Spectra7 Microsystems Inc.

Management's Discussion & Analysis

For the Three and Nine Month Periods Ended

September 30, 2017

This management's discussion and analysis ("MD&A") of financial condition and results of operations of Spectra7 Microsystems Inc. ("Spectra7" or the "Company") was prepared by management as at November 3, 2017. Throughout this MD&A, unless otherwise specified, "Spectra7", "the Company", "we", "us" or "our" refer to Spectra7 Microsystems Inc. and its subsidiaries. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended December 31, 2016 (the "Annual Financial Statements") and the unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2017 (the "Interim Financial Statements" and, together with the Annual Financial Statements, the "Statements"). In preparing this MD&A, we have taken into account information available to us up to November 3, 2017.

The Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All amounts are expressed in U.S. dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity, and objectivity of the MD&A, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The Audit Committee and the Board of Directors provide an oversight role with respect to all public financial disclosures by the Company. The Board of Directors approves the Financial Statements and MD&A after the completion of its review and recommendation for approval by the Audit Committee, which meets periodically to review all financial reports, prior to filing.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and statements relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "consider", "anticipate", "believe", "expect", "plan", "intend", "may", "likely", or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward- looking information and statements, some of which may be beyond the control of management.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward looking information and statements.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to:

- the degree of competition in the business areas in which we operate;
- our ability to secure orders from a limited number of customers;
- our ability to make the substantial research and development investments required to remain competitive;
- our ability to charge prices that will result in favorable gross margins;
- our ability to introduce new or enhanced products on a timely basis;

- market demand and penetration of new markets for our products and services;
- our reliance on a limited number of third party manufacturers;
- the absence of long-term supply contracts with any of the Company's third-party vendors and potential disruption in supply of products or materials;
- our ability to contain and appropriately budget expenses, due to our limited operating history;
- the length of the sales cycle required to establish design wins and bring design wins to production;
- reliance on distributors;
- our ability to deliver our products in the correct product mix required by our customers and ability to control order and shipment uncertainties;
- the substantial quarterly and annual fluctuations in our operating results;
- our dependence on existing members of the senior management team;
- our ability to attract and retain qualified employees and contain payroll costs;
- unforeseen delays, expenses and damage to reputation caused by defects or bugs;
- potential claims of intellectual property infringement;
- our ability to protect our intellectual and intangible properties;
- the use of open source software;
- reliance on third parties to provide services and technology;
- going concern risk;
- impact of negative cash flow from operating activities;
- potential losses to our facilities or distribution system due to catastrophes;
- compliance with various governmental regulations and related costs of compliance;
- cyclicality in the semiconductor industry;
- conformity of the Company's products to industry standards;
- unanticipated changes in our tax rates;
- fluctuation of share price;
- decline in share price due to the absence of, or negative reports, about the business by securities or industry analysts;
- adverse international economic conditions adversely affect consumer spending;
- general political and economic conditions in the countries in which we operate;
- strain on our resources as a result of the requirements of being a public company;
- litigation risk;
- market price volatility and potential impact on share price;
- our potential need for additional financings in order to meet future capital requirements for our operations;
- our potential to breach certain covenants, representations and warranties in our loan arrangements;
- our ability to declare dividends; and
- our ability to meet significant research and development milestones.

We caution that this list is not exhaustive of all possible factors. Please refer to the disclosure under the heading "Risks and Uncertainties".

The forward-looking information and statements in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information and statements, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW OF THE COMPANY

Background

The Company is a high performance analog semiconductor company targeting large, high growth markets in virtual reality ("VR"), augmented reality ("AR"), mixed reality ("MR"), data centers, and consumer connectivity.

The Company was incorporated on October 12, 2010 as a capital pool company named "Chrysalis Capital VIII Corporation" ("Chrysalis") pursuant to the filing of articles of incorporation under the Canada

Business Corporations Act. The articles of incorporation of the Company were amended by the filing of articles of amendment dated April 19, 2011 to remove certain provisions. On February 5, 2013, the Company's articles were amended to consolidate its Common Shares by a ratio of 3.86364:1 and to change its name to "Spectra7 Microsystems Inc.".

On February 5, 2013, the Company, then named Chrysalis, completed a reverse takeover transaction whereby Chrysalis acquired all of the issued and outstanding shares of Spectra7 Microsystems Corp. (formerly Fresco Microchip Inc.) ("Fresco"), a company incorporated in Ontario, and Spectra7 Microsystems (Ireland) Limited (formerly RedMere Technology Limited) ("RedMere"), a company incorporated in Ireland. As a result of such transaction, which constituted the Company's qualifying transaction under the policies of the TSX Venture Exchange, the former shareholders of Fresco acquired control of the Company (the "Qualifying Transaction"). From February 19, 2013 until July 22, 2015, the Common Shares of the Company (the "**Common Shares**") were listed for trading on the TSX Venture Exchange under the symbol "SEV". On July 23, 2015, the Common Shares commenced trading on the Toronto Stock Exchange (the "Exchange").

The registered office of the Company is located at 110 Cochrane Drive, Suite 202, Markham, Ontario L3R 9S1 and its head office is located in San Jose, California. The Company also has design centers in Little Rock, Arkansas and Cork, Ireland and a sales office in Dongguan, China. The Company is currently a reporting issuer in each of the provinces of Canada, excluding Québec.

Products

The Company's family of products features a patented signal processing technology used in the design of "active" cables and specialty interconnects which enable longer, thinner and lighter interconnects for VR, AR, MR, in data centers, and for consumer connectivity products. The Company holds approximately 50 patents relating to its products.

Virtual Reality (VR)

The Company's next-generation VR products include the VR7050 which the Company believes to be the industry's first chip capable of enabling lightweight, ultra-thin active interconnects for gesture recognition and motion control backhaul. When used in conjunction with Spectra7's VR7100 high speed video chip, the chipset delivers ultra-high bandwidth data, video, audio and power in a unified, ultra-light, super-thin wearable interconnect while achieving the low latency for a truly immersive VR experience. The Company has also developed AR products that provide similar benefit to the VR Products on thinner, shorter 'wearable' interconnects.

Augmented Reality (AR)

AR-Connect™ is an AR interconnect product line that is powered by the Company's patented wearable network signal processing technology. The Company believes its patented AR-Connect™ is the industry's first integrated cable, connector and embedded chipset product line for AR vision systems and wearable computing devices. AR-Connect™ enables AR glasses to connect to a smart phone, proprietary processing device or a desktop GPU/laptop processing unit, with a single unified and ultra-thin link.

Mixed Reality (MR)

Mixed reality is in effect a VR product that utilizes cameras on the headset to allow the user to see their actual surroundings in addition to their virtual surroundings. MR interconnect products use the same technology as the Company's VR and AR products.

DreamWeVR™

DreamWeVR™ is an extensive product line targeted at next generation 4K Ultra-HD and 5K resolution VR and AR platforms for gaming, health care, architecture and business telepresence applications. The product line includes four new chips (VR8181, VR8050, VR8200 and VR8300) featuring SpectraLinear™ technology, new VR-specific connectors and three new head-mounted display ("HMD") interconnect configurations to support high-bandwidth (up to 50Gbps), near-zero latency VR HMDs and AR glasses with reduced weight and complexity.

Data Centers

GaugeChanger Plus™, featuring high speed active interconnects based on the Company's technology, represents the Company's entry into the data center market. The product line is comprised of the GC2502 - an embedded analog signal processing chip, and GaugeChanger Plus™ – a proprietary ultra-thin copper transmission link. These products allow the construction of a copper cable that combines the high data rate of fiber with the low cost and low power consumption of copper, providing data centers with the best of both worlds. This technology supports the emerging 802.xxx QSFP28 standard on NRZ or Multilevel signaling for the majority of interconnect reaches in today's high-density data centers.

When used together, the GC2502 chip and the GaugeChanger Plus™ combine to enable what the Company believes to be one of the world's fastest, thinnest and lightest copper data center interconnects. As consumers and businesses continue to move their data to the cloud, the need for larger and more efficient data centers is growing rapidly.

At present, fiber is the only alternative for data centers seeking high speed, extremely flexible and thin interconnects as copper is typically too bulky and inflexible at these speeds. GaugeChanger Plus™, however, extends the life of copper with interconnects that are as fast and as thin as fiber, but at a dramatically lower cost and lower power consumption.

USB 3.1 consumer interconnects

The Company's active chipset family is the industry's first for ultra-thin implementations of USB 3.1 consumer interconnects, reducing the conductor cross section by up to 90% compared to passive cable implementations. Applications for this interconnect implemented with the new Type-C connector include ultra-thin laptops, tablets, mobile devices, solid state disks and wearable computing devices. The resulting ultra-thin cable enabled by this new Spectra7 technology allows the cable to transfer data at supercomputer speeds (up to 10 times faster) with a plug shell or over-mold and cable strain relief dimension that is thinner than the mobile device itself, a critical dimension when implementing Type-C in tablets and smart phones, and up to 90% lighter than passive cable conductors that would need to be much larger in diameter.

Overall Performance

Revenue for the three and nine months ended September 30, 2017 increased by $0.9 million and $1.5 million, respectively, over the same periods in the previous year, representing an increase of 87% and 24%, respectively. Revenue for the three months ended September 30, 2017 declined 35% compared to the preceding quarter due to supply chain issues that affected the Company's ability to meet customer orders. The manufacturing delays have since been rectified and production schedules have returned to normal.

Gross margin as a percentage of revenue for the three and nine months ended September 30, 2017 was 55% and 60%, respectively, which is largely consistent with the gross margin percentages during the same periods of the previous year of 55% and 58%. Due to new product ramp-up costs that negatively impact gross margins, the gross margin percentage for the three months ended September 30, 2017 was lower than the gross margin percentage of the previous quarter of 63%.

During the nine months ended September 30, 2017, the Company secured two Tier-one design wins in the AR/VR/MR industry for a total of five design wins over the nine months ended September 30, 2017.

On October 10, 2017, the Company announced the appointment of Antony Ng Yukshing as the Vice President of Operations. Mr. Ng Yukshing has a BEng (Hons) in Electronic and Electrical Engineering from King's College London (UK) and a MSc in Microelectronics from Brunel University London (UK). He is experienced in scaling semiconductor and system level product lines, such as Wi-Fi modules and enterprise storage solutions.

On June 27, 2017, the Company closed a bought deal offering of units ("Units") for aggregate gross proceeds of $3,487,349 (CDN $4,600,000) (the "Public Offering") and the first tranche of a private placement of Units for additional gross proceeds of $994,880 (CDN $1,312,300) including Units issued for related services (the "Private Placement" and together with the Public Offering, the "Offerings"). Each Unit issued pursuant to the Offerings consists of one Common Share and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at an exercise price of

CDN $0.55 per Common Share until June 27, 2019. The expiry date of the Warrants may be accelerated by the Company at any time if the volume weighted average trading price of the Common Shares on the facilities of the Toronto Stock Exchange (or such other exchange on which the Common Shares trade) is greater than CDN $0.85 for any 10 consecutive trading days following October 28, 2017. On July 24, 2017, the final tranche of the Private Placement was closed pursuant to which 200,000 Units were issued representing gross proceeds of $63,127 (CDN $80,000), bringing the aggregate gross proceeds of the Offerings including Units issued for related services to $4,545,356 (CDN $5,992,300).

On May 15, 2017, the Company signed an amendment to its $6.5 million senior secured term loan facility with MidCap (the “Loan Facility”) which became effective on June 27, 2017. Among other things, the amendment (i) extended the commencement date for principal payments under the Loan Facility from June 1, 2017 to June 1, 2018, and (ii) allows the Company to extend the maturity date of the Loan Facility by one year upon satisfaction of certain conditions precedent (together with the Loan Facility, the “Amended Loan Facility”). The Amended Loan Facility immediately improved the Company’s cash flow over the twelve months from June 1, 2017 to June 1, 2018. In consideration for entering into the amendment, the Company issued warrants to Midcap to purchase up to 750,000 Common Shares (the “Loan Amendment Warrants”) with each Loan Amendment Warrant being exercisable until June 27, 2022 at an exercise price of CDN $0.39, subject to adjustment in certain circumstances.

On May 1, 2017, the Company moved its corporate headquarters from Palo Alto, California to a new location in San Jose, California that is nearly double in size.

Selected Financial Information

The table below sets forth certain key financial results for the three and nine month periods ended September 30, 2017 and 2016.

	Three Months Ended September 30, *(In thousands, except for loss per share)*				**Nine Months Ended September 30, *(In thousands, except for loss per share)***			
	2017	**2016**	**Change**		**2017**	**2016**	**Change**	
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Revenue	1,951	1,045	906	87%	7,695	6,186	1,509	24%
Cost of sales	878	474	404	85%	3,082	2,598	484	19%
Gross margin	1,073	571	502	88%	4,613	3,588	1,025	29%
Expenses	4,180	3,609	571	16%	11,791	11,702	89	1%
Net loss	(3,107)	(3,038)	(69)	2%	(7,178)	(8,114)	936	(12%)
Other comprehensive (loss) gain	(3)	1	(4)	(400%)	(17)	(11)	(6)	55%
Total comprehensive loss	(3,110)	(3,037)	(73)	2%	(7,195)	(8,125)	930	(11%)
Basic and diluted loss per share	(0.020)	(0.024)			(0.044)	(0.064)		
Weighted average number of shares outstanding	152,845	127,117			162,797	127,029		

As at *(In thousands)*		
September 30, 2017	**December 31, 2016**	**Change**

	$	$	$	%
Total assets	10,436	10,491	(55)	(1%)
Total liabilities	10,147	8,174	1,973	24%
Equity	289	2,317	(2,028)	(88%)
Total liabilities and equity	10,436	10,491	(55)	(1%)

Revenue and Gross Margin

The table below sets forth the details of revenue and gross margin for the three and nine month periods ending September 30, 2017 and 2016.

	Three Months Ended September 30, *(In thousands)*				**Nine Months Ended September 30,** *(In thousands)*			
	2017	**2016**	**Change**		**2017**	**2016**	**Change**	
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Revenue	1,951	1,045	906	87%	7,695	6,186	1,509	24%
Cost of sales	878	474	404	85%	3,082	2,598	484	19%
Gross margin	1,073	571	502	88%	4,613	3,588	1,025	29%
Gross margin %	*55%*	*55%*	*0%*		*60%*	*58%*	*2%*	

Revenue for the three and nine month periods ended September 30, 2017 increased by $0.9 million and $1.5 million, respectively, over the same periods in the previous year, representing an increase of 87% and 24%, respectively. The increase in revenue reflects the growth in the demand for the Company's VR/AR/MR group of products which can be largely attributed to the expansion of the Company's sales force in Asia and North America.

Gross margin as a percentage of revenue for the three and nine months ended September 30, 2017 was largely consistent with the gross margin percentages in the same periods of the previous year. The gross margin percentage for the three months ended September 30, 2017 was lower than the percentage for the nine months ended September 30, 2017 by 5% due to new product sales that typically have higher ramp-up production costs.

Expenses

The table below sets forth the details of expenses for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30, *(In thousands)*			
	2017	**2016**	**Change**	
	$	**$**	**$**	**%**
Research and development, net of investment tax credits and including amortization of licenses	1,866	1,987	(121)	(6%)
Sales and marketing	455	329	126	38%
General and administrative	1,036	841	195	23%
Depreciation of property and equipment	180	151	29	19%

	Three Months Ended September 30, (In thousands)			
	2017	2016	Change	
	$	$	$	%
Amortization of intangible assets other than licenses	-	-	-	100%
Share-based compensation	383	122	261	214%
Finance expense - interest and fees	-	-	-	100%
Accretion expense	218	228	(10)	(4%)
Change in fair value of derivative liability	43	(52)	95	(183%)
Foreign exchange loss	(1)	3	(4)	(133%)
	4,180	3,609	571	16%

	Nine Months Ended September 30, (In thousands)			
	2017	2016	Change	
	$	$	$	%
Research and development, net of investment tax credits and including amortization of licenses	5,213	6,456	(1,243)	(19%)
Sales and marketing	1,323	1,381	(58)	(4%)
General and administrative	2,972	2,613	359	14%
Depreciation of property and equipment	488	454	34	7%
Amortization of intangible assets other than licenses	-	248	(248)	(100%)
Share-based compensation	1,072	165	907	550%
Finance expense - interest and fees	-	18	(18)	(100%)
Accretion expense	668	455	213	47%
Change in fair value of derivative liability	42	(106)	148	(140%)
Foreign exchange (gain) loss	(3)	18	(21)	(117%)
Loss on disposal of property and equipment	16	-	16	100%
	11,791	11,702	89	1%

Research and Development

Research and development expenses consist of salaries and related expenses, design software tool costs, travel, consumable materials used in product development such as experimental wafers, non-production tape-out costs, technical services costs and contracted technical personnel. The Company is eligible for Irish refundable Scientific Research and Experimental Development ("SR&ED") investment tax refunds for certain eligible expenditures incurred in Ireland. These tax refunds are netted against the Company's research and development expenses.

Research and development expenses for the three and nine month periods ended September 30, 2017 decreased by 6% and 19%, respectively, from the same periods the previous year. The decreases are due primarily to the fewer number of engineering full mask tape-outs carried out in such periods as compared to the same periods ended September 30, 2016. There were no full mask tape-outs during the three and nine month periods ended September 30, 2017 whereas two full tape-outs were carried out during the same periods ended September 30, 2016. Full mask tape-outs typically cost $200,000 to $250,000.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related expenses, travel, trade shows, product promotion, customer technical support, and market research.

Sales and marketing expenses for the three month period ended September 30, 2017 increased by 38% from the same period of the previous year. During the first quarter of 2017, the Company began the expansion of its sales force in Asia and North America to more effectively address and grow its customer base. In May 2017, the Company appointed Gerald Hamilton as Senior Vice President, Worldwide Sales. As a result, payroll and travel costs in sales and marketing have increased during the third quarter of 2017.

Although sales and marketing expenses have increased in the second and third quarters of 2017 since the expansion of the sales team, sales and marketing expenses for the nine month period ended September 30, 2017 have decreased overall by 4% from the same period of the previous year. The Company began taking steps in 2016 to manage certain sales and marketing costs through reductions in part-time hourly staff and external contractors and through the reclassification of marketing efforts as engineering efforts.

General and Administrative

General and administrative expenses relate to finance and administration and consist of salaries and related expenses, provision for vacation liability, legal and audit fees, insurance, expenses related to public reporting and compliance, travel, and other corporate expenses.

General and administrative expenses for the three and nine month periods ended September 30, 2017 increased by 23% and 14%, respectively from the same periods the previous year. The increase in general and administrative expenses is mainly due to the higher operating costs related to the expansion of the Company's operations staff in North America and Asia.

Depreciation of Property and Equipment

Depreciation of property and equipment for the three and nine month periods ended September 30, 2017 increased by 19% and 7%, respectively from the same periods the previous year. During the nine months ended September 30, 2017, the Company invested in office furniture and leasehold improvements for the new US headquarters in San Jose. During the three months ended September 30, 2017, the Company made $0.6 million in capital investments in production masks and manufacturing equipment.

Amortization of Intangible Assets other than Licenses

Intangible assets other than licenses include the software, technology and customer relationships acquired from RedMere in February 2013, and were amortized on a straight line basis over their estimated useful lives of three years. The period during which the assets were amortized ended on January 31, 2016. Accordingly, there was no amortization during the three and nine month period ended September 30, 2017 and one month of amortization during the nine month period ended September 30, 2016.

Share-based Compensation

Share-based compensation is the expense associated with the fair value of options and restricted share units ("RSUs") granted to employees, officers, directors and consultants and are estimated at the date of grant using the Black Scholes option pricing model.

Share-based compensation expenses during the three and nine month periods ended September 30, 2017 are higher by 214% and 550%, respectively than the same periods in the previous year. Share-based compensation expenses during the three and nine month periods ended September 30, 2017 are higher due to the award of 5,000,000 RSUs to the new CEO in late September 2016 and the grant and award of options and RSUs after the nine months ended September 30, 2017 of 3,453,485 stock options and 1,110,853 RSUs in October 2016 and March 2017, respectively. The expense during the nine month period ended September 30, 2016 was also made lower by the cancellation of the former CEO's unvested stock options and RSUs on his death in May 2016 and the resulting reversal of $0.243 million of share-based compensation reserve.

Finance expense - interest and fees

Finance expense - interest / fees represents interest and other costs related to financing. Finance expense - interest and fees for the nine months ended September 30, 2016 relate to the interest on the previous bank term loan and the pay-off fees charged by the bank on the full repayment of the loan on March 30, 2016.

Accretion Expense

Accretion expense represents the change in the stated value of the Loan Facility measured at amortized cost and also includes interest expense for the period.

Accretion expense for the three month period ended September 30, 2017 is lower by 4% than the same period the previous year. The decrease is due to the loan principal repayments in April and May of 2017. Accretion expense for the nine month period ended September 30, 2017 is higher by 47% as compared to the same period the previous year. This is due to the fact that the Loan Facility was entered into on March 30, 2016, representing only six-months of amortization versus nine months during the period ended September 30, 2017.

Change in Derivative Liability

The value of the derivative liability at December 31, 2016, which represents the value of the warrants issued to MidCap on March 30, 2016 to purchase up to 855,010 Common Shares until March 30, 2021 at an exercise price of CDN $0.60 per share, subject to adjustment in certain circumstances (the "**Initial Loan Warrants**"), was $0.039 million. The Loan Amendment Warrants added to derivative liability on June 27, 2017 were valued at $0.069 million. The derivative liability on June 30, 2017, representing the aggregate values of Initial Loan Warrants and the Loan Amendment Warrants of $0.037 million and $0.070 million, respectively, was $0.107 million. The change in the value of the derivative liability for the three months ended September 30, 2017 represents the change since the previously reported value on June 30, 2017. The change in the value of the derivative liability for the nine months ended September 30, 2017 represents the aggregate change of the Loan Amendment Warrants since their issuance on June 27, 2017 and the change of the Initial Loan Warrants since December 31, 2016.

The value of the Initial Loan Warrants and the Loan Amendment Warrants is determined using the Black Scholes option pricing model using assumptions in the risk free interest rate, expected life of the warrants and expected volatility of Company's share price. The change in the value of the derivative liability is recognized in the statement of loss and comprehensive loss.

Foreign Exchange Loss

The loss or gain on foreign exchange is caused by changes in the value of the Canadian dollar and Euro relative to the US dollar, the amount of exposed assets and liabilities such as cash, accounts receivables and accounts payable and the difference in exchange rate at the time expenses in Canadian dollars and Euros are booked and paid. Gains occur when the non-US currency strengthens and the Company holds exposed net assets in those funds or when the non-US currency weakens and the Company holds net exposed liabilities. Conversely, losses occur when the non-US currency weakens and the Company holds net exposed assets in those funds or when the non-US strengthens and the Company holds net exposed liabilities.

Net Loss and Other Comprehensive Loss

Net loss for the three and nine month periods ended September 30, 2017 was $3.1 million and $7.2 million, an increase of 2% and decrease of 12%, respectively from the net loss for the same periods of the previous year. Net loss during the nine month period ended September 30, 2017 was lower than the same period of the previous year due to improved sales revenues. Despite the higher revenues earned during the three month period ended September 30, 2017, higher operating expenses in the quarter caused net loss to increase over the same period of the previous year.

Other comprehensive loss relates to the unrealized foreign currency effect of translating the Company, whose functional currency is Canadian dollars, to US dollars for financial reporting purposes.

Loss per Share

Basic loss per share is calculated by dividing the profit and loss attributable to Common Shares by the weighted average number of Common Shares outstanding during the period. Diluted loss per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other potentially dilutive securities. The weighted average number of Common Shares used as the denominator in calculating diluted loss per share excludes un-issued Common Shares related to warrants, RSUs and stock options, as they are anti-dilutive.

Basic and diluted loss per share for the three and nine month periods ended September 30, 2017 were $0.020 and $0.044 per share, respectively as compared to $0.024 and $0.064 per share for the three and nine month periods ended September 30, 2016.

Summary of Quarterly Data

The table below sets forth selected financial data for the most recent eight quarters ended September 30, 2017.

(In thousands, except for loss per share)

	Fiscal 2015	Fiscal 2016				Fiscal 2017		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	$	$	$	$	$	$	$	$
Revenue	1,557	2,540	2,601	1,045	2,460	2,662	3,082	1,951
Cost of sales	838	957	1,167	474	991	1,057	1,147	878
Gross margin	719	1,583	1,434	571	1,469	1,605	1,935	1,073
Expenses	4,128	4,116	3,977	3,609	4,522	3,921	3,690	4,180
Net loss	(3,409)	(2,533)	(2,543)	(3,038)	(3,053)	(2,316)	(1,755)	(3,107)
Other comprehensive (loss) gain	(6)	(10)	(2)	1	(14)	1	(15)	(3)
Total comprehensive loss	(3,415)	(2,543)	(2,545)	(3,037)	(3,067)	(2,315)	(1,770)	(3,110)
Loss per share								
Basic and Dilutive	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.02)

Revenues in the consumer semiconductor industry are subject to seasonality driven by consumer purchasing cycles and manufacturers unique product development cycles. The Company also licenses intellectual property which may have significant one time payments that can increase revenue in the quarter it is recognized.

Historically, the Company's operating results have fluctuated on a quarterly basis and management believes they will continue to fluctuate. If anticipated sales and shipments in any quarter do not occur as and when expected, expenses and inventory levels will be disproportionately high and operating results for that quarter and future quarters may be adversely affected. In addition, because of historical variations in the operating results, the limited operating history of the Company and the rapid evolving nature of the business, period to period comparisons of the Company's operating results, including gross margin and operating expenses as a percentage of total revenue, are not necessarily meaningful and should not be relied upon as indication of future performance.

Issued and Outstanding Share Capital

The Company's authorized capital consists of an unlimited number of Common Shares, of which 162,840,711 Common Shares are issued and outstanding as of the date of this MD&A.

At the annual and special meeting of holders of Common Shares (the "Shareholders") held on June 15, 2017, Shareholders approved amendments to both the Company's stock option plan (the "Stock Option Plan") and the restricted share unit plan (the "RSU Plan") to provide that the combined maximum number of Common Shares reserved for issuance under both the Stock Option Plan and the RSU Plan, inclusive of existing stock options and restricted share units ("RSUs"), shall not exceed 29,450,000 Common Shares, representing approximately 1% of the issued and outstanding Common Shares as of the date of this MD&A.

As of the date of this MD&A, options to purchase an aggregate of 5,943,910 Common Shares are outstanding, 7,429,637 RSUs are outstanding, 2,635,072 Common Shares have been issued under the RSU Plan and an aggregate of 16,076,453 Common Shares are available for grant or award under the Stock Option Plan and/or the RSU Plan.

As of the date of this MD&A, there are outstanding compensation options to purchase up to 2,100,941 Common Shares, Initial Loan Warrants outstanding to purchase up to 855,010 Common Shares, Loan Amendment Warrants outstanding to purchase up to 750,000 Common Shares and Warrants outstanding to purchase up to 7,679,125 Common Shares.

Loan Financing

On March 30, 2016, the Company closed the Loan Facility. The Loan Facility is for a 36 month term with interest payable monthly in arrears at an annual rate of one month LIBOR plus 8.50%, subject to a LIBOR floor of 0.50%. Interest only is payable for the first 12 months of the term with the principal and interest thereafter amortized on a straight-line basis until the maturity date. The Loan Facility is secured by a first charge over all of the existing and subsequently acquired assets of the Company and each of its subsidiaries other than its subsidiary located in China. The Company used a portion of the net proceeds from the Loan Facility to repay the remaining indebtedness under the Company's prior secured bank loan.

Pursuant to the terms of the Loan Facility, the Company issued to the lenders an aggregate of 855,010 Warrants with each Warrant being exercisable into one Common Share until March 30, 2021 at a price of CDN$ 0.60 per share, subject to adjustment in certain circumstances.

On May 15, 2017, the Company signed the Amended Loan Facility that became effective on June 27, 2017 upon the satisfaction of certain conditions. In consideration for entering into the Amended Loan Facility, the Company issued the Loan Amendment Warrants.

The agreement governing the Amended Loan Facility imposes covenants and obligations on the Company, including a covenant to meet certain trailing revenue targets. In particular, the Amended Loan Facility contains certain covenants and representations and warranties, the breach of which could result in a default and the acceleration of maturity of the Amended Loan Facility, the lenders realizing on their security, or diminished availability of refinancing alternatives or increase the associated costs thereof. At September 30, 2017, the Company was in default of the trailing revenue covenant. As of September 30, 2017, the lender maintained its right to demand repayment of the loan and therefore the full balance of the loan facility was classified as current. On November 3, 2017, the Company entered into a fourth amendment to the loan facility in order to waive the default and to modify the trailing revenue covenant. As of the date of this MD&A, the Company was in compliance with the trailing revenue covenant as contained in the fourth amendment to the loan facility.

The Company plans to address the risk of default by endeavoring to meet the revenue covenants and other obligations in the Amended Loan Facility. There is no assurance, however, that the Company will be in compliance with covenants in the future due to unforeseen events or circumstances and if the Company was to default there is no assurance that an amendment or waiver will be granted by the lenders.

Liquidity and Capital Resources

Historically, the Company has funded its operations from the sale of equity securities and from debt financing.

On June 27, 2017 and July 21, 2017, the Company closed the Offerings. The Public Offering was underwritten by a syndicate of underwriters led by Canaccord Genuity Corp. and including Eight Capital and Echelon Wealth Partners Inc. (the "Underwriters") for aggregate gross proceeds, including Units issued for related services, of $4,545,356 (CDN $5,992,300).

In consideration for the services provided by the Underwriters, the Company paid commissions to the Underwriters in the form of $94,765 (CDN $125,000) in cash and 377,500 Units at CDN $0.40 per Unit. In addition, the Company issued to the Underwriters an aggregate of 690,000 non-transferable compensation options to the Underwriters (the "Compensation Options"). Each Compensation Option is exercisable into one Common Share at a price of CDN $0.40 until June 27, 2019.

The Company's objectives are to grow revenue by expanding its product lines and entering new markets, to finance investment in research and development and to ensure that capital resources are readily available to meet obligations as they become due. Liquidity risk arises when the Company is challenged to fund its on-going operations through either the sale of equity or bank loans.

The Company may face challenges in generating sufficient amounts of cash and cash equivalents in the short-term and potentially beyond due to such factors as:

- challenges in the supply chain whereby lead times to secure components can run between 8-20 weeks and often require the Company to prepay or make deposits to secure the components;
- delays in the development of new products which can delay market entry dates;
- acceptance of new products in the market and sales volatility as a result of transitions to new product lines; and
- repayment of the Amended Loan Facility commencing on June 1, 2018 at the rate of $595,833 per month for 10 months or $270,833 per month for 22 months, should the Company upon satisfaction of certain conditions precedent choose to exercise the option to extend the maturity date for one year.

The following table summarizes the working capital and cash as at September 30, 2017 and December 31, 2016:

	As at *(In thousands)*			
	September 30, 2017	**December 31, 2016**	**Change**	
	$	**$**	**$**	**%**
Current assets	6,240	6,576	(336)	(5%)
Current liabilities	10,106	4,182	5,924	142%
Loan in current liabilities	(5,689)	(2,167)	(3,522)	163%
Derivative liability	(151)	(39)	(112)	287%
	4,266	1,976	2,290	116%
Working capital excluding loan and derivative liability	1,974	4,600	(2,626)	(57%)
Cash	1,410	2,114	(704)	(33%)

As at September 30, 2017, the Company had working capital excluding loan and derivative liability of $2.0 million, compared to $4.6 million as at December 31, 2016. The lower working capital is due mainly to the higher accounts payable and accrued charges balance as at September 30, 2017. The liability balance was higher at September 30, 2017 due to the collection of accounts receivables, vendor charges and payments occurring late in the quarter.

The Company is dependent on growth in revenue in subsequent quarters to fund future operations. Should expected revenues not materialize, the Company may require further sale of debt or equity securities, additional bank financing or other sources of funds in order to meet its obligations. See the section “Risks and Uncertainties” below.

The following table summarizes the cash inflows and outflows by activity for the periods indicated:

	Three Months Ended September 30, *(In thousands)*				**Nine Months Ended September 30, *(In thousands)***			
	2017	**2016**	**Change**		**2017**	**2016**	**Change**	
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Cash generated by (used in)								
Operating activities	(1,595)	(1,106)	(489)	44%	(2,746)	(6,398)	3,652	(57%)
Financing activities	(104)	(208)	104	(50%)	2,989	4,566	(1,577)	(35%)
Investing activities	(665)	(81)	(584)	721%	(944)	(393)	(551)	140%
Effect of exchange rate changes	(3)	(3)	-	0%	(3)	-	(3)	
Increase (decrease) in cash	(2,367)	(1,398)	(969)	69%	(704)	(2,225)	1,521	(68%)

Operating Activities

The Company’s cash used in operating activities over the three month period ended September 30, 2017 increased by $0.5 million or 44% over the same period in the prior year. The increase is attributed to the increased level of inventory purchases during the three months ended September 30, 2017. The Company’s cash used in operating activities over the nine month period ended September 30, 2017 decreased by $3.7 million or 57% over the same period in the prior year. The decrease is attributed to the inflow of cash from higher revenues and higher accounts payable and accrued charges during the nine months ended September 30, 2017.

Financing Activities

Cash used in financing activities for the three month period ended September 30, 2017 was $0.1 million as compared to $0.2 million in the same period of the previous year, representing normal repayments of license liabilities and obligations under finance leases.

Cash inflow from financing activities over the nine month period ended September 30, 2017 was lower by $1.6 million compared to the same period of the previous year. The decrease is partly due to the lower net financing proceeds raised by the Company during the nine months ended September 30, 2017. On March 30, 2016, the Company received $6.5 million from the Loan Facility and paid $0.5 million in financing costs and $0.8 million towards the remaining balance of the bank term loan for a net cash inflow of $5.2 million. During the nine months ended September 30, 2017, the Company raised combined net proceeds of $4.1 million from a public and private offering that closed in June and July of 2017.

Investing Activities

Investing activities for the three and nine month periods ended September 30, 2017 were higher by $0.58 million and $0.55 million, respectively, representing an increase of 721% and 140%, respectively over the same periods in the previous year. During the three months ended September 30, 2017, the Company invested $0.6 million in production masks and manufacturing equipment. Other capital investments during the nine months ended September 30, 2017 include laboratory equipment and leasehold and furniture expenditures related to the move in May 2017 of the US office from Palo Alto to San Jose, California.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements.

Transactions Between Related Parties

The Company transacts with key individuals from management and its directors who have authority and responsibility to plan, direct and control the activities of the Company. The nature of these dealings was in the form of payments for services rendered in their capacity as employees and as directors of the Company.

The Company's key management personnel are comprised of the Board of Directors and current and former members of the executive team of the Company.

Certain directors and officers of the Company purchased 843,250 Units pursuant to the first tranche of the Private Placement which closed on June 27, 2017.

Key management personnel compensation is comprised of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries, fees and short-term benefits	**459,532**	355,871	**1,319,402**	1,151,654
Share-based benefits	**328,613**	113,903	**961,435**	7,098
	788,145	469,774	**2,280,837**	1,158,752

Critical Accounting Estimates

The Company's significant accounting policies and accounting estimates under IFRS are contained in the Statements (see Note 3 to the Interim Financial Statements for a summary of significant accounting policies). Certain of these policies involve critical accounting estimates as they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

Changes in Accounting Policies

The Statements are prepared in accordance with IFRS. There have been no changes in accounting policies since the publication of the Interim Financial Statements. Please refer to Note 2 of the Interim Financial Statements that report for accounting policies and Note 3 for accounting standards issued but not yet effective.

Financial Instruments and Risk Management

The Company may be exposed to risks of varying degrees of significance that affect its ability to achieve its strategic objectives. The main objectives of the Company's risk processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are as follows:

Fair Value

The fair value of cash and cash equivalents, trade and other receivables, investment tax credits, accounts payable and accrued charges, obligations under finance lease and license liabilities approximate their carrying values due to their immediate or short-term maturity.

Foreign Currency Risk

The Company's revenues and cost of sales are denominated in United States dollars. The Company incurs expenses in United States dollars, Euros and Canadian dollars. The Company has historically raised capital denominated in Canadian dollars. The Loan Facility is in United States dollars. The Company is therefore exposed to gains or losses due to fluctuations in foreign currency exchange rates. Management believes the foreign exchange risk derived from currency conversions is currently low and therefore does not actively hedge its foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk associated with the Company's previous and new term loan arises from fluctuations in interest rates and the degree of volatility of these rates. The Loan Facility Agreement provides for an annual rate of one month LIBOR plus 8.50%, subject to a LIBOR floor of 0.50%. The Company does not use derivative financial instruments to reduce its exposure to interest rate risk.

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to trade and other receivables and money held in the Company's bank accounts. The Company mitigates this risk by insuring the majority of its accounts receivables with the Export Development Corporation. For un-insured accounts receivables the Company monitors the credit worthiness of its customers and only dealing with creditworthy counterparties.

Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash, managing cash from operations and if required through financing activities.

Risks and Uncertainties

The Company is subject to various business, financial and operational risks that could materially adversely affect the Company's future business, operations and financial condition and could cause such future business, operations and financial condition to differ materially from the forward-looking statements and information contained in this MD&A. The risks and uncertainties described herein are not the only ones the Company faces**.** For a more comprehensive discussion of the risks faced by the Company, please refer to the Company's annual MD&A for the year ended December 31, 2016 available at www.sedar.com**.**

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109‑*Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company's management, including the CEO and the Chief Financial Officer ("CFO"), have designed the Company's disclosure controls and procedures to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

Internal Control over Financial Reporting

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable IFRS;

- receipts and expenditures are only being made in accordance with authorizations of management or the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial instruments.

During the three and nine months ended September 30, 2017, the Company did not make any significant changes to its internal controls over financial reporting that would have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting.

Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, including the CEO and CFO, believe that due to inherent limitations, any disclosure controls and procedures or internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that any design will not succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Additionally, management is required to use judgment in evaluating controls and procedures.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Approval

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

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