

PHOTON CONTROL INC.

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis report is dated November 10, 2005.

SUMMARY

The business of Photon Control Inc. (the "Company" or "Photon") is concentrated in product development and commercialization of new-technology optical sensor systems to measure and control its customers operations. The Photon products exceed the capability and range of other technologies frequently.

The Company manufactures and sells the products into North American and international markets.

BUSINESS OPERATIONS

Product Development Management

Photon is building long-term leadership in new optical technology because:

- Photon innovations are created to fit specific requests from established leaders in selected industries.
- Photon has top scientific and technological management and staff.
- Photon also receives input from a network of non-employee experts, many of whom are also shareholders.
- The intellectual property is controlled entirely by Photon.

At the end of 2005 Photon's business is evolving with:

- Sales of OEM positioning and sensor components for semi conductor manufacture at about \$1 million for 2004, about \$2½ million for 2005, and expected continuing to grow for 2006.
- Workplace trials of innovative sensors for power industry maintenance information with Sales about to start in Q4.
- Workplace trials of proprietary Stack Flow meters and Steam flow and quality meters, having larger market potential but slower purchase decision process, well started.
- Product completion and workplace trials of total sulphur analyzers for diesel and other fuels, in face of urgent market demand this winter.

Because of size of these opportunities, Photon is presently incurring a high level of R&D and supporting expenditure, totalling about \$600,000 per month which may be reducible in 2006.

An event subsequent to Q3 is a steep rise of purchase orders for November shipment to over \$400,000 for the month, the best this year. Gross margin has also been rising gradually to pass 50%.

In view of these opportunities and customer requests to show balance sheet strength, Fraser Mackenzie Limited is being engaged to raise up to \$3 million from issue of common shares this month to institutional investors, as the Company proceeds to a new level in expansion.

Original Equipment Manufacture (“OEM”) Systems

In 2004 Photon began the substantial sales of positioning-sensor systems to a “Fortune 500” manufacturer of semiconductor capital equipment. This customer subsequently invited Photon to supply five other products, which are proceeding well in trial or under development.

Another semiconductor manufacturer is in final process of considering the Company as a supplier of other components at an initial level at around \$1 million for 2006.

Photon’s 2003 customer for optic temperature sensors and switches for patient warming mattresses continues to demonstrate its Cool/Heat product, pending its corporate reorganization.

Optic measurement for Power Industry Maintenance

Photon is filling a request for development of a contact wear monitor for load tap change manufacturers for use in electricity distribution, a temperature sensor for monitoring temperature inside the windings of high-power electric transformers and a sensor for measuring high voltage line temperature in a 420kv transmission line in Norway, with market interest to follow.

Optic Flow and Quality Meter (“OF&QM”) Products

Photon’s OF&QM technology includes that acquired by exclusive License from Trans Canada Pipe Lines/Nova Gas Transmission in 2002 which is enhanced by the cooperation of the Licensors including their testing and pilot project support. The Licensors are currently increasing their activities in furtherance of the objectives of the License Agreement. Photon is now an Approved Supplier for their ongoing projects. Photon is exercising its contractual option to become sole owner of this technology by payment totalling \$600,000 through the end of 2007.

Within its overall Flow Meter supply interest, Photon accelerated its response to requests from Western Canada and international oil and gas operators for better flare stack emissions meters. For the more numerous smaller-diameter stacks, a new technology insertion probe meter design was begun in July 2004. Prototypes were shop tested in August, and after further testing by three independent commercial test centers in September and October, these meters will be certified to accurately measure a very wide range of velocities and to confine uncertainty of measurement to below 2.5%. This is well within the regulatory requirement for such emission measurement in Alberta, Photon’s closest market.

Promptly on receiving such results in test labs, the Company began planning and arranging field trials in Western Canada at a variety of sites that are representative of “Field and Stack” applications – that is, for gas field and flare or vent stack operational measurements. At this time 8 such field trials are underway in different sites, some for over 4 months.

The Field and Stack category is for large and growing markets, particularly in need of a meter technology providing high “turn down ratio” or “rangeability”, being capability to accurately measure both regular slow flow rates and occasionally very fast flow rates. In mid-2004, a producer said authoritatively that “no meter in the world can measure the low to very high velocities [for flare gas]”. The Company’s Focus® meters now fill that gap, providing measurement from 0.1 meters per second to 100 meters per second.

Beyond its small-diameter Field and Stack meter products, Photon has installed in early August the new 42-inch major Stack gas flow meter for service at temperatures up to 350°C and emission velocities up to 130 meters/second in a show-case chemical plant in Norway. This is another instance of optical gas flow technology chosen in place of older technologies. It is another application in which Photon wishes to lead globally. In October the customer has ordered 4 more meters for 24” to 42” diameter stacks in the same plant.

Photon's new product for downhole measurement of methane gas production from individual coal seams in Coal Bed Methane projects has moved on in August from its exclusive Trial Period into the Commercial stage. This highly specialized capability is presently expected of limited market but an interesting reach into new technology.

Photon's Field and Stack are just the first optic flow and quality meters in the product development "pipeline". Considerable R&D effort has been applied in 2004 and 2005 on a new meter for measuring the quantity and quality of steam. Major markets for such a meter includes the Steam assisted Gravity Drainage (SAG-D) process for extracting heavy oil in northern Alberta. Photon products are going into field trial in Q4 2005 and Q1 2006 with several major SAGD operators. Photon will be the first manufacturer globally to present a meter capable of on line, real time reporting of steam quality.

Photon has also reported that its first testing of the fiscal meter now in development has also been encouraging and this meter is expected to be ready to submit for regulatory approval in Canada in 2006. Fiscal meters must not exceed an uncertainty of either ¼%, ½% or 1% according to different jurisdictions.

Other Temperature and Pressure ("T&P") Sensor Products

Work is proceeding to finalize the design of the production version of the Nanosens™ industrial pressure sensor. In tandem, work is progressing on a version to be used for heavy oil extraction that can be used below ground in drilling well holes. The Company is working directly with operators who could be future customers.

Media Analysis Product

As a new development having possibly major opportunity, in May, Photon showed a new Media Analysis prototype to an important conference in Dallas of the Oil Pipeline Association of America planning for Ultra-Low Sulfur Diesel regulations in 2006. Field trials were requested by leading operators and Photon also mounted a similar display at the conference in Houston of the Independent Liquid Terminal Association in June. In 2006 Photon expects to bid for purchase orders totalling tens of \$ million with its new product, subject to success in field trials to start November, 2005.

SUMMARY OF QUARTERLY RESULTS

	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003
Revenue	\$ 562,720	\$ 483,109	995,292	\$ 404,761	\$ 345,590	\$ 239,435	\$ 122,220	\$ 125,606	\$ 47,925
Net loss	(1,524,454)	(1,286,057)	(850,942)	(1,031,078)	(1,028,304)	(667,187)	(548,644)	(484,565)	(478,892)
Net loss per share (1)	\$ (0.03)	\$ (0.03)	(0.02)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)

(1) As the Company has recorded a loss in each of the above periods, and since the exercise of warrants and options would reduce the loss per share, basic and diluted earnings per share are the same.

(2) There were no discontinued operations or extraordinary items.

Discussion of Operations and Financial Condition

The following discussion and analysis should be read in conjunction with the Company's unaudited financial statements for the nine months ended September 30, 2005 and the accompanying notes thereto.

RESULT OF OPERATIONS

Quarter ended September 30, 2005 ("Q3 2005") will be compared to the quarter ended September 30, 2004 ("Q3 2004"). Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current year.

Revenue

Revenues in Q3 2005 increased by \$217,000 (63%) compared to Q3 2004 as a result of the sales of OEM products to its "Fortune 500" customer. As disclosed in the MD&A published for the first quarter of 2005, a decrease in revenue during Q2 and Q3 2005 was expected by Photon due to production scheduling adjustments of this customer. The volume of shipments and purchase orders received subsequent to September 30, 2005 is confirming Photon's expectation of increased revenue from OEM products in Q4 2005.

Gross Margin

As virtually all of Photon's revenue is sold in U.S. funds, currency fluctuations have a significant effect on Photon's gross margin. Despite the substantial decrease in the currency exchange rate of converting U.S. dollars to Canadian in Q3 2005 compared to Q3 2004, the gross margin for Q3 2005 increased to 49.3% as compared to 45.3% in Q3 2004. This improvement is attributable to Photon negotiating reduced material costs of components in Photon's products.

Expenses

Research and development expenses increased by \$293,000 in Q3 2005 compared to Q3 2004, as a result of increased levels of development engineering undertaken in conjunction with the Company's expanded product development activities. Increases in salaries (\$220,000); and materials (\$45,000); and consulting fees (\$74,000); and a decrease in certification and testing (\$75,800) account for most of the increase in research and development expenses. Additional engineering staff were hired during the first six months of 2005, and expenditures on materials increased as a result of the increased product development activities referred to above.

General and administrative expenses increased by \$298,000 in Q3 2005 compared to Q3 2004, due to increases in: salaries (\$190,300); office expenses (\$7,000); legal and accounting fees (\$10,800); and directors fees and expenses (\$54,000). These expense increments resulted from additional administrative and accounting staff, including a full time Controller, an increase in executive compensation, additional office space rented and an increase in the issuance of common shares resulting from private placements. The increase in directors fees and expenses is attributable to the stock based compensation recorded with respect to stock options.

Approximately \$115,000 of the increased salaries in General and Administrative expenses relates to management compensation arrangements approved by the directors in Q3 2005. An annual salary for the Company's President of \$150,000 was approved and paid in August 2005 for compensation relating to the period June 2004 to June 2005. Also approved for the Company's President is a salary of \$150,000 for the period June 2005 to June 2006, payable as to one half in December 2005 and one half in June 2006. In addition, the directors approved the August 10, 2005 granting of a share option to the Company's President in the amount of 250,000 shares with an exercise price of \$0.67 per share plus a grant of 250,000 shares in June 2006.

Business development and marketing expenses increased by \$51,000 in Q3 2005 compared to Q3 2004, primarily due to salaries and travelling expenses resulting from an increase in business development activities with respect to Photon's Optical Flow Meter products. A portion of this increase in expenses relates to the July 2005 opening of a sales office in Calgary, Alberta.

Loss for the Period

The loss for Q3 2005 was \$1,524,454 compared to a loss of \$1,028,304 in Q3 2004, resulting from the increase in research and development expenditures and additional general and administrative expenses. Due to a substantial increase in product sales, the increase in expenses has been partially offset by an increase in gross margin from \$156,632 in Q3 2004 to \$277,201 in Q3 2005.

RESULTS OF OPERATIONS

Results relating to the nine months ended September 30, 2005 ("YTD 2005") will be compared to the nine months ended September 30, 2004 ("YTD 2004"). Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current year.

Revenue

Revenues increased by \$1,334,000 (188%) during YTD 2005 compared to YTD 2004 as a result of increased sales of OEM products. As detailed above, Photon's expectations of increased orders from the "Fortune 500" customer in the final quarter of 2005 is being confirmed based on October 2005 shipments and purchase orders received for November 2005 delivery.

Gross Margin

Gross Margin for YTD amounted to 44.8% as compared to 46.5% for YTD 2004. The significant contributor to this decrease is a substantial drop of approximately \$0.10 in the average currency rate of converting U.S. dollars to Canadian dollars in YTD 2005 compared to YTD 2004. As indicated by the increase in Q3 2005, improvement of the gross margin is expected to strengthen in the fourth quarter due to reduced component costs in effect for the entire quarter.

Expenses

Research and development expenses increased by \$1,327,000 in YTD 2005 compared to YTD 2004, as a result of increased levels of development engineering undertaken in conjunction with the Company's expanded product development activities. Increases in salaries (\$730,000); and materials (\$320,000); and consulting fees (\$190,000) accounted for most of the increase in research and development expenses. Additional engineering staff was hired during the first six months of 2005, and expenditures on materials increased as a result of the increased product development activities referred to above.

General and administrative expenses increased by \$541,000 in YTD 2005 over YTD 2004, due to increases in: salaries (\$295,500); office expenses (\$39,400); and legal and accounting fees (\$65,400); and directors fees and expenses (\$91,950). These expense increments can be attributed to additional administrative and accounting staff including a full time Controller, an increase in executive compensation, additional office space rented and a substantial increase in the issuance of common shares resulting from private placements. The increase in directors fees and expenses is attributable to the stock based compensation recorded with respect to stock options. Details of increased salary expenses relating to management compensation arrangements with the Company's President, which were approved by the directors in August 2005, is included above in the analysis of Q3 2005.

Business development and marketing expenses increased by \$152,000 in YTD 2005 compared to YTD 2004, primarily due to salaries and travelling expenses resulting from an increase in business development activities with respect to Photon's Optical Flow Meter products. A portion of this increase in expenses relates to the July 2005 opening of a sales office in Calgary, Alberta.

Loss for the Period

The loss for YTD 2005 was \$3,661,453 compared to a loss of \$2,244,135 in YTD 2004, resulting from the increase in research and development expenditures and additional general and administrative expenses. Due to a substantial increase in product sales, the increase in expenses has been partially offset by an increase in gross margin from \$329,209 in YTD 2004 to \$914,889 in YTD 2005.

Liquidity and Solvency

At September 30, 2005, the Company had \$629,472 in cash and cash equivalents compared to \$682,648 in cash and cash equivalents and short-term investments as at December 31, 2004. The Company had working capital of \$470,480 as at September 30, 2005 compared to \$539,200 as at December 31, 2004. The Company expects to be able to continue financing its activities by the exercise of existing warrants and from the gross margins from increasing product revenues, supplemented if required by the private placement of its shares. As disclosed above, in order to ensure this continued financing of product development and the implementation of commercializing new products, Photon is currently seeking to raise an additional \$3 million from the issue of common shares by engaging the services of Fraser Mackenzie Limited.

The Company's quarterly high and low share prices and average daily trading volumes during the last four quarters were as follows:

	Share Price		Avg Daily Volume
	High	Low	
Q404	\$ 0.46	\$ 0.27	49,240
Q105	\$ 0.93	\$ 0.44	80,098
Q205	\$ 0.76	\$ 0.45	63,003
Q305	\$ 0.75	\$ 0.51	34,821

Subsequent Event

Photon is currently exercising its option to purchase optical flow meter technology, which the Company has utilized since 2002 under an exclusive licensing arrangement. The purchase price of \$600,000 is payable as follows: \$100,000 on executing the purchase agreement, \$100,000 on the first anniversary of the purchase agreement and \$400,000 on the second anniversary of the purchase agreement.

The Company's future operations are dependent upon the market's acceptance of its products in order to ultimately generate future profitable operations, and the Company's ability to secure sufficient financing to fund future operations. There can be no assurance that the Company's new products will be able to secure market acceptance. Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

This quarterly report, including Management's Discussion and Analysis, may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures, competing technologies and the market acceptance of the Company's photonic-based products as a replacement to existing technologies and products. Readers are encouraged to consider the other risks and uncertainties discussed in and additional information contained in the Company's required financial statements and filings filed on SEDAR at www.sedar.com.