PHOTON CONTROL

Photon Control Inc.

Management's Discussion and Analysis

For the three months ended March 31, 2019

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

DATED May 9, 2019

ACCURATE RELIABLE RESPONSIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019

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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, 2019, and up to and including May 9, 2019. 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, 2019, and the consolidated financial statements and accompanying notes for the years ended December 31, 2018 and 2017. 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, 2019 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 accompanying notes for the three months ended March 31, 2019, and the consolidated financial statements and the accompanying notes for years ended December 31, 2018 and 2017.

OVERVIEW

Photon Control designs, manufactures, and distributes a wide range of optical sensors and systems to measure temperature and position. These products are used by the world's largest Wafer Fabrication Equipment ("WFE") manufacturers and end users in the semiconductor and related industries. Photon Control's high quality products provide industry leading accuracy, speed 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. Headquartered in an ISO 9001:2015 manufacturing facility in Vancouver, British Columbia, Canada, Photon Control 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, 2019, and up to and including May 8, 2019:

- On January 2, 2019, the Company announced the extension of its Normal Course Issuer Bid ("NCIB") to acquire up to 5,490,000 common shares in the capital of the Company, which will expire on January 3, 2020.
- On January 10, 2019, the Company announced it has entered into a distribution agreement with Japan Laser Corporation ("JLC"), a leading distributor of lasers and other optical equipment in Japan.
- On January 31, 2019, the Company announced the opening of a new office in San Jose, California on February 1, 2019.
- On April 12, 2019, the Company announced the appointment of Nigel Hunton as its President, Chief Executive Officer ("CEO") and member of the Board of Directors effective May 2, 2019.

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 and growth for our business. 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.

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 semiconductor manufacturers in the United States, Asia and Europe. We also sell through a network of distributors in Asia 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 growth of 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 continue 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, and this will continue to fuel the Company's revenue growth.

SELECTED FINANCIAL INFORMATION

The following table highlights key financial information for the three months ended March 31, 2019 as compared to the prior comparable period:

	Three months ended March 31, 2019	2018	Variance ($)	(%)
Revenue	$ 8,032	$ 13,854	$ (5,822)	-42%
Cost of sales	3,802	5,975	(2,173)	-36%
Gross profit	4,230	7,879	(3,649)	-46%
Gross profit %	*52.7%*	*56.9%*		
Operating expenses				
General and administrative	1,525	1,756	(231)	-13%
Engineering	1,277	856	421	49%
Sales and marketing	674	570	104	18%
Total operating expenses	3,476	3,182	294	9%
Operating income	754	4,697	(3,943)	-84%
Finance income	143	84	59	70%
Accretion expense on contingent consideration	(143)	(186)	43	-23%
Change in fair value of contingent consideration	98	(811)	909	-112%
Gain on sale of assets	-	166	(166)	-100%
Foreign exchange (loss) gain	(586)	1,059	(1,645)	-155%
	(488)	312	(800)	-256%
Income before taxes	266	5,009	(4,743)	-95%
Income taxes	196	2,127	(1,931)	-91%
Net income	70	2,882	(2,812)	-98%
Other comprehensive gain (loss) on foreign exchange translation of subsidiary	50	(10)	60	-600%
Total comprehensive income	$ 120	$ 2,872	$ (2,752)	-96%
Basic earnings per share	$ 0.00	$ 0.03	$ (0.03)	-100%
Diluted earnings per share	$ 0.00	$ 0.03	$ (0.03)	-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; gain on sale of assets; foreign exchange (loss) gain; and income taxes.

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The following table highlights key financial information as at March 31, 2019 and December 31, 2018:

Financial Position	**March 31, 2019**	**December 31, 2018**	**Variance ($)**	**Variance (%)**
Cash and cash equivalents	$ 37,264	$ 42,407	$ (5,143)	-12%
Total assets	61,265	64,872	(3,607)	-6%
Total liabilities	9,889	11,207	(1,318)	-12%
Total shareholders' equity	51,376	53,665	(2,289)	-4%

The following table provides the details of our EBITDA for the three months ended March 31, 2019 and 2018:

	Three months ended March 31, 2019	**Three months ended March 31, 2018**
Net income for the period	$ 70	$ 2,882
Add (deduct)		
Finance income	(143)	(84)
Accretion expense on contingent consideration	143	186
Income taxes	196	2,127
Depreciation of property and equipment	393	341
Amortization of intangible assets	243	323
Foreign exchange loss (gain)	586	(1,059)
EBITDA[1] for the period	**$ 1,488**	**$ 4,716**

(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, foreign exchange loss (gain).

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OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

Revenue

In line with the cyclicality of the semiconductor industry, revenues for the three months ended March 31, 2019 decreased 42% over the prior comparable period. All of the Company's sales are made in the semiconductor industry, and the decrease in revenues is consistent with the overall market decline since the second half of 2018, as wafer fabrication equipment spending has been delayed by original equipment manufacturers primarily due to the semiconductor cycle.

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

	Three months ended March 31,		Variance	
	2019	**2018**	**($)**	**(%)**
United States	$ 4,532	$ 8,974	$ (4,442)	-49%
Asia	3,500	4,880	(1,380)	-28%
Total	**$ 8,032**	**$ 13,854**	**$ (5,822)**	**-42%**

For the three months ended March 31, 2019, revenues generated from customers located in the United States and Asia decreased 49% and 28%, respectively, over the prior comparable period due to continued inventory reduction strategies employed by our customers following reduced levels of semiconductor equipment capital spending.

Gross Profit

Gross profit decreased for the three months ended March 31, 2019 over the prior comparable period as a result of lower overall revenues. Gross margin decreased to 52.7% for the quarter compared to 56.9% in the prior comparable period due to lower overall revenues.

Operating Expenses

Total operating expenses for the three months ended March 31, 2019 were $3,476 compared to $3,182 in the prior comparable period. The increase was mainly attributable to an increased labour workforce in engineering and sales, and higher development costs incurred in pursuit of new product introduction ("NPI") to increase the Company's future revenue and profitability and diversify its product portfolio.

General and Administrative

General and administrative totaled $1,525 for the quarter compared to $1,756 in the prior comparable period. The decrease was a result of cost reduction measures implemented in the second half of 2018, in response to the cyclical nature of the semiconductor industry, as the industry is currently experiencing a slow-down in capital spending by original equipment manufacturers after a very strong first half in 2018.

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Engineering

Engineering totaled $1,277 for the quarter compared to $856 in the prior comparable period. The increase in engineering expenses for the quarter reflects increased staffing and material costs to support new product development.

Sales and Marketing

Sales and marketing for the quarter increased from $570 in 2018 to $674 in the current year due to increased staffing costs to support of the Company's growth strategy, and higher marketing costs to increase the Company's market presence in the semiconductor industry.

Accretion Expense on Contingent Consideration

Contingent consideration relates to the acquisition of certain assets of 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

Change in fair value of contingent consideration resulted in a gain of $98 for the three months ended March 31, 2019 compared to a loss of $811 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 period.

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 loss for the three months ended March 31, 2019 was due to the strengthening of the Canadian dollar relative to the US dollar throughout the period.

Income Taxes

Income taxes for the three months ended March 31, 2019 was $196 compared to $2,127 in the comparable period.

EBITDA

EBITDA is defined as earnings before finance income, accretion expense, income taxes, depreciation, amortization and foreign exchange (loss) gain. EBITDA for the quarter ended March 31, 2019 was $1,488 compared to $4,716 in the comparable period in 2018 due to lower profitability, resulting from decreased revenues due to the current semiconductor cycle and increased engineering costs to support new product development.

Order Backlog

Order backlog was $10,757 on March 31, 2019, a decrease from $13,097 at December 31, 2018 and $24,700 at March 31, 2018. Order backlog represents the unfulfilled value of sales orders received and scheduled for fulfillment in the remaining rolling 6-month period. The decrease in the order backlog is attributable to a slow-down in capital spending by semiconductor manufacturers since the second half of 2018.

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 CE methods, and our ability to manufacture to our customer's 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 2017 (Restated)	Q3 2017 (Restated)	Q4 2017 (Restated)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Revenue	$ 8,877	$ 12,024	$ 11,033	$ 13,854	$ 14,565	$ 10,052	$ 8,233	$ 8,032
Gross profit	$ 4,669	$ 6,551	$ 4,955	$ 7,879	$ 8,288	$ 5,193	$ 4,287	$ 4,230
Gross margin %	53%	54%	45%	57%	57%	52%	52%	53%
Net income (loss)	$ (305)	$ 1,628	$ 2,574	$ 2,882	$ 3,853	$ 1,249	$ 2,699	$ 70
Basic EPS (loss)	$ (0.00)	$ 0.01	$ 0.02	$ 0.03	$ 0.03	$ 0.01	$ 0.03	$ 0.00
Diluted EPS (loss)	$ (0.00)	$ 0.01	$ 0.02	$ 0.03	$ 0.03	$ 0.01	$ 0.03	$ 0.00
Cash and cash equivalents	$ 25,053	$ 26,966	$ 34,345	$ 33,367	$ 40,794	$ 42,651	$ 42,407	$ 37,264

The Company achieved general revenue growth until the second quarter of 2018 as the semiconductor industry has grown, and the Company has solidified its position as a supplier of choice for its customers. Revenue for the three most recently completed quarters declined as a result of the cyclical nature of the semiconductor industry, as the industry is experiencing a period of weakness until the memory market re-stabilizes. The Company's net income for the quarters in 2017 were negatively affected by non-recurring items.

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LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's working capital as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018	Variance
Cash and cash equivalents	$ 37,264	$ 42,407	$ (5,143)
Trade and other receivables	4,902	4,065	837
Inventories	4,876	5,515	(639)
Prepaid expenses and deposits	608	468	140
Total current assets	**47,650**	**52,455**	**(4,805)**
Accounts payable and accrued liabilities	3,844	3,524	320
Income taxes payable	1,247	4,354	(3,107)
Current portion of contingent consideration	1,148	1,118	30
Current portion of lease liabilities	260	-	260
Total current liabilities	**6,499**	**8,996**	**(2,497)**
Working capital	**$ 41,151**	**$ 43,459**	**$ (2,308)**

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 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 including the currently active NCIB program. 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 outside of the NCIB, a change in circumstances could result in the need for additional capital.

Capital Management

The Company considers shareholders' equity as capital, the book value of which totaled $51,376 at March 31, 2019 (December 31, 2018 - $53,665).

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. 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.

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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 decrease of working capital over December 31, 2018 was mainly due to the deployment of $2,499 towards the NCIB to re-purchase and cancel 1,887,200 common shares as at March 31, 2019.

Cash and Cash Equivalents

At March 31,2019, the Company held cash and cash equivalents of $37,264 compared to $42,407 as at December 31, 2018, with the decrease attributable to cash used to buy back company shares and the timing of tax payments made in the period.

Trade and Other Receivables

Trade and other receivables of $4,902 increased from $4,065 as at December 31, 2018 due to timing of customer payments.

Inventories

Inventories as at March 31, 2019 totaled $4,876 compared to $5,515 as at December 31, 2018, with the decrease attributable to lower future demand by customers, as represented by the order backlog.

The Company follows a "Copy Exact" standard in providing its products to its customers, and is required to maintain adequate inventory on hand to fill purchase orders from its customers. As a result, and due to the fact that the timing and quantum of such purchases 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, 2019, the Company's accounts payable and accrued liabilities, which are due for payment within 12 months of the balance sheet date, were $3,844, compared to $3,524 as at December 31, 2018; the increase reflected the timing of vendor payments.

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements for the three months ended March 31, 2019 and 2018.

LEASE LIABILITIES

The Company's leases liabilities are for office premises. The carrying amount of the lease liabilities as at March 31, 2019 was $1,692 and the breakdown of contractual undiscounted cash flows for lease liabilities by maturities as at March 31, 2019 is presented below:

		March 31, 2019
Less than one year	$	426
One to five years		1,349
More than five years		275
Total	$	2,050

RELATED PARTY TRANSACTIONS

The remuneration of key management for the three months ended March 31, 2019 and 2018 is as follows:

	Three months ended			
		March 31, 2019		March 31, 2018
Cash-based payments	$	190	$	413
Share-based payments		37		195
Total	$	227	$	608

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 considerations, are measured using amortized costs which approximates fair value due to the nature of these instruments:

	March 31, 2019				December 31, 2018			
		Carrying Value		Fair Value		Carrying Value		Fair Value
Financial assets	$	42,166	$	42,166	$	46,472	$	46,472
Financial liabilities		3,844		3,844		3,524		3,524

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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, 2019	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 3,106	$ -	$ -	$ 3,106

			Fair Value	
December 31, 2018	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 3,329	$ -	$ -	$ 3,329

The Company used a discounted 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 $33. During the three months ended March 31, 2019, the Company recorded accretion expense of $143 (2018 - $186) 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 consolidated financial statements.

Credit risk

The following table provides information regarding the aging of trade and other receivables as at March 31, 2019 and December 31, 2018:

	Neither past due nor impaired	**Aged 1 - 30 days**	**Aged 31 - 60 days**	**Aged 61 - 90 days**	**Aged 90 + days**
As at March 31, 2019	**77%**	**17%**	**2%**	**4%**	**0%**
As at December 31, 2018	98%	2%	0%	0%	0%

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As at March 31, 2019, 23% (December 31, 2018 – 2%) 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 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, 2019, the Company did not incur any bad debt expense (2018 - $14).

Liquidity risk

As at March 31, 2019 and December 31, 2018, the Company had an $80 credit card facility with a Canadian Chartered bank.

Market risk

Foreign exchange risk

At March 31, 2019, the Company held net current monetary assets in United States dollars (“USD”) equal to $25,246 (December 31, 2018 - $27,095). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be $2,525 (December 31, 2018 - $2,710).

Interest rate risk

The Company is exposed to interest rate risk by virtue of holding cash and cash equivalents.

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, 2018 and 2017, except for the change in significant accounting policy related to lessee accounting under IFRS 16, Leases (“IFRS 16”), which are described below.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these 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, 2018 and 2017.

The changes in significant accounting policies are also expected to be reflected in the consolidated financial statements of the Company for the year ending December 31, 2019.

(a) IFRS 16, Leases

At adoption

The Company adopted IFRS 16 with a date of initial application of January 1, 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use-assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make future lease payments. The Company has applied IFRS 16 with the modified retrospective approach, which did not require restatement of prior period financial information as it recognized the cumulative effect of initial application in retained earnings at January 1, 2019 and applied the standard prospectively. Accordingly, comparative information in the Company's condensed interim consolidated statements were not restated.

When transitioning to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to existing contracts that were previously identified as leases applying IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The Company has elected to not recognize right-of-use assets and lease liabilities for leases that have a term of twelve months or less and leases of low-value assets. The leases impacted by IFRS 16 were related to office premises previously accounted for as operating leases and disclosed as commitments.

Upon adoption of IFRS 16, the Company measured the right-of-use assets and lease liabilities at the present value of the lease payments as if it had applied IFRS 16 since the commencement date, using the incremental borrowing rate of 4.45% at the date of initial application. The adoption of IFRS 16 on January 1, 2019 resulted in the recognition of right-of-use assets of $1,683 and lease liabilities of $1,755, and a decrease in retained earnings of $72.

The following table provides a reconciliation of the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	**$**	**1,880**
Discounted using the incremental borrowing rate at January 1, 2019		(255)
Recognition exemption for short-term leases		(100)
Extension options reasonably certain to be exercised		230
Lease liabilities recognized at January 1, 2019	**$**	**1,755**

There was a change in the significant accounting policy upon adoption of IFRS 16, as described below.

Leases – accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimated restoration costs, less any lease incentives received.

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The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, including periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

The Company adopted IFRIC 23 with a date of initial application of January 1, 2019. The Company applied IFRIC 23 retrospectively and did not have any quantitative impacts upon adoption. There were no differences in the accounting of the Company's income tax treatments under its previous accounting policy and IFRIC 23.

RESTATEMENT OF PRIOR COMPARATIVE INFORMATION

As described in the most recent annual consolidated financial statements for the years ended December 31, 2018 and 2017, the Company restated its comparative financial information related to a previously unreported liability of income taxes owing to a foreign jurisdiction. As a result, the Company restated its condensed interim consolidated statement of changes in shareholders' equity for the three months ended March 31, 2018. This resulted in a decrease of $1,581 in retained earnings as at January 1, 2018. For further details, please refer to the consolidated financial statements for the years ended December 31, 2018 and 2017.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended March 31, 2019, no changes were made in the Company's internal control over financial reporting that have materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SUBSEQUENT EVENT

During the period from April 1, 2019 to May 7, 2019, the Company re-purchased 1,618,760 common shares pursuant to the NCIB at a cost of $2,200.

OUTSTANDING SHARE DATA

As at March 31, 2019, the Company had 108,012,493 common shares issued and outstanding. As at May 8, 2019, the Company had 106,809,765 common shares were issued and outstanding.

As at March 31, 2019 the Company had 3,087,250 stock options outstanding entitling the holders to purchase one common share for each option held. As at May 8, 2019, the Company had 2,943,500 stock options outstanding.

As at March 31, 2019, the Company had restricted share units outstanding for 129,000 common shares. As at May 8, 2019, the Company had restricted share units outstanding for 86,000 common shares.

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 quantity, price and delivery expectations;
- our ability to attract new business;
- our production being adversely affected by development, operating and regulatory risks;
- our ability to successfully complete new purchase orders along the timelines expected;
- continued and future demand for the Company’s products;
- continued sales to the Company’s major customers;
- continued financial health of the semiconductor industry;
- our ability to react to the cyclical nature of the semiconductor industry;
- our ability to continue and further enhance 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 expect to continue to drive 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; and
- our future performance being dependent on our ability to hire and retain qualified personnel.

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 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 future mergers or acquisitions;
- uncertainty related to international operations, including currency fluctuations, additional development projects and other business opportunities;
- risks related to the volatility of the trading price and volume of the Common Shares;
- risks associated with maintaining an active market for the Common Shares;
- 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.