PHOTON CONTROL

Photon Control Inc.

Management's Discussion and Analysis

For the three months ended March 31, 2018

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

DATED May 10, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2018

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides information for the three months ended March 31, 2018, and up to and including May 10, 2018. This MD&A is prepared in accordance with National Instrument 51-102, and should be read in conjunction with Photon Control Inc.'s (the "Company") condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2018, and the consolidated financial statements and accompanying notes for the year ended December 31, 2017.

The financial data contained in this report and in the condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2018 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.

The Company has reclassified certain balances to conform to the presentation adopted in the current year. In addition, there may be minor differences due to rounding of numbers.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read "Cautionary Note Regarding Forward Looking Statements" in this MD&A and should not place undue reliance on any such forward-looking statements.

In this MD&A, unless the context otherwise requires, references to "the Company", "Photon Control", "we", "us" and "our" refer to Photon Control Inc. and its subsidiaries.

Additional information about the Company, including the Annual Information Form ("AIF)", is available at www.photon-control.com and www.sedar.com.

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 solid-state 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 TSX Venture Exchange (the "TSX-V"), trading under the symbol "PHO".

COMPANY HIGHLIGHTS

The following significant corporate and financial events have taken place during the three months ended March 31, 2018:

- On January 4, 2018, the Company extended its normal course issuer bid to acquire up to 5,500,000 common shares in the capital of the Company, which expires on January 3, 2019;
- On January 18, 2018, the Company announced it received ISO 9001:2015 Certification for its quality management system;
- On January 25, 2018, the Company announced the release of a 4-channel temperature converter, which provides enhanced and efficient operation of the Company's temperature sensing systems;
- On February 20, 2018, the Company announced the sale of its Optical Flow Meter ("OFM") product line to King's Energy Services. The sale includes all of the Company's OFM technology, inventory and equipment, and the licensing of patent rights in exchange for minimum gross proceeds of $350;
- On March 1, 2018, the Company announced the release of wider temperature ranges measured by its fiber optic temperature probes. The contact temperature probes can now measure from -95°C to 400°C and the immersion temperature probes can now measure ranges from -95°C to 300°C; and,
- On March 1, 2018, the Company submitted an application to graduate to the Toronto Stock Exchange.

PRODUCTS, DISTRIBUTION AND INDUSTRIES

Semiconductor Industry: Temperature and Position Sensors

The semiconductor capital equipment industry offers several significant and growing applications for our technology and has become 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. The manufacturing of silicon wafers for semiconductors involves a multitude of complex processes; monitoring and maintaining correct position and temperature is critical to this process and to optimize product yield. Fiber optic sensors are both electromagnetic and radio frequency signal immune allowing them to provide highly accurate results especially in harsh environments, such as etch. Photon Control's fiber optic temperature and position sensors are manufactured according to "copy exact" standards in its ISO-certified facility.

Our fiber optic sensor technology is uniquely qualified to measure temperature and position in semiconductor manufacturing environments such as wafer etching, atomic layer deposition ("ALD"), chemical vapour deposition ("CVD") and physical vapour deposition ("PVD"). The need for increasing geometric granularity drives the number of measurement points required as well as the need for the highly accurate measurements provided by fiber optic sensors. In addition, as semiconductor capital equipment has gone from 28 nm to 10 nm linewidth for leading edge applications over the last 10 years, the number of desirable measurement points has increased more than four-fold. Similarly, the proliferation of connected devices and 3D chip designs are becoming more and more mainstream taking significant market share in many applications. These factors have driven and are expected to continue to drive demand for our products.

Other Products

We offer a comprehensive range of spectrometer accessories and software to make Original Equipment Manufacturer (“OEM”) integrations and complex experiments easier. We also provide stable ultraviolet (“UV”) and broadband light sources, reflectance probes, transmission stages, and collimating lenses.

SALES, MARKETING AND DISTRIBUTION

Photon Control sells its products globally with sales to OEMs primarily in the United States who in turn sell their products to end users 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. The Company’s other products are sold directly and through distributors.

MARKET LANDSCAPE

Semiconductor Industry

Semiconductors have revolutionized the way we work, communicate, travel, entertain, and live. As a building block of technology, semiconductors will continue to enable innovation and transform industries. With the accelerating pace of new chip capabilities and more applications, chip makers will need to increase production to meet this growing market. Simultaneously, semiconductor companies are regularly transitioning to new design and production technologies. Many of these technologies increase the number of process steps requiring more overall WFE production capacity. The combination of overall semiconductor growth and increased demand for equipment is expected to in turn drive growth for the Company. Photon Control’s primary vertical in this market is in etch, one of many manufacturing steps in the process of creating semiconductors. The Company works in and is developing business plans to meet demand in several other process steps including expanding its revenues from the deposition step as well as extending its product reach into the processes involved in the manufacturing of Organic Light-Emitting Diode (“OLED”) panels and other sophisticated display panel technologies, the fabrication of which is similar to the process for semiconductors.

Other

The Company sells spectrometers and fiber optic temperature sensors to universities, research labs and others. As well, the Company has provided a limited number of fiber optic temperature sensors to be used in medical devices such as magnetic resonance imaging machines and in power industry for hot-spot monitoring in switch gears and dry transformers.

SELECTED FINANCIAL INFORMATION

The following table highlights key financial information for the three months ended March 31, 2018 as compared to the prior comparable period:

	Three months ended March 31, 2018	Three months ended March 31, 2017	Variance ($)	Variance (%)
Revenue	$ 13,854	$ 11,879	$ 1,975	17%
Cost of sales	5,975	4,763	1,212	25%
Gross profit	7,879	7,116	763	11%
Gross profit %	*56.9%*	*59.9%*		
Operating expenses				
General and administrative	1,756	3,622	(1,866)	-52%
Engineering	856	805	51	6%
Sales and marketing	570	217	353	163%
Total operating expenses	3,182	4,644	(1,462)	-31%
Operating income	4,697	2,472	2,225	90%
Finance income	84	30	54	180%
Accretion expense on contingent consideration	(186)	-	(186)	-100%
Change in fair value of contingent consideration	(811)	-	(811)	-100%
Gain on sale of assets	166	-	166	100%
Foreign exchange gain (loss)	1,059	(140)	1,199	-856%
	312	(110)	422	-384%
Net income before tax	5,009	2,362	2,647	112%
Income tax	2,127	664	1,463	220%
Net income	$ 2,882	$ 1,698	$ 1,184	70%
Other comprehensive loss on foreign exchange translation of subsidiary	(10)	-	(10)	-100%
Total comprehensive income	$ 2,872	$ 1,698	$ 1,174	69%
Basic earnings per share	$ 0.03	$ 0.02	$ 0.01	50%
Diluted earnings per share	$ 0.03	$ 0.02	$ 0.01	50%

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 gain (loss) and income tax.

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

The following table highlights key financial information as at March 31, 2018 and December 31, 2017:

Financial Position	March 31, 2018	December 31, 2017	Variance ($)	Variance (%)
Cash	$ 33,367	$ 34,345	$ (978)	-3%
Total assets	61,961	55,549	6,412	12%
Total liabilities	12,089	8,889	3,200	36%
Total shareholders' equity	49,872	46,660	3,212	7%

The following table provides the details of our EBITDA for the three months ended March 31, 2018 and 2017:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income for the period	$ 2,882	$ 1,698
Add (deduct)		
Finance income	(84)	(30)
Accretion expense on contingent consideration	186	-
Income tax	2,127	664
Depreciation of property and equipment	341	66
Amortization of intangible assets	323	7
Foreign exchange (gain) loss	(1,059)	140
Corporate Changes	-	2,008
Photon R&D settlement	-	357
EBITDA[1] for the period	**$ 4,716**	**$ 4,910**

(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 tax, depreciation, amortization and foreign exchange (gain) loss. For the comparative period, EBITDA was further refined to remove the effect of non-recurring items.

The Company considers the following items as non-recurring:

- Corporate Changes – the Company made significant changes to its Board of Directors, management team and business structure in 2017. One-time expenditures resulting from these changes include legal and consulting, as well as severance and related payments.
- Photon R&D settlement – the Company took actions following the unauthorized transfer of $4,500 to Photon Control R&D Ltd. on June 3, 2016 (the "Unauthorized Transfer"), resulting in a settlement agreement on April 14, 2017 ("Settlement Agreement"). One-time expenditures related to this matter include legal, consulting and advisory fees.

(In Canadian dollars, amounts in thousands except number of shares and per share amounts) 5

OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

Revenue

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

	Three months ended March 31, 2018	Three months ended March 31, 2017	Variance ($)	Variance (%)
Semiconductor	$ 13,819	$ 11,821	$ 1,998	17%
Other	35	58	(23)	-40%
Total	**$ 13,854**	**$ 11,879**	**$ 1,975**	**17%**

Semiconductor revenues for the three months ended March 31, 2018 grew 17% over the prior comparable period. The increase is attributable to the Company capturing an increased share of its customers' spend and continued robust market conditions persisting in the semiconductor industry. Other revenues for the quarter decreased over the prior comparable period due to soft demand and increased focus on semiconductor revenues.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017	Variance ($)	Variance (%)
United States	$ 8,974	$ 7,246	$ 1,728	24%
Asia	4,853	4,599	254	6%
Canada	11	25	(14)	-56%
Europe	16	9	7	78%
Total	**$ 13,854**	**$ 11,879**	**$ 1,975**	**17%**

For the three months ended March 31, 2018, the Company's revenues generated from customers located in the United States and Asia increased over the prior comparable periods due to the overall growth in the semiconductor segment. There were nominal fluctuations in revenues earned in Canada and Europe compared to the same year-ago period.

Gross Profit

Gross profit for the three months ended March 31, 2018 increased over the prior comparable period as a result of higher overall revenues.

Gross margin decreased to 56.9% for the quarter compared to 59.9% in the prior comparable period due to sales mix. This was partially offset by the benefits of higher overall revenues and favourable changes in accounting resulting from the acquisition of Photon R&D on April 14, 2017.

The changes in accounting relate to the recognition of amortization of intangible assets associated with the acquisition of Photon R&D, and the recharacterization of royalties paid to the former Photon R&D as a business acquisition cost rather than cost of sales

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

Operating Expenses

	Three months ended March 31, 2018	2017	Variance ($)	(%)
Operating expenses, as reported	$ 3,182	$ 4,644	$ (1,462)	-31%
Deduct				
Depreciation of property and equipment	(167)	(15)	(152)	1013%
Amortization of intangible assets	(18)	(7)	(11)	157%
Share-based payments	(315)	(219)	(96)	44%
Corporate Changes	-	(2,008)	2,008	100%
Photon R&D settlement	-	(357)	357	100%
Operating expenses, adjusted	**$ 2,682**	**$ 2,038**	**$ 644**	**32%**

Total operating expenses for the quarter ended March 31, 2018 were $3,182 compared to $4,644 in the prior comparable period. When adjusted for non-cash charges and non-recurring items such as Corporate Changes and Photon R&D settlement incurred in 2017, operating expenses totaled $2,682 compared to $2,038 in the prior comparable periods; the increase is attributable to an increased labour workforce and related recruiting costs to support the increased revenue levels.

General and Administrative

	Three months ended March 31, 2018	2017	Variance ($)	(%)
General and administrative expenses, as reported	$ 1,756	$ 3,622	$ (1,866)	-52%
Deduct				
Depreciation of property and equipment	(167)	(15)	(152)	1013%
Amortization of intangible assets	(18)	(5)	(13)	260%
Share-based payments	(245)	(210)	(35)	17%
Corporate Changes	-	(2,008)	2,008	100%
Photon R&D settlement	-	(357)	357	100%
General and administrative, adjusted	**$ 1,326**	**$ 1,027**	**$ 299**	**29%**

General and administrative totalled $1,756 for the quarter compared to $3,622 in the prior comparable period. When adjusted for non-cash charges and non-recurring items as described elsewhere, adjusted cash expenses totalled $1,326 for the three months ended March 31, 2018 compared to $1,027 in the prior comparable period. The increase in adjusted cash expenses for the quarter was due to the effect of increased workforce and related costs throughout the preceding 12 months, and professional fees incurred for the Company's planned migration to the Toronto Stock Exchange and scheduled Annual General Meeting.

Engineering

Engineering totalled $856 for the quarter compared to $805 in the prior comparable period. For the three months ended March 31, 2017, the Company outsourced its engineering activities to Photon R&D. On April 14, 2017, following the acquisition of Photon R&D, the Company onboarded an engineering team and the variance relates to the change in approach and investments made to new product development to support future growth.

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

Sales and Marketing

Sales and marketing for the quarter increased from $217 in 2017 to $570 in the current year due to increased staff levels to support current and future growth of our customers.

Finance Income

Finance income includes interest income and expenses, with the increase for the three months ended March 31, 2018 over the 2017 comparable period attributable to stronger returns earned on cash.

Accretion Expense on Contingent Consideration

Accretion expense represents the increase of contingent consideration resulting from the passage of time.

Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration totalled $811 for the quarter. This was the result of an upward revision in management's estimate of the potential underlying revenue performance as compared to the estimate made as at December 31, 2017.

Gain on Sale of Assets

On February 15, 2018 (the "Transaction Date"), the Company sold all of the assets and rights associated with its Optical Flow Meter product to King's Energy Inc. ("King's") for minimum gross proceeds of $350. The gross proceeds include immediate cash consideration of $200 and contingent consideration of at least $150, and is based on a percentage of revenues earned by King's for a five year period commencing from the Transaction Date.

The carrying value of the disposed assets was $184, resulting in a gain on sale of assets totaling $166 for the quarter.

Foreign Exchange Gain/Loss

The Company is subject to foreign exchange risk as its products are priced in United States dollars ("USD"), while the majority of its expenses and assets are denominated in Canadian dollars. The Company has a partial "natural hedge" against foreign exchange risk, as some of its component parts and accounts payable are priced and or valued in US dollars. The foreign exchange gain for the three months ended March 31, 2018 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the period.

Net Income Before Tax

Net income before tax for the quarter was $5,009 compared $2,362 in 2017 due to strong market conditions in the semiconductor industry and the completion of non-recurring activities in 2017, as described elsewhere.

Income Tax

Income tax for the three months ended March 31, 2018 was $2,127 compared to $664 in the comparable period in 2017.

EBITDA

EBITDA is defined as earnings before finance income, accretion expense, income tax, depreciation, amortization and foreign exchange (gain) loss. For the comparative period, EBITDA was further refined to remove the effect of non-recurring items, including Corporate Changes and Photon R&D settlement as described elsewhere.

EBITDA for the three months ended March 31, 2018 decreased to $4,716 compared to $4,910 in the comparable period in 2017 due to a higher staff complement to support current and future growth of our customers.

Order Backlog

Order backlog was $24,700 on March 31, 2018, an increase from $18,300 at December 31, 2017 and $11,000 at March 31, 2017. Order backlog represents the unfulfilled value of sales orders received and scheduled for fulfillment in the remaining rolling 6-month period. The increase in the order backlog reflects the continued demand growth in the semiconductor industry and early results from investments made in sales & marketing and engineering.

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'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 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Revenue	$ 7,237	$ 8,733	$ 9,011	$ 11,879	$ 8,877	$ 12,024	$ 11,033	$ 13,854
Gross profit	$ 3,563	$ 4,569	$ 4,285	$ 7,116	$ 4,669	$ 6,551	$ 4,955	$ 7,879
Gross margin %	49%	52%	48%	60%	53%	54%	45%	57%
Net income	$ 1,397	$ 2,181	$ 1,351	$ 1,698	$ (331)	$ 1,672	$ 2,653	$ 2,882
EPS (Basic)	$ 0.01	$ 0.02	$ 0.01	$ 0.02	$ (0.00)	$ 0.02	$ 0.02	$ 0.03
EPS (Diluted)	$ 0.01	$ 0.02	$ 0.01	$ 0.02	$ (0.00)	$ 0.01	$ 0.02	$ 0.03
Cash	$ 23,538	$ 31,139	$ 32,508	$ 32,112	$ 25,053	$ 26,966	$ 34,345	$ 33,367

The Company has achieved generally consistent growth in its revenue over the past eight quarters as its primary segment, the semiconductor industry, has grown, and the Company has solidified its position as a supplier of choice for its customers. The Company's net income for quarters in 2016 and 2017 were negatively affected by the non-recurring items as described elsewhere.

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

LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's working capital as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017	Variance
Cash	$ 33,367	$ 34,345	$ (978)
Trade and other receivables	10,634	3,393	7,241
Inventories	4,604	4,052	552
Prepaid expenses and deposits	348	279	69
Assets held for sale	-	184	(184)
Total current assets	**48,953**	**42,253**	**6,700**
Accounts payable and accrued liabilities	4,408	4,003	405
Income taxes payable	2,705	579	2,126
Current portion of contingent consideration	1,557	1,321	236
Total current liabilities	**8,670**	**5,903**	**2,767**
Working capital	**$ 40,283**	**$ 36,350**	**$ 3,933**

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 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. 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.

Capital Management

The Company considers shareholders' equity as capital, the book value of which totaled $49,872 at March 31, 2018 (December 31, 2017 - $46,660).

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.

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

Working Capital

The increase of working capital over December 31, 2017 was the result of its profitable operating performance, and significant capital expenditures in 2017 which did not reoccur during the three months ended March 31, 2018.

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

Cash

At March 31, 2018, the Company held cash of $33,367 compared to $34,345 as at December 31, 2017, with the decrease attributable to the resulting effect of early collections from a customer in the fourth quarter of 2017, which did not repeat during the three months ended March 31, 2018.

Trade and Other Receivables

Trade and other receivables of $10,634 increased from $3,393 as at December 31, 2017 due to timing of revenues earned during the quarter, in addition to the effect of an early payment arrangement with a customer ending on December 31, 2017.

Inventories

Inventories as at March 31, 2018 totaled $4,604 compared to $4,052 as at December 31, 2017 with the increase occurring in anticipation of increased future demand.

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 must also have available an adequate quantity of inventories on hand. In addition, it may have to add contract staff to its production team to meet large orders. 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, 2018, the Company’s accounts payable and accrued liabilities, which fall due for payment within 12 months of the balance sheet date, were $4,408, compared to $4,003 as at December 31, 2017; the increase is the result of trade payables for inventory purchases to support current and future revenue opportunities.

ASSETS HELD FOR SALE

On January 31, 2018, the Company entered into a letter of intent with King’s Energy Inc. (the “OFM Transaction”) to sell all of the assets and rights associated with the Company’s Optical Flow Meter product. On February 15, 2018, the Company completed the OFM Transaction with King’s Energy Inc. for minimum gross proceeds of $350. The gross proceeds are comprised of cash consideration of $200 and contingent consideration of at least $150.

The contingent consideration represents a minimum amount of royalties due under a royalty agreement and is calculated at a royalty rate on revenues earned by King’s from the Optical Flow Meter product for a five year period commencing from the Transaction Date.

The OFM Transaction included the sale of inventories, property and equipment and intangible assets, including the transfer of patents at the option of King’s Energy Inc. at the conclusion of the royalty agreement. The carrying value of the asset disposed of on the Transaction Date was $184 resulting in a gain of $166 recorded in the condensed interim consolidated statements of net income and comprehensive income.

The carrying value of assets disposed of were as follows:

Inventories	$	161
Intangible assets		23
Total	**$**	**184**

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

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements for the three months ended March 31, 2018 and 2017.

COMMITMENTS

Under operating lease agreements for office premises, the Company is required to make future annual minimum lease payments as follows:

2018	$	250
2019		334
2020		297
2021		285
2022 and onwards		854
Total	**$**	**2,020**

RELATED PARTY TRANSACTIONS

The remuneration of key management for the three months ended March 31, 2018 and 2017 is as follows:

	Three months ended			
	March 31, 2018		March 31, 2017	
Cash-based payments	**$**	**413**	$	491
Share-based payments		**195**		194
Total	**$**	**608**	$	685

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

FINANCIAL INSTRUMENTS AND FAIR VALUES

Measurement categories, fair values and valuation methods

The Company's financial assets and liabilities are measured using amortized costs which approximates fair value due to the nature of these instruments.

	March 31, 2018				December 31, 2017			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
Financial assets	**$**	**44,054**	**$**	**44,054**	$	37,791	$	37,791
Financial liabilities		**4,408**		**4,408**		4,003		4,003
Total	**$**	**48,462**	**$**	**48,462**	$	41,794	$	41,794

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):

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

March 31, 2018	Carrying Value		Level 1	Fair Value Level 2	Level 3
Financial liabilities					
Contingent consideration	$	4,674	$ -	$ -	$ 4,674

December 31, 2017	Carrying Value		Level 1	Fair Value Level 2	Level 3
Financial liabilities					
Contingent consideration	$	4,005	$ -	$ -	$ 4,005

The Company has 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 $61. During the three months ended March 31, 2018, the Company recorded accretion expense of $186 (2017 - $Nil) in relation to contingent consideration, reflecting the change in fair value of liability that is attributable to credit 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, 2018 and December 31, 2017:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
As at March 31, 2018	**84%**	**9%**	**6%**	**1%**	**0%**
As At December 31, 2017	91%	10%	0%	-1%	0%

As at March 31, 2018, 16% (December 31, 2017 – 9%) 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, 2018, the Company incurred $14 of bad debts expense (2017 - $3).

Liquidity risk

As at March 31, 2018 and December 31, 2017, the Company had a $80 credit card facility with a Canadian Chartered bank.

Market risk

Foreign exchange risk

At March 31, 2018, the Company held net current monetary assets in USD equal to $28,440 (December 31, 2017 - $34,966). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be $2,844 (December 31, 2017 - $3,497).

Interest rate risk

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the 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. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is as follows:

(a) Valuation of contingent consideration

The Company recognizes the fair value of contingent consideration relating to acquisitions on the date the transaction closes. Contingent consideration classified as a liability is carried at fair value with changes in fair value flowing through the condensed interim consolidated statements of net income and comprehensive income. Contingent consideration classified as equity is not remeasured subsequent to initial recognition.

Contingent consideration classified as a liability is measured at fair value based on management's best estimate of the probability of the attainment of specified revenue targets at the date of acquisition and is subsequently revalued at each financial reporting period. Management's estimate of the probability of the attainment of specified revenue targets takes into account management's evaluation of the revenue forecast for the respective acquired businesses and the risks thereon. Changes in management's estimate of the probability of achieving the specified target could have a material impact on the valuation of the contingent consideration classified as a liability. The current portion of contingent consideration is based on the Company's estimate of the value that will be payable within twelve months.

CHANGE IN ACCOUNTING POLICY

The Company has adopted IFRS 15. Revenue from Contracts with Customers ("IFRS 15") with a date of initial application of January 1, 2017. The Company applied IFRS 15 retrospectively (without practical expedients) and did not have any quantitative impacts upon adoption. There were no differences in the accounting of the Company's revenues under its previous accounting policy and IFRS 15.

OUTSTANDING SHARE DATA

As at March 31, 2018, the Company had 110,878,468 common shares issued and outstanding. As at May 9, 2018, the Company had 110,923,968 common shares were issued and outstanding.

As at March 31, 2018, the Company had 3,626,250 stock options outstanding entitling the holders to purchase one common share for each option held. As at May 9, 2018, the Company had 3,593,750 stock options outstanding.

As at March 31, 2018, the Company had restricted share units outstanding for 391,000 common shares. As at May 9, 2018, the Company had restricted share units outstanding for 348,000 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.

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 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.

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 compliance with customers' requirements;
- risks associated with the Company's ability to retain major customers;
- risks associated with shifts in demand for the Company's products and the Company's ability to expand its manufacturing capacity;
- risks associated with continuous technological change, evolving industry standards, shifting customer needs and new product introductions and enhancements;
- uncertainty relating to the timing of product development and commercial launch;
- risks associated with a lengthy sales cycle;
- risks associated with competition;
- risk associated with changes in the demand for our products;
- uncertainty relating to operating results;
- risks associated with disruptions to our manufacturing facility;
- risks associated with product liability claims;
- risks related to product pricing;
- risks associated with the Company's intellectual property;
- risks associated with infringing on the intellectual property rights of others;

- operational risks associated with manufacturing;
- risks associated with potential defects of our products;
- uncertainty relating to general economic conditions and the cyclical nature of the semiconductor industry;
- uncertainty relating to fluctuations in currency exchange rates, particularly between the Canadian and U.S. dollar;
- uncertainty related to international operations, including additional development projects and other business opportunities;
- risks related to future mergers or acquisitions;
- 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;
- risks related to managing and storing proprietary information and sensitive or confidential data relating to the Company's operations electronically; 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.