PHOTON CONTROL

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

Photon Control Inc.

For the three and nine months ended September 30, 2019 and 2018

The comparative interim three and nine month figures were not audited or reviewed by the Company's independent auditor and were prepared by management. The December 31, 2018 comparative figures were audited by the Company's independent auditor wherein the auditor issued an unqualified opinion.

ACCURATE RELIABLE RESPONSIVE

PHOTON CONTROL INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(In thousands of Canadian dollars)

		September 30, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	**$**	**34,025**	$	42,407
Trade and other receivables		**3,421**		4,065
Income taxes receivable		**971**		-
Inventories		**4,942**		5,515
Prepaid expenses and deposits		**486**		468
Total current assets		**43,845**		52,455
Property and equipment (note 4)		**7,120**		6,297
Intangible assets (note 5)		**3,603**		4,215
Goodwill		**849**		849
Deferred tax assets		**1,327**		1,056
Total assets	**$**	**56,744**	$	64,872
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**4,102**	$	3,524
Income taxes payable		-		4,354
Current portion of contingent consideration		**1,105**		1,118
Current portion of lease liabilities (note 6)		**266**		-
Total current liabilities		**5,473**		8,996
Contingent consideration		**1,372**		2,211
Lease liabilities (note 6)		**1,297**		-
Total liabilities		**8,142**		11,207
Shareholders' equity				
Share capital (note 7)		**29,340**		30,833
Contributed surplus (note 7)		**4,787**		4,463
Accumulated other comprehensive loss		**(115)**		(125)
Retained earnings		**14,590**		18,494
Total shareholders' equity		**48,602**		53,665
Total liabilities and shareholders' equity	**$**	**56,744**	$	64,872

See accompanying notes to the unaudited condensed interim consolidated financial statements

Approved on behalf of the Board:

"Nigel Hunton", Director   "Ronan McGrath", 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		Nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Revenue (note 9)	**$ 8,742**	$ 10,052	**$ 23,880**	$ 38,471
Cost of sales	**3,951**	4,859	**10,968**	17,111
Gross profit	**4,791**	5,193	**12,912**	21,360
Operating expenses				
General and administrative	**1,426**	1,361	**5,122**	5,316
Engineering	**1,289**	966	**3,605**	2,708
Sales and marketing	**355**	693	**1,486**	1,944
Total operating expenses	**3,070**	3,020	**10,213**	9,968
Operating income	**1,721**	2,173	**2,699**	11,392
Finance income	**133**	142	**502**	286
Accretion expense on contingent consideration	**(127)**	(187)	**(404)**	(570)
Change in fair value of contingent consideration	**50**	112	**482**	(790)
Gain on sale of assets	**-**	-	**-**	166
Foreign exchange gain (loss)	**272**	(551)	**(786)**	1,167
	328	(484)	**(206)**	259
Net income before taxes	**2,049**	1,689	**2,493**	11,651
Income taxes	**562**	440	**827**	3,667
Net income	**1,487**	1,249	**1,666**	7,984
Other comprehensive income:				
(Item that may be reclassified to income in the future)				
Unrealized (loss) gain from foreign exchange translation of subsidiary	**(12)**	24	**10**	(9)
Total comprehensive income	**$ 1,475**	$ 1,273	**$ 1,676**	$ 7,975
Basic and diluted earnings per share				
Weighted average common shares, basic	**104,589,207**	111,283,012	**106,639,850**	111,087,746
Weighted average common shares, diluted	**104,902,603**	114,973,616	**107,065,122**	114,851,326
Basic earnings per share	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.07
Diluted earnings per share	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.07

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)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, December 31, 2017	**$ 30,573**	**$ 4,154**	**$ -**	**$ 10,352**	**$ 45,079**
Exercise of stock options	479	(205)	-	-	274
Settlement of restricted share units	255	(255)	-	-	-
Repurchase of common shares for cancellation	(474)	-	-	(2,541)	(3,015)
Share-based payments	-	769	-	-	769
Unrealized loss from foreign exchange translation of subsidiary	-	-	(125)	-	(125)
Net income for the period	-	-	-	10,683	10,683
Balance, December 31, 2018	**30,833**	**4,463**	**(125)**	**18,494**	**53,665**
Exercise of stock options	42	(18)	-	-	24
Settlement of restricted share units	62	(62)	-	-	-
Repurchase of common shares for cancellation	(1,597)	-	-	(5,498)	(7,095)
Share-based payments	-	404	-	-	404
Adjustment on initial application of IFRS 16 (note 3)	-	-	-	(72)	(72)
Unrealized gain from foreign exchange translation of subsidiary	-	-	10	-	10
Net income for the period	-	-	-	1,666	1,666
Balance, September 30, 2019	**$ 29,340**	**$ 4,787**	**$ (115)**	**$ 14,590**	**$ 48,602**

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)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating activities		
Net income for the period	**$ 1,666**	$ 7,984
Adjustments for		
Depreciation of property and equipment	**1,201**	1,080
Amortization of intangible assets	**747**	984
Share-based payments	**404**	830
Accretion expense on contingent consideration	**404**	570
Change in fair value of contingent consideration	**(482)**	790
Unrealized gain (loss) from foreign exchange	**10**	(9)
Gain on sale of assets	**-**	(166)
Net change in non-cash working capital items		
Trade and other receivables	**644**	(660)
Inventories	**573**	(1,899)
Prepaid expenses and deposits	**(18)**	(103)
Deferred tax assets	**(271)**	-
Accounts payable and accrued liabilities	**578**	263
Income taxes payable	**(5,325)**	1,422
Net cash provided by operating activities	**131**	11,086
Financing activities		
Repurchase of common shares for cancellation	**(7,095)**	(1,363)
Payment of contingent consideration	**(774)**	(1,273)
Payment of lease liabilities	**(192)**	-
Proceeds from exercise of stock options	**24**	273
Restricted cash	**-**	53
Net cash used in financing activities	**(8,037)**	(2,310)
Investing activities		
Purchase of property and equipment	**(341)**	(759)
Purchase of intangible assets	**(135)**	(61)
Proceeds from sale of assets	**-**	350
Net cash used in investing activities	**(476)**	(470)
Net (decrease) increase in cash and cash equivalents	**(8,382)**	8,306
Cash and cash equivalents, beginning of period	**42,407**	34,345
Cash and cash equivalents, end of period	**$ 34,025**	$ 42,651
Supplementary information		
Income taxes paid	**$ 6,249**	$ 2,243
Interest received	**529**	315
Interest paid	**83**	29

See accompanying notes to the unaudited condensed interim consolidated financial statements

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 nine months ended September 30, 2019 and 2018 comprise the statements of the Company and its subsidiaries. The financial statements were authorized for issue by the Board of Directors on November 5, 2019.

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

2. Basis of presentation

Statement of compliance

These unaudited 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 most recent annual consolidated financial statements for the years ended December 31, 2018 and 2017, and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Changes to significant accounting policies are described in note 3.

The results for the three and nine months ended September 30, 2019 and 2018 may not be indicative of the results that may be expected for the full year or any other period.

2. Basis of presentation (continued)

Use of critical accounting judgments and estimates

The preparation of 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. The judgments, estimates and assumptions applied in the condensed interim consolidated financial statements, including key sources of estimation uncertainty, were the same as those applied in the last annual consolidated financial statements for the years ended December 31, 2018 and 2017, except for the changes in significant accounting policies described in note 3.

3. Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed interim consolidated financial statements were the same as those applied in the most recent annual consolidated financial statements for the years ended December 31, 2018 and 2017.

The changes in significant accounting policies are also expected to be reflected in the consolidated financial statements of the Company for the year ending December 31, 2019.

IFRS 16, Leases

At adoption

The Company adopted IFRS 16 with a date of initial application of January 1, 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make future lease payments. The Company has applied IFRS 16 with the modified retrospective approach, which did not require restatement of prior period financial information as it recognized the cumulative effect of initial application in retained earnings at January 1, 2019 and applied the standard prospectively. Accordingly, comparative information in the Company's condensed interim consolidated statements were not restated.

When transitioning to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to existing contracts that were previously identified as leases applying IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The Company has elected to not recognize right-of-use assets and lease liabilities for leases that have a term of twelve months or less and leases of low-value assets. The leases impacted by IFRS 16 were related to office premises previously accounted for as operating leases and disclosed as commitments.

(In thousands of Canadian dollars)

3. Changes in significant accounting policies (continued)

Upon adoption of IFRS 16, the Company measured the right-of-use assets and lease liabilities at the present value of the lease payments as if it had applied IFRS 16 since the commencement date, using the incremental borrowing rate of 4.45% at the date of initial application. The adoption of IFRS 16 on January 1, 2019 resulted in the recognition of right-of-use assets of $1,683 and lease liabilities of $1,755, and a decrease in retained earnings of $72.

The following table provides a reconciliation of the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	**$**	**1,880**
Discounted using the incremental borrowing rate at January 1, 2019		(255)
Recognition exemption for short-term leases		(100)
Extension options reasonably certain to be exercised		230
Lease liabilities recognized at January 1, 2019	**$**	**1,755**

There was a change in the significant accounting policy upon adoption of IFRS 16, as described below.

Leases - accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimated restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, including periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the implicit interest rate in the lease. If the rate cannot be readily determined, the Company's incremental rate of borrowing is used. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

3. Changes in significant accounting policies (continued)

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

The Company adopted IFRIC 23 with a date of initial application of January 1, 2019. The Company applied IFRIC 23 retrospectively and did not have any quantitative impacts upon adoption. There were no differences in the accounting of the Company's income tax treatments under its previous accounting policy and IFRIC 23.

Government assistance

Investment tax credits, whether or not recognized in the financial statements, may be carried forward to reduce future Canadian federal and provincial income taxes payable. The Company applies judgment when determining whether the reasonable assurance threshold has been met to recognize investment tax credits in the financial statements. The Company must interpret eligibility requirements in accordance with Canadian income tax laws and must assess whether future taxable income will be available against which the investment tax credits can be utilized. Any changes in these interpretations and assessments could have an impact on the amount and timing of investment tax credits recognized in the financial statements.

(In thousands of Canadian dollars)

4. Property and equipment

	Computers, office furniture and equipment	Laboratory equipment	Leasehold improvements	Production equipment	Right-of-use assets	Total
Cost						
Balance, January 1, 2018	$ 1,024	$ 1,447	$ 3,967	$ 2,220	$ -	$ 8,658
Additions for the period	363	58	74	332	-	827
Balance, December 31, 2018	1,387	1,505	4,041	2,552	-	9,485
Adjustment on initial application of IFRS 16 (note 3)	-	-	-	-	1,683	1,683
Additions for the period	84	218	-	39	-	341
Balance, September 30, 2019	**$ 1,471**	**$ 1,723**	**$ 4,041**	**$ 2,591**	**$ 1,683**	**$ 11,509**
Accumulated Depreciation						
Balance, January 1, 2018	$ 362	$ 386	$ 296	$ 684	$ -	$ 1,728
Depreciation for the period	173	219	532	536	-	1,460
Balance, December 31, 2018	535	605	828	1,220	-	3,188
Depreciation for the period	136	149	401	307	208	1,201
Balance, September 30, 2019	**$ 671**	**$ 754**	**$ 1,229**	**$ 1,527**	**$ 208**	**$ 4,389**
Net Book Value						
At December 31, 2018	$ 852	$ 900	$ 3,213	$ 1,332	$ -	$ 6,297
At September 30, 2019	**800**	**969**	**2,812**	**1,064**	**1,475**	**7,120**

Depreciation of property and equipment is reflected within cost of sales and operating expenses on the consolidated statement of net income and comprehensive income.

(In thousands of Canadian dollars)

5. Intangible assets

	Acquired technologies	Computer software and other	Reacquired rights	Total
Cost				
Balance, January 1, 2018	$ 4,439	$ 475	$ 2,000	$ 6,914
Additions for the period	-	67	-	67
Balance, December 31, 2018	4,439	542	2,000	6,981
Additions for the period	92	43	-	135
Balance, September 30, 2019	**$ 4,531**	**$ 585**	**$ 2,000**	**$ 7,116**
Accumulated Amortization				
Balance, January 1, 2018	$ 1,000	$ 310	$ 140	$ 1,450
Amortization for the period	1,032	97	187	1,316
Balance, December 31, 2018	2,032	407	327	2,766
Amortization for the period	546	61	140	747
Balance, September 30, 2019	**$ 2,578**	**$ 468**	**$ 467**	**$ 3,513**
Net Book Value				
At December 31, 2018	$ 2,407	$ 135	$ 1,673	$ 4,215
At September 30, 2019	**1,953**	**117**	**1,533**	**3,603**

Amortization of intangible assets is reflected within cost of sales and operating expenses on the consolidated statement of net income and comprehensive income.

6. Lease liabilities

The Company's lease liabilities are for office premises. The carrying amount of the lease liabilities as at September 30, 2019 was $1,563 and the breakdown of contractual undiscounted cash flows for lease liabilities and short-term leases by maturities as at September 30, 2019 is presented below:

	September 30, 2019
Less than one year	**$ 383**
One to five years	**1,349**
More than five years	**107**
Total	**$ 1,839**

For the three and nine months ended September 30, 2019, interest expense on lease liabilities was $20 and $60, and lease expenses related to short-term leases were $34 and $80, respectively.

(In thousands of Canadian dollars)

7. Share capital

(a) Authorized

Unlimited number of common shares without par value

(b) Issued and outstanding

	Number of common shares		Share capital		Contributed surplus
Balance as at December 31, 2017	**110,853,718**	**$**	**30,573**	**$**	**4,154**
Issued upon exercise of stock options	424,484		479		(205)
Issued upon settlement of restricted share units	222,936		255		(255)
Repurchase of common shares for cancellation	(1,633,225)		(474)		-
Share-based payments	-		-		769
Balance as at December 31, 2018	**109,867,913**		**30,833**		**4,463**
Issued upon exercise of stock options	56,060		42		(18)
Issued upon settlement of restricted share units	43,000		62		(62)
Repurchase of common shares for cancellation	(5,490,000)		(1,597)		-
Share-based payments	-		-		404
Balance as at September 30, 2019	**104,476,973**	**$**	**29,340**	**$**	**4,787**

On January 2, 2019, the Company announced that TSX accepted the Company's notice of intention to make a Normal Course Issuer Bid (the "NCIB") for its common shares through the facilities of TSX. This renewed the previous Normal Course Issuer Bid program that expired on January 3, 2019. On January 4, 2019, the Company was able to commence making purchases of up to a maximum aggregate of 5,490,000 common shares, which represented approximately 5% of the Company's issued and outstanding common shares at the time. The NCIB covers the period from January 4, 2019 to January 3, 2020.

For the nine months ended September 30, 2019, the Company re-purchased and cancelled 5,490,000 commons shares pursuant to the NCIB at a cost of $7,095. The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was $5,498 and was recognized as a reduction to retained earnings.

(In thousands of Canadian dollars)

7. Share capital (continued)

(c) Stock options

For the nine months ended September 30, 2019, the Company granted 1,248,000 stock options to employees of the Company (2018 - 850,000). The options have a five-year term and generally vest over three years.

A summary of the activity in the Company's stock option plan is presented below:

	Number of options		Weighted average exercise price
Options outstanding, December 31, 2017	**3,413,500**	**$**	**1.22**
Granted	920,000		1.97
Exercised	(453,250)		0.75
Forfeited	(808,000)		1.54
Options outstanding, December 31, 2018	**3,072,250**		**1.43**
Granted	1,248,000		1.18
Exercised	(77,500)		0.62
Forfeited	(744,750)		1.57
Options outstanding, September 30, 2019	**3,498,000**	**$**	**1.33**

During the nine months ended September 30, 2019, the Company issued 16,560 (2018 – 38,734) common shares for the cashless exercise of 38,000 (2018 – 67,500) stock options.

As at September 30, 2019, the Company had the following stock options outstanding, entitling the holders to purchase one common share for each stock option held as follows:

	Options outstanding	Weighted average remaining term (years)	Options exercisable	Weighted average remaining term (years)
$0.00 - 0.99	973,250	2.83	624,750	1.88
$1.00 - 1.99	2,197,250	3.64	1,001,083	3.22
$2.00 - 2.50	327,500	3.75	127,916	3.72
	3,498,000	**3.42**	**1,753,749**	**2.78**

(In thousands of Canadian dollars)

7. Share capital (continued)

(c) Stock options (continued)

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

	Nine months ended	
	September 30, 2019	**September 30, 2018**
Expected option life	**5 years**	5 years
Risk-free interest rate	**1.79%**	2.06%
Dividend yield	**0%**	0%
Volatility	**52%**	56%
Forfeiture	**30%**	0%

(d) Restricted share units ("RSUs")

RSU transactions are summarized as follows:

	Number of RSUs
RSU outstanding, December 31, 2017	**391,000**
Granted	56,000
Settled	(232,000)
Forfeited	(86,000)
RSU outstanding, December 31, 2018	**129,000**
Exercised	(43,000)
RSU outstanding, September 30, 2019	**86,000**

(e) During the three and nine months ended September 30, 2019, the Company recorded $59 and $404 (2018 - $222 and $830) of share-based payments, respectively, relating to the fair value of stock options and RSUs vesting during the period with a corresponding increase to contributed surplus.

(In thousands of Canadian dollars)

8. Related party transactions

The remuneration of key management for the three and nine months ended September 30, 2019 and 2018 is as follows:

	Three months ended		Nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Cash-based payments	**$ 338**	$ 334	**$ 1,054**	$ 1,199
Share-based payments	**44**	75	**228**	471
	$ 382	$ 409	**$ 1,282**	$ 1,670

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

9. Segmented information

(a) Revenue

The Company carries on business in the semiconductor industry and all sales and costs are made in this segment. Revenue is disaggregated by primary geographical market as follows:

	Three months ended		Nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Primary geographical markets				
United States	**$ 4,765**	$ 5,475	**$ 15,025**	$ 22,819
Asia	**3,977**	4,577	**8,855**	15,652
	$ 8,742	$ 10,052	**$ 23,880**	$ 38,471

(b) Assets

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

(c) Major customers

Sales to the Company's three largest customers accounted for 78% and 81% of the Company's total sales for the three and nine months ended September 30, 2019 (2018 – 76% and 80%), respectively.

(d) Operating income

The Company defines operating income as earnings before finance income; accretion expense on contingent consideration; change in fair value of contingent consideration; gain on sale of assets; foreign exchange gain (loss); and income taxes.

(In thousands of Canadian dollars)

10. Financial instruments and fair values

Measurement categories, fair values and valuation methods

The Company's financial assets and liabilities, with the exception of contingent consideration liability, are measured using amortized costs which approximates fair value due to the nature of these instruments:

	September 30, 2019		December 31, 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets	**$ 37,446**	**$ 37,446**	$ 46,472	$ 46,472
Financial liabilities	**4,102**	**4,102**	3,524	3,524

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):

			Fair value	
September 30, 2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 2,477	$ -	$ -	$ 2,477

			Fair value	
December 31, 2018	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 3,329	$ -	$ -	$ 3,329

The Company 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 $25. During the three and nine months ended September 30, 2019, the Company recorded accretion expense of $127 and $404 (2018 - $187 and $570) in relation to contingent consideration, respectively, reflecting the change in fair value of liability that is attributable to market risk.

(In thousands of Canadian dollars)

10. Financial instruments and fair values (continued)

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 September 30, 2019 and December 31, 2018:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
As at September 30, 2019	**90%**	**9%**	**1%**	**0%**	**0%**
As at December 31, 2018	98%	2%	0%	0%	0%

As at September 30, 2019, 10% (December 31, 2018 – 2%) 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 nine months ended September 30, 2019, the Company did not incur any bad debt expense (2018 – recovery of $5 and expense of $93, respectively).

Liquidity risk

At September 30, 2019, the Company had a $130 credit card facility (December 31, 2018 - $80) with a Canadian Chartered bank.

Market risk

Foreign exchange risk

At September 30, 2019, the Company held net current monetary assets in United States dollars ("USD") equal to $23,032 (December 31, 2018 - $27,095). The Company estimates the impact of a 10% change in the Canadian dollar exchange rate on its net current monetary assets to be $2,303 (December 31, 2018 - $2,710).

Interest rate risk

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

(In thousands of Canadian dollars)

11. Expense by nature

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Wages and employee benefits	**$ 2,686**	$ 2,686	**$ 8,079**	$ 8,356
Depreciation of property and equipment	**406**	221	**1,201**	927
Amortization of intangible assets	**261**	374	**747**	1,025
Share-based payments	**59**	333	**404**	941
Cost of sales and other	**3,609**	4,265	**10,750**	15,830
Total	**$ 7,021**	$ 7,879	**$ 21,181**	$ 27,079

12. Capital risk management

The Company considers shareholders' equity as capital, the book value of which totaled $48,602 at September 30, 2019 (December 31, 2018 - $53,665).

13. Restatement to comparative financial information

As described in the most recent annual consolidated financial statements for the years ended December 31, 2018 and 2017, the Company restated its comparative financial information related to a previously unreported liability of income taxes owing to a foreign jurisdiction. As a result, the Company restated its condensed interim consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2018. This resulted in a decrease of $1,581 in retained earnings as at January 1, 2018. For further details, please refer to the consolidated financial statements for the years ended December 31, 2018 and 2017.