PHOTON CONTROL

Management's Discussion and Analysis

For the three months and year ended December 31, 2020

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

DATED March 18, 2021

This Management's Discussion and Analysis ("MD&A") provides information for the three months and year ended December 31, 2020. This MD&A is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with Photon Control Inc.'s (the "Company" or "Photon Control") consolidated financial statements and accompanying notes for the fiscal year ended December 31, 2020. These documents, along with additional information about the Company, including the Annual Information Form ("AIF"), are available at www.photoncontrol.com and www.sedar.com.

This MD&A contains forward-looking information within the meaning of Canadian securities laws, and the use of non-GAAP measures. Refer to "Cautionary Statement Regarding Forward-Looking Statements" and "Cautionary Statement Regarding Certain Non-GAAP Performance Measures" included within this MD&A.

The financial data contained in this report and in the consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in Canadian dollars, unless otherwise noted.

PHOTON CONTROL

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1 OVERVIEW AND HIGHLIGHTS

1.1 Photon Control

Photon Control was incorporated on September 6, 1988 and designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. These products improve performance and enable innovation for our customers and are used in the semiconductor industry. Photon Control's products provide industry-leading accuracy, reliability and quality in the most extreme conditions and are backed by a team of experts providing a variety of on-site and remote services including custom design, installation, training, and support. The Company is headquartered in an ISO 9001:2015 manufacturing facility in Richmond, British Columbia, Canada, has manufacturing, sales and research and development offices in California, and a sales distribution network across the globe. Photon Control is listed on the Toronto Stock Exchange (the "TSX"), trading under the symbol "PHO".

1.2 2020 Highlights and Outlook

The following highlights the most recent significant corporate and financial events of the Company:

- In March 2021, the Company reported record annual revenues and net income of $64,658 and $14,074, respectively, and fourth quarter revenues of $14,917 and net income of $1,157.
- In November 2020, the Company reported its second highest ever revenues of $16,330 for the three months ended September 30, 2020 and net income of $3,607.
- In September 2020, the Company entered into a distribution agreement with Woowon Technology Co., Ltd., a leading Korean distributor.
- In August 2020, the Company reported its second highest ever revenues, prior to the release of Q3 2020 revenues, of $16,098 for the three months ended June 30, 2020 and net income of $2,673.
- In July 2020, the Company announced the strategic partnership with FiSens GmbH ("FiSens") for a worldwide license and distribution agreement for Fiber Bragg Grating ("FBG") sensor solutions.
- In May 2020, the Company announced the appointment of Damian Towns as its new Chief Financial Officer ("CFO") and Corporate Secretary.
- In May 2020, the Company reported record quarterly revenues of $17,312 for the three months ended March 31, 2020 and net income of $6,639.
- In April 2020, the Company completed the acquisition of certain tangible and intangible assets of Micronor Inc. ("Micronor"), a supplier of fiber optic kinetic sensors based in Camarillo, California, United States for cash consideration of $844.

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

Achieving our stated growth strategy

Our new product introduction ("NPI") funnel remains a key area of focus. We continue to progress with design wins for prototype introduction and our NPI revenues remain above 30% of overall revenues for three months and year ended December 31, 2020. In addition we are also investing in disruptive technologies such as FBG through the FiSens license agreement. Our growing investment in research and development reflects the number of opportunities being generated by our customers and our continued commitment to growing the NPI funnel. The success of our products and our customers is at the forefront of our strategy.

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

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

We continue to grow organically and benefit from the current growth cycle in the semiconductor equipment industry, as it looks to address the unprecedented demands for chips throughout a number of key industries. In parallel, we are also actively looking for acquisition and partnership opportunities and other ways to further enhance value for our shareholders as we look to significantly grow our business.

Strengthening our underlying business

In May 2020, we augmented our team with the introduction of Damian Towns as CFO. In 2020, we also developed from within with the promotion of Eva Valencia to VP Semiconductor Sales and Phil Schick to VP Technology & Operations. Our 2020 revenues of $64,657 have exceeded our highest ever previously recorded revenues of $46,704, achieved in 2018. The principal driver of these record sales was attributable to strong capital expenditure in the semiconductor industry. Current industry estimates have Wafer Fabrication Equipment ("WFE") spend at about $68 billion in 2021. This compares to 2020 industry spend of $58.7 billion. We continue to strive to get our sensors designed into new process tools from the leading OEMs in order to further grow our market share. We believe our growth in revenues above and beyond the growth of the overall WFE market is reflective in our success in increasing our market share, combined with an element of our customers' reducing risks in their supply chains by holding more inventory due to COVID-19.

We are committed to reducing our impact on the planet by safeguarding the natural habitat in which we operate and supporting the continuous improvement for sustainable waste management initiatives at both of our office locations. We also support various social initiatives including diversity in the workplace. In 2021, as part of these ongoing initiatives we joined the Responsibility Business Alliance ("RBA"). The RBA is the world's largest industry coalition dedicated to corporate social responsibility in global supply chains where members, suppliers and stakeholders collaborate to improve working and environmental conditions and business performance through leading standards and practices.

Our focus going into 2021 will be on maintaining quality, on-time deliveries and development initiatives for our semiconductor customers, whilst integrating our new product lines from FiSens and Micronor that will serve as enablers in delivering our growth initiatives. We will also continue to build our team and underlying business in order to capitalize on the opportunities ahead, while actively looking at ways of enhancing shareholder value and utilizing our strong balance sheet.

Managing through COVID-19

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") as a pandemic which led to a series of public health measures being implemented to combat the spread of the virus. These events cause significant uncertainties that could have a negative impact on the Company's activities. Thus far, the Company has had minimal manufacturing, supply chain, or distribution disruptions and has continued to fulfill orders to customers.

Our primary goal continues to be ensuring the health and safety of our employees, customers, suppliers, and their families. Since the outbreak of the pandemic, we have continued to serve our customers and in addition to having implemented social distancing measures, additional safety and cleaning protocols, and other best practices adopted by our customers and others in response to the Pandemic.

Photon Control meets the definition of an essential service in British Columbia and the United States. Our customers along with their supply chains have been designated as critical companies and the semiconductor industry has stated that companies around the world involved in the semiconductor industry should be considered essential.

1.3 Industry, Market and Products

Temperature and Position Sensors

The semiconductor capital equipment industry offers several significant and growing applications for our technology and is the primary source of revenue for Photon Control. The Company designs and produces precision temperature and position sensors used by semiconductor WFE manufacturers in our ISO-certified manufacturing facility. The manufacturing of silicon wafers for semiconductors involves a multitude of complex processes; monitoring and maintaining the correct wafer position and wafer temperature during these processes is critical to achieving the product yield and productivity required for high-volume manufacturing. The measurement accuracies required of such sensors are becoming more challenging as semiconductor devices scale to atomic level dimensions and become more three-dimensional ("3D") in nature. Furthermore, these sensors must maintain their accuracy in harsh environments encountered in critical semiconductor equipment, such as the strong radio frequency electromagnetic fields encountered in plasma etch and plasma-assisted deposition systems. Photon Control's fiber optic sensors are immune to radio frequency interference and are thus able to deliver the high accuracies required for state-of-the-art process control.

The need for scaling semiconductor devices to atomic level dimensions has also created a need for more measurement points inside the chamber. Temperature and position anomalies have a greater impact on yield at these atomic level dimensions and must be measured and controlled more precisely which increases the value and use of fiber optic sensors. In addition, as semiconductor process nodes go beyond sub-7nm, the number of measurement points and etch steps have increased more than four-fold. Similarly, the proliferation of 3D and advanced memory chip designs have become more common and comprises an increasingly significant percentage of total chips manufactured. These factors have driven and are expected to continue to drive demand for the Company's products.

Market Landscape

The global semiconductor industry is fast-paced, competitive and constantly innovating to increase processing speed and power of semiconductor devices. Memory bit density and logic transistor counts are increasing every year to meet the demands driven by the proliferation of artificial intelligence, high-performance computing, IoT, and 5G. The ability to anticipate these technological advances and innovate to meet them without compromising quality is a key competitive advantage in this market. As a supplier of componentry to semiconductor WFE manufacturers, Photon Control's key strengths include our rapid prototyping capabilities, our ISO-certified production facility, Copy Exactly! ("CE!") methods, and our ability to manufacture to our customers' exacting standards with our highly trained workforce. In addition to our high-quality manufacturing strengths, our products include unique proprietary characteristics which both differentiate our products and allow us to outperform competitive offerings.

In addition to the increasing number of measurement points, there are several other market and technology trends that we expect will contribute to the fiber optic sensor market in semiconductor manufacturing:

- **Semiconductor industry growth:** Semiconductors have revolutionized all aspects of our economy and lives – among the technologies fueled by semiconductors today and in the future are artificial intelligence, high performance computing, IoT, 5G, smartphones, and autonomous driving. More recently, the shift to at-home-working and the gaming market have increased the demand for more powerful processors and faster memory. As a critical building block of these technologies, semiconductors will continue to enable innovation and transform industries, and hence, chip makers are expected to increase production to meet this growing market.
- **Increasing complexity:** The need for more storage capacity and computing power also continues to drive the scaling of semiconductor devices to smaller dimensions and to be more 3D. In memory chips, NAND[1] devices are scaling from 128 to 176 layers and beyond that to 256 layers. DRAM[2] devices have reached 1y and 1z nodes with a roadmap to 1 alpha and 1 beta nodes. Similarly in logic, devices are scaling to 7, 5, and 3nm nodes to increase transistor density. These complex and advanced technologies require more process steps, equipment and sensors.
- **Growth in plasma etch and deposition systems:** The scaling of semiconductor devices requires patterning of semiconductor materials at atomic level dimensions. This is achieved by a process called "multi-patterning" which requires extra plasma etch and deposition steps compared to standard patterning, and these equipment segments have been outpacing the overall WFE market. The Company's fiber optic sensors are used mostly in these critical plasma etch and deposition systems.
- **Diversification into non-semiconductor markets:** The semiconductor capital equipment market has historically experienced cycles of growth and contraction due to variations in product supply and demand, changing customer requirements and rapid technological change. The Company has identified a number of non-semiconductor market segments as potential targets for its fiber optic sensing products to diversify its revenue stream in the future.

Sales, Marketing and Distribution

Photon Control sells its products globally with sales to original equipment manufacturers ("OEMs") primarily in the United States and Japan who in turn sell their production systems to semiconductor

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[1] NAND logic devices refer to secondary flash memory storage devices
[2] DRAM refers to dynamic random-access memory

manufacturers in the United States, Asia and Europe. We also sell through a network of distributors who sell our products to OEMs in their home markets.

2 DECEMBER 2020 FINANCIAL PERFORMANCE OVERVIEW

The following table highlights key financial information for the three months and year ended December 31, 2020 as compared to the prior comparable periods:

	Three months ended				Year ended			
	December 31,		Variance		December 31,		Variance	
Table 1: Financial Performance	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
Revenue	$ 14,917	$ 8,850	$ 6,067	69%	$ 64,657	$ 32,730	$ 31,927	98%
Cost of sales	6,768	4,197	2,571	62%	25,993	15,165	10,828	71%
Gross profit	8,149	4,653	3,496	75%	38,664	17,565	21,099	120%
Gross profit %	55%	53%			60%	54%		
Operating expenses								
General and administrative	2,215	1,394	821	59%	8,139	6,516	1,623	25%
Research and development	1,794	799	995	125%	5,710	4,404	1,306	30%
Sales and marketing	1,014	416	598	144%	3,649	1,902	1,747	92%
Total operating expenses	5,023	2,609	2,414	93%	17,498	12,822	4,676	36%
Operating income [1]	3,126	2,044	1,082	53%	21,166	4,743	16,423	346%
Financial income	24	152	(128)	-84%	212	654	(442)	-68%
Accretion expense on contingent consideration	(72)	(116)	44	-38%	(384)	(520)	136	-26%
Change in fair value of contingent consideration	(50)	(597)	547	-92%	(758)	(115)	(643)	559%
Loss on disposal of assets	(2)	-	(2)	100%	(2)	-	(2)	100%
Foreign exchange loss	(951)	(478)	(473)	99%	(270)	(1,264)	994	-79%
	(1,051)	(1,039)	(12)	1%	(1,202)	(1,245)	43	-4%
Net income before taxes	2,075	1,005	1,070	106%	19,964	3,498	16,466	471%
Income taxes	917	300	617	206%	5,887	1,127	4,760	422%
Net income	1,158	705	453	64%	14,077	2,371	11,706	494%
(Loss) gain on foreign exchange translation of subsidiary	(41)	(6)	(35)	583%	106	4	102	2550%
Total comprehensive income	$ 1,117	$ 699	$ 418	60%	$ 14,183	$ 2,375	$ 11,808	497%
Basic earnings per share	$ 0.02	$ 0.01	$ 0.01	100%	$ 0.13	$ 0.02	$ 0.11	550%
Diluted earnings per share	$ 0.02	$ 0.01	$ 0.01	100%	$ 0.13	$ 0.02	$ 0.11	550%
Adjusted EBITDA [2] for the period	$ 3,712	$ 2,114	$ 1,598	76%	$ 22,833	$ 7,243	$ 15,590	215%
Adjusted EBITDA % of revenue	25%	24%			35%	22%		

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

(1) Operating income is a non-GAAP measure and is therefore not universally defined. The Company defines operating income as earnings before finance income; accretion expense on contingent consideration; change in fair value of contingent consideration; foreign exchange loss; and income taxes.

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

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

Table 2: Statements of comprehensive income	**December 31, 2020**	**Year ended December 31, 2019**	**December 31, 2018**
Revenue	$ 64,657	$ 32,730	$ 46,704
Net income and total comprehensive income	$ 14,183	$ 2,375	$ 10,558
Basic earnings per share	$ 0.13	$ 0.02	$ 0.10
Diluted earnings per share	$ 0.13	$ 0.02	$ 0.10
Statements of financial position	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
Total assets	$ 79,989	$ 58,101	$ 64,872
Total non-current financial liabilities	$ 951	$ 2,714	$ 2,211

2.1 Revenue and Cost of Sales

	Three months ended				**Year ended**			
	December 31,		**Variance**		**December 31,**		**Variance**	
Table 3: Revenue and Cost of Sales	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
Revenue	$ 14,917	$ 8,850	$ 6,067	69%	$ 64,657	$ 32,730	$ 31,927	98%
Cost of sales	6,768	4,197	2,571	61%	25,993	15,165	10,828	71%
Gross profit	8,149	4,653	3,496	75%	38,665	17,565	21,100	120%
Gross profit %	55%	53%			60%	54%		

Photon's revenues are strongly influenced by the overall capital expenditure in the WFE market and we saw the benefit of this through revenues that grew by 98% in 2020 compared to 2019. Our growth was also aided by our market penetration into Asia, assisted by stronger partnerships with distributors, and a general move in the industry to de-risk supply chain by building excess stock in response to COVID-19.

Gross profit excludes royalty payments associated with the contingent consideration (section 4.3). These payments will cease at the termination of the royalty period in Q4 2021. For three months and year ended December 31, 2020, the Company made royalty payments of $564 and $1,884 (2019 - $298 and $1,072), respectively.

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

	Three months ended				**Year ended**			
	December 31,		**Variance**		**December 31,**		**Variance**	
Table 4: Revenue by Territory	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
United States	$ 10,460	$ 5,763	$ 4,697	82%	$ 35,007	$ 20,788	$ 14,219	68%
Asia	4,457	3,087	1,370	44%	29,650	11,942	17,708	148%
Total	**$ 14,917**	**$ 8,850**	**$ 6,067**	**69%**	**$ 64,657**	**$ 32,730**	**$ 31,927**	**98%**

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

For the three months and year ended December 31, 2020, revenues generated from customers located in the United States and Asia increased over the prior comparable periods due to strong near-term demand experienced in the semiconductor capital equipment market, Asia market penetration, and supply chain de-risking. For the three months and year ended December 31, 2020, 70% and 54% respectively came from the United States with 30% and 46% respectively from Asia.

Order backlog, defined as the unfilled value of sales orders received or scheduled for fulfillment, was $30,268 as at December 31, 2020, an increase from $27,031 at September 30, 2020 and an increase from $20,840 at December 31, 2019 (section 3.1). The backlog reflects continued investment of the WFE market.

Revenue increased 69% and 98% for the three months and year ended December 31, 2020, respectively while total cost of sales increased 61% and 71% for the same comparative periods. Cost of sales has increased but at a lower percentage of sales due to improved absorption of fixed costs over higher overall revenues.

Gross profit increased for the three months and year ended December 31, 2020 over the prior comparable periods primarily due to increased sales volume, causing fixed costs as a percentage of total cost to decrease, and realized cost savings due to improved supply chain management. Both factors have had a positive impact on our overall gross margin in 2020 but were partially offset by higher headcount costs which represented an investment in our manufacturing capabilities.

Our gross margin does not consider our contingent consideration, an effective royalty (section 4.3), which requires all the contingent consideration to be booked up front and results in a slightly higher gross margin from a reporting perspective. These payments cease at the end of Q4 2021.

2.2 Operating Expenses

	Three months ended				Year ended			
	December 31,		Variance		December 31,		Variance	
Table 5: Operating Expenses	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
General and administrative	$ 2,215	$ 1,394	$ 821	59%	$ 8,139	$ 6,516	$ 1,623	25%
Research and development	1,794	799	995	125%	5,710	4,404	1,306	30%
Sales and marketing	1,014	416	598	144%	3,649	1,902	1,747	92%
Total operating expenses	**$ 5,023**	**$ 2,609**	**$ 2,414**	**93%**	**$ 17,498**	**$ 12,822**	**$ 4,676**	**36%**

Total operating expenses increased for the quarter and year as the Company continued to invest heavily in research and development to address both market opportunities and servicing our existing and future client base.

General and administrative expenses increased for the quarter and year in order to support our growth. The expense for the year also increased as a result of the introduction of a long-term incentive compensation program to retain and reward key management.

Research and development expenses increased for the quarter and year as a result of our investments in new product development to support our customers and address market needs. Research and development costs are expensed as incurred and we do not capitalize any of these costs. Our reinvestment into research development represents approximately 12% and 9% of our quarterly and annual revenues respectively.

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

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

2.3 Net Income and Adjusted EBITDA

	Three months ended				Year ended			
	December 31,		Variance		December 31,		Variance	
Table 6: Net Income	**2020**	**2019**	**($)**	**(%)**	**2020**	**2019**	**($)**	**(%)**
Operating income	$ 3,126	$ 2,044	$ 1,086	53%	$ 21,166	$ 4,743	$ 16,423	346%
Financial income	24	152	(128)	-84%	212	654	(442)	-68%
Accretion expense on contingent consideration	(72)	(116)	44	-38%	(384)	(520)	136	-26%
Change in fair value of contingent consideration	(50)	(597)	547	-92%	(758)	(115)	(643)	559%
Loss on disposal of assets	(2)	-	(2)	100%	(2)	-	(2)	100%
Foreign exchange loss	(951)	(478)	(473)	99%	(270)	(1,264)	994	-79%
	(1,052)	(1,039)	(12)	1%	(1,202)	(1,245)	43	-4%
Net income before taxes	2,075	1,005	1,070	106%	19,964	3,498	16,466	471%
Income taxes	917	300	617	206%	5,887	1,127	4,760	422%
Net income	1,158	705	453	64%	14,077	2,371	11,706	494%
(Loss) gain on foreign exchange translation of subsidiary	(41)	(6)	(35)	583%	106	4	102	2550%
Total comprehensive income	**$ 1,117**	**$ 699**	**$ 418**	**60%**	**$ 14,183**	**$ 2,375**	**$ 11,808**	**497%**

Contingent consideration relates to the acquisition of certain assets of Photon Control R&D Ltd. in 2017. It is determined using a discount model applied to royalties on revenues earned from defined products from January 1, 2017 to December 31, 2021. Accretion expense represents the calculated increase of contingent consideration resulting from the passage of time.

Change in fair value of contingent consideration is based on revisions to management's estimate of the potential total amount of contingent consideration compared to the estimate made at the end of the preceding quarter. Change in fair value of contingent consideration resulted in a loss for the quarter and year ended December 31, 2020. The loss for the current period resulted from an increase in management's higher forecasted sales profile for future quarters than was previously estimated.

The foreign exchange loss for the quarter and year was due to the strengthening of the Canadian dollar relative to the US dollar.

Our net income of $14,077 for the year exceeded our previously reported record annual net income of $10,683 achieved in 2018.

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

The following table provides a reconciliation of net income to adjusted EBITDA for the three months and year ended December 31, 2020 and 2019:

Table 7: Adjusted EBITDA	Three months ended December 31, 2020	Three months ended December 31, 2019	Variance ($)	Variance (%)	Year ended December 31, 2020	Year ended December 31, 2019	Variance ($)	Variance (%)
Net income for the period	$ 1,158	$ 705	$ 452	64%	$ 14,077	$ 2,371	$ 11,706	494%
Add (deduct)								
Finance income	(24)	(152)	128	-84%	(212)	(654)	442	-68%
Accretion expense on contingent consideration	72	116	(44)	-38%	384	520	(136)	-26%
Income taxes	917	300	617	206%	5,887	1,127	4,760	422%
Depreciation of property and equipment	413	409	4	1%	1,560	1,610	(50)	-3%
Amortization of intangible assets	225	258	(33)	-13%	867	1,005	(138)	-14%
Foreign exchange loss	951	478	473	99%	270	1,264	(994)	-79%
Adjusted EBITDA for the period	**$ 3,712**	**$ 2,114**	**$ 1,597**	**76%**	**$ 22,833**	**$ 7,243**	**$ 15,590**	**215%**
Adjusted EBITDA % of revenue	**25%**	**24%**			**35%**	**22%**		

Compared to the year ended December 31, 2020, adjusted EBITDA for the quarter, was negatively impacted primarily by additional investment in research & development to address market opportunities and service our customers, and the introduction of a long-term incentive compensation program to retain and reward key management. In addition, revenue was impacted by a weakening US dollar compared to earlier in the year.

3 REVIEW OF QUARTERLY PERFORMANCE

3.1 Revenue and Cost of Sales

Table 8: Revenue and Cost of Sales	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenue	$ 8,032	$ 7,106	$ 8,742	$ 8,850	$ 17,312	$ 16,098	$ 16,330	$ 14,917
Cost of sales	3,802	3,215	3,951	4,197	6,724	6,376	6,125	6,768
Gross profit	$ 4,230	$ 3,891	$ 4,791	$ 4,653	$ 10,588	$ 9,722	$ 10,205	$ 8,149
Gross profit %	53%	55%	55%	53%	61%	60%	62%	55%

Revenue from Q1 2019 to Q2 2019 declined as the semiconductor industry experienced a period of weakness. Signs of market recovery emerged during the second half of 2019 and revenues increased 16% over the first half. This trend continued into Q1 2020 as revenues increased by 96% from Q4 2019, marking a record quarter for the Company. Accelerated shipments to customers in response to the COVID-19 pandemic also contributed to the revenue growth in Q1 2020. In Q2 and Q3 2020, revenues decreased slightly as the benefits of customers building strong inventory positions during the COVID-19 pandemic were not as significant. Revenues for Q4 2020 surpassed our expectations of $12,000 to $14,000 set in Q3 2020 and revenues for the year surpassed our prior record annual revenue of $46,704 achieved in 2018. Strength of revenue performance generally correlates with the position of our backlog in preceding periods.

Table 9: Order Backlog	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Order backlog	$ 10,757	$ 10,714	$ 11,921	$ 20,840	$ 30,905	$ 29,658	$ 27,031	$ 30,268

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

Cost of sales rose significantly in the first three quarters of 2020 compared with 2019 following the strong and record revenues being reported. Our strong revenue performance has allowed us to leverage our fixed component of cost of sales over a greater revenue base that led to an increase in our gross profit margins in 2020. In Q4 2020, the gross profit margins were impacted by a product mix that largely favored lower margin products as compared to previous quarters in 2020. Additionally, the Company focused on its supply chain which enabled it to realize some costs savings in its variable costs of production, which also had a positive impact on gross profit percentage throughout the year.

3.2 Operating Expenses

Table 10: Operating Expenses	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
General and administrative	$ 1,525	$ 2,171	$ 1,426	$ 1,394	$ 2,155	$ 1,851	$ 1,918	$ 2,215
Research and development	1,277	1,039	1,289	799	1,255	1,154	1,507	1,794
Sales and marketing	674	457	355	416	687	920	1,028	1,014
Total operating expenses	**$ 3,476**	**$ 3,667**	**$ 3,070**	**$ 2,609**	**$ 4,097**	**$ 3,925**	**$ 4,453**	**$ 5,023**

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

Research and development expenses decreased in Q2 2019 and Q4 2019 due to government tax credits recognized. The increase in Q1 2020 was the result of a higher proportion of the current incentive compensation costs recognized in the quarter due to the Company's record financial performance. In Q2 2020, costs were lower as a result of government tax credits. Costs continued to increase in Q3 2020 as the Company continued to pursue development opportunities with its customers and reinvest in the business to continue its growth. Costs further increased in Q4 2020 as a result of an expanded workforce to support the development of new products and address market opportunities.

Sales and marketing expenses decreased starting in Q2 2019 as the Company streamlined and refocused its sales and marketing efforts. The increase starting in Q4 2019 was due to increased headcount costs to support expansion into new markets as part of the Company's growth initiative and a higher proportion of the current year's incentive compensation costs recognized due to the Company's record financial performance. In Q3 2020, the Company made one-time investments in customer relationship management to better serve our customers and support our market growth strategy as we continue to grow the business. These costs were not fully repeated in Q4 2020.

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

3.3 Net Income

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

Table 11: Net Income	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Operating income	$ 754	$ 224	$ 1,721	$ 2,044	$ 6,491	$ 5,797	$ 5,752	$ 3,126
Finance income	143	226	133	152	154	27	7	24
Accretion expense	(143)	(134)	(127)	(116)	(122)	(106)	(84)	(72)
Change in fair value	98	334	50	(597)	(88)	(467)	(153)	(50)
Loss on disposal of assets	-	-	-	-	-	-	-	(2)
Foreign exchange (gain) loss	(586)	(472)	272	(478)	2,682	(1,518)	(483)	(951)
	(488)	(46)	328	(1,039)	2,626	(2,064)	(713)	(1,051)
Net income before taxes	266	178	2,049	1,005	9,117	3,733	5,039	2,075
Income taxes	196	69	562	300	2,478	1,060	1,432	917
Net income	70	109	1,487	705	6,639	2,673	3,607	1,158
Gain (loss) on foreign exchange translation of subsidiary	50	(28)	(12)	(6)	16	120	11	(41)
Total comprehensive income	**$ 120**	**$ 81**	**$ 1,475**	**$ 699**	**$ 6,655**	**$ 2,793**	**$ 3,618**	**$ 1,117**

Finance income primarily consists of interest on short-term investments. Finance income increased slightly in Q1 2020 due to interest received on refiling of historical tax returns partially offset by lower interest rates on short-term investments. In Q2 2020, finance income continued to decrease significantly due to lower interest rates as a result of COVID-19, partially offset by interest accrued on the Company's uncertain tax position. Q3 2020 decreased further due to the continued declining interest rates. The increase in Q4 2020 is primarily due to an increase in short-term investments.

The consistent decrease in accretion expense is in line with the reduction in the contingent consideration over time. The change in fair value on contingent consideration (section 4.3) in each quarter was a result of management revisiting the estimate of future revenues subject to royalties. From Q4 2019 to Q4 2020, the Company experienced strong revenue outlook which contributed to the increase in our contingent consideration over the same period.

Foreign exchange is recognized primarily on US denominated balances and foreign exchange gains and losses, which principally follow the fluctuations in exchange rates at each period end. In Q3 2020, the US exchange rate continued to depreciate versus the Canadian dollar. In Q4 2020, the US exchange rate further depreciated versus the Canadian dollar.

The Company's effective tax rate for Q1 2019 through Q2 2019 was impacted by taxes associated with the Company's voluntary disclosure agreement with a foreign tax authority.

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

4 FINANCIAL POSITION

4.1 Assets

Table 12: Current Assets	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Current assets								
Cash and cash equivalents	$ 37,264	$ 31,422	$ 34,025	$ 33,400	$ 41,214	$ 41,057	$ 46,576	$ 48,398
Trade and other receivables	4,902	3,367	3,421	4,051	8,475	8,550	6,775	7,138
Income tax receivable	-	1,495	971	714	-	-	-	255
Inventories	4,876	5,217	4,942	6,459	7,574	9,412	9,114	8,816
Prepaid expenses and deposits	608	590	486	575	593	775	594	905
Total current assets	**$ 47,650**	**$ 42,091**	**$ 43,845**	**$ 45,119**	**$ 57,856**	**$ 59,794**	**$ 63,059**	**$ 65,512**

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

Table 13: Cash Flow	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Net cash (used in) provided by operating activities	$ (2,512)	$ (1,757)	$ 3,818	$ (366)	$ 8,102	$ 1,444	$ 7,012	$ 3,274
Net cash used in financing activities	(2,813)	(4,068)	(1,156)	(363)	(322)	(617)	(570)	(645)
Net cash provided by (used in) investing activities	132	11	(47)	110	18	(1,104)	(934)	(766)
Net (decrease) increase in cash	**$ (5,193)**	**$ (5,814)**	**$ 2,615**	**$ (619)**	**$ 7,798**	**$ (277)**	**$ 5,508**	**$ 1,862**

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

Net cash used in financing activities was due primarily to cash used to buy back shares of the Company under the 2019 Normal Course Issuer Bid ("NCIB") program and payment of contingent consideration. The NCIB ended in Q3 2019 and resulted in cash outflows of $7,095. In Q3 2020 and Q4 2020, the Company paid royalties related to the contingent consideration payable from revenues earned in Q2 2020 and Q3 2020, respectively.

Net cash provided by (used in) investing activities primarily relates to purchase of property and equipment and intangible assets partially offset by interest received on short-term investments. The significant decrease in Q2 2020 was due to the Micronor acquisition (section 1.2). In Q3 2020, payment was made for the acquisition of the new license and distribution agreement with FiSens (section 1.2) that occurred in Q2 2020. In Q4 2020, capital investments (section 4.2) were made to increase operational capacity.

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

The Company pays taxes on an installment basis based on prior year earnings and the cash position as of December 31, 2020 of $48,398 reflects these payments but does not consider the accrued income taxes payable of $5,798 which will be due and payable in Q1 2021.

Trade and other receivables increased in Q1 2020 and Q2 2020 as this was consistent with the underlying revenues earned in the period. The decrease in Q3 2020 is primarily due to timing of collections from customers. The increase in Q4 2020 is an after effect of Q3 2020, and, when normalized, is consistent the underlying revenues earned.

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

Inventories increased in Q4 2019 to support the strong order backlog. The build-up continued into Q2 2020 as the Company mitigated the risk of stock-outs in response to the COVID-19 pandemic and the Micronor acquisition (section 1.2). The decrease in Q3 2020 and subsequently Q4 2020 is consistent with customer demand for our products and the reversal of the previously built-up inventory position.

4.2 Other Assets

Table 14: Other Assets	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Property and equipment	$ 7,637	$ 7,410	$ 7,120	$ 6,752	$ 6,527	$ 6,587	$ 6,425	$ 7,171
Intangible assets	3,983	3,759	3,603	3,386	3,214	3,804	3,619	3,398
Goodwill	849	849	849	849	849	971	971	971
Deferred tax assets	1,146	1,175	1,327	1,915	3,660	3,405	3,273	2,937
Total other assets	**$ 13,615**	**$ 13,193**	**$ 12,899**	**$ 12,902**	**$ 14,250**	**$ 14,767**	**$ 14,288**	**$ 14,477**

Property and equipment decreased in Q3 2020 as the result of depreciation expense which was not offset by new additions. The increase in Q4 2020 is due to the acquisition of a vertical lift module to expand warehouse storage capacity and manufacturing equipment to assist with rapid proto-typing capabilities as it prioritizes lead-time reduction strategies.

Intangible assets increased in Q2 2020 as a result of the addition of the new license and distribution agreement with FiSens GmbH (section 1.2). The decrease in Q3 2020 and Q4 2020 was due primarily to amortization expense which was not offset by new additions.

Deferred tax assets increased in Q1 2020 as a result of record revenues for the quarter and the associated tax impact of inventory shipments to the US subsidiary. The decrease from Q2 2020 to Q4 2020 is consistent with the decrease in sales.

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

4.3 Liabilities

Table 15: Liabilities	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Current liabilities								
Accounts payable and accrued liabilities	$ 3,844	$ 3,097	$ 4,102	$ 4,318	$ 6,630	$ 5,737	$ 4,793	$ 6,389
Income tax payable	1,247	-	-	-	5,035	5,491	5,817	6,107
Current portion of contingent consideration	1,148	1,055	1,105	1,419	1,534	1,699	1,822	2,150

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

Current portion of lease liabilities	260	263	266	272	276	280	283	284
Total current liabilities	**6,499**	**4,415**	**5,473**	**6,009**	**13,475**	**13,207**	**12,715**	**14,930**
Contingent consideration	1,958	1,585	1,372	1,473	1,313	1,157	770	-
Lease liabilities	1,432	1,364	1,297	1,241	1,170	1,105	1,033	951
Total liabilities	**$ 9,889**	**$ 7,364**	**$ 8,142**	**$ 8,723**	**$ 15,958**	**$ 15,469**	**$ 14,518**	**$ 15,881**

Accounts payable and accrued liabilities increased from Q3 2019 due to inventory purchases to support an improved order backlog position as the semiconductor industry showed signs of recovery. In Q1 2020, accounts payable and accrued liabilities increased significantly due primarily to accrued incentive compensation costs related to the Company's financial performance and lengthening payment terms with suppliers. The decrease in Q2 2020 reflected settlement of outstanding payables to suppliers established in Q1 2020. The continued decrease in Q3 2020 reflected settlement of payable for the acquisition of the license and distribution agreement with FiSens. The increase in Q4 2020 is due to accrued FBG product development costs resulting from commercializing the disruptive technology for semiconductor applications and the acquisition of a vertical lift module to increase warehouse storage capacity.

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

In Q2 2020, the Company revised its assumptions underlying the estimate of contingent consideration including future sales discount rate. This led to an overall increase in contingent consideration which was partially offset by payments made in the quarter. In Q3 2020 and Q4 2020, the balance continued to decrease primarily due to payments made in the quarter, partially offset by revisions to assumptions on underlying future sales.

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

4.4 Working Capital

Management believes the Company will be able to continue to meet its liabilities and commitments as they become due and will generate sufficient amounts of cash and cash equivalents from the continued design, manufacturing and distribution of existing products and the commercialization of new products. This cash will be used to purchase capital equipment to maintain capacity, meet planned growth and development activities and other corporate initiatives. The Company continues to monitor all expenditures and implement cash management strategies to ensure that it has adequate cash reserves to fund identified expenditure requirements.

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

Table 16: Working Capital	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Cash and cash equivalents	$ 37,264	$ 31,422	34,025	$ 33,400	$ 41,214	$ 41,057	$ 46,576	$ 48,398
Trade and other receivables	4,902	3,367	3,421	4,051	8,475	8,550	6,775	7,138
Income tax receivable	-	1,495	971	714	-	-	-	255
Inventories	4,876	5,217	4,942	6,459	7,574	9,412	9,114	8,816

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

Prepaid expenses and deposits	608	590	486	575	593	775	594	905
Total current assets	**47,650**	**42,091**	**43,845**	**45,199**	**57,856**	**59,794**	**63,059**	**65,512**
Accounts payable and accrued liabilities	3,844	3,097	4,102	4,318	6,630	5,737	4,793	6,389
Income tax payable	1,247	-	-	-	5,035	5,491	5,817	6,107
Current portion of contingent consideration	1,148	1,055	1,105	1,419	1,534	1,699	1,822	2,150
Current portion of lease liabilities	260	263	266	272	276	280	283	284
Total current liabilities	**6,499**	**4,415**	**5,473**	**6,009**	**13,475**	**13,207**	**12,715**	**14,930**
Working capital	**$ 41,151**	**$ 37,676**	**38,372**	**$ 39,190**	**$ 44,381**	**$ 46,587**	**$ 50,344**	**$ 50,582**

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

4.5 Equity

Table 17: Equity	**Q119**	**Q219**	**Q319**	**Q419**	**Q120**	**Q220**	**Q320**	**Q420**
Shareholders' equity								
Share capital	$ 30,303	$ 29,542	$ 29,340	$ 29,366	$ 29,366	$ 29,486	$ 29,492	$ 29,511
Contributed surplus	4,607	4,741	4,787	4,838	4,953	4,984	5,097	5,240
Accumulated other comprehensive (loss) gain	(75)	(103)	(115)	(121)	(105)	15	26	(15)
Retained earnings	16,541	13,740	14,590	15,295	21,934	24,607	28,214	29,372
Total shareholders' equity	**$ 51,376**	**$ 47,920**	**$ 48,602**	**$ 49,378**	**$ 56,148**	**$ 59,092**	**$ 62,829**	**$ 64,108**

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

Table 18: Equity Instruments (in 000's)	**Q119**	**Q219**	**Q319**	**Q419**	**Q120**	**Q220**	**Q320**	**Q420**
Common shares outstanding	108,012	105,217	104,477	104,514	104,514	104,590	104,600	104,635
Options outstanding	3,087	3,537	3,498	3,396	3,452	3,979	4,371	4,570
Weighted average price	$ 1.43	$ 1.37	$ 1.33	$ 1.27	$ 1.25	$ 1.29	$ 1.33	$ 1.37
Restricted shares units	129	86	86	43	43	-	-	-
Closing share price	$ 1.22	$ 1.16	$ 0.93	$ 1.38	$ 0.90	$ 1.78	$ 1.41	$ 2.02

4.6 Related Party Transactions

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

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

Table 19: Related Party	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Cash-based payments	$ 190	$ 526	$ 338	$ 307	$ 542	$ 702	$ 537	$ 790
Share-based payments	37	147	44	60	56	54	39	50
Total	**$ 227**	**$ 673**	**$ 382**	**$ 367**	**$ 598**	**$ 756**	**$ 576**	**$ 840**

Significant changes are outlined as part of general and administration expense in section 3.2. Additionally, total related party expenses increased in Q2 2020 due to the inclusion of the VP Business Development, VP Semiconductor Sales, and VP Technology & Operations. The decrease in Q3 2020 is due to the departure of the Company's former CFO that occurred in Q2 2020. The increase in Q4 2020 is primarily due to the formerly mentioned long-term incentive compensation program.

4.7 Other

For details regarding the Company's financial instruments, fair values, and financial risk factors, refer to the consolidated financial statements Note 16 for the years ended December 31, 2020 and 2019.

5 CRITICAL ACCOUNTING ESIMATES AND POLICIES AND RISK MATTERS

5.1 Non-GAAP Measures

In addition to the results reported in accordance with IFRS, the Company uses various non-GAAP financial measures, which are not recognized under IFRS, as supplemental indicators of the Company's operating performance and financial position. These non-GAAP financial measures are provided to enhance the user's understanding of the Company's historical and current financial performance and its prospects for the future. Management believes that these measures provide useful information in that they exclude amounts that are not indicative of the Company's core operating results and ongoing operations and provide a more consistent basis for comparison between quarters and years. Details of such non-GAAP financial measures and how they are derived are provided in conjunction with the discussion of the financial information reported.

Since non-GAAP financial measures do not have any standardized meanings prescribed by IFRS, other companies may calculate these non-IFRS measures differently, and our non-GAAP financial measures may not be comparable to similar titled measures of other companies. Accordingly, investors are cautioned not to place undue reliance on them and are also urged to read all IFRS accounting disclosures presented in the audited consolidated financial statements and the accompanying notes for years ended December 31, 2020 and 2019.

5.2 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.

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

Inventory

The Company measures inventory at the lower of cost and net realizable value, and in the event the net realizable value exceeds cost, an impairment charge is recorded. Reserves for potentially obsolete or slow-moving inventory are estimated periodically based on an analysis of inventory levels.

Income taxes

The Company evaluates its uncertain tax position for recognition by determining whether it is probable that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If it is determined that an uncertain income tax position is not probable of being accepted, the effect of the uncertain income tax treatment is reflected in the determination of income taxes based on the most likely amount or, if there are a wide range of possible outcomes, the expected value. When it is no longer probable that the position will be sustained on audit, the Company will adjust income tax expense accordingly in the period in which the position changes.

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 or equity. Contingent consideration classified as a liability is carried at fair value with changes in fair value recorded in the 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 future royalties on revenues earned from defined products at the date of acquisition and is subsequently revalued at each financial reporting period. Changes in management's estimate of royalties 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.

COVID-19

In March 2020, the World Health Organization has declared the novel coronavirus (COVID-19) as a pandemic which led to a series of public health measures being implemented to combat the spread of the virus. As at December 31, 2020, the Company has not experienced any adverse effects on its financial performance and cash flows. Given the unprecedented circumstances of COVID-19, the Company will continue to evaluate the impact on its financial position and results of operations in future periods, particularly in regard to its own supply chain and business continuity plans.

Future accounting pronouncements

The Company reviewed future accounting pronouncements and determined that there are no standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting period and on foreseeable future transactions.

5.3 Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures

The Company has disclosure controls and procedures in place that are designed to provide reasonable assurance that information relating to the Company that is required to be disclosed under applicable securities laws is recorded, processed, summarized, and reported in the manner specified by such laws. Management has reviewed and evaluated, or caused to be evaluated under their supervision, the design of the Company's disclosure controls and procedures as of December 31, 2020, and has concluded that the Company's disclosure controls and procedures were effective.

The Company's CEO and the CFO have reviewed and evaluated the design of the Company's disclosure controls and procedures related to the preparation of Management's Discussion and Analysis and the Company's consolidated financial statements as at December 31, 2020. The Company's CEO and CFO have concluded that the Company's disclosure controls and procedures were designed, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's Discussion and Analysis and the consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

The Company's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, in order to provide reasonable assurance regarding the reliability and accuracy of the Company's financial reporting and the preparation of its financial statements for external purposes in accordance with IFRS.

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design of the Company's internal control over financial reporting as of December 31, 2020, and have concluded that the Company's internal control over financial reporting is effective.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO will certify Photon Control's annual filings with the Canadian securities regulatory authorities.

5.4 Outstanding Share Data

As at December 31, 2020, the Company had 104,634,504 common shares issued and outstanding. As at March 18, 2021, the Company had 104,641,990 common shares issued and outstanding.

As at December 31, 2020 the Company had 4,569,583 stock options outstanding entitling the holders to purchase one common share for each option held. As at March 18, 2020, the Company had 4,465,417 stock options outstanding.

5.5 Risks and Uncertainties

Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. The risks and uncertainties in the Company's most recently filed AIF, which is available on the Canadian System for Electronic Document Analysis and Retrieval website ("SEDAR") (www.sedar.com) are those that we currently believe to be material, and do not represent all of the risks that we face. Additional risks and uncertainties, not presently known to us, may become material in the future or those risks that we currently believe to be immaterial may become material in the future. If any of the following risks actually occur, alone or in combination, our business, financial condition and results of operations, as well as the market price of our common shares, could be materially adversely affected.

5.6 Cautionary Note Regarding Forward Looking Statements

This MD&A contains certain statements and information that are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of Canadian securities laws (collectively, "forward-looking statements"), including our business outlook for the short and longer-term and statements regarding our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer-term plans, expectations and prospects. We caution you that forward-looking statements may not be appropriate for other purposes.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are not promises or guarantees of future performance; they represent our current views and may change significantly. Forward-looking statements are based on a number of material assumptions, including, but not limited to, those listed below, which could prove to be significantly incorrect: our ability to develop, manufacture and sell new products that meet the needs of our customers and gain commercial acceptance; our ability to continue to sell our products in line with expected quantity, price and delivery times; our ability to attract new business; continued and future demand for the Company's products; continued sales to the Company's major customers; our operations not being adversely affected by supply, operating, cyber security, litigation or regulatory risks; our ability to react to the cyclical nature of the semiconductor industry; our ability to enhanced revenue diversification and open new market opportunities; and, our expectations regarding market risk, including interest rate changes, tax changes and foreign currency fluctuations.

The forward-looking statements included in this report include, without limitation, statements relating to: factors that we expect to drive continued demand for the Company's products; expected growth within the semiconductor industry and the Company's reliance on the financial health of the semiconductor industry from which it derives its sales; the market for the Company's products; sources of our revenues from operations in the future; continued international expansion and the effect of such expansion on our operations; potential acquisitions in the future and the effect of such acquisitions on our operations; fluctuation of the price of the common shares of the Company in the future; potential inability of investors to sell their common shares of the Company; our future performance being dependent on our ability to hire and retain qualified personnel; and the Company is not anticipating paying any dividends in the foreseeable future.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the forward-looking statements. Such uncertainties and factors include, among others: risks associated with the Company's ability to retain its major customers; risks associated with a lengthy sales cycle; risks related to our dependency on the semiconductor industry and our ability to respond to industry cyclicality; risks associated with the Company's ability to expand its manufacturing capacity or reduce costs in response to rapid shifts in demand for the Company's products; risks associated with continuous technological change, evolving industry standards, shifting customer needs and new product introductions and enhancements; risks associated with failure to operate our business in accordance with our business plan; uncertainty relating to the timing of product development and commercial launch; risks associated with competition; operational risks associated with manufacturing and our dependence on sole or limited source suppliers; risks associated with compliance with customers' requirements; uncertainty relating to operating results; risks related to legal, regulatory and tax environments in which we conduct our business; risks associated with product liability claims; risks related to product pricing; risks related to inability to use or access information systems, or related to breaches of our network security; risks associated with manufacturing interruptions or delays; risks relating to legal proceedings and with the Company's intellectual property; risks associated with infringing on the intellectual property rights of others; uncertainty relating to general economic conditions; risks related to tariffs or other trade restrictions; risks related to future mergers or acquisitions; uncertainty related to international operations, including currency fluctuations, additional development projects, other business opportunities and disruption due to the spread of the COVID-19 virus; risks associated with the adverse impact of climate change; risks related to the volatility of the trading price and volume of the common shares of the Company; risks associated with maintaining an active market for the common shares of the Company; risks associated with our directors and officers; risks associated with attracting and retaining qualified personnel; and risks associated with compliance with various federal, provincial, local and international laws governing the environment.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this report under the heading "Risks and Uncertainties".

The Company's forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made. For the reasons set forth above, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements included herein if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.