



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

## Photon Control Inc.

For the three and six months ended June 30, 2018



## **NOTICE OF NO-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, “Continuous Disclosure Obligations”, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management, and were not reviewed by the Company’s independent auditor.

# PHOTON CONTROL INC.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited) (In thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
<b>Assets</b>		
Current assets		
Cash	\$ 40,794	\$ 34,345
Trade and other receivables	7,050	3,393
Inventories	5,568	4,052
Prepaid expenses and deposits	457	279
Assets held for sale	-	184
<b>Total current assets</b>	<b>53,869</b>	<b>42,253</b>
Restricted cash	-	53
Property and equipment (note 3)	6,815	6,930
Intangible assets (note 4)	4,861	5,464
Goodwill	849	849
<b>Total assets</b>	<b>\$ 66,394</b>	<b>\$ 55,549</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,371	\$ 4,003
Income taxes payable	1,987	579
Current portion of contingent consideration (note 5)	1,613	1,321
<b>Total current liabilities</b>	<b>8,971</b>	<b>5,903</b>
Contingent consideration (note 5)	2,901	2,684
Deferred tax liability	302	302
<b>Total liabilities</b>	<b>12,174</b>	<b>8,889</b>
Shareholders' equity		
Share capital (note 6)	31,165	30,573
Contributed surplus (note 6)	4,420	4,154
Accumulated other comprehensive loss	(33)	-
Retained earnings	18,668	11,933
<b>Total shareholders' equity</b>	<b>54,220</b>	<b>46,660</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 66,394</b>	<b>\$ 55,549</b>

*See accompanying notes to the unaudited condensed interim consolidated financial statements*

Approved on behalf of the Board:

"Scott Edmonds", Director

"Neil McDonnell", Director

# PHOTON CONTROL INC.

## Condensed Interim Consolidated Statements of Net Income and Comprehensive Income (Unaudited)

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue (note 8)	\$ 14,565	\$ 8,877	\$ 28,419	\$ 20,756
Cost of sales	6,277	4,208	12,252	8,971
Gross profit	8,288	4,669	16,167	11,785
Operating expenses				
General and administrative	2,199	3,217	3,955	6,839
Engineering	886	823	1,742	1,628
Sales and marketing	681	282	1,251	499
Total operating expenses	3,766	4,322	6,948	8,966
Operating income	4,522	347	9,219	2,819
Finance income	60	101	144	131
Accretion expense on contingent consideration (note 5)	(197)	(63)	(383)	(63)
Change in fair value of contingent consideration (note 5)	(91)	-	(902)	-
Gain on sale of assets	-	-	166	-
Foreign exchange gain (loss)	659	(778)	1,718	(918)
	431	(740)	743	(850)
Net income (loss) before tax	4,953	(393)	9,962	1,969
Income tax (recovery)	1,100	(62)	3,227	602
Net income (loss)	3,853	(331)	6,735	1,367
Other comprehensive loss:				
<i>(Item that may be reclassified to income in the future)</i>				
Unrealized loss from foreign exchange translation of subsidiary	(23)	-	(33)	-
Total comprehensive income (loss)	\$ 3,830	\$ (331)	\$ 6,702	\$ 1,367
Basic and diluted earnings per share				
Weighted average common shares, basic	111,114,023	108,669,498	110,988,494	108,597,818
Weighted average common shares, diluted	114,892,553	113,444,158	114,789,168	113,195,357
Basic earnings (loss) per share	\$ 0.03	\$ -	\$ 0.06	\$ 0.01
Diluted earnings (loss) per share	\$ 0.03	\$ -	\$ 0.06	\$ 0.01

See accompanying notes to the unaudited condensed interim consolidated financial statements

# PHOTON CONTROL INC.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited) (In thousands of Canadian dollars)

	Six months ended	
	June 30, 2018	June 30, 2017
Share capital		
Beginning of period	\$ 30,573	\$ 29,137
Exercise of stock options	530	912
Settlement of restricted share units	62	92
Re-purchase of shares for cancellation	-	(612)
End of period	31,165	29,529
Contributed surplus		
Beginning of period	4,154	3,494
Exercise of stock options	(280)	-
Settlement of restricted share units	(62)	(92)
Share-based payments	608	666
End of period	4,420	4,068
Accumulated other comprehensive loss		
Beginning of period	-	-
Unrealized loss from foreign exchange translation of subsidiary	(33)	-
End of period	(33)	-
Retained earnings		
Beginning of period	11,933	6,241
Net income for the period	6,735	1,367
End of period	18,668	7,608
<b>Total shareholders' equity</b>	<b>\$ 54,220</b>	<b>\$ 41,205</b>

*See accompanying notes to the unaudited condensed interim consolidated financial statements*

# PHOTON CONTROL INC.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited) (In thousands of Canadian dollars)

	Six months ended	
	June 30, 2018	June 30, 2017
<b>Operating activities</b>		
Total comprehensive income for the period	\$ 6,702	\$ 1,367
Adjustments for		
Depreciation of property and equipment	706	227
Amortization of intangible assets	651	16
Share-based payments	608	666
Accretion expense on contingent consideration	383	63
Change in fair value of consideration	902	-
Accretion income on note receivable	-	(39)
Gain on sale of assets	(166)	-
Net change in non-cash working capital items		
Trade and other receivables	(3,657)	(524)
Due to/from related party, net	-	(1,625)
Inventories	(1,516)	(3,495)
Prepaid expenses and deposits	(178)	(39)
Accounts payable and accrued liabilities	1,368	3,857
Income taxes payable	1,408	(1,235)
<b>Net cash provided by (used in) operating activities</b>	<b>7,211</b>	<b>(761)</b>
<b>Financing activities</b>		
Proceeds from exercise of stock options	250	912
Restricted cash	53	-
Proceeds from note receivable	-	112
Re-purchase of common shares for cancellation	-	(612)
Payment of contingent consideration	(776)	(585)
<b>Net cash used in financing activities</b>	<b>(473)</b>	<b>(173)</b>
<b>Investing activities</b>		
Proceeds from sale of assets	350	-
Purchase of property and equipment	(591)	(6,460)
Purchase of intangible assets	(48)	(61)
<b>Net cash used in investing activities</b>	<b>(289)</b>	<b>(6,521)</b>
Net increase (decrease) in cash	6,449	(7,455)
Cash, beginning of period	34,345	32,508
<b>Cash, end of period</b>	<b>\$ 40,794</b>	<b>\$ 25,053</b>
<b>Supplementary information</b>		
Interest received	\$ 168	\$ 83
Income taxes paid	1,817	1,837

*See accompanying notes to the unaudited condensed interim consolidated financial statements*

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

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## 1. Nature of business and continuing operations

Photon Control Inc. (“Photon Control” or the “Company”) is listed on the Toronto Stock Exchange (the “TSX”) under the trading symbol PHO, and is incorporated under the laws of British Columbia, Canada. The Company’s head office is located at 130-13500 Verdun Place, Richmond, BC, Canada, V6V 1V2. The address of the Company’s registered and records office is 595 Burrard Street, PO Box 49314, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, Canada, V7X 1L3.

These condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2018 comprise the statements of the Company and its subsidiaries, including Photon Control (USA) Inc., incorporated in 2017. The financial statements were authorized for issue by the Board of Directors on July 31, 2018.

Photon Control designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. These products are used by the world’s largest Wafer Fabrication Equipment (“WFE”) manufacturers and end users in the semiconductor and other solid-state industries.

## 2. Basis of presentation

### Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The condensed interim consolidated financial statements have been prepared on a basis consistent with and should be read in conjunction with the annual financial statements for the years ended December 31, 2017 and 2016, except for the adoption of new accounting standards as described below, and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB.

The results for the three and six months ended June 30, 2018 may not be indicative of the results that may be expected for the full year or any other period.

### Use of critical accounting judgments and estimates

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is as follows:

#### (a) Valuation of contingent consideration

The Company recognizes the fair value of contingent consideration relating to acquisitions on the date the transaction closes. Contingent consideration classified as a liability is carried at fair value with changes in fair value flowing through the condensed interim consolidated statements of net income and

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

comprehensive income. Contingent consideration classified as equity is not remeasured subsequent to initial recognition.

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

### 3. Property and equipment

	Laboratory equipment	Computers, office furniture and equipment	Production equipment	Leasehold improvements	Total
<b>Cost</b>					
Balance January 1, 2017	\$ 346	\$ 438	\$ 1,038	\$ 426	\$ 2,248
Additions	772	552	1,028	3,941	6,293
Additions from acquisition of Photon Control R&D Ltd.	329	34	277	-	640
Disposals/write-offs	-	-	-	(400)	(400)
Transfer - asset held for sale	-	-	(123)	-	(123)
Balance December 31, 2017	1,447	1,024	2,220	3,967	8,658
Additions	50	202	291	48	591
<b>Balance June 30, 2018</b>	<b>\$ 1,497</b>	<b>\$ 1,226</b>	<b>\$ 2,511</b>	<b>\$ 4,015</b>	<b>\$ 9,249</b>
<b>Accumulated Depreciation</b>					
Balance January 1, 2017	\$ 304	\$ 297	\$ 500	\$ 392	\$ 1,493
Depreciation for the period	82	65	307	304	758
Disposals/write-offs	-	-	-	(400)	(400)
Transfer - asset held for sale	-	-	(123)	-	(123)
Balance December 31, 2017	386	362	684	296	1,728
Depreciation for the period	107	77	257	265	706
<b>Balance June 30, 2018</b>	<b>\$ 493</b>	<b>\$ 439</b>	<b>\$ 941</b>	<b>\$ 561</b>	<b>\$ 2,434</b>
<b>Carrying Amounts</b>					
At December 31, 2017	\$ 1,061	\$ 662	\$ 1,536	\$ 3,671	\$ 6,930
<b>At June 30, 2018</b>	<b>1,004</b>	<b>787</b>	<b>1,570</b>	<b>3,454</b>	<b>6,815</b>



# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

## 4. Intangible assets

	Patents	Computer software and other	Acquired technologies	Reacquired rights	Total
<b>Cost</b>					
Balance January 1, 2017	\$ 378	\$ 325	\$ -	\$ -	\$ 703
Additions	-	150	-	-	150
Additions from acquisition of Photon Control R&D Ltd.	-	-	4,439	2,000	6,439
Transfer - asset held for sale	(378)	-	-	-	(378)
Balance December 31, 2017	-	475	4,439	2,000	6,914
Additions	-	48	-	-	48
<b>Balance June 30, 2018</b>	<b>\$ -</b>	<b>\$ 523</b>	<b>\$ 4,439</b>	<b>\$ 2,000</b>	<b>\$ 6,962</b>
<b>Accumulated Amortization</b>					
Balance January 1, 2017	\$ 347	\$ 276	\$ -	\$ -	\$ 623
Amortization for the period	8	34	1,000	140	1,182
Transfer - asset held for sale	(355)	-	-	-	(355)
Balance December 31, 2017	-	310	1,000	140	1,450
Amortization for the period	-	42	516	93	651
<b>Balance June 30, 2018</b>	<b>\$ -</b>	<b>\$ 352</b>	<b>\$ 1,516</b>	<b>\$ 233</b>	<b>\$ 2,101</b>
<b>Carrying Amounts</b>					
At December 31, 2017	\$ -	\$ 165	\$ 3,439	\$ 1,860	\$ 5,464
<b>At June 30, 2018</b>	<b>-</b>	<b>171</b>	<b>2,923</b>	<b>1,767</b>	<b>4,861</b>

## 5. Contingent consideration

On April 14, 2017, the Company acquired certain tangible and intangible assets of Photon Control R&D Ltd. for cash consideration of \$770 and contingent consideration initially valued at \$4,088. The contingent consideration relates to a royalty agreement, which provides for quarterly royalties on revenues earned from defined products from January 1, 2017 to December 31, 2021.

For the three and six months ended June 30, 2018, the Company recognized a change in fair value of contingent consideration of \$91 and \$902 (2017 - \$Nil), respectively, as a result of a revision in management's estimate of the amount based on current information regarding the underlying revenue performance.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

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

<b>Contingent consideration, December 31, 2016</b>	<b>\$ -</b>
Liability arising from business combination	4,088
Payment of contingent consideration	(986)
Accretion expense	639
Change in fair value of contingent consideration	264
<b>Contingent consideration, December 31, 2017</b>	<b>4,005</b>
Payment of contingent consideration	(776)
Accretion expense	383
Change in fair value of contingent consideration	902
<b>Contingent consideration, June 30, 2018</b>	<b>\$ 4,514</b>

The table below presents the contingent consideration as at June 30, 2018 and December 31, 2017 recorded on the condensed interim consolidated statements of financial position:

	June 30, 2018	December 31, 2017
Current portion	\$ 1,613	\$ 1,321
Long term portion	2,901	2,684
<b>Total</b>	<b>\$ 4,514</b>	<b>\$ 4,005</b>

## 6. Share capital

### (a) Authorized

Unlimited number of common shares without par value

### (b) Issued and outstanding

	Number of Common Shares	Share Capital	Contributed Surplus
<b>Balance as at December 31, 2016</b>	<b>108,348,518</b>	<b>\$ 29,137</b>	<b>\$ 3,494</b>
Issued upon exercise of stock options	2,827,000	1,408	-
Issued for restricted share units	258,000	181	(181)
Re-purchase of shares for cancellation	(579,800)	(153)	(459)
Share-based payments	-	-	1,300
<b>Balance as at December 31, 2017</b>	<b>110,853,718</b>	<b>30,573</b>	<b>4,154</b>
Issued upon exercise of stock options	362,250	530	(280)
Issued for restricted share units	99,000	62	(62)
Share-based payments	-	-	608
<b>Balance as at June 30, 2018</b>	<b>111,314,968</b>	<b>\$ 31,165</b>	<b>\$ 4,420</b>

On January 2, 2018, the Company announced that the TSX Venture Exchange (the "TSX-V") had accepted the Company's notice of intention to make a Normal Course Issuer Bid (the "2018 NCIB") for its common shares in compliance with the requirements of the TSX-V. As of January 4, 2018, the Company was able to commence making purchases of up to a maximum of 5,500,000 common shares, which represented approximately 5% of the Company's issued and outstanding common shares at the time. On May 24, 2018, the Company announced the 2018 NCIB had been accepted

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

by the TSX and would continue through the facilities of the TSX and other Canadian marketplaces. The 2018 NCIB covers the period from January 4, 2018 to January 3, 2019. For the three and six months ended June 30, 2018, the Company did not re-purchase and cancel any of its common shares.

## (c) Stock options

The Company adopted a new Stock Option Plan (the “2018 Stock Option Plan”), which was approved by the Board of Directors, the shareholders of the Company and the TSX. The effective date of the 2018 Stock Option Plan was May 25, 2018, the date on which the common shares of the Company were listed for trading on the TSX. The maximum number of common shares available for issue under the 2018 Stock Option Plan is 11,000,000 shares. Previously issued stock options under the old stock option plan were exchanged with stock options under the 2018 Stock Option Plan. The Company did not record any additional expense as a result of the exchange.

Options are awarded at a Canadian dollar exercise price equal to the closing market price of the Company’s common shares on the day prior to the date of grant. The options generally vest over four years with one-quarter of the options vesting on each of the first, second, third and fourth anniversaries of the grant date. Options granted to executives and directors generally vest over three years with one-third of the options vesting on each of the first, second and third anniversaries of the grant date. The options have a five-year term from date of grant.

A summary of the activity in the Company’s Stock Option Plan is presented below:

	Number of options	Weighted average exercise price
<b>Options outstanding, December 31, 2016</b>	<b>4,286,500</b>	<b>\$ 0.67</b>
Granted	2,775,500	1.50
Exercised	(2,827,000)	0.50
Forfeited	(799,000)	1.20
Expired	(22,500)	0.71
<b>Options outstanding, December 31, 2017</b>	<b>3,413,500</b>	<b>1.22</b>
Granted	645,000	2.00
Exercised	(362,250)	0.69
Forfeited	(245,500)	1.47
<b>Options outstanding, June 30, 2018</b>	<b>3,450,750</b>	<b>\$ 1.40</b>

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

As at June 30, 2018, the Company had the following share purchase options outstanding, entitling the holders to purchase one common share for each option held:

	Options Outstanding	Weighted average remaining term (years)	Options Exercisable	Weighted average remaining term (years)
\$0.00 - 0.99	800,250	2.94	666,750	3.01
\$1.00 - 1.99	2,255,500	4.11	709,875	4.04
\$2.00 - 2.50	395,000	4.91	45,000	4.87
	<b>3,450,750</b>	-	<b>1,421,625</b>	-

The following weighted average assumptions were used in calculating the fair value of stock options granted during the period using the Black-Scholes model:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Expected option life	5 years	5 years	5 years	5 years
Risk-free interest rate	2.11%	0.61%	2.04%	0.57%
Dividend yield	0%	0%	0%	0%
Volatility	55%	53%	58%	48%

(d) Restricted Share Units (“RSUs”)

RSU transactions are summarized as follows:

	Number of RSUs
<b>RSU outstanding, December 31, 2016</b>	<b>652,000</b>
Granted	176,000
Settled	(258,000)
Forfeited	(179,000)
<b>RSU outstanding, December 31, 2017</b>	<b>391,000</b>
Granted	56,000
Exercised	(99,000)
Forfeited	(86,000)
<b>RSU outstanding, June 30, 2018</b>	<b>262,000</b>

- (e) During the three and six months ended June 30, 2018, the Company recorded \$289 and \$608 (2017 - \$402 and \$666) of share-based payments, respectively, relating to the fair value of the options and RSUs vesting during the period with a corresponding increase to contributed surplus.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

## 7. Related party transactions

The remuneration of key management for the three and six months ended June 30, 2018 and 2017 is as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cash-based payments	\$ 452	\$ 613	\$ 865	\$ 1,104
Share-based payments	201	310	396	504
<b>Total</b>	<b>\$ 653</b>	<b>\$ 923</b>	<b>\$ 1,261</b>	<b>\$ 1,608</b>

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

## 8. Segmented information and revenue

(a) Operating income excludes finance income, accretion expense on contingent consideration, change in fair value of contingent consideration, gain on sale of assets, foreign exchange gain (loss) and income tax (recovery).

(b) Revenue:

Revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>Primary geographical markets</b>				
United States	\$ 8,370	\$ 5,437	\$ 17,344	\$ 12,683
Asia	6,183	3,374	11,036	7,973
Rest of world	12	66	39	100
	<b>\$ 14,565</b>	<b>\$ 8,877</b>	<b>\$ 28,419</b>	<b>\$ 20,756</b>
<b>Major products/service lines</b>				
Fiber optic sensors	\$ 14,514	\$ 8,541	\$ 28,146	\$ 20,227
Other products and services	51	336	273	529
	<b>\$ 14,565</b>	<b>\$ 8,877</b>	<b>\$ 28,419</b>	<b>\$ 20,756</b>
<b>Timing of revenue recognition</b>				
Products and services transferred at a point in time	\$ 14,561	\$ 8,877	\$ 28,403	\$ 20,756
Services transferred over time	4	-	16	-
	<b>\$ 14,565</b>	<b>\$ 8,877</b>	<b>\$ 28,419</b>	<b>\$ 20,756</b>

(c) Assets:

The Company's property and equipment and intangible assets are located in Canada.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

(d) Major customers:

Sales to the Company's 3 largest customers accounted for 87% and 81% of the Company's sales for the three and six months ended June 30, 2018 (2017 - 74% and 78%), respectively.

## 9. Commitments

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

2018	\$ 167
2019	334
2020	297
2021	285
2022 and onwards	854
<b>Total</b>	<b>\$ 1,937</b>

## 10. Expenses by nature

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Wages and employee benefits	\$ 2,967	\$ 3,155	\$ 5,670	\$ 4,647
Share-based payments	289	402	608	666
Depreciation of property and equipment	365	161	706	227
Amortization of intangible assets	328	9	651	16
Cost of sales and other	6,094	4,803	11,565	12,381
<b>Total</b>	<b>\$ 10,043</b>	<b>\$ 8,530</b>	<b>\$ 19,200</b>	<b>\$ 17,937</b>

## 11. Financial instruments and fair values

### Measurement categories, fair values and valuation methods

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

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets	\$ 47,844	\$ 47,844	\$ 37,791	\$ 37,791
Financial liabilities	5,371	5,371	4,003	4,003

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

## Fair value hierarchy

The following financial assets and liabilities are measured at fair value on a recurring basis using quoted prices in active markets for identifiable assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

June 30, 2018	Carrying Value	Level 1	Fair Value	
			Level 2	Level 3
<b>Financial liabilities</b>				
Contingent consideration	\$ 4,514	\$ -	\$ -	\$ 4,514

December 31, 2017	Carrying Value	Level 1	Fair Value	
			Level 2	Level 3
<b>Financial liabilities</b>				
Contingent consideration	\$ 4,005	\$ -	\$ -	\$ 4,005

The Company has used a discounted cash flow valuation technique in calculating the fair value of the contingent consideration. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company (20%). The fair value measurements are sensitive to the discount rate used in calculating the fair values. A 1% increase in the discount rate would reduce the fair value of the contingent consideration by \$55. During the three and six months ended June 30, 2018, the Company recorded accretion expense of \$197 and \$383 (2017 - \$63) in relation to contingent consideration, respectively, reflecting the change in fair value of liability that is attributable to credit risk.

## Financial risk factors

The Company is exposed to a number of risks. These risks include credit risk, liquidity risk and market risk. The Company has established policies and procedures to manage these risks, with the objective of minimizing the adverse effects that changes in the variable underlying these risks could have on the Company's consolidated financial statements.

## Credit risk

The following table provides information regarding the aging of trade and other receivables as at June 30, 2018 and December 31, 2017:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
<b>As at June 30, 2018</b>	<b>93%</b>	<b>4%</b>	<b>2%</b>	<b>0%</b>	<b>1%</b>
As At December 31, 2017	91%	10%	0%	-1%	0%

As at June 30, 2018, 7% (December 31, 2017 - 9%) of the Company's trade and other receivables was past due. The definition of items that are past due was determined by reference to the Company's standard credit terms, net of any provisions for losses. At each period end, the Company reviews the collectability of outstanding receivables. Specific accounts are only written off once all collection efforts have been explored or when legal bankruptcy has occurred. During the three and six months ended June 30, 2018, the Company incurred \$84 and \$98 of bad debts expense (2017 - \$21 and \$24), respectively.

# PHOTON CONTROL INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2018

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## **Liquidity risk**

As at June 30, 2018 and December 31, 2017, the Company had a \$80 credit card facility with a Canadian Chartered bank.

## **Market risk**

### *Foreign exchange risk*

At June 30, 2018, the Company held net current monetary assets in USD equal to \$26,223 (December 31, 2017 - \$34,966). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be \$2,622 (December 31, 2017 - \$3,497).

### *Interest rate risk*

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

## **12. Capital risk management**

The Company considers shareholders' equity as capital, the book value of which totaled \$54,220 at June 30, 2018 (December 31, 2017 - \$46,660).