Photon Control Inc.

Management's Discussion and Analysis

For the three months and year ended December 31, 2017

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

DATED March 15, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2017

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS 1
OVERVIEW 2
COMPANY HIGHLIGHTS 2
PRODUCTS, DISTRIBUTION AND INDUSTRIES 3
SALES, MARKETING AND DISTRIBUTION 3
MARKET LANDSCAPE 3
PRODUCTION AND SERVICES 4
COMPETITIVE CONDITIONS 4
NEW PRODUCTS 4
SELECTED FINANCIAL INFORMATION 5
OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS 7
SUMMARY OF QUARTERLY RESULTS 10
LIQUIDITY AND CAPITAL RESOURCES 11
BUSINESS COMBINATION 12
ASSETS HELD FOR SALE 14
OFF BALANCE SHEET ARRANGEMENTS 14
COMMITMENTS 14
RELATED PARTY TRANSACTIONS 15
LITIGATION 15
CRITICAL ACCOUNTING POLICIES AND ESTIMATES 16
NEW STANDARDS AND INTERPRETATIONS 17
FINANCIAL INSTRUMENTS 17
SUBSEQUENT EVENT 20
OUTSTANDING SHARE DATA 20
RISKS AND UNCERTAINTIES 20
SEDAR 20
CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS 21

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides information for the three months and year ended December 31, 2017, and up to and including March 15, 2018. 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") consolidated financial statements for the fiscal year ended December 31, 2017 and accompanying notes. These documents, along with additional information about the Company, including the Annual Information Form ("AIF"), are available at www.photon-control.com and www.sedar.com.

Certain statements in this document, including statements which may contain words such as "could", "expect", "believe", "will", "intend", "anticipate", "should", "may", "might", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "shall" and similar expressions and statements related to matters that are not historical facts, are forward-looking statements. These forward-looking statements relate to, among other things, financial results, product plans, timing, content and pricing of products, market and industry expectations, and general economic, business and political conditions. All forward-looking statements in this document are based on management's beliefs, intentions and expectations with respect to future events. Such forward-looking statements involve known and unknown risks, described in greater detail under Risk Factors in the Annual Information Form of Photon Control Inc., which may cause the actual results, performances, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

In light of the many risks and uncertainties that may cause future results to differ materially from those expected, the Company cannot give assurances that the forward-looking statements contained in this document will be realized. Forward-looking statements are not guarantees of future performance.

The financial data contained in this report and in the consolidated financial statements of the Company for the year ended December 31, 2017 and accompanying notes 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.

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 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 year ended December 31, 2017:

- On January 4, 2017, the Company commenced a normal course issuer bid (the "2017 NCIB") to acquire up to 5,400,000 common shares in the capital of the Company, which expired on January 3, 2018. Under the 2017 NCIB, the Company purchased for cancellation a total of 579,800 Common Shares at market prices ranging from $1.01 to $1.10 per Common Share through the facilities of the TSXV;
- On January 13, 2017, the Company announced the appointment of Neil McDonnell as Chair of the Board of Directors;
- On March 31, 2017 the Company announced the appointments of Chuck Cargile as a director and Scott Edmonds as President, Chief Executive Officer and as a director. At the same time, the Company also announced that Michael Goldstein had resigned as acting CEO and as a director, while Robert B. Breault and Joseph Litner had resigned as directors;
- On April 14, 2017 the Company reached an agreement to settle its disputes with Photon Control R&D Ltd. ("Photon R&D"), acquiring all intellectual property, products and other assets under dispute, and allowing the Company to employ the personnel from Photon R&D. The Company agreed to pay a certain percentage of its revenues from defined products for five years to certain former owners of Photon R&D;
- In May 2017, the Company moved into a new state-of-the-art manufacturing facility, significantly increasing its production capacity for continued growth;
- On May 29, 2017, the Company announced the resignation of Gerald Adams, Chief Financial Officer effective August 31, 2017;
- On July 15, 2017, the Company appointed Daniel Lee to the position of Chief Financial Officer;
- On July 27, 2017, the Company received $599 of funds previously held in escrow by the Supreme Court of British Columbia in conjunction with the litigation with Photon R&D;
- On September 14, 2017, the Company announced the full achievement of customer certification and successful completion of its relocation to the newly designed manufacturing facility; and,
- On October 23, 2017, the Company announced the appointment of Michele Klein as a director.

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 in harsh environments; 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 in the harsh environments in which semiconductors are fabricated. Photon Control's fiber optic temperature and position sensors are manufactured according to "copy exact" standards in an 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 (Optical Sensors)

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.

PRODUCTION AND SERVICES

Photon Control uses a variety of assembly and test techniques in the production of its temperature and position sensors, both in-house and outsourced to contract manufacturers. Methods include, but are not limited to, manual, fixtured and semi-automated component assembly using both mechanical and adhesive technologies, fabrication of machined and molded parts, printed circuit board surface mount technology (“SMT”) and wave solder assembly, and component assembly and test within an IPC Class 6 cleanroom environment. Additional testing methods range from in-circuit and functional to extreme environment temperature and position accuracy verification. Quality and specification inspection, using various gauge and material analysis equipment, is used in support of production. Services include design, analysis, reliability testing, repair, rework and upgrade support.

Semiconductors

Under this reportable segment, the Company devotes extensive efforts to its semiconductor activities. In this area, Photon Control develops, manufactures and markets precision temperature and position sensors used by semiconductor WFE manufacturers that are sold through a network of distributors and a direct sales force.

Other

In the industrial sector, customers’ needs are wide-ranging and require measuring various parameters like position, temperature, flow and others. The Company is focusing on business opportunities with highest returns and working to develop new products to fulfill their specific needs.

COMPETITIVE CONDITIONS

The competitive conditions vary depending on the markets where the Company’s products are used. The Company competitively positions itself by highlighting its long history in the fiber optic industry, the accuracy of its products and well documented proof of this accuracy being sustainable, its products purchased and tested by some of the largest WFE manufacturers, the quality of its products, and the “Rapid Deployment” capabilities of its new product introduction team when differentiating itself from its competitors.

The Company has perfected the use of phosphor-based fiber optic and other optical sensing technologies for the most complex environment with accuracy, rapid prototyping and “copy exact” manufacturing. Because of this, the Company is deeply embedded with the world’s largest, most demanding WFE manufacturers with long product life cycles (5-7 years). The long-standing partnerships with such WFE manufacturers are a key differentiating factor from other competing companies.

NEW PRODUCTS

The Company keeps abreast of current and evolving market trends, and has a strong complement of engineering personnel to continuously refine its product offerings, and research, develop and design for new technologies.

SELECTED FINANCIAL INFORMATION

The following table provides key financial information for the three most recently completed fiscal years of the Company:

Statements of comprehensive income	December 31, 2017	Year ended December 31, 2016	December 31, 2015
Revenue	$ 43,813	$ 32,172	$ 27,575
Net earnings and total comprehensive income	5,692	6,516	9,204
Basic earnings per share	0.05	0.06	0.09
Diluted earnings per share	0.05	0.06	0.08
Statements of financial position			
Total assets	$ 55,549	$ 43,191	$ 33,745
Total non-current financial liabilities	2,986	-	-

The following table highlights key financial information for the three months and year ended December 31, 2017 as compared to the prior comparable periods:

	Three months ended December 31, 2017	2016	Variance ($)	(%)	Year ended December 31, 2017	2016	Variance ($)	(%)
Revenue	$ 11,033	$ 9,011	$ 2,022	22%	$ 43,813	$ 32,172	$ 11,641	36%
Cost of sales	6,078	4,726	1,352	29%	20,522	15,952	4,570	29%
Gross profit	4,955	4,285	670	16%	23,291	16,220	7,071	44%
Gross profit %	*44.9%*	*47.6%*			*53.2%*	*50.4%*		
Operating expenses								
General and administrative	2,459	1,629	830	51%	11,133	4,602	6,531	142%
Engineering	704	423	281	66%	3,159	1,245	1,914	154%
Sales and marketing	455	248	207	84%	1,186	939	247	26%
Total operating expenses	3,618	2,300	1,318	57%	15,478	6,786	8,692	128%
Operating income	1,337	1,985	(648)	-33%	7,813	9,434	(1,622)	-17%
Finance income	35	24	11	46%	176	137	39	28%
Accretion expense on contingent consideration	(545)	-	(545)	-100%	(639)	-	(639)	-100%
Change in fair value of contingent consideration	(264)	-	(264)	-100%	(264)	-	(264)	-100%
Gain on settlement of pre-existing relationships, net	3,200	-	3,200	100%	3,200	-	3,200	100%
Foreign exchange gain (loss)	145	398	(253)	-64%	(2,037)	(186)	(1,851)	995%
	2,571	422	2,149	509%	436	(49)	485	-990%
Net income before tax	3,908	2,407	1,501	62%	8,249	9,385	(1,136)	-12%
Income tax	1,255	1,056	199	19%	2,557	2,869	(312)	-11%
Net earnings and total comprehensive income	$ 2,653	$ 1,351	$ 1,302	96%	$ 5,692	$ 6,516	$ (824)	-13%
Basic earnings per share	$ 0.02	$ 0.01	$ 0.01	100%	$ 0.05	$ 0.06	$ (0.01)	-17%
Diluted earnings per share	$ 0.02	$ 0.01	$ 0.01	100%	$ 0.05	$ 0.06	$ (0.01)	-17%

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

The following table highlights key financial information as at December 31, 2017 and 2016:

Financial Position	December 31, 2017	December 31, 2016	Variance ($)	Variance (%)
Cash	$ 34,345	$ 32,508	$ 1,837	6%
Total assets	55,549	43,191	12,358	29%
Total liabilities	8,889	4,319	4,570	106%
Total shareholders' equity	46,660	38,872	7,788	20%

The following table provides the details of our Adjusted EBITDA for the three months and year ended December 31, 2017 and 2016:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income for the period	$ 2,653	$ 1,351	$ 5,692	$ 6,516
Add (deduct)				
Finance income	(35)	(24)	(176)	(137)
Accretion expense on contingent consideration	639	-	639	-
Income tax	1,255	1,056	2,557	2,869
Depreciation of property and equipment	268	52	758	163
Amortization of intangible assets	1,154	14	1,182	55
Foreign exchange (gain) loss	(145)	(398)	2,037	186
Relocation costs	313	-	884	-
Corporate Changes	-	-	2,953	384
Photon R&D settlement	(3,200)	95	(2,249)	485
Adjusted EBITDA[1] for the period	**$ 2,902**	**$ 2,146**	**$ 14,277**	**$ 10,521**

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

The Company considers the following items as non-recurring:

- Relocation costs – the Company completed the fit-out of and relocation to a new manufacturing facility in 2017. One-time expenditures include third-party services, labour costs and the cost of dismantling and restoring the vacated premises.
- Corporate Changes – the Company made significant changes to its Board of Directors, management team and business structure in 2017 and 2016. Additionally, the Company restructured its Oil and Gas business model from direct sales to a distributor model in 2017 before its eventual sale in 2018. One-time expenditures resulting from these changes include legal, consulting and recruiting fees, as well as severance and related payments.
- Photon R&D settlement – the Company took actions following the unauthorized transfer of $4,500 to Photon R&D on June 3, 2016 (the "Unauthorized Transfer"), as more particularly described under the heading "*Litigation with Photon R&D*" resulting in a settlement agreement on April 14, 2017 ("Settlement Agreement"). One-time expenditures related to this matter include gain on settlement of pre-existing lawsuits, loss on settlement of pre-existing agreements, settlement costs, legal, consulting and advisory fees.

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

OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

Revenue

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

	Three months ended		Variance		Year ended		Variance	
	2017	2016	($)	(%)	2017	2016	($)	(%)
Semiconductor	$ 10,980	$ 8,639	$ 2,341	27%	$ 43,521	$ 30,579	$ 12,942	42%
Oil and Gas	36	211	(175)	-83%	171	783	(612)	-78%
Other	17	161	(144)	-89%	121	810	(690)	-85%
Total	**$ 11,033**	**$ 9,011**	**$ 2,022**	**22%**	**$ 43,813**	**$ 32,172**	**$ 11,641**	**36%**

Semiconductor revenues for the three months and year ended December 31, 2017 grew 27% and 42% over the prior comparable periods, respectively. The increase is attributable to continued robust market conditions persisting in the semiconductor industry. Oil and Gas revenues and Other revenues for the three months and year ended December 31, 2017 decreased over the prior comparable periods due to soft demand and increased focus on semiconductor revenues.

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

	Three months ended		Variance		Year ended		Variance	
	2017	2016	($)	(%)	2017	2016	($)	(%)
United States	$ 6,745	$ 5,224	$ 1,521	29%	$ 26,146	$ 20,858	$ 5,288	25%
Asia	4,209	3,471	738	21%	17,440	10,106	7,334	73%
Canada	36	227	(191)	-84%	121	1,038	(917)	-88%
Europe	43	89	(46)	-52%	106	170	(64)	-37%
Total	**$ 11,033**	**$ 9,011**	**$ 2,022**	**22%**	**$ 43,813**	**$ 32,172**	**$ 11,641**	**36%**

For the three months and year ended December 31, 2017, the Company's revenues generated from customers located in the United States increased over the prior comparable periods due to the overall growth in the semiconductor segment. The increased revenues in Asia reflect market share gains made with existing OEM customers as well as semiconductor segment growth. Revenues in Canada and Europe for the quarter and year decreased over the prior comparable periods as a result of the Oil and Gas product segment.

Gross Profit

Gross profit for the three months and year ended December 31, 2017 increased over the prior comparable period as a result of higher overall revenues.

Gross margin decreased to 44.9% for the quarter compared to 47.6% in the prior comparable period due to amortization charges on intangible assets arising from the acquisition of Photon R&D. This new charge, which has been recorded from the acquisition date of April 14, 2017 to December 31, 2017, has been fully absorbed in the fourth quarter as the Company finalized the accounting for the transaction in the quarter. The non-cash charge was partially offset by the benefits of higher overall revenues and a previously reported change in accounting for the royalties paid to the former Photon R&D; such royalties are now accounted for as a business acquisition cost rather than cost of sales as had been the case in years prior to 2017.

Gross margin improved to 53.2% for the year ended December 31, 2017 compared to 50.4% in 2016, as a result of higher overall revenues and the net benefit of the change in accounting for the royalties paid to the former Photon R&D as the benefit of the royalty treatment exceeded the amortization charges on intangible assets acquired from the former Photon R&D.

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

Operating Expenses

	Three months ended December 31, 2017	2016	Variance ($)	(%)	Year ended December 31, 2017	2016	Variance ($)	(%)
Operating expenses, as reported	$ 3,618	$ 2,300	$ 1,318	57%	$ 15,478	$ 6,786	$ 8,692	128%
Deduct								
Depreciation of property and equipment	(150)	(14)	(136)	971%	(369)	(33)	(336)	1018%
Amortization of intangible assets	(14)	(14)	-	0%	(42)	(55)	13	-24%
Share-based payments	(286)	(184)	(102)	55%	(1,172)	(676)	(496)	73%
Relocation costs	(313)	-	(313)	-100%	(884)	-	(884)	-100%
Corporate Changes	-	-	-	0%	(2,834)	(384)	(2,450)	638%
Photon R&D settlement	-	(95)	95	100%	(951)	(485)	(466)	96%
Operating expenses, adjusted	**$ 2,855**	**$ 1,993**	**$ 862**	**43%**	**$ 9,226**	**$ 5,153**	**$ 4,073**	**79%**

Total operating expenses for the quarter and year ended December 31, 2017 were $3,618 and $15,478 compared to $2,300 and $6,786 in the prior comparable periods, respectively. When adjusted for non-cash charges and non-recurring items such as Relocation costs, Corporate Changes and Photon R&D settlement, operating expenses totaled $2,855 and $9,226 compared to $1,993 and $5,153 in the prior comparable periods; the increase is attributable to an increased labour workforce to support the increased revenue levels, severance costs incurred and the impact of the R&D transaction.

General and Administrative

	Three months ended December 31, 2017	2016	Variance ($)	(%)	Year ended December 31, 2017	2016	Variance ($)	(%)
General and administrative expenses, as reported	$ 2,459	$ 1,629	$ 830	51%	$ 11,133	$ 4,602	$ 6,531	142%
Deduct								
Depreciation of property and equipment	(150)	(14)	(136)	971%	(369)	(33)	(336)	1018%
Amortization of intangible assets	(12)	(12)	-	0%	(34)	(45)	11	-23%
Share-based payments	(224)	(176)	(48)	27%	(1,043)	(668)	(375)	56%
Relocation costs	(313)	-	(313)	-100%	(884)	-	(884)	-100%
Corporate Changes	-	-	-	0%	(2,738)	(384)	(2,354)	613%
Photon R&D settlement	-	(95)	95	100%	(951)	(485)	(466)	96%
General and administrative, adjusted	**$ 1,760**	**$ 1,332**	**$ 428**	**32%**	**$ 5,114**	**$ 2,987**	**$ 2,127**	**71%**

General and administrative totalled $2,459 and $11,133 for the quarter and year compared to $1,629 and $4,602 in the prior comparable periods, respectively. When adjusted for non-cash charges and non-recurring items as described elsewhere, adjusted cash expenses totalled $1,760 and $5,114 for the three months and year ended December 31, 2017 compared to $1,332 and $2,987 in the prior comparable periods, respectively. The increase in adjusted cash expenses for the quarter resulted from severance costs incurred for the period; the increase for the year was due to the effect of increased workforce and related costs throughout the preceding 12 months.

Engineering

Engineering totalled $704 and $3,159 for the quarter and year compared to $423 and $1,245 in the prior comparable periods, respectively. The increase in expenses is primarily driven by the impact of the Settlement Agreement with Photon R&D, offset by a decrease in royalties.

Sales and Marketing

Sales and marketing for the quarter and year increased from $248 and $939 in 2016 to $455 and $1,186 in the current year due to increased staff levels to support current and future growth of our customers.

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

Finance Income

Finance income includes interest income and expenses, with the increase for the three months and year ended December 31, 2017 over the 2016 comparable period attributable to stronger returns earned on cash.

Accretion Expense on Contingent Consideration

Accretion expense is 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 $264 for the quarter and year. This was the result of an upward revision in management's estimate from the acquisition date to current information regarding the underlying revenue performance.

Gain on Settlement of Pre-Existing Relationships, Net

Gain on settlement of pre-existing relationships, net include:

- Gain on settlement of pre-existing lawsuits totalled $6,300 for the quarter and year, and is comprised of avoided litigation costs and the impact of future royalties as part of the Settlement Agreement; and,
- Loss on settlement of pre-existing agreements totalled $3,100 for the quarter and year, as the Settlement Agreement terminated an unfavourable pre-existing R&D Agreement and Addenda.

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 US dollars. The foreign exchange gain for the three months ended December 31, 2017 was due to the strengthening of the US dollar relative to the Canadian dollar throughout the period; however, the US dollar weakened relative to the Canadian dollar throughout the year resulting in the foreign exchange loss for the year ended December 31, 2017.

Net Income Before Tax

Net income before tax for the quarter was $3,908 compared $2,407 in 2016 due to strong market conditions in the semiconductor industry and finalization of the acquisition of Photon R&D. Net income before tax for the year was $8,249 compared to $9,385 in 2016 due to non-recurring items incurred in 2017 as described elsewhere.

Income Tax

Income tax for the three months and year ended December 31, 2017 was $1,255 and $2,557 compared to $1,056 and $2,869 in the comparable periods in 2016.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before finance income, income tax, depreciation, amortization, foreign exchange (gain) loss and non-recurring items. Non-recurring items include Relocation costs, Corporate Changes and Photon R&D settlement as described elsewhere.

Adjusted EBITDA for the three months and year ended December 31, 2017 amounted to $2,902 and $14,277 compared to $2,146 and $10,521 in the comparable periods in 2016 due to continued growth in the semiconductor segment in 2017.

Order Backlog

Order backlog was $18,300 on December 31, 2017, an increase from $12,600 at September 30, 2017 and $8,800 at December 31, 2016. Order backlog represents the unfulfilled value of sales orders received and scheduled for fulfillment in the remaining rolling 12-month period. The increase in the order backlog reflects the continued demand growth occurring in the semiconductor industry and early results from investments made in sales & marketing.

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.

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenue	$ 7,191	$ 7,237	$ 8,733	$ 9,011	$ 11,879	$ 8,877	$ 12,024	$ 11,033
Gross profit	$ 3,803	$ 3,563	$ 4,569	$ 4,285	$ 7,116	$ 4,669	$ 6,551	$ 4,955
Gross margin %	53%	49%	52%	48%	60%	53%	54%	45%
Net income	$ 1,587	$ 1,397	$ 2,181	$ 1,351	$ 1,698	$ (331)	$ 1,672	$ 2,653
EPS (Basic)	$ 0.01	$ 0.01	$ 0.02	$ 0.01	$ 0.02	$ (0.00)	$ 0.02	$ 0.02
EPS (Diluted)	$ 0.01	$ 0.01	$ 0.02	$ 0.01	$ 0.02	$ (0.00)	$ 0.01	$ 0.02
Cash	$ 27,300	$ 23,538	$ 31,139	$ 32,508	$ 32,112	$ 25,053	$ 26,966	$ 34,345

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 the most recently completed seven quarters 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) 10

LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's working capital as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Cash	$ 34,345	$ 32,508
Trade and other receivables	3,393	5,173
Due from related party	-	189
Current portion of note receivable	-	17
Inventories	4,052	3,247
Prepaid expenses and deposits	279	255
Assets held for sale	184	-
Total current assets	**42,253**	**41,389**
Accounts payable and accrued liabilities	4,003	2,035
Due to related party	-	1,814
Income taxes payable	579	420
Current portion of contingent consideration	1,321	-
Deferred revenue	-	50
Total current liabilities	**5,903**	**4,319**
Working capital	**$ 36,350**	**$ 37,070**

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 $46,660 at December 31, 2017 (2016 - $38,872).

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 decrease of working capital over December 31, 2016 was the result of capital expenditures incurred for the new manufacturing facility and other non-recurring items occurring in the first half of 2017; these costs did not reoccur in the second half of 2017, and the Company was able to rebuild its working capital as a result of its operating performance.

Cash

At December 31, 2017, the Company held cash of $34,345 compared to $32,508 as at December 31, 2016, with the increase attributable to the Company's operating performance and early collections from a customer in the fourth quarter of 2017.

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

Trade and Other Receivables

Trade and other receivables of $3,393 decreased from $5,173 as at December 31, 2016 due to an early payment arrangement with a customer during the three months ended December 31, 2017.

Inventories

Inventories as at December 31, 2017 totaled $4,052 compared to $3,247 as at December 31, 2016 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 December 31, 2017, the Company's accounts payable and accrued liabilities, which fall due for payment within 12 months of the balance sheet date, were $4,003, compared to $2,035 as at December 31, 2016; the increase is the result of the Company's expanded business operations and increased workforce to support its revenue opportunities.

BUSINESS COMBINATION

The Company had historical relationships with Photon Control R&D Ltd. ("Photon R&D") and DCD Management Ltd., both considered related parties whereby the companies had directors and shareholders in common. These relationships involved the Company outsourcing its research and development to Photon R&D and certain administrative functions to both Photon R&D and DCD Management Ltd. In connection with outsourcing its research and development functions, the Company entered into an agreement dated October 1, 2008 ("R&D Agreement") including various Addenda between 2009 and 2013 ("Addenda") with Photon R&D. In August 2016, the Company commenced a lawsuit in the Court against Photon R&D and others related to the Addenda and certain other matters.

As a result of these relationships, there were certain amounts owing between the Company and these related parties at December 31, 2016, including a note receivable and associated deferred revenue. These amounts and transactions occurred in the normal course of business and have since been settled.

On April 14, 2017 (the "Acquisition Date"), following a period of litigation, and as part of a settlement agreement with Photon R&D ("Settlement Agreement"), the Company completed the acquisition of certain tangible and intangible assets of Photon Control R&D Ltd. for cash consideration of $770 and contingent consideration of $4,088. In addition, the agreement included a gain on settlement of pre-existing relationships, net, which is comprised of:

Gain on settlement of pre-existing lawsuits	$	6,300
Loss on settlement of pre-existing agreements		(3,100)
Gain on settlement of pre-existing relationships, net	**$**	**3,200**

The acquisition included inventories, property and equipment, the transfer of all technical personnel and intellectual property to the Company as well as the clarification of the rights of ownership and exploitation of intellectual property. The Settlement Agreement also provided for the settlement of all amounts owing and payable, including the note receivable, between the Company and Photon R&D and certain other terms and conditions.

The contingent consideration relates to a royalty agreement included in the Settlement Agreement, which provides for quarterly royalties on revenues earned from defined products from January 1, 2017 to December 31, 2021. This royalty agreement replaces a previous arrangement.

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

The Settlement Agreement also includes terms of a settlement reached among the parties to resolve all legal actions commenced by the Company against Photon R&D and certain others, as well as the counter-claims filed by Photon R&D against the Company. The gain on settlement of pre-existing lawsuits include avoided litigation costs, and the impact of future royalties as part of the Settlement Agreement.

The Settlement Agreement also terminated an unfavourable pre-existing R&D Agreement and Addenda, resulting in a loss on settlement of pre-existing agreements.

The following table summarizes the fair value of consideration paid on the Acquisition Date and the allocation of the purchase price to the fair value of assets acquired. This reflects the final purchase price allocation which was adjusted from provisional amounts recorded in the Company's unaudited interim consolidated financial statements during the 2017 fiscal year:

Cash on closing	$	770
Fair value of contingent consideration		4,088
Gain on settlement of pre-existing lawsuits		6,300
Loss on settlement of pre-existing agreements		(3,100)
Total consideration	**$**	**8,058**
Allocation to indentifiable net assets:		
Inventories	$	130
Property and equipment		640
Acquired technologies		4,439
Reacquired rights		2,000
Goodwill		849
Total allocated to net assets	**$**	**8,058**

The goodwill recognized on the acquisition represents the incremental cost not specifically attributable to the identifiable assets and liabilities acquired. The goodwill is underpinned by an assembled workforce that was transferred as well by the synergies the Company aims to achieve with the ability to completely serve the growing needs of its customers.

The contingent consideration is payable in cash and has been recorded as a liability on the consolidated statements of financial position at fair value based on management's best estimate of future revenues. The estimate uses a discount rate of 20% which is reflective of the inherent risk of the Company achieving these future revenues. As at the acquisition date, the fair value of the contingent consideration was estimated to be $4,088.

For the year ended December 31, 2017, the Company recognized a change in fair value of contingent consideration of $264 (2016 - $Nil) as a result of a revision in management's estimate of the amount based on current information regarding the underlying revenue performance.

The following table shows a reconciliation of the contingent consideration liability:

Contingent consideration, January 1, 2017	$	-
Liability arising from business combination		4,088
Payment of contingent consideration		(986)
Accretion expense		639
Change in fair value of contingent consideration		264
Contingent consideration, December 31, 2017		**4,005**

The table below presents the contingent consideration as at December 31, 2017 recorded on the consolidated statements of financial position:

Current portion	$	1,321
Long term portion		2,684
Total	**$**	**4,005**

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

The estimated amounts payable related to the contingent consideration could be higher or lower depending on the related future revenue outcome. Significant increases or decreases in related revenue would result in a higher or lower fair value of the contingent consideration liability, while significant increases or decreases in the discount rate and performance risk would result in a lower or higher fair value of the liability.

It is not practicable to estimate the revenue or profit of Photon R&D since the acquisition date as the business combination represents the integration of an external service provider, resulting in lower royalty costs and elimination of engineering support fees partially offset by increased staffing costs.

Costs directly attributable to the acquisition for the year ended December 31, 2017 of $951 have been expensed in general and administrative and are included in the consolidated statements of comprehensive income.

In addition to the arrangements described above, the Company severed its relationship with DCD Management Ltd. settling all amounts owing and bringing all previously outsourced administrative functions in-house.

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 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.

As a result of the OFM Transaction and in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discounted Operations, the Company has presented the Optical Flow Meter product as Assets Held for Sale at December 31, 2017.

The carrying value of assets to be disposed of were as follows:

		December 31, 2017
Inventories	$	161
Intangible assets		23
Total	**$**	**184**

OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements for the three months and year ended December 31, 2017 and 2016.

COMMITMENTS

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

2018	$	334
2019		334
2020		297
2021		285
2022 and onwards		854
Total	**$**	**2,104**

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

RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note.

The Company's key management have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and executive officers.

The remuneration of key management for the year ended December 31, 2017 and 2016 is as follows:

	Year ended			
	December 31, 2017		December 31, 2016	
Cash-based payments	$	2,450	$	554
Share-based payments		938		887
Total	$	3,388	$	1,441

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

LITIGATION

The following describes the litigation proceedings between the Company and Photon Control R&D Ltd., all of which have been resolved as of the date of these financial statements.

In connection with an arrangement to outsource its research and development functions, the Company entered into an agreement dated October 1, 2008 with Photon R&D. As Photon R&D had directors and shareholders in common with the Company, consisting of the Company's Chairman and largest shareholder, as well as the Company's President and CEO, the R&D Agreement was considered a related party transaction under applicable securities regulation and stock exchange rules ("R&D Transaction").

Between 2009 and 2013, pursuant to various addenda entered into between the Company and Photon R&D, the R&D Agreement came to include not just payments for services but also standby payments for engineering services, royalty payments ranging from 10% to 25% of product sales, provided certain rights for R&D to exploit certain of the products and intellectual property produced under the R&D Agreement. The outsourcing of certain of the Company's administrative functions were added to the relationship over time as well.

In August 2016, the Company commenced a lawsuit in the Court against Photon R&D and others (the "Claim") related to the Addenda and certain other matters. In the Claim, the Company claimed that the Addenda, which in effect purported to limit the Company's rights and impose obligations on the Company and constituted material changes to the R&D Agreement, should be set aside as null and void.

In September 2016 and in December 2016, the Company applied to the Court for interlocutory relief pending trial of the Claim. The Court granted the Company, among other things, a right of access to all intellectual property ("IP") developed by Photon R&D for the Company, prohibited Photon R&D from initiating contact with the Company's customers and prohibited Photon R&D from manufacturing products for the Company's customers, with minor exceptions.

As part of the interim relief granted, the Company was required to pay a total of $599 into court as security, all of which was returned to the Company following settlement of the litigation.

On April 9, 2017, the Company signed a binding Settlement Agreement with Photon R&D which set out the terms of the settlement reached among the parties to resolve all legal actions commenced by the Company against Photon R&D and certain others, as well as the counter-claims filed by Photon R&D against the Company. The Settlement Agreement and its terms are effective as of April 14, 2017.

On June 1, 2017, a consent order was entered into with the Court ordering that all proceedings among the parties including all counter-claims and third party claims, be dismissed, without costs to any party. On July

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

6, 2017, the $599 that was paid into court as security pursuant to a garnishment order were ordered by the Court to be returned to the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the 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 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 is classified as either a liability carried at amortized cost or equity within contributed surplus. Contingent consideration classified as a liability is carried at fair value with changes in fair value flowing through the consolidated statements of 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.

(b) Valuation of assets and liabilities in connection with a business combination

In accordance with IFRS 3, Business Combinations, accounting for an acquisition requires management to allocate the purchase price paid for an acquisition to the fair value of identified assets and liabilities acquired, with any residual recorded as goodwill. The identification of assets and liabilities required both judgments and estimates regarding the identification of balances acquired and the fair value therein. The values of assets and liabilities are recorded at fair value based on management's best estimate. Key estimates and assumptions include the forecasted financial performance of the acquired company; projected customer attrition of the acquired customer base; and the expected use of assets and liabilities acquired among other considerations. Changes in certain estimates and assumptions could have a material impact on the valuation of assets and liabilities recognized on a business combination.

(c) Valuation of settlement of pre-existing relationships in connection with a business combination

In accordance with IFRS 3, Business Combinations, the acquirer and acquiree may have a relationship that existed before they contemplated the business combination, whether contractual or non-contractual. The fair value of the settlement of pre-existing relationships would be recognized as a gain/loss on effective settlement separately on the consolidated statements of comprehensive income from the acquisition, and the consideration transferred for the acquisition would be increased/decreased by a corresponding amount.

Settlement of pre-existing relationships 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 settlement and costs avoided as a result of the settlement. Management's estimate of the probability of the attainment of specified revenue targets takes into account management's evaluation of the revenue forecast associated with the pre-existing relationship and the risks thereon.

(d) Impairment of non-financial assets

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Company estimates the value in use and fair value of its operating segment to which goodwill is allocated using discounted cash flow models that require assumptions about future cash flows, margins and discount rates.

NEW STANDARDS AND INTERPRETATIONS

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 is effective for years commencing on or after January 1, 2018, and will replace IAS 39, Financial Instruments: Recognition and Measurement. Under IFRS 9, financial assets and liabilities will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management. IFRS 9 introduces new requirements for the impairment of financial assets. The Company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 is effective for years commencing on or after January 1, 2018, and replaces IAS 11, Construction Contracts; IAS 18, Revenue; International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and Standing Interpretations Committee 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time, or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company will adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has determined that the adoption of IFRS 15 will have no material impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 16, Leases ("IFRS 16")

IFRS 16 is effective for years commencing on or after January 1, 2019, and replaces IAS 17, Leases. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for almost all leases. The Company is evaluating the impact of this standard on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Measurement categories, fair values and valuation methods

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statements of operations or other comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

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

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets	$ 37,791	$ 37,791	$ 38,595	$ 38,595
Financial liabilities	4,003	4,003	3,849	3,849
Total	**$ 41,794**	**$ 41,794**	$ 42,444	$ 42,444

(In Canadian dollars, amounts in thousands except number of shares and per share amounts) 17

Fair value hierarchy

Financial assets and liabilities that are recognized on the statements of financial position at fair value follow in a hierarchy that is based on the significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

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

		Fair Value		
December 31, 2016	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ -	$ -	$ -	$ -

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 year ended December 31, 2017, the Company recorded accretion expense of $639 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

Credit risk is the risk that a counter-party will not meet their obligations under a financial instrument or customer contract, leading to a financial loss being incurred by the Company. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, trade and other receivables, due from related party, note receivable and restricted cash.

The Company limits its exposure to credit loss by maintaining its cash and restricted cash with high credit quality financial institutions in Canada and the United States.

The Company provides credit to its customers in the normal course of operations. The Company minimizes its credit risk associated with its trade and other receivables by performing credit evaluations on customers, maintaining regular and ongoing contact with customers, routinely reviewing the status of individual trade and other receivables balances and following up on overdue amounts.

(In Canadian dollars, amounts in thousands except number of shares and per share amounts) 18

From time to time, the Company does enter into agreements with very large customers that, due to the size of the transaction, will result in some concentration of credit risk. The Company estimates, on a continuing basis, the probable losses on its accounts and records a provision for losses based on the estimated realizable value of the accounts. Management does not believe that there is significant credit risk arising from any of the Company's current customers; however, should one of the Company's large customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from trade and other receivables is equal to their total carrying amounts.

The following table provides information regarding the aging of trade and other receivables as at December 31, 2017 and 2016:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
As at December 31, 2017	**91%**	**10%**	**0%**	**-1%**	**0%**
As at December 31, 2016	86%	8%	2%	2%	2%

As at December 31, 2017, 9% (2016 – 14%) 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 year ended December 31, 2017, the Company incurred $16 of bad debts expense (2016 - $9).

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through budgeting, ongoing management and forecasting of operating cash flows, review of trade and other receivables balances, management of cash, and use of credit facilities and equity financings when appropriate.

At December 31, 2016, the Company had a credit facility with a Canadian Chartered bank of up to $1,000, which was unutilized. In 2017, the Company removed the credit facility and no longer had a credit facility as at December 31, 2017.

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

Market risk

Foreign exchange risk

The Company operates internationally and generates revenues and incurs expenses in foreign currencies, holds cash, and has operations based in the United States carried through its wholly owned subsidiaries.

The Company's financial results are reported in Canadian dollars. The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to the United States dollar (USD"), as a majority of the Company's revenues are earned in USD. As such, the Company may be subject to material, realized and unrealized foreign exchange gains or losses resulting from above average changes in exchange rates between the Canadian and the United States dollar.

At December 31, 2017, the Company held net current monetary assets in USD equal to $34,966 (2016 - $18,028). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be $3,497 (2016 - $1,803).

Interest rate risk

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

The Company's objective in managing its cash is to provide sufficient funds to meet day-to-day requirements and placing excess cash in short-term deposits.

(In Canadian dollars, amounts in thousands except number of shares and per share amounts) 19

SUBSEQUENT EVENT

On February 15, 2018, the Company completed the OFM Transaction with Kings Energy Inc. for minimum gross proceeds of $350.

OUTSTANDING SHARE DATA

As at December 31, 2017, the Company had 110,853,718 common shares issued and outstanding. As at March 14, 2018, the Company had 110,861,218 common shares were issued and outstanding.

As at December 31, 2017, the Company had 3,413,500 stock options outstanding entitling the holders to purchase one common share for each option held. As at March 14, 2018, the Company had 3,393,500 stock options outstanding.

As at December 31, 2017, the Company had restricted share units outstanding for 391,000 common shares. As at March 14, 2018, the Company had restricted share units outstanding for 391,000 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 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 regulatory bodies' quality system regulations;
- 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 competition;
- uncertainty relating to operating results;
- risks associated with product liability claims;
- risks related to product pricing;
- risks associated with the Company's intellectual property;
- uncertainty related to potential legal proceedings involving the Company;
- operational risks associated with manufacturing;
- 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. dollars;
- uncertainty related to international operations, including additional development projects and other business opportunities;
- risks related to the volatility of the trading price and volume of the Company's common shares;
- 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.