(708)	482	(1,190)	-247%
Foreign exchange (loss) gain	(483)	272	(755)	-278%	681	(786)	1,467	-187%
	(713)	328	(1,041)	-317%	(151)	(206)	55	-27%
Net income before taxes	5,039	2,049	2,990	146%	17,889	2,493	15,396	618%
Income taxes	1,432	562	870	155%	4,970	827	4,143	501%
Net income	3,607	1,487	2,120	143%	12,919	1,666	11,253	675%
Gain (loss) on foreign exchange translation of sub	11	(12)	23	-192%	147	10	137	1370%
Total comprehensive income	$ 3,618	$ 1,475	$ 2,143	145%	$ 13,066	$ 1,676	$ 11,390	680%
Basic earnings per share	$ 0.03	$ 0.01	$ 0.02	200%	$ 0.12	$ 0.02	$ 0.10	500%
Diluted earnings per share	$ 0.03	$ 0.01	$ 0.02	200%	$ 0.12	$ 0.02	$ 0.10	500%

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 (loss) gain; and income taxes.

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

2.1 Revenue and Cost of Sales

Table 2: Revenue and Cost of sales	Three months ended September 30, 2020	2019	Variance ($)	(%)	Nine months ended September 30, 2020	2019	Variance ($)	(%)
Revenue	$ 16,330	$ 8,742	$ 7,588	87%	$ 49,740	$ 23,880	$ 25,860	108%
Cost of sales	6,125	3,951	2,174	55%	19,225	10,968	8,257	75%
Gross profit	$ 10,205	$ 4,791	$ 5,414	113%	$ 30,515	$ 12,912	$ 17,603	136%
Gross profit %	*62%*	*55%*			*61%*	*54%*		

Photon's revenues are strongly influenced by the overall capital expenditure in the WFE market. The WFE capex spend in 2020 has been estimated to be between $52 and $58 billion which is approximately 12% higher than 2019. We continue to strive to get our sensors onto new process tools from the leading OEMs in order to further grow our market share. We believe our growth in revenues above and beyond the growth of the overall WFE market is reflective in our success in increasing our market share, combined with an element of our customers' reducing risks in their supply chains by holding more inventory due to COVID-19.

Gross profit excludes royalty payments associated with the contingent consideration payments (section 4.3). For three and nine months ended September 30, 2020, the Company made royalty payments of $501 and $1,320 (2019 - $240 and $774), respectively.

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

Table 3: Revenue by Territory	Three months ended September 30, 2020	2019	Variance ($)	(%)	Nine months ended September 30, 2020	2019	Variance ($)	(%)
United States	$ 9,729	$ 4,765	$ 4,964	104%	$ 24,890	$ 15,025	$ 9,865	66%
Asia	6,601	3,977	2,624	66%	24,850	8,855	15,995	181%
Total	**$ 16,330**	**$ 8,742**	**$ 7,588**	**87%**	**$ 49,740**	**$ 23,880**	**$ 25,860**	**108%**

For the three and nine months ended September 30, 2020, revenues generated from customers located in the United States and Asia increased over the prior comparable periods due to strong near-term demand experienced in the semiconductor capital equipment market. For the three months and nine months ended September 30, 2020, 60% and 50% respectively came from the United States with 40% and 50% respectively from Asia. The variance between the three months and nine months were due to customer ordering behaviors.

Order backlog, defined as the unfilled value of sales orders received or scheduled for fulfillment, was $27,031 as at September 30, 2020, a decrease from $29,658 at June 30, 2020 and an increase from $11,921 at September 30, 2019. The backlog normalized versus Q2 2020 as we believe customers built excess stock in the first half of the year in response to COVID-19. Notwithstanding, our backlog still remains very robust at $27,031.

Total cost of sales for the three and nine months ended September 30, 2020 increased 55% and 75% over the prior comparable periods, respectively. Cost of sales has increased but at a lower percentage of sales due to improved absorption of fixed costs over higher overall revenues.

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

Gross profit increased for the three and nine months ended September 30, 2020 over the prior comparable periods. Our gross margin has benefited from increased sales volume causing fixed costs as a percentage of total cost to have fallen significantly during this period. Additionally, we realized cost savings compared to the same periods in 2019 due to improved management of the supply chain. Both factors have had a positive impact on our overall gross margin in 2020.

Our gross margin does not consider our contingent consideration, an effective royalty (section 4.3), which requires all the contingent consideration to be booked up front and results in a slightly higher gross margin from a reporting perspective. These payments cease at the end of 2021.

2.2 Operating Expenses

	Three months ended				Nine months ended			
	September 30,		Variance		September 30,		Variance	
Table 4: Operating Expenses	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
General and administrative	$ 1,918	$ 1,426	$ 492	35%	$ 5,924	$ 5,122	$ 802	16%
Research and development	1,507	1,289	218	17%	3,916	3,605	311	9%
Sales and marketing	1,028	355	673	190%	2,635	1,486	1,149	77%
Total operating expenses	**$ 4,453**	**$ 3,070**	**$ 1,383**	**45%**	**$ 12,475**	**$ 10,213**	**$ 2,262**	**22%**

General and administrative expenses increased for the quarter and year-to-date as a result of an expansion in workforce to support our growth. The year-to-date expense also increased as a result of increased incentive compensation costs related to the Company's strong financial performance.

Research and development expenses increased for the quarter and year-to-date as a result of our investments in new product development to support our customers and address market needs. Research and development costs are expensed as incurred and we do not capitalize any of these costs. Our reinvestment into research development represents approximately 9% and 8% of our quarterly and year to date revenues respectively.

Sales and marketing expenses increased for the quarter and year-to-date primarily as a result of headcount costs related to the Company's sales and marketing focus on new and existing markets. We are continuing to build our sales and marketing capacity in order to ensure we fully service our customers and leverage our existing relationships as we look to continue to grow our business.

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

2.3 Net Income and Adjusted EBITDA

Table 5: Net income	Three months ended September 30, 2020	2019	Variance ($)	(%)	Nine months ended September 30, 2020	2019	Variance ($)	(%)
Operating income	$ 5,752	$ 1,721	$ 4,031	234%	$ 18,040	$ 2,699	$ 15,341	568%
Finance income	7	133	(126)	-95%	188	502	(314)	-63%
Accretion expense on contingent consideration	(84)	(127)	43	-34%	(312)	(404)	92	-23%
Change in fair value of contingent consideration	(153)	50	(203)	-406%	(708)	482	(1,190)	-247%
Foreign exchange (loss) gain	(483)	272	(755)	-278%	681	(786)	1,467	-187%
	(713)	328	(1,041)	-317%	(151)	(206)	55	-27%
Net income before taxes	5,039	2,049	2,990	146%	17,889	2,493	15,396	618%
Income taxes	1,432	562	870	155%	4,970	827	4,143	501%
Net income	3,607	1,487	2,120	143%	12,919	1,666	11,253	675%
Other comprehensive gain (loss) on foreign exchange translation of subsidiary	11	(12)	23	-192%	147	10	137	1370%
Total comprehensive income	**$ 3,618**	**$ 1,475**	**$ 2,143**	**145%**	**$ 13,066**	**$ 1,676**	**$ 11,390**	**680%**

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 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. Change in fair value of contingent consideration resulted in a loss for the quarter and year-to-date periods, compared to a gain in the prior comparable periods, respectively. The loss for the current period resulted from an increase in management’s higher forecasted sales profile for future quarters than was previously estimated.

The foreign exchange loss for the quarter was due to the strengthening of the Canadian dollar relative to the US dollar. Conversely, the Canadian dollar weakened relative to the US dollar over the year-to-date period resulting in a foreign exchange gain.

Our year-to-date net income of $12,919 has already exceeded our previous record annual net income of $10,683 achieved in 2018.

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

The following table provides a reconciliation of net income to adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

Table 6: Adjusted EBITDA	Three months ended September 30, 2020	Three months ended September 30, 2019	Variance ($)	Variance (%)	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Variance ($)	Variance (%)
Net income for the period	$ 3,607	$ 1,487	$ 2,120	143%	$ 12,919	$ 1,666	$ 11,253	675%
Add (deduct)								
Finance income	(7)	(133)	126	-95%	(188)	(502)	314	-63%
Accretion expense on contingent consideration	84	127	(43)	-34%	312	404	(92)	-23%
Income taxes	1,432	562	870	155%	4,970	827	4,143	501%
Depreciation of property and equipment	405	406	(1)	0%	1,147	1,201	(54)	-4%
Amortization of intangible assets	227	261	(34)	-13%	642	747	(105)	-14%
Foreign exchange loss (gain)	483	(272)	755	-278%	(681)	786	(1,467)	-187%
Adjusted EBITDA[1] for the period	**$ 6,231**	**$ 2,438**	**$ 3,793**	**156%**	**$ 19,121**	**$ 5,129**	**$ 13,992**	**273%**

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

3 REVIEW OF QUARTERLY PERFORMANCE

3.1 Revenue and Cost of Sales

Table 7: Revenue and Cost of sales	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Revenue	$ 8,233	$ 8,032	$ 7,106	$ 8,742	$ 8,850	$ 17,312	$ 16,098	$ 16,330
Cost of sales	3,946	3,802	3,215	3,951	4,197	6,724	6,376	6,125
Gross profit	$ 4,287	$ 4,230	$ 3,891	$ 4,791	$ 4,653	$ 10,588	$ 9,722	$ 10,205
Gross profit %	52%	53%	55%	55%	53%	61%	60%	62%

Revenue from Q4 2018 to Q2 2019 declined as the semiconductor industry experienced a period of weakness. Signs of market recovery emerged during the second half of 2019 and revenues increased 16% over the first half. This trend continued into Q1 2020 as revenues increased by 96% from Q4 2019, marking a record quarter for the Company. Accelerated shipments to customers in response to the COVID-19 pandemic also contributed to the revenue growth in Q1 2020. In Q2 and Q3 2020, revenues decreased slightly as the benefits of customers building strong inventory positions during the COVID-19 pandemic were not as significant. Continued strong demand from the semiconductor industry and key OEMs in Q3 2020 resulted in our second highest revenues for any quarter, just behind Q1 2020. Our 2020 year-to-date revenues have already surpassed our prior annual record revenue of $46,704 achieved in 2018.

Cost of sales have risen significantly in the first three quarters of 2020 compared with 2019 following the strong and record revenues being reported. Our strong revenue performance has allowed us to leverage our fixed component of cost of sales over a greater revenue base that led to an increase in our gross profit margins in 2020. The Company has also focused on its supply chain enabling it to realize some costs savings in its variable costs of production, which also had a positive impact on gross profit percentage.

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

3.2 Operating Expenses

Table 8: Operating Expenses	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
General and administrative	$ 1,719	$ 1,525	$ 2,171	$ 1,426	$ 1,394	$ 2,155	$ 1,851	$ 1,918
Research and development	817	1,277	1,039	1,289	799	1,255	1,154	1,507
Sales and marketing	585	674	457	355	416	687	920	1,028
Total operating expenses	**$ 3,121**	**$ 3,476**	**$ 3,667**	**$ 3,070**	**$ 2,609**	**$ 4,097**	**$ 3,925**	**$ 4,453**

General and administrative expenses in Q4 2018 and Q2 2019 were higher than other quarters due to costs associated with the departure of Company's former Chief Executive Officer ("CEO") and onboarding of the current CEO, respectively. The increase in Q1 2020 was the result of a higher proportion of the current year's incentive compensation costs recognized in the quarter due to the Company's record financial performance. The increase in Q2 2020, included the costs associated with the departure of the Company's former CFO and further incentive compensation amounts. The increase in Q3 2020 is primarily due to one-off consultancy expenses.

Research and development expenses have increased since Q4 2018 as the Company has made investments in new product development and disruptive technologies as part of its growth strategy. The decrease in expenses for Q2 2019 and Q4 2019 were primarily due to government tax credits recognized. The increase in Q1 2020 was the result of a higher proportion of the current incentive compensation costs recognized in the quarter due to the Company's record financial performance. In Q2 2020, costs were lower as a result of government tax credits. Costs continued to increase in Q3 2020 as the company continued to pursue development opportunities with its customers and reinvest in the business to continue its growth.

Sales and marketing expenses decreased starting in Q2 2019 as the Company streamlined and refocused its sales and marketing efforts. The increase starting in Q4 2019 was due to increased headcount costs to support expansion into new markets as part of the Company's growth initiative and a higher proportion of the current year's incentive compensation costs recognized due to the Company's record financial performance. In Q3 2020, the Company made investments in customer relationship management to better serve our customers and support our market growth strategy as we continue to grow the business.

3.3 Net Income

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

Table 9: Net Income	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Operating income	$ 1,166	$ 754	$ 224	$ 1,721	$ 2,044	$ 6,491	$ 5,797	$ 5,752
Finance income	70	143	226	133	152	154	27	7
Accretion Expense	(178)	(143)	(134)	(127)	(116)	(122)	(106)	(84)
Change in fair value	649	98	334	50	(597)	(88)	(467)	(153)
Foreign exchange gain (loss)	1,332	(586)	(472)	272	(478)	2,682	(1,518)	(483)
	1,873	(488)	(46)	328	(1,039)	2,626	(2,064)	(713)
Net income before taxes	3,039	266	178	2,049	1,005	9,117	3,733	5,039
Income taxes	340	196	69	562	300	2,478	1,060	1,432
Net income	2,699	70	109	1,487	705	6,639	2,673	3,607
(Loss) gain on foreign exchange translation of sub	(116)	50	(28)	(12)	(6)	16	120	11
Total comprehensive income	**$ 2,583**	**$ 120**	**$ 81**	**$ 1,475**	**$ 699**	**$ 6,655**	**$ 2,793**	**$ 3,618**

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

Finance income primarily consists of interest on short-term investments. Finance income increased slightly in Q1 2020 due to interest received on refiling of historical tax returns partially offset by lower interest rates on short-term investments. In Q2 2020, finance income continued to decrease significantly due to lower interest rates as a result of COVID-19, partially offset by interest accrued on the Company's uncertain tax position. Q3 2020 decreased further due to the continued declining interest rates.

The consistent decrease in accretion expense is in line with the reduction in the contingent consideration over time. The change in fair value on contingent consideration (section 4.3) in each quarter was a result of management revisiting the estimate of future revenues subject to royalties. From Q4 2019 to Q3 2020, the Company experienced a strong revenue outlook which contributed to the increase to our contingent consideration. In Q3 2020, management increased its revenue estimates but the impact was not as pronounced as when the assumptions were revised in Q2 2020.

Foreign exchange is recognized primarily on US denominated balances and foreign exchange gains and losses, which principally follow the fluctuations in exchange rates at each period end. In Q3 2020, the US exchange rate continued to depreciate versus the Canadian dollar.

The Company's effective tax rate for Q4 2018 through Q2 2019 was impacted by taxes associated with the Company's voluntary disclosure agreement with a foreign tax authority.

4 FINANCIAL POSITION

4.1 Assets

Table 10: Current Assets	**Q418**	**Q119**	**Q219**	**Q319**	**Q419**	**Q120**	**Q220**	**Q320**
Current assets								
Cash and cash equivalents	$ 42,407	$ 37,264	$ 31,422	$ 34,025	$ 33,400	$ 41,214	$ 41,057	$ 46,576
Trade and other receivables	4,065	4,902	3,367	3,421	4,051	8,475	8,550	6,775
Income tax receivable	-	-	1,495	971	714	-	-	-
Inventories	5,515	4,876	5,217	4,942	6,459	7,574	9,412	9,114
Prepaid expenses and deposits	468	608	590	486	575	593	775	594
Total current assets	**$ 52,455**	**$ 47,650**	**$ 42,091**	**$ 43,845**	**$ 45,199**	**$ 57,856**	**$ 59,794**	**$ 63,059**

The following table explains the movements in cash and cash equivalents for the eight most recently completed quarters:

Table 11: Cash Flow	**Q418**	**Q119**	**Q219**	**Q319**	**Q419**	**Q120**	**Q220**	**Q320**
Net cash provided by (used in) operating activities	$ 1,773	$ (2,512)	$ (1,757)	$ 3,818	$ (366)	$ 8,102	$ 1,444	$ 7,012
Net cash used in financing activities	(1,943)	(2,813)	(4,068)	(1,156)	(363)	(322)	(617)	(570)
Net cash (used in) provided by investing activities	(74)	132	11	(47)	110	18	(1,104)	(934)
Net increase (decrease) in cash	**$ (244)**	**$ (5,193)**	**$ (5,814)**	**$ 2,615**	**$ (619)**	**$ 7,798**	**$ (277)**	**$ 5,508**

Net cash provided by (used in) operating activities decreased in Q1 2019 and Q2 2019 due to tax payments made to Canadian and foreign tax authorities. Cash provided increased in Q3 2019 due to early signs of a recovering WFE environment which continued into Q1 2020. Q4 2019 was lower as the Company built an inventory position to support strong order backlog. Q2 2020 was lower primarily due to timing of vendor payments and building of inventory in the COVID-19 environment. Cash provided from operations increased in Q3 2020 primarily due to higher net income and timing of collections of outstanding customer balances.

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

Net cash used in financing activities was due primarily to cash used to buy back shares of the Company under the 2019 Normal Course Issuer Bid (“NCIB”) program and payment of contingent consideration. The NCIB ended in Q3 2019 and resulted in cash outflows of $7,095. In Q3 2020, the Company paid an instalment of the contingent consideration payable from Q2 2020.

Net cash (used in) provided by investing activities primarily relates to purchase of property and equipment and intangible assets partially offset by interest received on short-term investments. The significant decrease in Q2 2020 was due to the Micronor acquisition (section 1.2). In Q3 2020, payment was made for the acquisition of the new license and distribution agreement with FiSens (section 1.2) that occurred in Q2 2020.

The Company pays taxes on an instalment basis based on prior year earnings and the cash position as of September 30, 2020 of $46,576 reflects these payments but does not consider the accrued income taxes payable of $5,817 which will be due and payable in Q1 2021.

Trade and other receivables increased in Q1 2020 and Q2 2020 as this was consistent with the underlying revenues earned in the period. The decrease in Q3 2020 is primarily due to timing of collections from customers.

Income taxes receivable results from foreign tax credits receivable for refiling historical tax returns and tax installments paid in advance.

Inventories increased in Q4 2019 to support the strong order backlog. The build-up continued into 2020 as the Company mitigated risk of stock-outs in response to the COVID-19 pandemic and Micronor acquisition (section 1.2). The decrease in Q3 2020 is consistent with the decrease in our backlog position.

4.2 Other Assets

Table 12: Other Assets	**Q418**	**Q119**	**Q219**	**Q319**	**Q419**	**Q120**	**Q220**	**Q320**
Property and equipment	$ 6,297	$ 7,637	$ 7,410	$ 7,120	$ 6,752	$ 6,527	$ 6,587	$ 6,425
Intangible assets	4,215	3,983	3,759	3,603	3,386	3,214	3,804	3,619
Goodwill	849	849	849	849	849	849	971	971
Deferred tax assets	1,056	1,146	1,175	1,327	1,915	3,660	3,405	3,273
Total other assets	**$ 12,417**	**$ 13,615**	**$ 13,193**	**$ 12,899**	**$ 12,902**	**$ 14,250**	**$ 14,767**	**$ 14,288**

Property and equipment decreased in Q3 2020 as additions were limited to offset depreciation expense.

Intangible assets increased in Q2 2020 as a result of the addition of the new license and distribution agreement with FiSens GmbH (section 1.2). These assets decreased in Q3 2020 as additions were limited to offset amortization expense.

Deferred tax assets increased in Q1 2020 as a result of record revenues for the quarter and the associated tax impact of inventory shipments to the US subsidiary. The decrease in Q2 2020 and Q3 2020 is consistent with the decrease in sales.

Goodwill as at Q2 2020 increased due to the Micronor acquisition (section 1.2).

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

4.3 Liabilities

Table 13: Liabilities	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Current liabilities								
Accounts payable and accrued liabilities	$ 3,524	$ 3,844	$ 3,097	$ 4,102	$ 4,318	$ 6,630	$ 5,737	$ 4,793
Income tax payable	4,354	1,247	-	-	-	5,035	5,491	5,817
Current portion of contingent consideration	1,118	1,148	1,055	1,105	1,419	1,534	1,699	1,822
Current portion of lease liabilities	-	260	263	266	272	276	280	283
Total current liabilities	**8,996**	**6,499**	**4,415**	**5,473**	**6,009**	**13,475**	**13,207**	**12,715**
Contingent consideration	2,211	1,958	1,585	1,372	1,473	1,313	1,157	770
Lease liabilities	-	1,432	1,364	1,297	1,241	1,170	1,105	1,033
Total liabilities	**$ 11,207**	**$ 9,889**	**$ 7,364**	**$ 8,142**	**$ 8,723**	**$ 15,958**	**$ 15,469**	**$ 14,518**

Accounts payable and accrued liabilities decreased in Q4 2018 due to inventory reduction strategies in response to the cyclical downturn of the semiconductor industry. There was a temporary increase in Q1 2019 due to timing of vendor payments. The increase in subsequent quarters was due to inventory purchases to support an improved order backlog position as the semiconductor industry showed signs of recovery. In Q1 2020, accounts payable and accrued liabilities increased significantly due primarily to accrued incentive compensation costs related to the Company's financial performance and lengthening payment terms with suppliers. The decrease in Q2 2020 reflected settlement of outstanding payables to suppliers established in Q1 2020. The continued decrease in Q3 2020 reflected settlement of payable for the acquisition of the license and distribution agreement with FiSens.

The increase in income taxes payable is consistent with the income tax expense for the quarter less catch-up payments made for COVID-19 relief and government tax credits recognized.

In Q2 2020, the Company revised its assumptions underlying the estimate of contingent consideration including future sales discount rate. This led to an overall increase in contingent consideration which was partially offset by payments made in the quarter. In Q3 2020, the balance decreased primarily due to payment of Q2 contingent consideration partially offset by revision to assumptions on underlying future sales.

Lease liabilities increased in Q1 2019 due to the adoption of IFRS 16 leases (effective January 1, 2019), whereby any leases, which extend longer than one year, that are operating in nature for accounting purposes are capitalized. The decrease in subsequent quarters is a direct result of monthly lease payments that draw down the liability over the term of the lease.

4.4 Working Capital

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 purchase capital equipment 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.

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

The table below summarizes working capital for the eight most recently completed quarters:

Table 14: Working Capital	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Cash and cash equivalents	$ 42,407	$ 37,264	$ 31,422	$ 34,025	$ 33,400	$ 41,214	$ 41,057	$ 46,576
Trade and other receivables	4,065	4,902	3,367	3,421	4,051	8,475	8,550	6,775
Income taxes receivable	-	-	1,495	971	714	-	-	-
Inventories	5,515	4,876	5,217	4,942	6,459	7,574	9,412	9,114
Prepaid expenses and deposits	468	608	590	486	575	593	775	594
Total current assets	**52,455**	**47,650**	**42,091**	**43,845**	**45,199**	**57,856**	**59,794**	**63,059**
Accounts payable and accrued liabilities	3,524	3,844	3,097	4,102	4,318	6,630	5,737	4,793
Income taxes payable	4,354	1,247	-	-	-	5,035	5,491	5,817
Current portion of contingent consideration	1,118	1,148	1,055	1,105	1,419	1,534	1,699	1,822
Current portion of lease liabilities	-	260	263	266	272	276	280	283
Total current liabilities	**8,996**	**6,499**	**4,415**	**5,473**	**6,009**	**13,475**	**13,207**	**12,715**
Working capital	**$ 43,459**	**$ 41,151**	**$ 37,676**	**$ 38,372**	**$ 39,190**	**$ 44,381**	**$ 46,587**	**$ 50,344**

The items comprising working capital have been explained in sections 4.1 to 4.3.

4.5 Equity

Table 15: Equity	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Shareholders' equity								
Share capital	$ 30,833	$ 30,303	$ 29,542	$ 29,340	$ 29,366	$ 29,366	$ 29,486	$ 29,492
Contributed surplus	4,463	4,607	4,741	4,787	4,838	4,953	4,984	5,097
Accumulated other comprehensive (loss) gain	(125)	(75)	(103)	(115)	(121)	(105)	15	26
Retained earnings	18,494	16,541	13,740	14,590	15,295	21,934	24,607	28,214
Total shareholders' equity	**$ 53,665**	**$ 51,376**	**$ 47,920**	**$ 48,602**	**$ 49,378**	**$ 56,148**	**$ 59,092**	**$ 62,829**

For the financial year of 2019, the Company re-purchased and cancelled 5,490,000 common shares pursuant to the 2019 NCIB at a cost of $7,095. Share capital was reduced by the average carrying value of the shares repurchased for cancellation with the excess paid recognized as a reduction to retained earnings.

Table 16: Equity Instruments (in 000's)	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Common shares outstanding	109,868	108,012	105,217	104,477	104,514	104,514	104,590	104,600
Options outstanding	3,072	3,087	3,537	3,498	3,396	3,452	3,979	4,371
Weighted average price	$ 1.43	$ 1.43	$ 1.37	$ 1.33	$ 1.27	$ 1.25	$ 1.29	$ 1.33
Restricted share units	129	129	86	86	43	43	-	-
Closing share price	$ 1.09	$ 1.22	$ 1.16	$ 0.93	$ 1.38	$ 0.90	$ 1.78	$ 1.41

4.6 Other

For details regarding the Company's financial instruments, fair values, and financial risk factors, refer to the consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018. There have been no significant changes from year-end in management's view.

The Company defines key management as the Board of Directors and the senior management team. The remuneration of key management including salaries, bonuses, consulting fees, severance, and other benefits for the eight most recently completed quarters is as follows:

Table 17: Related Party	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320
Cash-based payments	$ 503	$ 190	$ 526	$ 338	$ 282	$ 542	$ 702	$ 537
Share-based payments	(144)	37	147	44	60	56	54	39
Total	**$ 359**	**$ 227**	**$ 673**	**$ 382**	**$ 342**	**$ 598**	**$ 756**	**$ 576**

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

Significant changes are outlined as part of general and administration expense in section 3.2. Additionally, total related party expenses increased in Q2 2020 due to the inclusion of the VP Business Development, VP Semiconductor Sales, and VP Technology & Operations. The decrease in Q3 2020 is due to the departure of the Company's former CFO that occurred in Q2 2020.

5 CRITICAL ACCOUNTING ESIMATES AND POLICIES AND RISK MATTERS

5.1 Non-GAAP Measures

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 and nine months ended September 30, 2020, and the consolidated financial statements and the accompanying notes for years ended December 31, 2019 and 2018.

5.2 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 for the three and nine months ended September 30, 2020, 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.

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 probable that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If it is determined that an uncertain income tax position is not probable of being accepted, the effect of the uncertain income tax treatment is reflected in the determination of income taxes based on the most likely amount or, if there are a wide range of possible outcomes, the expected value. When it is no longer probable that the position will be sustained on audit, 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.

5.3 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 September 30, 2020.

The Company's CEO and the 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 September 30, 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 September 30, 2020.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended September 30, 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.

5.4 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.

5.5 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.