CONSOLIDATED FINANCIAL STATEMENTS OF

Photon Control Inc.

For the years ended December 31, 2019 and 2018

ACCURATE RELIABLE RESPONSIVE

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Photon Control Inc.

Opinion

We have audited the consolidated financial statements of Photon Control Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants,
The engagement partner on the audit resulting in this auditors' report is Konstantin Polyakov.

Vancouver, Canada
March 16, 2020

PHOTON CONTROL INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Note		December 31, 2019		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		**$**	**33,400**	$	42,407
Trade and other receivables			**4,051**		4,065
Income taxes receivable			**714**		-
Inventories	4		**6,459**		5,515
Prepaid expenses and deposits			**575**		468
Total current assets			**45,199**		52,455
Property and equipment	5		**6,752**		6,297
Intangible assets	6		**3,386**		4,215
Goodwill	7		**849**		849
Deferred tax assets	12		**1,915**		1,056
Total assets		**$**	**58,101**	$	64,872
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**4,318**	$	3,524
Income taxes payable			-		4,354
Current portion of contingent consideration	8		**1,419**		1,118
Current portion of lease liabilities	9		**272**		-
Total current liabilities			**6,009**		8,996
Contingent consideration	8		**1,473**		2,211
Lease liabilities	9		**1,241**		-
Total liabilities			**8,723**		11,207
Shareholders' equity					
Share capital	10		**29,366**		30,833
Contributed surplus	10		**4,838**		4,463
Accumulated other comprehensive loss			**(121)**		(125)
Retained earnings			**15,295**		18,494
Total shareholders' equity			**49,378**		53,665
Total liabilities and shareholders' equity		**$**	**58,101**	$	64,872

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:

"Nigel Hunton", Director

"Ronan McGrath", Director

PHOTON CONTROL INC.

Consolidated Statements of Net Income and Comprehensive Income

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

	Note	Year ended December 31, 2019	December 31, 2018
Revenue	14	**$ 32,730**	$ 46,704
Cost of sales		**15,165**	21,057
Gross profit		**17,565**	25,647
Operating expenses			
General and administrative		**6,516**	7,035
Engineering	13	**4,404**	3,525
Sales and marketing		**1,902**	2,529
Total operating expenses		**12,822**	13,089
Operating income		**4,743**	12,558
Finance income		**654**	356
Accretion expense on contingent consideration	8	**(520)**	(748)
Change in fair value of contingent consideration	8	**(115)**	(141)
Gain on sale of assets		**-**	166
Foreign exchange (loss) gain		**(1,264)**	2,499
		(1,245)	2,132
Net income before taxes		**3,498**	14,690
Income taxes	12	**1,127**	4,007
Net income		**2,371**	10,683
Other comprehensive income:			
(Item that may be reclassified to income in the future)			
Unrealized gain (loss) from foreign exchange translation of subsidiary		**4**	(125)
Total comprehensive income		**$ 2,375**	$ 10,558
Basic and diluted earnings per share			
Weighted average common shares, basic		**106,238,776**	110,814,812
Weighted average common shares, diluted		**106,614,958**	111,738,931
Basic earnings per share		**$ 0.02**	$ 0.10
Diluted earnings per share		**$ 0.02**	$ 0.10

See accompanying notes to the consolidated financial statements

PHOTON CONTROL INC.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Note	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	10 (b)	(474)	-	-	(2,541)	(3,015)
Share-based payments	10 (e)	-	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		88	(88)	-	-	-
Repurchase of common shares for cancellation	10 (b)	(1,597)	-	-	(5,498)	(7,095)
Share-based payments	10 (e)	-	481	-	-	481
Adjustment on initial application of IFRS 16	3	-	-	-	(72)	(72)
Unrealized gain from foreign exchange translation of subsidiary		-	-	4	-	4
Net income for the period		-	-	-	2,371	2,371
Balance, December 31, 2019		**$ 29,366**	**$ 4,838**	**$ (121)**	**$ 15,295**	**$ 49,378**

See accompanying notes to the consolidated financial statements

PHOTON CONTROL INC.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Year ended	
	December 31, 2019	**December 31, 2018**
Operating activities		
Net income for the period	**$ 2,371**	$ 10,683
Adjustments for		
Depreciation of property and equipment	**1,610**	1,460
Amortization of intangible assets	**1,005**	1,316
Share-based payments	**481**	769
Accretion expense on contingent consideration	**520**	748
Change in fair value of contingent consideration	**115**	141
Gain on sale of assets	**-**	(166)
Finance income	**(654)**	(356)
Income tax expense	**1,127**	4,007
Net change in non-cash working capital items		-
Trade and other receivables	**14**	(672)
Inventories	**(944)**	(1,463)
Prepaid expenses and deposits	**(107)**	(189)
Accounts payable and accrued liabilities	**794**	(646)
Income taxes paid	**(7,054)**	(3,004)
Interest paid	**(95)**	(20)
Net cash (used in) provided by operating activities	**(817)**	**12,608**
Financing activities		
Repurchase of common shares for cancellation	**(7,095)**	(3,015)
Payment of contingent consideration	**(1,072)**	(1,565)
Payment of lease liabilities	**(257)**	-
Proceeds from exercise of stock options	**24**	274
Restricted cash	**-**	53
Net cash used in financing activities	**(8,400)**	(4,253)
Investing activities		
Purchase of property and equipment	**(367)**	(827)
Purchase of intangible assets	**(176)**	(67)
Proceeds from sale of assets	**-**	350
Interest received	**749**	376
Net cash provided by (used in) investing activities	**206**	(168)
Net (decrease) increase in cash and cash equivalents	**(9,011)**	8,187
Cash and cash equivalents, beginning of period	**42,407**	34,345
Effects of foreign exchange on cash and cash equivalents	**4**	(125)
Cash and cash equivalents, end of period	**$ 33,400**	$ 42,407

See accompanying notes to the 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 Suite 2600, Three Bentall Centre, 595 Burrard Street, PO Box 49314, Vancouver, British Columbia, Canada, V7X 1L3.

These consolidated financial statements of the Company for the years ended December 31, 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 March 16, 2020.

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise noted.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements as issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC") applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention including International Accounting Standard 1, Presentation of Financial Statements ("IAS 1"), except for contingent consideration liability, which is recorded at fair value.

Use of critical accounting judgments and estimates

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

2. Basis of presentation (continued)

Valuation of contingent consideration

The Company recognizes the fair value of contingent consideration relating to acquisitions on the date the transaction closes. Contingent consideration is classified as either a liability or equity. Contingent consideration classified as a liability is carried at fair value with changes in fair value recorded in the consolidated statements of net income and comprehensive income. Contingent consideration classified as equity is not remeasured subsequent to initial recognition.

Contingent consideration classified as a liability is measured at fair value based on management's best estimate of future royalties on revenues earned from defined products at the date of acquisition and is subsequently revalued at each financial reporting period. Changes in management's estimate of royalties could have a material impact on the valuation of the contingent consideration classified as a liability. The current portion of contingent consideration is based on the Company's estimate of the value that will be payable within twelve months.

3. Significant accounting policies

Consolidation

The financial statements of the Company consolidate the accounts of Photon Control Inc. and its subsidiaries.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation

(i) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent’s functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

3. Significant accounting policies (continued)

- Income and expenses for each statement of net income and comprehensive income are translated at average exchange rates in the month they are recorded; and
- All resulting translation differences are included in accumulated other comprehensive income.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of net income and comprehensive income.

Business combinations

Acquisitions have been accounted for using the acquisition method required by IFRS 3, Business Combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. On conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recognized in the consolidated statements of net income and comprehensive income. Transaction costs the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9, Financial Instruments ("IFRS 9"), is measured at fair value with the changes in fair value recognized in the consolidated statements of net income and comprehensive income.

Goodwill arising on acquisition is initially measured as the excess of the fair value of the consideration transferred over the fair value of the net identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities). If the consideration transferred is lower than the fair value of the net identifiable assets acquired, the difference is recognized immediately in the consolidated statements of net income and comprehensive income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid interest-bearing term deposits that are readily convertible to known amounts of cash with original terms to maturity of three months or less. The carrying amounts approximate fair values due to the short-term nature of these instruments.

Financial instruments

The Company's financial instruments consist of basic loans and receivables, and simple financial liabilities arising from normal business operations, and has assessed its financial instruments to be measured and classified at amortized cost other than contingent consideration, which is classified as a financial liability designated as fair value through profit or loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

(a) It is held with a business model whose objective is to hold assets to collect contractual cash flows; and

(b) Its contractual term gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the Company's financial assets are classified as amortized cost under IFRS 9.

IFRS 9 uses an expected credit loss impairment model that is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For trade receivables, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statements of net income and comprehensive income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

3. Significant accounting policies (continued)

Impairment of financial and non-financial assets

(a) Financial assets

Impairment of financial assets is determined using a three-stage impairment model, based on a range of possible outcomes weighted by the probability of their occurrence as well as reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Credit exposures are categorized into one of the three stages, depending on the increase in credit risk since initial recognition. The model determines the amount of impairment to be recognized as expected credit losses ("ECL"), which are discounted to the reporting date.

The Company will recognize, at a minimum, the ECL for the next twelve months in profit or loss (Stage 1). Lifetime ECL will be recognized based on the entire remaining life of the assets for which there is a significant increase in credit risk after initial recognition (Stages 2 and 3).

(b) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories which are separately assessed, are reviewed on each reporting date to determine whether there are any events or changes that are indicators of impairment. If such indicators exist, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or "CGU"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, future discounted cash flows are estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statements of net income and comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

Management allocates and monitors its goodwill based on its CGU and accordingly, goodwill is assessed for impairment together with the assets and liabilities of that CGU.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Inventories

Inventory is comprised of optical, mechanical and electronic components and finished goods, and is stated at the lower of cost and net realizable value.

3. Significant accounting policies (continued)

Cost is determined on a weighted cost basis, and includes the cost of direct materials, direct labour and other overhead costs. Labour costs are allocated to items based on standard labour rates. Fixed and variable overhead are allocated to production activities in converting materials to finished goods.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Inventory is regularly reviewed for obsolescence and is recorded net of any obsolescence provisions. When there is a significant change in economic circumstances, inventory that had been previously written down below cost may be written back up provided the reversal does not exceed the original write down.

Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the items. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is recognized in the statements of net income and comprehensive income using the following depreciation methods and rates:

Asset	Method	Rate
Computers, office furniture and equipment	Declining balance	20%
Laboratory equipment	Declining balance	15 - 20%
Leasehold improvements	Straight-line	Lesser of initial term of lease and useful life of assets
Production equipment	Declining balance	30%
Right-of-use assets	Straight-line	Over the term of the lease

Intangible assets

Identifiable intangible assets acquired either individually or with a group of other assets are initially recognized or measured at cost. Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are as follows:

3. Significant accounting policies (continued)

Asset	Method	Rate
Acquired technologies	Declining balance	30%
Computer software	Declining balance	30 - 100%
Patents	Declining balance	25%
Reacquired rights	Straight-line	Remaining contractual term

Goodwill

Goodwill represents the excess of costs of an acquisition over the fair value of the identifiable net assets acquired.

Goodwill is tested for impairment annually on December 31 and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are discounted where the effect is material.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data.

Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of net income and comprehensive income, except to the extent that it relates to items recognized directly in shareholders' equity. In this case, the tax is also recognized directly in shareholders' equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition

3. Significant accounting policies (continued)

of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined on a non-discounted basis using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Company adopted IFRIC 23, Uncertainty over Income Tax Treatments 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.

Leases

The Company adopted IFRS 16, Leases 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 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.

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:

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Revenue recognition

Revenue from sale of products is recognized based on individual contract terms at the point in time when control of the product transfers to the customers, which usually occurs at the time shipment is made. For products sold on a consignment basis, revenue is recognized at the point in time the customer draws down the consigned products. Revenue for service is recognized when service is rendered. Revenue is measured and recorded at the most likely amount of consideration the Company expects to receive.

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 (loss) gain; and income taxes.

Research and development

Development costs are capitalized in the event they meet capitalization criteria under IFRS, otherwise they are expensed as incurred. To date, no development costs have been capitalized.

Share capital

Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from share capital, net of any tax effects.

Share-based payments

Stock options

The Company grants stock options to employees, directors and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant-date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The grant-date fair value of stock options granted to employees, directors and consultants is recognized as share-based payment expense, with a corresponding increase in equity, over the period that the individual becomes unconditionally entitled to the stock options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of stock options that do meet the related service conditions at the vesting date.

Restricted share units

The Company grants restricted share units (“RSUs”) to directors. The RSU plan provides eligible persons the right to receive, at the discretion of the Board of Directors, common shares, without any monetary consideration payable to the Company. Each tranche in an award is considered a separate award with its own vesting period and grant-date fair value. Each RSU is convertible into one common share.

3. Significant accounting policies (continued)

The Company recognizes compensation expenses for RSUs awarded based on the grant-date fair value of the common shares. The grant-date fair value, which is determined by multiplying the Company's share price by the number of RSUs granted, is amortized over the vesting period and is included in expenses with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of RSUs expected to eventually vest.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares using the treasury stock method.

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.

Future accounting pronouncements

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

4. Inventories

		December 31, 2019		December 31, 2018
Raw materials	**$**	**4,419**	$	3,666
Work in progress		**821**		594
Finished goods		**1,219**		1,255
Total	**$**	**6,459**	$	5,515

For the year ended December 31, 2019, inventories recognized as an expense in cost of sales amounted to $11,986 (2018 - $17,268). During the period, inventories were reviewed for obsolescence as part of ongoing operations. As at December 31, 2019, the obsolescence provision against inventories totaled $880 (2018 - $730).

5. 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	233	3	47	15	382
Balance, December 31, 2019	**$ 1,471**	**$ 1,738**	**$ 4,044**	**$ 2,599**	**$ 1,698**	**$ 11,550**
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	182	205	535	410	278	1,610
Balance, December 31, 2019	**$ 717**	**$ 810**	**$ 1,363**	**$ 1,630**	**$ 278**	**$ 4,798**
Net Book Value						
At December 31, 2018	$ 852	$ 900	$ 3,213	$ 1,332	$ -	$ 6,297
At December 31, 2019	**754**	**928**	**2,681**	**969**	**1,420**	**6,752**

For the year ended December 31, 2019, the Company recorded depreciation expense of $748 and $862 (2018 - $756 and $704) within cost of sales and operating expenses, respectively.

6. 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		84		-		176
Balance, December 31, 2019	**$**	**4,531**	**$**	**626**	**$**	**2,000**	**$**	**7,157**
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		734		84		187		1,005
Balance, December 31, 2019	**$**	**2,766**	**$**	**491**	**$**	**514**	**$**	**3,771**
Net Book Value								
At December 31, 2018	$	2,407	$	135	$	1,673	$	4,215
At December 31, 2019		**1,765**		**135**		**1,486**		**3,386**

For the year ended December 31, 2019, the Company recorded amortization expense of $921 and $84 (2018 - $1,219 and $97) within cost of sales and operating expenses, respectively.

7. Goodwill

Goodwill of $849 arose as a result of the acquisition of Photon Control R&D Ltd. ("Photon R&D") in 2017.

The Company performs its impairment test at least annually on December 31 or whenever there is an indication of impairment, for its sole CGU containing goodwill. The recoverable amount of its CGU was determined based on value in use calculations, covering a five-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using growth rates for revenue estimated by management. The cash flow projection was based on management's estimate of future operating results. The present value of the expected cash flows was determined by applying a suitable discount rate, which was 20% for 2019 (2018 – 20%).

The discount rate reflected appropriate adjustments relating to market risk and specific risk factors of the CGU.

Management's key assumptions to cash flow forecasting included moderately increasing net profit margins, based on past experience and current trends of the markets.

7. Goodwill (continued)

The recoverable amount of the CGU based on value in use exceeded its carrying value by approximately $57,000.

Apart from the considerations in determining the value in use of the CGU described above, the Company was not aware of any other probable changes that would necessitate changes in its key estimates. Sensitivity testing was conducted as a part of the annual test.

The impairment test performed resulted in no impairment of goodwill as at December 31, 2019 and 2018.

8. Contingent consideration

The Company had historical relationships with Photon Control R&D Ltd. and DCD Management Ltd., and both were considered related parties as the companies had directors and shareholders in common. These relationships involved the Company outsourcing its research and development function to Photon R&D and certain administrative functions to both Photon R&D and DCD Management Ltd. On April 14, 2017 (the "Acquisition Date"), the Company acquired certain tangible and intangible assets of Photon R&D for cash consideration of $770 and contingent consideration with an estimated fair value of $4,088. In addition, the Company severed its relationship with DCD Management Ltd. settling all amounts owing and bringing all previously outsourced administrative functions in-house.

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

The contingent consideration is payable in cash and has been recorded as a liability on the consolidated statements of financial position at fair value based on management's best estimate of future revenues. The estimate uses a discount rate of 20% which incorporates the inherent risk of the Company achieving these future revenues.

For the year ended December 31, 2019, the Company recognized a change in fair value of contingent consideration which resulted in a loss of $115 (2018 – $141) as a result of a revision in management's estimate of the amount based on current information regarding the underlying revenue performance.

8. Contingent consideration (continued)

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

Contingent consideration, January 1, 2018	**$**	**4,005**
Payment of contingent consideration		(1,565)
Accretion expense		748
Change in fair value of contingent consideration		141
Contingent consideration, December 31, 2018		**3,329**
Payment of contingent consideration		(1,072)
Accretion expense		520
Change in fair value of contingent consideration		115
Contingent consideration, December 31, 2019	**$**	**2,892**

The table below presents the contingent consideration as at December 31, 2019 and 2018 recorded on the consolidated statements of financial position:

		December 31, 2019		**December 31, 2018**
Current portion	**$**	**1,419**	$	1,118
Long term portion		**1,473**		2,211
Total	**$**	**2,892**	$	3,329

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

9. Lease liabilities

The Company's lease liabilities are for office premises. The carrying amount of the lease liabilities as at December 31, 2019 was $1,513 and the breakdown of contractual undiscounted cash flows for lease liabilities and short-term leases by maturities as at December 31, 2019 is presented below:

9. Lease liabilities (continued)

	December 31, 2019
Less than one year	$ 391
One to five years	1,385
Total	**$ 1,776**

For the year ended December 31, 2019, interest expense on lease liabilities were $78, and lease expenses related to short-term leases were $172.

10. 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	79,598	88	(88)
Repurchase of common shares for cancellation	(5,490,000)	(1,597)	-
Share-based payments	-	-	481
Balance as at December 31, 2019	**104,513,571**	**$ 29,366**	**$ 4,838**

On January 2, 2018, the Company announced that the TSX Venture Exchange (the “TSXV”) 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 TSXV. 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. The 2018 NCIB covered the period from January 4, 2018 to January 3, 2019. For the year ended December 31, 2018, the Company re-purchased and cancelled 1,633,225 common shares pursuant to the 2018 NCIB at a cost of $3,015.

10. Share capital (continued)

(b) Issued and outstanding (continued)

On January 2, 2019, the Company announced that TSX accepted the Company's notice of intention to make a Normal Course Issuer Bid (the "2019 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 2019 NCIB covered the period from January 4, 2019 to January 3, 2020.

For the year ended December 31, 2019, the Company re-purchased and cancelled 5,490,000 common shares pursuant to the 2019 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.

(c) Stock options

The Company has a stock option plan from which it makes awards to employees, directors and consultants.

In 2018, the Company adopted a new fixed number stock option plan (the "Stock Option Plan"), which was approved by the Board of Directors, the shareholders of the Company and the TSX, pursuant of which up to 11,000,000 common shares may be reserved for issuance. The effective date of the Stock Option Plan was May 25, 2018, the date on which the common shares of the Company were listed for trading on the TSX. Stock options issued under the previous stock option plan were exchanged for stock options with the same terms under the Stock Option Plan. The Company did not record any additional expense as a result of the exchange.

At December 31, 2019, the Company's Stock Option Plan had 3,396,250 stock options issued and outstanding, and 7,582,310 stock options were unallocated and available for future grants. Any stock options that cease to be issuable for any reason (other than exercise or net settlement), including expiry of the stock option or surrender of the stock option will again be available for grant and issuance in connection with future stock options granted under the Stock Option Plan. For the year ended December 31, 2019, 77,500 stock options were exercised under previous stock option plans, nil stock options were exercised under the Stock Option Plan, and 21,440 stock options were cancelled following net settlement exercises.

10. Share capital (continued)

(c) Stock options (continued)

Stock options are awarded at a Canadian dollar exercise price equal to the closing market price of the Company's common shares on the trading day prior to the date of grant. The stock options generally vest over three years with one-third of the stock options vesting annually. The stock options have a five-year term from date of grant.

For the year ended December 31, 2019, the Company granted 1,440,000 stock options to employees of the Company (2018 - 920,000). The weighted average fair value of stock options granted is $0.54 (2018 - $1.04). 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	1,440,000	1.17
Exercised	(77,500)	0.62
Forfeited	(1,038,500)	1.65
Options outstanding, December 31, 2019	**3,396,250**	**$ 1.27**

During the year ended December 31, 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 December 31, 2019, the Company had the following stock options outstanding, entitling the holders to purchase one common share for each stock option held as follows:

10. Share capital (continued)

(c) Stock options (continued)

	Options outstanding	Weighted average remaining term (years)	Options exercisable	Weighted average remaining term (years)
$0.00 - 0.99	973,250	2.58	636,000	1.66
$1.00 - 1.49	1,723,000	3.64	687,333	3.00
$1.50 - 1.99	510,000	3.04	338,750	2.97
$2.00 - 2.50	190,000	3.41	81,250	3.40
	3,396,250	**3.24**	**1,743,333**	**2.52**

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

	Year ended	
	December 31, 2019	December 31, 2018
Expected option life	**5 years**	5 years
Risk-free interest rate	**1.79%**	2.07%
Dividend yield	**0%**	0%
Volatility	**52%**	56%
Forfeiture	**30%**	30%

(d) Restricted share units

The Company has an RSU plan from which it makes awards to directors.

The Company's RSU plan was adopted by the Board of Directors on March 30, 2016 and approved by the shareholders of the Company on May 3, 2016. The maximum number of common shares that may be issued pursuant to the RSU plan is limited to 1,000,000 common shares. In addition, the maximum number of common shares that may be reserved for issuance under the RSU plan, including common shares issuable under the Company's Stock Option Plan or any other share-based compensation arrangements, is 10% of the issued and outstanding common shares from time to time. At December 31, 2019, the Company had authorized 1,000,000 RSUs pursuant to the RSU plan, of which 43,000 RSUs were issued and outstanding, leaving nil RSUs available for future issue.

10. Share capital (continued)

(d) Restricted share units (continued)

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**
Settled	(86,000)
RSU outstanding, December 31, 2019	**43,000**

(e) During the year ended December 31, 2019, the Company recorded $481 (2018 - $769) of share-based payments relating to the fair value of stock options and RSUs vesting during the period with a corresponding increase to contributed surplus.

11. Related party transactions

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

The following table discloses the compensation amount of the Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's executive officers.

The remuneration of key management for the years ended December 31, 2019 and 2018 is as follows:

	Year ended	
	December 31, 2019	**December 31, 2018**
Cash-based payments	**$ 1,361**	$ 1,702
Share-based payments	**288**	327
	$ 1,649	$ 2,029

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

12. Income tax

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of net income and comprehensive income for the years ended December 31, 2019 and 2018:

	Year ended	
	December 31, 2019	**December 31, 2018**
Net income before taxes	**$ 3,498**	$ 14,690
Statutory tax rate	**27%**	27%
Expected income taxes	**944**	3,966
Non-deductible items	**158**	311
Change in estimates	**52**	(232)
Differences in rates in foreign jurisdictions	**(1)**	6
Recognition of unrecognized deferred tax asset	**-**	(44)
Other	**(26)**	-
Total income taxes	**$ 1,127**	$ 4,007
Current tax expense	**1,986**	5,365
Deferred tax recovery	**(859)**	(1,358)
Total income taxes	**$ 1,127**	$ 4,007

12. Income tax (continued)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets for financial reporting purposes and their corresponding value for tax purposes. The deferred tax assets as at December 31, 2019 and 2018 are comprised of the following:

	December 31, 2019	December 31, 2018
Trade and other receivables	**$ (26)**	$ (40)
Inventories	**886**	391
Property and equipment	**(385)**	(27)
Intangible assets	**43**	(394)
Reserves	**243**	225
Contingent consideration	**781**	901
Lease liabilities	**408**	-
Net capital losses	**26**	-
Other	**(35)**	-
Total deferred tax assets	**1,941**	1,056
Deferred tax assets not recognized	**(26)**	-
Total deferred tax assets	**$ 1,915**	$ 1,056

The underlying deductible temporary differences are as follows:

	December 31, 2019	December 31, 2018
Trade and other receivables	**$ (98)**	$ (148)
Inventories	**3,282**	1,450
Property and equipment	**(1,425)**	(98)
Intangible assets	**161**	(1,458)
Reserves	**904**	800
Contingent consideration	**2,894**	3,332
Lease liabilities	**1,513**	-
Net capital losses	**96**	-
Other	**(136)**	-
Total deductible temporary differences	**7,191**	3,878
Deductible temporary differences not recognized	**(96)**	-
Total deductible temporary differences	**$ 7,095**	$ 3,878

13. Investment tax credits

For the year ended December 31, 2019, the Company recognized investment tax credits of $580 (2018 – $nil) in the consolidated statements of net income and comprehensive income.

14. Segmented information

The Company has one operating and one reportable segment. The Company's operations are entirely related to revenues and operations of the Company's products used by the largest wafer fabrication equipment manufacturers and end users in the semiconductor and solid-state industries.

The Company's chief operating decision maker is the Chief Executive Officer.

(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:

	Year ended	
	December 31, 2019	**December 31, 2018**
Primary geographical markets		
United States	**$ 20,788**	$ 26,285
Asia	**11,942**	20,419
	$ 32,730	$ 46,704

(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 80% of the Company's total sales for the year ended December 31, 2019 (2018 – 79%).

15. Financial instruments and fair values

Measurement categories, fair values and valuation methods

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statements of net income and comprehensive income.

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:

15. Financial instruments and fair values (continued)

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets	**$ 37,451**	**$ 37,451**	$ 46,472	$ 46,472
Financial liabilities	**4,318**	**4,318**	3,524	3,524

Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

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

			Fair value	
December 31, 2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Contingent consideration	$ 2,892	$ -	$ -	$ 2,892

			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 $23. During the year ended December 31, 2019, the Company recorded accretion expense of $520 (2018 - $748) in relation to contingent consideration, reflecting the change in fair value of liability that is attributable to market risk.

15. 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

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

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

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

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

The following table provides information regarding the aging of trade and other receivables as at December 31, 2019 and 2018:

	Neither past due nor impaired	Aged 1 - 30 days	Aged 31 - 60 days	Aged 61 - 90 days	Aged 90 + days
As at December 31, 2019	**93%**	**5%**	**2%**	**0%**	**0%**
As at December 31, 2018	98%	2%	0%	0%	0%

15. Financial instruments and fair values (continued)

As at December 31, 2019, 7% (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 December 31, 2019, the provision against trade and other receivables was $nil (2018 - $14). At each period end, the Company reviews the collectability of outstanding receivables. Specific accounts are only written off once all collection efforts have been explored or when legal bankruptcy has occurred. During the year ended December 31, 2019, the Company did not incur any bad debt expense (2018 – $93).

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

Liquidity risk

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

At December 31, 2019, the Company had a $220 credit card facility (2018 - $80) with a Canadian Chartered bank.

Market risk

Foreign exchange risk

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

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

At December 31, 2019, the Company held net current monetary assets in USD equal to $23,659 (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 $2,366 (2018 - $2,710).

Interest rate risk

The Company is exposed to interest rate risk by virtue of holding cash and cash equivalents. The Company's objective in managing its cash is to provide sufficient funds to meet day-to-day requirements and placing excess cash in short-term deposits.

16. Expense by nature

	Year ended	
	December 31, 2019	December 31, 2018
Wages and employee benefits	**$ 10,385**	$ 11,182
Depreciation of property and equipment	**1,610**	1,460
Amortization of intangible assets	**1,005**	1,316
Share-based payments	**481**	769
Cost of sales and other	**14,506**	19,419
Total	**$ 27,987**	$ 34,146

17. Capital risk management

The Company considers shareholders' equity as capital, the book value of which totaled $49,378 at December 31, 2019 (2018 - $53,665).

The Company manages its capital structure to safeguard its ability to operate as a going concern, to provide sufficient resources to meet day-to-day operating requirements, to allow it to enhance existing product offerings as well as develop new ones, and to have the financial ability to expand the size of its operations by taking on new customers and new markets. In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the upfront cost of taking on new clients and expanding to new markets.

The Company's officers and senior management are responsible for managing the Company's capital and do so through regular meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.