

## Management's Discussion and Analysis

For the six month period ended June 30, 2015

*(in Canadian dollars unless otherwise noted)*

Management's discussion and analysis ("MD&A") is current to August 27, 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 unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2015 and 2014 and notes thereto and 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 petro chemical and petroleum 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. The petro chemical and petroleum industry cost realities along with GFI's 10-year research and development ("R&D") efforts is facilitating the pursuit of numerous petroleum 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. For a discussion of risks, please refer to the Risks and Uncertainties section of this MD&A.

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

Dennis Logan – 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**

On August 18, 2015, the Company entered into a non-binding letter of intent (the "LOI") with SICPA Security Solutions SA, a private Swiss company that is a global provider of secured identification, traceability and authentication solutions and services, for the sale of Eurocontrol's 100% owned subsidiary, GFI.

Amongst other terms, the LOI provides for a non-refundable deposit of \$250,000 coincident with the signing of the LOI, an initial payment of \$16 million to be received on the closing of the sale transaction, and a 5% royalty payment on all future GFI contracts, inclusive of both marker and logistics, for a period of six years with contracts signed during the fourth through sixth years being paid until the third anniversary of such contracts with a minimum guarantee of \$1.5 million per year for six years.

It is intended that that parties will negotiate and enter into a definitive purchase and sale agreement within 30 days of the date of the LOI and that Eurocontrol will then call a special meeting of shareholders to approve the transaction. Closing of the transaction is subject to a number of conditions including for Eurocontrol, obtaining shareholder and TSX Venture Exchange approval.

Management believes that this transaction is a very positive step forward in the go-to market strategy for its GFI subsidiary. SICPA has a long established business with very significant reach within the security and authentication marketplace. Historically SICPA has been recognized as a force in the global market

for bank notes having seen its security inks used in peseta notes since the 1940's. SICPA has evolved and benefitted from its development and deployment of a continuous stream of sophisticated new technologies in the identification, traceability and tax reconciliation verticals. SICPA has a significant presence in many markets that GFI has identified as potential targets for its Petromark™ solution. GFI will be able to leverage SICPA's extensive logistical expertise and customer base to expand its customer base, which Eurocontrol will benefit from in the form of a 5% royalty on all new marking technology sales and operational logistics for a minimum of six years from closing. Historically, Eurocontrol has been limited to revenue from the sale of fuel markers and analyzers/detectors. This agreement expands Eurocontrol's exposure to the fuel marking market significantly by now including operational logistics in the royalty stream. Logistics as a component of the over-all revenue derived from a comprehensive fuel marking program are generally a multiple of the revenue generated from sales of markers and detectors. The Company's other wholly owned subsidiary, Xenemetrix, will remain the supplier of detectors to SICPA / GFI on all new contracts entered into during the six year royalty period. The transaction, if approved, will provide Eurocontrol with approximately \$16.0 million in cash, a minimum of \$9.0 million in royalty payments over the next six years and two wholly-owned subsidiaries focused on growing their proprietary technology product offerings. Management is evaluating other potential investment opportunities that it anticipates will enhance the Company's growth profile and future profitability. In summary, management believes there are substantial benefits to this transaction, including the following:

- Enhanced exposure to the fuel marking market will provide royalties not only on the sale of the fuel marking technology but also on the implementation and operation of these programs on behalf of customers.
- Provides GFI with the ability to leverage the substantial reach and customer base of SICPA to deliver more contracts, more quickly.
- An increase in GFI's fuel marking business will result in more business for Xenemetrix's analyzer product line.
- A steady guaranteed future cash flow will support R&D to advance and commercialize new products at Xenemetrix, such as PetroMarine, and at XwinSys.
- Flexibility and financial capacity to broaden the Company's product line and opportunities through acquisition.

Included below is a description of the recent developments and outlook for each of the Company's subsidiaries.

## **GFI**

As at June 30, 2015, GFI holds contracts with 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 "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 \$3,055,682 (US\$2,476,241) (2014 - \$2,117,307 (US\$1,931,321)) of the revenue generated for the six month period ended June 30, 2015, representing 84% (2014 – 73%) of consolidated revenue.

In 2013, GFI expanded its Petromark™ technology into Albania and its contracts with Uganda and Tanzania were renewed in 2012 and 2013, respectively. Albania has taken a lead in the Balkan area against corruption in the fuel market with the implementation of a national fuel marking and tracing contract which has will improved fuel quality, the environment and increased 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. The Tanzania contract was renewed in December 2013 for a further three year period. 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 Canada, China, Europe, India, Israel, Russia 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 \$593,307 (US\$480,800) (2014 - \$772,864 (US\$704,975)) of the revenue generated for the six month period ended June 30, 2015, representing 16% (2014 – 27%) 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.

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 that participate in this market. Demonstrations are performed on the XwinSys 100 beta system which was the major milestone accomplishment of development efforts in 2012. As at June 30, 2015, the funds received for fiscal 2012, 2013, 2014 and the six month period ended June 30, 2015 total US\$776,000. There is no assurance that XwinSys will receive further funds under the qualified grants as the proceeds received from the Office of the Chief Scientist of Israel is dependent on expenditures incurred by XwinSys and approved by the Office of the Chief Scientist of Israel. 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.

The Company intends to invest up to US\$1.5 million in fiscal 2015 to advance XwinSys towards achieving certain milestones and depending on the outcome of the milestones that have been set, the Company

may begin commercial production in 2016. For the six month period ended June 30, 2015, the Company's research and development expenditures amounted to approximately US\$583,000 out of the US\$1.5 million budget for 2015. XwinSys' enhanced hybrid concept is supported by an IP package including a portfolio of pending patents, state-of-the-art know-how and trade secrets. This ensures that the Company will be able to establish first-mover status and maintain this advantage to capture significant market share.

XwinSys has formalized a strategy for building on its modular hybrid platform to add additional detection capabilities to achieve a wider scope of applications and to enhance its overall inspection and analytical solutions. (Status ongoing)

The Company will exploit quickly evolving sensing and detection devices and sophisticated software algorithms that together increase the effectiveness, resolution and throughput of inspection and failure analysis for the Semiconductor industry. An additional X-ray source and focusing optics will be integrated in an innovative configuration to enhance overall signal capture and an X-ray imaging sensor will be incorporated to widen the application scope of the system. (Status ongoing)

### SUMMARIZED FINANCIAL RESULTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue	1,717,690	1,470,691	3,648,989	2,890,171
Cost of sales:				
Cost of sales - direct production costs	(671,976)	(637,870)	(1,307,640)	(1,264,362)
Cost of sales - amortization and other non cash items	(113,301)	(113,301)	(226,602)	(226,602)
Gross profit	932,413	719,520	2,114,747	1,399,207
Expenses	1,165,822	826,554	1,995,698	1,434,653
Other expense (income)	(135,466)	34,252	(335,640)	34,243
Income tax expense	8,864	417	15,229	12,251
Net income (loss)	(106,807)	(140,869)	439,460	(81,940)
Basic and fully diluted loss per share	(0.00)	(0.00)	0.00	(0.00)
EBITDA	53,618	17,085	761,233	249,328
EBIT	(81,914)	(116,660)	487,907	(19,021)

Revenue for the six month period ended June 30, 2015 increased to \$3,648,989 (US\$2,957,041) from \$2,890,171 (US\$2,636,296) during the same six month period ended June 30, 2014, a 26% increase in Canadian dollar sales which reflect a 12% increase in US dollar sales with the remaining increase attributable to the increase in the exchange rate.

Revenue for the three month period increased from revenue of \$1,470,691 (US\$1,341,504) during the three month period ended June 30, 2014 to revenue of \$1,717,690 (US\$1,391,969) during the three month period ended June 30, 2015. The increase represents a 17% increase in Canadian dollars which reflects a 4% increase in US dollar sales with the remaining increase attributable to the increase in the exchange rate.

Revenue for both the three and six month periods ended June 30, 2015 reflect an increase in US dollar sales that is due to higher sales with clients in Africa. Approximately 84% of revenue for the six month periods ended June 30, 2015 is derived from long term fuel marking contracts which revenue is expected to remain constant over the contract periods. Detectors and ancillary equipment sales can vary from year to year and are characterized as one-time sales which may increase revenue in one period and not reoccur in future periods. The increase as it relates to the six month periods ended June 30, 2015 primarily relates to increases in US dollar sales is primarily due to increased sales in Tanzania and Uganda, offset by a decrease in sales in Europe. Sales in Tanzania, in US dollars, increased from \$1,093,363 during the six month period ended June 30, 2014 as compared to \$1,282,967 during the six month period ended June 30, 2015. Sales in Uganda, in US dollars, increased from \$809,663 during the six month period ended June 30, 2014 as compared to \$1,063,860 during the six month period ended June 30, 2015. The increase was offset by a decrease in sales in Europe related to Albania where the Company recognized a decrease in revenue related to detectors and ancillary equipment related to one-time sales in the comparable period under the contract with Albania.

For the six month period ended June 30, 2015 the Company had a gross profit of \$2,114,747 (2014 – \$1,399,207). For the three month period ended June 30, 2015 the Company had gross profit of \$932,413 (2014 – \$719,520). These amounts include non-cash cost of sales items; consisting of amortization of technology rights, patents and deferred development costs amounting to \$113,301 (2014 - \$113,301) for the three month period ended June 30, 2015 and \$226,602 (2014 - \$226,602) for the six month period ended June 30, 2015. 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 64% for the six month period ended June 30, 2015 (2014 – \$56%), and 61% for the three month period ended June 30, 2015 (2014 – \$57%). The variance is due to a change in product mix in the current quarter in comparison with prior period. Specifically, during the three and six month period ended June 30, 2015, the Company's sales relating to its fuel markers increased by 44%, while sales relating to its detectors and ancillary equipment decreased by 23% for the six month period ended June 30, 2015. The margin on detectors and ancillary equipment varies based on the level of customization. For the six month periods ended June 30, 2015 and 2014, the margin associated with sales of detector and ancillary equipment sales was approximately 52% and 50% respectively. The gross margin associated with sales of fuel markers was approximately 75% and 70% respectively for the six month period ended June 30, 2015 and 2014. As sales of markers increased, which carry a higher gross margin, while sales of detectors and ancillary services carrying a lower gross margin decreased, overall gross margin increased. The gross margin also increased due to an increase in foreign exchange between the US dollar and Canadian dollar which has gone from 1.16 as at December 31, 2014 to 1.25 as at June 30, 2015.

EBITDA for the six month period ended June 30, 2015 increased by \$511,905 to \$761,233 compared to \$249,328 for 2014. EBITDA for the three month period ended June 30, 2015 increased by \$36,533 to \$53,618 in 2014 compared to \$17,085 for 2014. The increase in EBITDA for the three and six month period ended June 30, 2015 is primarily due to an increase in revenue and difference in product mix as explained above as well as the increase in foreign exchange gains, offset by increases in expenses, as discussed below.

The Company recorded a net income of \$439,460 for the six month period ended June 30, 2015 compared to a net loss of \$81,940 for the comparative six month period ended June 30, 2014. For the three month period ended June 30, 2015 net loss was \$106,807 compared to a loss of \$140,869 for the same period in 2014.

Direct cost of sales increased slightly in the six month period ended June 30, 2015 from \$1,264,362 for 2014 to \$1,307,640 for 2015. For the three month period ended June 30, 2015, direct cost of sales increased from \$637,870 for 2014 to \$671,976 for 2015. Direct costs of sale remained consistent between the two periods while gross margin increased, due to the change in product mix as described above.

Expenses of \$1,995,698 for the six month period ended June 30, 2015 increased in comparison with the expenses of \$1,434,653 for the six month period ended June 30, 2014. The increase for the period is primarily due to the two following increases with remaining expenditures remaining consistent between the two periods:

- Administration expenses increased from \$398,633 for the six month period ended June 30, 2014 to \$565,635 for the six month period ended June 30, 2015. The increase is primarily due to an increase in costs of approximately \$99,500 in connection with work around the Company's continuous disclosure surrounding its public filings.
- Research and development costs which increased to \$562,669 for the six month period ended June 30, 2015 from \$222,027 for the same period in 2014; the increase is due to XwinSys' strategy for building on its modular hybrid concept to add additional detection capabilities.
- Share-based compensation expense in the amount of \$38,000 (2014 - \$nil) for the six month period ended June 30, 2015 recognized on the granting of 575,000 stock options during 2015 (no stock options granted during the same period in 2014).

Expenses of \$1,165,822 for the three month period ended June 30, 2015 increased in comparison with the expenses of \$826,554 for the three month period ended June 30, 2014. The increase for the period is primarily due the same reasons as the increase for the six month period ended June 30, 2015 described above with the increases in administrative expenditures and research and development costs increasing by \$149,657 and \$136,605 respectively and share-based compensation expense rising by \$31,000.

The Company also incurred a foreign exchange translation gain of \$151,573 and \$369,014 for the three and six month period ended June 30, 2015, respectively, compared to a loss of \$9,402 and a gain of \$16,926 for the three and six month period ended June 30, 2014, respectively. 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 currency translation gains and losses due to fluctuations in these currencies relative to the Canadian dollar. During the six month period ended June 30, 2015, the exchange rate between the US dollar and Canadian dollar increased in favor of the US dollar thus resulting in a higher foreign exchange gain.

Interest expense amounted to \$16,029 and \$33,218, respectively, for the three and six month period ended June 30, 2015, compared to \$24,626 and \$50,668 for the three and six month period ended June 30, 2014, respectively, mainly related to GFI's loans payable, due to the former shareholders of GFI. As the balance of these loans decreases, the amount of interest expense is expected to decrease, subject to fluctuations in the exchanges rates for the foreign currencies in which the loans payable are denominated. Interest expense decreased during the current period ended June 30, 2015 in its source currency as well as in the reported amount in Canadian dollars.

## SELECTED FINANCIAL 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>Six Months Ended June 30, 2015</b>	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>
	\$	\$	\$
Total revenue	3,648,989	5,956,733	6,448,834
Income (Loss)	439,460	(246,365)	(442,221)
Income (Loss) per share	0.00	(0.00)	(0.00)
Total assets at end of period/year	7,081,485	6,876,195	7,230,829

**SUMMARY OF QUARTERLY RESULTS**

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

	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>	<b>Q3 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	1,717,690	1,931,299	1,454,225	1,612,337
Cost of sales	(785,277)	(748,965)	(855,118)	(734,666)
Gross profit	932,413	1,182,334	599,107	877,671
Expenses	1,165,822	829,876	778,913	914,079
Other expense (income)	78	78	(348)	175
Interest expense	16,029	17,189	24,099	24,084
Foreign exchange loss (gain)	(151,573)	(217,441)	(53,671)	(62,617)
Income taxes expense (recovery)	8,864	6,365	12,460	4,029
	1,039,220	636,067	761,453	879,750
Net income (loss)	(106,807)	546,267	(162,346)	(2,079)
Basic and fully diluted income (loss) per share	\$ (0.00)	\$ 0.01	\$ (0.00)	\$ (0.00)
Total assets at end of period	7,081,485	7,238,068	6,876,195	7,115,271

	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Q4 2013</b>	<b>Q3 2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	1,470,691	1,419,480	1,755,631	1,530,889
Cost of sales	(751,171)	(739,793)	(864,869)	(956,924)
Gross profit	719,520	679,687	890,762	573,965
Expenses	826,554	608,099	775,124	758,339
Other expense (income)	224	277	(7)	918
Provision for HST recoverable	-	-	-	-
Interest expense	24,626	26,042	24,987	25,191
Foreign exchange loss (gain)	9,402	(26,328)	(75,124)	69,591
Income taxes expense (recovery)	(417)	12,668	6,931	5,145
	860,389	620,758	731,911	859,184
Net income (loss)	(140,869)	58,929	158,851	(285,219)
Basic and fully diluted income (loss) per share	\$ (0.00)	\$ 0.00	\$ 0.00	\$ (0.00)
Total assets	7,082,649	7,685,769	7,230,829	7,328,927

Over the past eight quarters revenues have ranged from a low of \$1,419,480 in the first quarter of 2014 to \$1,931,299 in the first quarter of 2015 and \$1,717,690 in the second quarter of 2015. Revenues in the remaining periods have ranged between their more historical normal ranges of \$1.4 million to \$1.6 million. The revenue trend has seen sales decreasing going from 2013 into 2014 which reflects the decrease in detectors and ancillary products revenue and decreases in sales in Africa into 2014. The trend sees sales picking up into 2015 due primarily to increases in foreign exchange as well as increases in sales in Uganda and Tanzania, as previously discussed. Cost of sales over the quarters varied depending on the level of product mix between fuel marking customers and equipment sales. Between the third quarter of 2013 and the fourth quarter of 2014, a 59% margin over sales was maintained. This trend continues into

2015 with gross margin of 58% between the first two quarters of 2015. Cost of sales ranged from a low of \$734,666 in the third quarter of 2014 to a high of \$956,924 during the third quarter of 2013. The variance is attributed to and fluctuates based on the sales mix, with a high degree of customization on detector and ancillary equipment sales. Gross profit varies over quarters, mainly due to the product mix between fuel marking and or EDXRF systems sales as fuel marking projects have different average selling prices depending on the characteristics of each program, while EDXRF systems are mainly customized to fit clients' requirements, which can affect the individual sales price every quarter. Expenses fluctuate somewhat quarter over quarter ranging from a low of \$608,099 in the first quarter of 2014 to a high of \$1,165,822 in the second quarter of 2015. Expenses are expected to be consistent quarter to quarter and usually range between \$700,000 to \$900,000, since the Company has recurring contracts and costs associated with these contracts are expected to be consistent quarter to quarter. There could be variations in research and development expenses. The higher trend in expenses during 2014 is due to the increased research and development costs in connection with a research agreement with Ramot at Tel Aviv University in Israel for the rights to a new patented technology focused on Nano imprinting security and authentication, and in 2015 is due to XwinSys' strategy for building on its modular hybrid concept to add additional detection capabilities to enhance its overall inspection and analytical solutions. Expenses were higher than the expected range in the second quarter of 2015 as well due to work around the Company's continuous disclosure surrounding its public filings. Interest expense relates to GFI's loans payable, due to the former shareholders of GFI. As the balance of these loans decreases, the amount of interest expense is expected to decrease. While the trend of decreasing interest expense has been evident in the first two quarters of 2015, the reason for the somewhat constant interest expense over the quarters in 2014 and 2013 is due to the strengthening of the foreign currencies against the Canadian dollar as interest expense is incurred mostly on foreign currency debt.

#### **Disclosure of Outstanding Share Data as of August 27, 2015**

	<b>Authorized</b>	<b>Outstanding</b>
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 7,037,500 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 14, 15 and 16 to the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2015 and 2014 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, 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 16 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2015 and 2014 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 \$281,157 as at June 30, 2015 (December 31, 2014 - \$299,900) 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 \$2,106,052 as at June 30, 2015 (December 31, 2014 - \$2,288,941) 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 estimated to be ending in fiscal 2022.

As at June 30, 2015, the carrying value of the technology rights is \$2,106,052 (December 31, 2014 - \$2,288,941).

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of \$349,568. As at June 30, 2015, the carrying value of the intellectual property is \$274,661 (December 31, 2014 - \$299,630).

Total accounts payable, accrued liabilities, and loans payable amounted to \$1,905,375 as at June 30, 2015 (December 31, 2014 - \$2,063,407). The loans payable amounted to \$923,477 (December 31, 2014 - \$1,150,165) 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 (\$691,038) (December 31, 2014 - €500,000 (\$698,066)) and accrued interest of €465,156 (\$642,881) (December 31, 2014 - €440,487 (\$614,978)) 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 June 30, 2015, the Company repaid €296,975 (\$410,442), (December 31, 2014 - €116,664 (\$162,878)), resulting in an outstanding balance of €668,181 (\$923,477) (December 31, 2014 - €823,823 (\$1,150,165)).

## **LIQUIDITY AND CASH FLOWS**

The Company ended the second quarter of fiscal 2015 with cash of \$2,468,253, compared to \$2,268,199 as at December 31, 2014. The Company had working capital of \$2,231,988 as at June 30, 2015 compared to working capital of \$1,640,429 as at December 31, 2014.

Cash provided from operating activities was \$321,296 during the six month period ended June 30, 2015 compared to cash provided of \$198,311 during the six month period ended June 30, 2014. Changes to cash flows from operating activities primarily relate to higher sales revenues during the current period offset by a decrease in cash from working capital balances. This change is mainly due to the timing of collection of accounts receivable, changes in inventory, and timing of payment of accounts payable and accrued liabilities.

Cash used in investing activities was \$46,397 during the six month period ended June 30, 2015, compared to cash provided by of \$84,625 during the six month period ended June 30, 2014. Investing activities mainly relate to equipment and intangible asset acquisitions and disposals and loans. The amount of cash provided from investing activities was higher in the comparable six month period ended June 30, 2014 due to loan repayments received on a loan that was fully repaid as at December 31, 2014.

Cash used in financing activities was \$246,800 during the six month period ended June 30, 2015 compared to cash used in financing activities of \$164,445 during the six month period ended June 30, 2014. Financing activities mainly relate to the repayment of the loans payable. The increase is due to repayments of loans payable made during the six month period ended June 30, 2015 of \$246,800 compared to repayments made during the six month period ended June 30, 2014 of \$164,445.

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. As at June 30, 2015, the Company had working capital of \$2,231,988 (December 31, 2014 - \$1,640,429). This amount includes \$923,477 (December 31, 2014 - \$1,150,165) in loans payable to former shareholders of GFI. Excluding loans payable, working capital as at June 30, 2015 amounted to \$3,155,465 (December 31, 2014 - \$2,790,594). Loans payable are classified as current liabilities as these are due on demand, however, the Company makes monthly and quarterly payments on the loans and does not expect these to have to be paid within three years. The Company has recorded revenues of \$3,648,989 and \$2,890,171, respectively, for the six month periods ended June 30, 2015 and 2014. Although the Company reported a net income and comprehensive income and a net loss and comprehensive loss respectively for these six month periods ended June 30, 2015 and 2014 of \$439,460 and \$81,940, excluding non-cash items - which for the six month period ended June 30, 2015 included direct amortization of \$226,602 (2014 - \$226,602) and depreciation of \$46,724 (2014 - \$41,747) - then the Company earned net income of \$712,786 and \$186,409 for the six month period ended June 30, 2015 and 2014, respectively. Based on the working capital excluding loans payable of \$3,155,465 and net income excluding non-cash items of \$712,786 and \$186,409 for the six month period ended June 30, 2015 and 2014, respectively, the Company believes it will meet its working capital requirements for the next 12 months.

### **Additional funding**

The Company has no assurance that additional funding will be available to it for further development of its projects in the event that there is a shortfall from its operations that would result in the Company being unable to meet current obligations or further the development of its projects. Any additional funding will be dependent upon the Company's ability to obtain financing through joint ventures, equity or debt financing or other means. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate

financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further business advancements.

The Company does not currently have any expenditure commitments that are required to maintain its current capacity, nor does it currently have any expenditure commitments in relation to growth and/or development that if not met would significantly affect the Company's current business operations. The Company allocates resources to development activities based on available resources and results of operations as well as industry outlook. Over the past few years, the Company's cash flows from operations have been sufficient to maintain its capacity and to fund its development activities. In the event that cash needs for development activities become greater than cash flows generated by operations, the Company will pursue additional funding through the channels described above.

The Company's liabilities are comprised of trade payables which are paid in accordance with normal trade terms. Although the Company does not have any additional expenditure commitments, the Company intends to pay off the loan payable amounting to \$923,477 as at June 30, 2015 (December 31, 2014 - \$1,150,165) within the next three years.

## **TRANSACTIONS WITH RELATED PARTIES**

### **Loans payable**

For the six month period ended June 30, 2015 \$33,218 (2014 - \$50,668) in interest was charged on the loans payable as described in note 13 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2015 and 2014.

Mr. Eli Zahavi provided a loan to GFI prior to GFI's acquisition by the Company. As at June 30, 2015, the balance of that loan is \$139,747 (December 31, 2014 - \$174,182) which is included in loans payable as described in note 13 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2015 and 2014.

### **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 three and six month periods ended June 30, 2015 and 2014 were as follows:

	Note	Three months ended June 30,		Six months ended June 30,	
		2015	2014	2015	2014
Bruce Rowlands (Chairman, CEO)	(i)	\$ 50,000	\$ 50,000	\$ 100,000	\$ 100,000
Gadi Gonen (Director and COO; CEO of GFI)	(ii)	94,543	76,946	201,257	160,553
Andres Tinajero (CFO)	(iii)	25,000	25,000	50,000	50,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iv)	89,766	90,872	175,785	178,761
Eli Zahavi (Director)	(v)	23,137	21,508	46,275	43,016
Charlotte May (Corporate Secretary)	(vi)	14,000	9,000	23,000	18,000
Michael Rose (Director)	(vii)	3,702	3,442	7,404	6,883
Dennis Logan (Director)	(viii)	31,000	-	31,000	-
		\$ 331,148	\$ 276,768	\$ 634,721	\$ 557,213

Notes:

- (i) For the three and six month period ended June 30, 2015, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$50,000 and \$100,000 respectively (2014 - \$50,000 and \$100,000 respectively) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd.
- (ii) For the three and six month period ended June 30, 2015, Gadi Gonen, was paid \$94,543 and \$201,247 respectively (2014 - \$76,946 and \$160,553 respectively) for services as COO of the Company and for services as CEO of GFI, pursuant to an agreement entered into by the Company and Gadi Gonen. Commissions of \$67,985 is included in the six month period ended June 30, 2015 (2014 - \$42,153).
- (iii) For the three and six month period ended June 30, 2015, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$25,000 and \$50,000 respectively (2014 - \$25,000 and \$50,000 respectively) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc.
- (iv) For the three and six month period ended June 30, 2015, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$89,766 and \$175,785 respectively (2014 - \$90,872 and \$178,761 respectively) in professional service fees for services as President of Xenemetrix and XwinSys pursuant to an agreement assumed by the Company when it acquired Xenemetrix in 2010.
- (v) For the three and six month period ended June 30, 2015, Eli Zahavi, was paid \$23,137 and \$46,275 respectively (2014 - \$21,508 and \$43,016 respectively) for consulting services as Chairman of GFI.
- (vi) For the three and six month period ended June 30, 2015, Charlotte May, through her Company CMA Corporate Management, was paid \$14,000 and \$23,000 respectively (2014 - \$9,000 and \$18,000 respectively) in professional service fees for Corporate Secretarial services pursuant to an agreement entered into by the Company and CMA Corporate Services. A bonus of \$5,000 is included in the six month period ended June 30, 2015 (2014 - \$nil).
- (vii) For the three and six month period ended June 30, 2015, Michael Rose, through his Company Rose Partners, was paid \$3,702 and \$7,404 respectively (2014 - \$3,442 and \$6,883 respectively) in Director fees.
- (viii) For the three and six month period ended June 30, 2015, Dennis Logan was issued 375,000 stock options with a value of \$31,000 (2014 - \$nil).

As at June 30, 2015, an amount of \$70,377 (December 31, 2014 - \$81,467) 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.

## **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.

### **Market Risk for Securities**

The market price for Eurocontrol common shares could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of our securities. The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the technology sector, which have often been unrelated to the operating performance of particular companies.

### **Technology Risk**

Eurocontrol's business is dependent upon advanced technologies which are susceptible to rapid technological change. There can be no assurance that the Company's services will not be seriously affected by, or become obsolete as a result of, such technological changes.

There is a risk that technologies similar to the Company's could reach the market before Eurocontrol's, that similar products may be developed that are more appealing to clients, or that they use advanced technology not incorporated in our business. There is also a risk that clients will not accept or adopt the Company's products. The occurrence of any of these events could decrease the amount of interest generated in the Company's business and prevent the Company from generating revenues or reduce its revenue generating potential.

### **Competitive and Pricing Risk**

The Company's potential competitors may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, may have more extensive customer bases and broader customer relationships and may have longer operating histories and more brand recognition. In some cases, these companies may choose to offer their technology at lower prices or rates in response to new competitors entering the market. If the Company is unable to compete with such companies, the Company's revenue may be adversely affected and in the case of XwinSys' wafer bumps inspection system, the Company

may be unable to establish demand for its technology, which could adversely affect the establishment of its operations and ability to begin generating revenues.

#### **Intellectual Property Risk**

The success of the Company's business depends in part on its ability to protect the intellectual property rights associated with its products and services.

#### **Advertising and Promotional Risk**

The Company's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional costs, including its ability to (i) create brand recognition; (ii) determine appropriate advertising strategies, messages and media; and (iii) maintain acceptable operating margins on such costs. There can be no assurance that advertising and promotional costs will result in revenues for our business in the future, or will generate awareness of our technologies or services.

#### **Uninsured or Uninsurable Risk**

Eurocontrol may become subject to liability for risks against which we cannot insure or against which we may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

#### **Key Personnel Risk**

The Company's success is reliant on its directors and officers developing the business and managing its operations, and on the ability to attract and retain key technical, sales and marketing staff or consultants. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that Eurocontrol will be able to attract or retain key personnel in the future, which may adversely impact its operations.

#### **Global Economy Risk**

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. Eurocontrol will be dependent upon the capital markets to raise additional financing in the future. Access to financing has been negatively impacted by the ongoing global economic downturn. As such, we may be subject to liquidity risks in meeting development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability to raise equity or obtain loans and other credit facilities in the future and on favourable terms.

#### **Foreign Customers**

The Company's customers are located mainly in Uganda, Tanzania, Albania, Belarus, China and India which countries may be considered to be politically and/or economically unstable. Dealing with foreign customers may require protracted negotiations with host governments, customs agencies and third parties and are frequently subject to economic and political considerations, such as, the risks of war, actions by terrorist or insurgent groups, renegotiation or nullification of existing contracts, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, and currency. In addition, if a dispute arises with foreign customers, the Company may be subject to the exclusive jurisdiction of foreign courts.

#### **Other Risk Factors**

***As the Company has a history of losses, there is no assurance that its business will ever be consistently profitable.*** Eurocontrol has incurred substantial losses since the Company was founded. There is no assurance that the Company will generate an overall profit from its business in the future or that it will reach profitability on a sustained basis.

***Eurocontrol may not be able to achieve commercialization of its combined EDXRF technology with 2D and 3D image processing technology on the timetable Management anticipates, or at all.***

The Company cannot guarantee that it will be able to develop a commercially viable EDXRF technology combined with automated 2D and 3D image processing technologies on the timetable it anticipates, or at all. The commercialization of our combined EDXRF technology with automated 2D and 3D image processing technologies requires substantial technological advances. Eurocontrol cannot guarantee that it will be able to internally develop the technology necessary for commercialization. Further, if field tests reveal technical defects or the technology does not meet performance goals, commercialization could be delayed, and potential purchasers may decline to purchase our new system and products.

## **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.

As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd., dated June 12, 2008 and subsequent amendments, Xenemetrix agreed to pay up to US\$1.3 million by way of 5% royalties. Such payments will commence after the first four quarters where Xenemetrix has cumulative sales totaling more than US\$2 million in any calendar year, such sales should exclude sales or services to GFI SA. Should a default in payment occur and such default is not remedied within 14 days, then Jordan Valley has the right to take full exclusive ownership of the intellectual property. As the US\$2 million sales figure has not yet been met, the royalty payments have not been paid nor are they payable.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of cash, amounts receivables, 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 June 30, 2015, 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 June 30, 2015, 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, 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 June 30, 2015, the Company had a cash balance of \$2,468,253 (December 31, 2014 - \$2,268,199) to settle current liabilities of \$1,905,375 (December 31, 2014 - \$2,063,407). This amount includes \$923,477 (December 31, 2014 - \$1,150,165) in loans payable (note 13 of the unaudited interim condensed consolidated financial statements for the three month periods ended June 30, 2015 and 2014).

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 13 of the of the unaudited interim condensed consolidated financial statements for the three month periods ended June 30, 2015 and 2014. 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 June 30, 2015 is as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
<b>Financial assets</b>				
Cash	\$ 65,069	\$ 2,403,184	\$ -	\$ 2,468,253
Amounts receivable	35,860	802,005	-	837,865
	\$ 100,929	\$ 3,205,189	\$ -	\$ 3,306,118
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 129,256	\$ 852,642	\$ -	\$ 981,898
Loans payable	-	-	923,477	923,477
Amounts payable	-	1,525	-	1,525
	\$ 129,256	\$ 854,167	\$ 923,477	\$ 1,906,900

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 \$155,000 (2014 - \$219,000) based on the foreign currency balances at June 30, 2015.

*(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 is exposed to significant political risk resulting its client base being developing countries. Some of the Company's clients are located in Uganda, Tanzania, Albania, Belarus, China, India, and others, each of which may be subject to the effects of political changes, war and civil conflict, changes in government policy, lack of law enforcement, labour unrest and the creation of new laws. Significant changes to laws in the past have resulted in civil unrest, crime and armed banditry in locations such as Uganda. At the present time, the Canadian government is advising high degree of caution in Tanzania due to the threat of terrorism.

The Company currently has clients in jurisdictions and countries in which access to infrastructure, political stability and security, among other things, may be unknown, or known, and prevent, or severely compromise, the Company from carrying out its business. It may be that the Company accepts some or all of these risks, to the extent that they can be determined at all, in favour of securing new customers, and may ultimately be prevented from delivering the products that the Company sells, which may, or may not, be predictable, foreseeable, or manageable. No assurance can be given that the Company will be successful in maintaining its existing customers.

The management team continues to investigate and understand the risks of operating in developing countries and it continuously monitors the political climate. Management recognizes the shortage of contractors in Uganda and Tanzania and continues to evaluate opportunities that arise while building relationships with the current operators in the region.

**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**

*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 RESPONSIBILITY**

Management is responsible for all information contained in this report. The unaudited interim condensed 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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements with management. The Board of Directors has approved the unaudited interim condensed consolidated financial statements on the recommendation of the Audit Committee.

August 27, 2015

W. Bruce Rowlands  
Chairman, President and CEO