

## Management's Discussion and Analysis

For the year ended December 31, 2014

*(in Canadian dollars unless otherwise noted)*

Management's discussion and analysis ("MD&A") is current to April 29, 2015 and is management's assessment of the operations and the financial results together with future prospects of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013 and notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise. Additional information relevant to Eurocontrol's activities, including Eurocontrol's press releases can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

*This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. The forward-looking statements in this MD&A are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations. The critical risks, uncertainties, and assumptions include, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids; interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure and services; the ability to continue to build and improve on proven manufacturing capabilities and innovate new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; and political unrest. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements included in this MD&A are made as of the date of this MD&A and other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

### BUSINESS OVERVIEW AND STRATEGY

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "EUO". The Company participates in the energy security and authentication, verification and certification markets globally. Eurocontrol has three wholly owned subsidiaries: Global Fluids International S.A. ("GFI"), Xenemetrix Ltd. ("Xenemetrix") and XwinSys Technology Development Ltd. ("XwinSys"). GFI and Xenemetrix are global pioneers in developing and implementing innovative molecular marking systems for the oil industry. Through its proprietary Petromark™ integral system and coupled with Xenemetrix's Energy-Dispersive X-ray Fluorescence ("EDXRF") technology, GFI has developed a four-part solution consisting of a molecular marker, injection, monitoring and control components to combat fuel adulteration and theft and increase fuel tax revenues. Oil industry cost realities along with GFI's 10-year research and development ("R&D") efforts is facilitating the pursuit of numerous oil marking opportunities worldwide. XwinSys is currently developing technology and intellectual property that will combine 2D and 3D image processing technology, from Brossh Inspection Systems Ltd. of Israel combined with Xenemetrix's EDXRF for particular use in the semi-conductor industry.

The majority of Eurocontrol's revenues are denominated in US dollars while a significant amount of the Company's marketing and administration costs are denominated in currencies other than the US dollar; primarily the Canadian dollar and the Israeli shekel. To the extent that the exchange rates between the US dollar and the Canadian dollar and Israeli Shekel fluctuate, the Company will experience an impact on its earnings.

As Eurocontrol's business expands internationally, the Company will be exposed to additional risk relating to international operations. Eurocontrol intends to grow its international business operations. Eurocontrol's international operations expose the Company to additional risk unique to such international markets, including but not limited to the following:

- Increased credit management risks and greater difficulties in collecting receivables;
- Unexpected changes in regulatory requirements, exchange rates, trading policies and other barriers;
- Uncertainties of International laws and enforcement relating to the protection of intellectual property;
- Economic or political instability;
- Potential adverse tax consequences; and
- Difficulty in managing a worldwide workforce in compliance with business practices and local law, that vary from country to country.

The growth of Eurocontrol through acquisitions and integration of complementary businesses is an important component of the Company's business strategy. Eurocontrol continues to seek opportunities to acquire or invest in businesses, products or technologies to expand, complement or otherwise that relate to the Company's business.

## LEADERSHIP TEAM

W. Bruce Rowlands - Chairman, President and Chief Executive Officer

James Fairbairn – Director <sup>(1)(2)</sup>

Gadi Gonen – Director and Chief Operating Officer

Charlotte May – Corporate Secretary

General (Retired) Sir Michael Rose - Director

Andres Tinajero – Chief Financial Officer

Kenneth Wawrew – Director <sup>(1)(2)</sup>

Paul Wood – Director <sup>(1)(2)</sup>

Dr. Eli Zahavi - Director

Notes:

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

\* Denotes Committee Chair

Experience profiles for the board and management are available at [www.eurocontrol.ca](http://www.eurocontrol.ca).

## RECENT DEVELOPMENTS AND OUTLOOK

The Company revenue for the year ended December 31, 2014 decreased to \$5,956,733 (US\$5,395,103) from \$6,448,834 (US\$5,934,005) during the same year ended December 31, 2013, an 8% decrease in Canadian dollar sales which reflect a 9% decrease in US dollar sales offset by the increase in foreign exchange. Revenue for the three month period decreased from revenue of \$1,755,631 (US\$1,605,515) during 2013 to revenue of \$1,454,225 (US\$1,317,113) during 2014, a 17% decrease in Canadian dollars which reflects an 18% decrease in US dollar sales offset by the increase in foreign exchange. The decrease in US dollar sales is due to lower than expected sales with clients in Africa. Included below is a description of the recent developments and outlook for each of the Company's subsidiaries. Additionally, the Company continues to evaluate acquisition opportunities that are synergic to the authentication, verification and certification markets.

Eurocontrol believes that the market for its Petromark™ technology has strong long term growth prospects.

## **GFI**

As at December 31, 2014, GFI holds contracts with the several national governments relating to the sale of fuel markers and related monitoring services. Upon entering into the contracts with these governments, GFI entered into separate contracts “supply agreements” with third parties for the execution of the government contracts and for the supply to these entities of fuel markers and related ancillary services necessary for the contracts’ execution.

GFI accounts for \$4,448,342 (US\$4,028,930) (2013 - \$4,561,565 (US\$4,171,527)) of the revenue generated for the year ended December 31, 2014, representing 75% (2013 – 71%) of overall revenue.

Over the past year, GFI has expanded its Petromark™ technology into Albania and has renewed its contracts with Uganda and Tanzania. Albania has taken the lead in the Balkan area against corruption in the fuel market and the implementation of a national fuel marking and tracing contract will improve fuel quality and the environment, and increase fuel tax collections. The Albanian contract was signed in June 2013 and commenced in September 2013. In October 2012, GFI signed a five year contract extension with the Ministry of Energy and Mineral Development, Government of the Republic of Uganda for the continued deployment of Petromark™ technology, and services were expanded to include all local logistics in country. GFI is pursuing a number of additional opportunities some of which are currently in the tender process and others that are undergoing pilot projects. GFI continues to expand its global network and presence and to source marketing and distribution partnerships with new and well established distributors in all parts of the world. GFI has numerous opportunities developing in Africa, Europe and Asia where it anticipates being the technology provider to new hydrocarbon marking programs in these regions.

GFI holds Process Patents in the countries of China, India and Russia, Israel and the US. Additional process patent applications have been submitted in other countries and GFI continues to invest in R&D to expand the marking scope of its Petromark™ technology. GFI is the only company involved in fuel marking technology that is ISO 17025 accredited.

## **Xenemetrix**

Xenemetrix accounts for \$1,508,391 (US\$1,366,173) (2013 - \$1,887,269 (US\$1,725,898)) of the revenue generated for the year ended December 31, 2014, representing 25% (2013 – 29%) of overall revenue.

In 2013, Xenemetrix expanded the use of EDXRF to both the marine and extractive industries with the development of Petro-Marine XRF™ in February and a Geological Mapping Solution (“GMS”) in May.

Petro-Marine XRF™ is an onboard monitoring solution that facilitates regular and timely compliance of marine vessels with new and existing international regulations, and enhances the preventive maintenance process – leading to significant operational cost savings. The target market for the Petro-Marine XRF™ system is merchant ships of which there are approximately 55,000 currently in service worldwide providing the Company with an available market approximating US\$1.6 billion.

GMS is a mobile EDXRF system that provides an onsite laboratory level solution to rapidly analyze almost all sample types and shapes (solids, liquids, powders and thin films) and the GMS technology utilizing EDXRF enables location based geological data to be transferred immediately to the user’s server for reporting and monitoring significantly improving the user’s ability to analyze data in real time from exploration locations. The target markets for GMS include geological survey companies, geological and mineral exploration companies amongst others.

Xenemetrix remains focused on the development of new applications for its EDXRF and establishing new marketing and distribution agreements in various regions.

**XwinSys**

XwinSys is a research and development stage company that does not currently generate revenue. XwinSys has been focused on the development of synergistic combinations of EDXRF technology and automated 2D and 3D image processing technologies for the Semiconductor and related microelectronics industries. XwinSys continues to perform advanced demo applications for its prospective Semi-conductor customers with several of the largest global companies. Demonstrations are performed on the XwinSys 100 beta system which was the major milestone accomplishment of development efforts in 2012. In November 2012, XwinSys announced that it received a grant of US\$220,000 from The Office of the Chief Scientist of Israel for its "Wafer bumps inspection and measurement system" and based on the milestones that have been achieved, XwinSys was granted a second year grant of US\$250,000 in 2013 and a third year grant of US\$375,000 in 2014. These grants have represented 50% of the R&D budget. In 2013 and 2014, XwinSys continued working towards commercialization of its wafer bumps inspection and measurement system. There exists a significant demand for this technology in the Semi-conductor and related micro-electronics industries.

**SUMMARIZED FINANCIAL RESULTS**

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenue	1,454,225	1,755,631	5,956,733	6,448,834
Cost of sales:				
Cost of sales - direct production costs	(741,818)	(760,840)	(2,627,545)	(2,585,997)
Cost of sales - amortization and other non cash items	(113,300)	(261,706)	(453,203)	(1,108,340)
Gross profit	<u>599,107</u>	<u>733,085</u>	<u>2,875,985</u>	<u>2,754,497</u>
Expenses	778,913	617,447	3,127,645	3,223,950
Other expense (income)	(29,920)	(50,144)	(34,035)	(48,086)
Income tax expense	12,460	6,931	28,740	20,854
Net income (loss)	<u>(162,346)</u>	<u>158,851</u>	<u>(246,365)</u>	<u>(442,221)</u>
Basic and fully diluted loss per share	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>
EBITDA	<u>13,055</u>	<u>464,689</u>	<u>415,983</u>	<u>844,533</u>
EBIT	<u>(125,787)</u>	<u>190,202</u>	<u>(118,774)</u>	<u>(323,996)</u>

Revenues for the year ended December 31, 2014 amounted to \$5,956,733 (US\$5,395,103) compared to \$6,448,834 (US\$5,934,005) for the year ended December 31, 2013. These figures represent an 8% decrease in Canadian dollar sales which reflect a 9% decrease in US dollar sales offset by the increase in foreign exchange.

Revenues for the three months ended December 31, 2014 amounted to \$1,454,225 (US\$1,317,113) compared to \$1,755,631 (US\$1,605,515) for the three months ended December 31, 2013. These figures represent a 17% decrease in Canadian dollars which reflects an 18% decrease in US dollar sales offset by the increase in foreign exchange.

For the year ended December 31, 2014 the Company had a gross profit of \$2,875,985 (2013 – \$2,754,497). For the three month period ended December 31, 2014 the Company had gross profit of \$599,107 (2013 – \$733,085). These amounts include non-cash cost of sales items; consisting of amortization of technology rights, patents and deferred development costs amounting to \$113,300 (2013 - \$261,706) for the three month period ended December 31, 2014 and \$453,203 (2013 - \$1,108,340) for the year ended December 31, 2014. These non-cash cost of sales items are recurring costs based on the original development of the technology that the Company does not have any cost control over. Gross margin excluding of these non-cash cost of sales items is 56% for the year ended December 31, 2014 (2013 – \$60%), and 49% for the three month period ended December 31, 2014 (2013 – \$57%). The variance is due to a change in product mix in the current quarter in comparison with prior period. Gross margin has increased in both the three month period and year ended December 31, 2014 due to a change in estimate on the useful life of the patents and technology rights which caused a decrease in non-cash amortization cost of sales figures.

EBITDA for the year ended December 31, 2014 decreased by \$428,550 to \$415,983 in 2014 compared to \$844,533 in 2013. EBITDA for the three month period ended December 31, 2014 decreased by \$451,634 to \$13,055 in 2014 compared to \$464,689 in 2013.

The Company recorded a net loss of \$246,365 for the year ended December 31, 2014 compared to a net loss of \$442,221 for the comparable year ended December 31, 2013. For the three month period ended December 31, 2014 net loss was \$162,346 compared to an income of \$158,851 during the same period in 2013.

Direct cost of sales increased slightly in the year ended December 31, 2014 from \$2,585,997 in 2013 to \$2,627,545 in 2014. This was offset by a decrease in non-cash cost of sales from \$1,108,340 during 2013 to \$453,203, due to a decrease in amortization of technology rights and deferred development costs due to a change in estimate as described in notes 11 and 12 of the audited consolidated financial statements for the years ended December 31, 2014 and 2013. Similarly, for the three month period ended December 31, 2014, direct cost of sales decreased slightly from \$760,840 during 2013 to \$741,818 during 2014 and non-cash cost of sales decreased from \$261,706 during 2013 to \$113,300.

Expenses of \$3,127,645 for the year ended December 31, 2014 decreased in comparison with the expenses of \$3,223,950 for the year ended December 31, 2013. The decrease for the period is primarily due to share-based compensation expense in the amount of \$151,000 recognized on the granting of 5,112,500 stock options during 2013 (no stock options granted during 2014), and a decrease in administrative expenditures from \$840,656 in 2013 to \$787,192 in 2014, offset by R&D costs which increased to \$830,068 in 2014 from \$724,752 in 2013 due to costs in connection with a research agreement with a university in Israel. The remainder of the expenses remained fairly consistent between the two periods.

The Company also incurred a foreign exchange translation gain of \$53,671 and a gain of \$133,214 for the three month period and year ended December 31, 2014 respectively compared to a gain of \$75,124 and \$146,018 for the three month period and year ended December 31, 2013. The Company has loans payable denominated in US dollars and Euros. The Company's revenue is earned in US dollars. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

Interest expense amounted to \$24,099 and \$98,851 respectively for the three month period and year ended December 31, 2014, compared to \$24,987 and \$97,371 for the three month period and year ended December 31, 2013, mainly related to GFI's loans payable, payable to the former shareholders of GFI. As the balance of these loans decreases, the amount of interest expense is expected to decrease.

**SELECTED ANNUAL INFORMATION**

The information below should be read in conjunction with the MD&A, the consolidated financial statements and related notes and other financial information. The following is for the periods ended:

	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>	<b>Year Ended December 31, 2012</b>
	\$	\$	\$
Total revenue	5,956,733	6,448,834	5,008,040
Income (loss)	(246,365)	(442,221)	(1,367,732)
Income (loss) per share	(0.00)	(0.00)	(0.02)
Total assets	6,876,195	7,230,829	8,247,321

**SUMMARY OF QUARTERLY RESULTS**

The following tables set forth selected financial information for each of the Company's eight most recently completed quarters:

	<b>Q4 2014 \$</b>	<b>Q3 2014 \$</b>	<b>Q2 2014 \$</b>	<b>Q1 2014 \$</b>
Revenue	1,454,225	1,612,337	1,470,691	1,419,480
Cost of sales	(855,118)	(734,666)	(751,171)	(739,793)
Gross profit	599,107	877,671	719,520	679,687
Expenses	778,913	914,079	826,554	608,099
Other expense (income)	(348)	175	224	277
Interest expense	24,099	24,084	24,626	26,042
Foreign exchange loss (gain)	(53,671)	(62,617)	9,402	(26,328)
Income taxes expense (recovery)	12,460	4,029	(417)	12,668
	761,453	879,750	860,389	620,758
Net income (loss)	(162,346)	(2,079)	(140,869)	58,929
Basic and fully diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00
Total assets	6,876,195	7,115,271	7,082,649	7,685,769

	Q4 2013 \$	Q3 2013 \$	Q2 2013 \$	Q1 2013 \$
Revenue	1,755,631	1,530,889	1,816,035	1,346,279
Cost of sales	(1,022,546)	(397,700)	(1,082,062)	(790,482)
Gross profit	733,085	1,133,189	733,973	555,797
Expenses	617,447	1,317,563	694,730	995,757
Other expense (income)	(7)	918	1,298	(1,648)
Provision for HST recoverable	-	-	-	-
Interest expense	24,987	25,191	23,915	23,278
Foreign exchange loss (gain)	(75,124)	69,591	(102,152)	(38,333)
Income taxes expense (recovery)	6,931	5,145	8,339	439
	574,234	1,418,408	626,130	979,493
Net income (loss)	158,851	(285,219)	107,843	(423,696)
Basic and fully diluted loss per share	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.00)
Total assets	7,230,829	7,328,927	9,184,103	7,910,139

#### Disclosure of Outstanding Share Data as of April 29, 2015

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	89,160,738 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 6,812,500 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 15, 16 and 17 to the audited consolidated financial statements for the years ended December 31, 2014 and 2013 for more detailed disclosure of outstanding shares data.

#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

#### Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, amounts receivables, loan receivable, accounts payable and accrued liabilities, loans payable and amounts payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair values of these financial instruments approximate their carrying values.

#### Dividends

The Company has neither declared nor paid any dividends on its Common Shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

### **Assessment of Recoverability of Deferred Income Tax Assets**

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the deferred income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

### **Estimate of Stock Based Compensation and Associated Assumptions**

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 17 of the audited consolidated financial statements for the years ended December 31, 2014 and 2013 for full disclosure.

### **Assessment of Recoverability of Receivables**

The carrying amount of amounts receivable, are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

### **CARRYING VALUE OF BALANCE SHEET ITEMS**

Deferred development costs of \$299,900 as at December 31, 2014 (December 31, 2013 - \$337,388) represent fuel marker and analyzing equipment technology development costs that have been deferred and are being amortized over 10 years (life of the technology rights) and three years (life of the equipment), respectively. As of December 31, 2014, the equipment has been fully amortized.

Technology rights of \$2,288,941 as at December 31, 2014 (December 31, 2013 - \$2,654,718) represent technology rights assets relating to markers and detectors and XRF Systems are being amortized over their estimated useful lives on a straight-line basis of 10 years (ending in fiscal 2016) and seven years (ending in fiscal 2018), respectively. During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

As at December 31, 2014, the carrying value of the technology rights is \$2,288,941 (December 31, 2013 - \$2,654,718).

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of \$349,568. As at December 31, 2014, the carrying value of the intellectual property is \$299,630 (December 31, 2013 - \$349,568).

Total accounts payable, accrued liabilities, and loans payable amounted to \$2,063,407 as at December 31, 2014 (December 31, 2013 - \$2,327,309). The loans payable amounted to \$1,150,165 (December 31, 2013 - \$1,491,322) and are due to former shareholders of GFI who advanced funds to GFI prior to its acquisition by the Company. The loans payable consist of two amounts:

- Principal of €500,000 (\$698,066) (December 31, 2013 - €500,000 (\$731,420)) and accrued interest of €440,487 (\$614,978) (December 31, 2013 - €380,567 (\$556,708)) loaned by the former shareholders of GFI in order to post the bid bond in a tender, managed by EMRA (Energy Market Regulatory Authority, a statutory regulatory entity of the Turkish Government). This portion of the loans payable is reimbursed by first priority from the earlier of: (i) the results of the legal proceedings with EMRA, and/or (ii) the first income generated by GFI. This portion of the loans payable bears an annual interest rate of 7.2%.

As at December 31, 2014, the Company repaid €116,664 (\$162,878), (December 31, 2013 - €nil (\$nil)) resulting in an outstanding balance of €823,823 (\$1,150,165).

- Principal of US\$850,000 (\$986,085) (December 31, 2013 - US\$850,000 (\$904,060) and accrued interest of US\$378,395 (\$438,976) (December 31, 2013 - US\$376,607 (\$400,559)). This portion of the loans payable bears an annual interest rate of 5.0%.

As at December 31, 2014, the Company repaid US\$1,228,395 (\$1,425,061), (December 31, 2013 - US\$1,035,563 (\$1,101,425)) resulting in an outstanding balance of \$nil (\$nil).

## **LIQUIDITY AND CASH FLOWS**

The Company ended fiscal 2014 with cash of \$2,268,199, compared to \$2,185,662 as at December 31, 2013. The Company had working capital of \$1,640,429 as at December 31, 2014 compared to working capital of \$1,015,751 as at December 31, 2013.

Cash provided from operating activities was \$86,582 during the year ended December 31, 2014 compared to cash provided of \$896,624 during the year ended December 31, 2013. Changes to cash flows from operating activities primarily relate to higher sales revenues during the comparative period.

Cash provided from investing activities was \$187,074 during the year ended December 31, 2014 compared to cash used of \$94,463 during the year ended December 31, 2013. Investing activities mainly relate to equipment and intangible asset acquisitions and disposals and loans. The amount of cash provided from increased due to loan repayments received on the loan provided to GFI U Ltd.

Cash used in financing activities was \$382,146 during the year ended December 31, 2014 compared to cash used in financing activities of \$309,275 during the year ended December 31, 2013. Financing activities mainly relate to the repayment of the loans payable and financings through private placements. The increase is due to repayments of loans payable made during the year ended December 31, 2014 of \$382,146 compared to repayments made during the year ended December 31, 2013 of \$309,275.

The Company's continuance as a going concern is dependent upon its ability to maintain profitable levels of operation. It is not possible to predict if the Company will maintain profitable levels of operations as the Company has posted net losses for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, will be adequate to meet its short-term working capital requirements during the next 12 months.

## **TRANSACTIONS WITH RELATED PARTIES**

### **Loans payable**

For the year ended December 31, 2014 \$98,851 (2013 - \$97,371) in interest was charged on the loans payable as described in note 14 of the audited consolidated financial statements for the years ended December 31, 2014 and 2013.

### **Compensation of key management personnel of the Company**

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the compensation committee.

The remuneration of directors and other members of key management personnel during the years ended December 31, 2014 and 2013 were as follows:

For the years ended December 31,	2014	2013
Short-term compensation and benefits	\$ 973,500	\$ 669,830
Share-based payments	-	126,000
	\$ 973,500	\$ 795,830

As at December 31, 2014, an amount of \$81,467 (December 31, 2013 - \$101,762) due to members of key management personnel, was included in accounts payable and accrued liabilities. This amount is unsecured, non-interest bearing and without fixed terms of repayment.

## ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Impairment of technology rights, deferred development and intellectual property assets** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property asset, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, the economic and legal environment in which the Company operates that are not within its control and which may affect the recoverability of such assets. Internal sources of information include the manner in which technology rights and deferred development assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's technology rights, deferred development and intellectual property assets, costs to sell the assets and the appropriate discount rate.
- **Share-Based Payments** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes** - The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and

legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.

- **Functional currency determination** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21 The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.
- **Revenue recognition** - Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

The Company accounts for sales of fuel markers, detectors and ancillary services separately.

#### Sale of Fuel Markers

The Company sells markers that are used for fuel marking and offers related ancillary services. While the Company has entered into separate fuel marking and monitoring services agreements with several governments, it has also entered into separate supply contracts for each country with unrelated parties who are to execute the agreements. As such, the Company's business is primarily the manufacture and sale of fuel markers and its related technologies, and not as a service provider in fuel marking services. The Company is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services to the end customer ("Buyer"). One feature suggesting that the Company is acting as an agent is that the amount the Company earns on sales is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer. The Company has concluded that it is acting as an agent in all of its revenue arrangements relating to fuel markers.

In general terms revenue related to the sale of goods and services is recognized when the following criteria are met:

- The significant risks and rewards of ownership of the fuel markers have passed to the Buyer; There is no continuing managerial involvement to the degree usually associated with the ownership or effective control of the fuel marker;
- The amount of revenue can be measured reliably. The right of return is limited to warrant returns. Warranty returns can be reasonably estimated at the time of shipment and, to date, warrant returns from distributors have not been material. Provision for warranties are established in accordance historic experience. It is probable that the economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In general all of the above factors are met when title passes to the buyer but this may not always be the case. The terms of each contract is examined to determine when the risks and rewards of ownership have been transferred from the Company to the Buyer and the following factors are also be considered:

- To what extent does the Company retain an obligation for unsatisfactory performance that is not covered by normal warranty provisions
- Are the proceeds from the sale contingent on the ultimate sale of the Buyer's good or services
- If the detectors are subject to installation, has the installation being completed and, if not, is installation a significant element of the contract
- Does the Buyer have the right to return the product and, if so, what degree of uncertainty is there in respect of returns. Company provides returns based on sales history.

As it is acting as agent, the Company accounts for the revenue earned from the supply contracts as opposed to the revenues generated under the agreements with the governments.

#### Sale of Energy Dispersive X-Ray Fluorescence ("EDXRF") systems

The Company acts as principal in the sale of EDXRF products, which results in gross revenue reporting, as it has exposure to the significant risks and rewards associated with the sale of goods. Revenue is recorded when the products have been delivered and ownership has been transferred. Features that indicate that the Company is acting as a principal include:

- The Company has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- The Company has inventory risk before or after the customer order, during shipping or on return;
- The Company has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- The Company bears the customer's credit risk for the amount receivable from the customer.

#### **RISKS AND UNCERTAINTIES**

The Company's Board of Directors has overall responsibility for the oversight of the Company's risk management policies. In carrying on its business, the Company is exposed to a variety of risks, including the risks described elsewhere in this MD&A. The Company can neither predict nor identify all such risks nor can it accurately predict the impact, if any, of such risks on its business, operations or the extent to which one or more risks or events may materially change future results of financial position from those reported or projected in any forward looking statements. Accordingly, the Company cautions the reader not to rely on reported financial information and forward-looking statements to predict actual future results. This MD&A and the accompanying financial information should be read in conjunction with this statement concerning risks and uncertainties. Some of the risks, uncertainties and events that may affect the Company, its business, operations, and results, are given in this section. However, the factors and uncertainties are not limited to those stated. The Company has policies and practices mandated by the Board of Directors to manage the Company's risks which include the risks described elsewhere in this MD&A and below.

The Company's ability to continue to generate revenue and achieve positive cash flow in the future is dependent upon various factors, including the level of market acceptance of its products, the degree of competition encountered by the Company, technology risks, general economic conditions, and the stability of foreign governments and regulatory requirements. Moreover, it is also possible that new competitors will enter the marketplace. The Company's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that the Company can retain these personnel. As such, these new competitors and the loss of the services of the Company's key employees could potentially have a material adverse effect on the Company's business, operating results and financial condition.

## **COMMITMENTS AND CONTINGENCIES**

In January 2012, a lawsuit for approximately US\$100,000 was filed against the Company by a supplier for services it alleges were received by the Company but not paid for. In the opinion of management, this lawsuit has no merit and the ultimate disposition of this lawsuit will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows. As a result, this amount has not been reflected in these consolidated financial statements.

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to approximately \$414,000 during the year ended December 31, 2014. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full. As of December 31, 2014, the balance of the grants received to date to be repaid is approximately \$617,000.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of cash, amounts receivables, loan receivable, accounts payable and accrued liabilities, loans payable and amounts payable. In the opinion of management of the Company, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values.

As at December 31, 2014, there were no significant concentrations of credit risk for loans as the Company currently transacts with highly rated counterparties. The carrying amount reflected above represents the Company's exposure to credit risk for such loans and receivables. In the opinion of management of the Company, as at December 31, 2014, the Company did not hold financial instruments recorded at fair value that would require classification within the fair value hierarchy.

The carrying value of cash, amounts receivable, loan receivable, accounts payable, accrued liabilities and loans classified as long term approximate fair value because of the limited terms of these instruments. It is not possible to determine if the loans payable are at fair value as there is no comparable market value for such loans.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous reporting period.

### **Credit risk**

The Company's credit risk is primarily attributable to cash and amounts receivable. Financial instruments included in amounts receivable consist primarily of receivables due from customers. The Company currently transacts with highly rated counterparties for the sale of its marking systems. Management believes that the credit risk concentration with respect to these financial instruments is minimal.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2014, the Company had a cash balance of \$2,268,199 (December 31, 2013 - \$2,185,662) to settle current liabilities of \$2,063,407 (December 31, 2013 - \$2,327,309). This amount includes \$1,150,165 (December 31, 2013 - \$1,491,322) in loans payable (note 14 of the audited consolidated financial statements for the years ended December 31, 2014 and 2013).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. The Company currently has sufficient cash flow to meet its operating obligations however current cash levels would require the Company to seek alternative capital in the event the loans payable become due.

**Market risk**

*(a) Interest rate risk*

The Company carries loans payable with interest and repayment terms as described in note 14 of the audited consolidated financial statements for the years ended December 31, 2014 and 2013. Management believes that interest rate risk is remote as the Company currently does not carry interest-bearing debt at floating rates.

*(b) Foreign currency risk*

The functional and reporting currency of the Company is the Canadian dollar. The Company undertakes transactions denominated in foreign currencies, including US dollars and Euros, and as such is exposed to price risk due to fluctuations in foreign exchange rates against the Canadian dollar. The Company does not use derivative instruments to reduce exposure to foreign exchange risk.

The exposure of the Company's financial assets and liabilities to foreign currency risk as at December 31, 2014 is as follows:

	<b>CDN Dollar</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Total (in CDN dollars)</b>
<b>Financial assets</b>				
Cash	\$ 21,877	\$ 2,246,322	\$ -	\$ 2,268,199
Amounts receivable	16,139	659,416	-	675,555
Loan receivable	-	-	-	-
	<b>\$ 38,016</b>	<b>\$ 2,905,738</b>	<b>\$ -</b>	<b>\$ 2,943,754</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 49,303	\$ 863,939	\$ -	\$ 913,242
Loans payable	-	-	1,150,165	1,150,165
Amounts payable	-	8,514	-	8,514
	<b>\$ 49,303</b>	<b>\$ 872,453</b>	<b>\$ 1,150,165</b>	<b>\$ 2,071,921</b>

A 10% change in foreign exchange rates between the Canadian dollar and these foreign currencies over the next year would affect net loss by approximately \$178,000 (2013 - \$119,000) based on the foreign currency balances at December 31, 2014.

*(c) Price risk*

The Company is engaged in the development and implementation of marking systems for various types of oil. As a result, the Company is exposed to price risk with respect to commodity prices, specifically oil. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations would be negatively affected by a significant decrease in the market prices for oil. Oil prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for oil, the level of interest rates, the rate of inflation, investment decisions by large holders of oil, and stability of exchange rates can all cause significant fluctuations in oil prices. Such external economic factors are in turn influenced by changes in international investment patterns, and monetary systems and political developments.

*(d) Political risk*

The Company operates mainly in Israel and Africa, and such operations are exposed to various levels of political, economic, and other risk and uncertainties. These risks and uncertainties include, but are not limited to: terrorism, hostage taking, fluctuation in currency exchange rates, high rates of inflation, labour unrest, the risks of civil unrest, renegotiation or nullification of existing agreements, licenses, permits and contracts, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls, and government regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

**Fair value**

The Company has designated cash and amounts receivable classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loans payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash, amounts receivable, and accounts payable and accrued liabilities approximates fair value because of the limited term of these instruments.

It is not possible to determine if the loans payable are at fair value as there is no comparable market value for such loans.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32, Financial Instruments, Presentation ("IAS 32") – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The adoption of this standard did not result in any changes to the Company's disclosure of its financial instruments.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any material changes to the Company's financial statements.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any material changes to the Company's financial statements.

IFRIC 21 – Levies ("IFRIC 21") was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of this standard did not result in any material changes to the Company's financial statements.

*Accounting Standards issued but not yet applied*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2014 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

In December 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) to improve the effectiveness of presentation and disclosure in financial reports with the objective of reducing immaterial note disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

## **MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company’s financial statements are the responsibility of the Company’s management, and have been approved by the Board of Directors. The financial statements were prepared by the Company’s management in accordance with IFRS. The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

The Company has designed appropriate internal controls over financial reporting (“ICFR”) for the nature and size of the Company’s business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company’s ICFR are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. ICFR should include those policies and procedures that establish the following inter-related, non-discrete results:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There have been no changes in ICFR during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") and the design of ICFR to provide reasonable assurance that material information related to the Corporation is made known to the Corporation's certifying officers. The Corporation's controls are based on the Committee of Sponsoring Organizations 1992 framework. The Corporation's CEO and the CFO have evaluated the design and effectiveness of the Corporation's DC&P as of December 31, 2014 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Corporation is made known to them by others within the Corporation. The CEO and CFO have also evaluated the design and effectiveness of the Corporation's ICFR as of December 31, 2014 and concluded that these controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

During the current period there have been no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

#### **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this report. The consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

The Audit Committee has reviewed the consolidated financial statements with management. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

April 29, 2015

W. Bruce Rowlands  
Chairman, President and CEO