# EUROCONTROL TECHNICS GROUP INC.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2015 and 2014

(In Canadian dollars)

(UNAUDITED)

# EUROCONTROL TECHNICS GROUP INC.

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

## EUROCONTROL TECHNICS GROUP INC.

**Condensed Consolidated Interim Statements of Financial Position (unaudited)**
**(Expressed in Canadian dollars)**

| As at, | Notes | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash | | $ | 1,117,725 | $ | 454,919 |
| Amounts receivable | 7 | | 513,924 | | 579,802 |
| Inventories | 8 | | 417,424 | | 373,986 |
| Prepaid expenses | | | 15,306 | | 22,480 |
| Assets of discontinued operation | 18 | | 4,496,991 | | 4,610,922 |
| Total current assets | | | 6,561,370 | | 6,042,109 |
| **Non-current assets** | | | | | |
| Equipment | 9 | | 152,393 | | 152,092 |
| Technology rights | 10 | | 286,773 | | 382,364 |
| Intellectual property | 5 | | 262,176 | | 299,630 |
| Total non-current assets | | | 701,342 | | 834,086 |
| **TOTAL ASSETS** | | $ | 7,262,712 | $ | 6,876,195 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 11, 16 | $ | 679,094 | $ | 509,049 |
| Deposit on corporate transaction | 18 | | 250,000 | | - |
| Liabilities of discontinued operation | 18 | | 1,456,396 | | 1,554,358 |
| Total current liabilities | | | 2,385,490 | | 2,063,407 |
| **Non-current liabilities** | | | | | |
| Amounts payable | | | - | | 8,514 |
| Total liabilities | | | 2,385,490 | | 2,071,921 |
| **Shareholders' equity** | | | | | |
| Issued capital | 12 | | 14,738,917 | | 14,690,341 |
| Share-based payment reserve | 14 | | 378,093 | | 395,856 |
| Accumulated other comprehensive income | | | (56,433) | | 169,868 |
| Deficit | | | (10,183,355) | | (10,451,791) |
| Total shareholders' equity | | | 4,877,222 | | 4,804,274 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | $ | 7,262,712 | $ | 6,876,195 |

Nature of operations and going concern (note 1)
Commitments and contingencies (note 20)
Events after the reporting period (note 21)

### APPROVED ON BEHALF OF THE BOARD:

Signed *"W. Bruce Rowlands"*, Director

Signed *"Gadi Gonen"*, Director

*The accompanying notes are an integral part of these condensed consolidated interim financial statements*

# EUROCONTROL TECHNICS GROUP INC.

**Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited)**
**(Expressed in Canadian dollars)**

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| **Revenue** | 6 | $ 275,491 | $ 419,271 | $ 868,799 | $ 1,192,135 |
| Costs of sales | 8 | (99,936) | (168,189) | (383,556) | (556,872) |
| Direct amortization | 5, 10 | (44,348) | (44,348) | (133,045) | (133,045) |
| **Gross profit** | | 131,207 | 206,734 | 352,198 | 502,218 |
| **Expenses** | | | | | |
| Consulting and management | 16 | 194,270 | 175,030 | 568,082 | 536,632 |
| Depreciation | 9 | 6,955 | 6,026 | 24,962 | 21,166 |
| Administration | | 180,249 | 153,450 | 573,999 | 416,529 |
| Sales and marketing expenses | | 105,958 | 71,909 | 356,688 | 296,422 |
| Research and development | 20 (b) | 540,669 | 283,521 | 1,076,330 | 470,772 |
| Public company costs | | 18,850 | 22,732 | 61,104 | 111,582 |
| Share-based payments | 14 | - | - | 38,000 | - |
| **Total expenses** | | 1,046,951 | 712,668 | 2,699,165 | 1,853,103 |
| **Income (loss) before the undernoted** | | (915,744) | (505,934) | (2,346,967) | (1,350,885) |
| **Other income and expense** | | | | | |
| Finance (loss) income | | - | - | - | 12 |
| Currency translation | | (88,095) | (46,317) | 188,803 | (37,098) |
| | | (88,095) | (46,317) | 188,803 | (37,086) |
| Loss before income taxes | | (1,003,839) | (552,251) | (2,158,164) | (1,387,971) |
| Provision for income taxes | | - | - | - | - |
| **Loss from continuing operations** | | (1,003,839) | (552,251) | (2,158,164) | (1,387,971) |
| Income from discontinued operations | 18 | 788,128 | 550,172 | 2,381,913 | 1,303,952 |
| **Net income (loss)** | | (215,711) | (2,079) | $ 223,749 | $ (84,019) |
| Income (loss) per share | | | | | |
| From continuing operations | | | | | |
| - Basic | | $ (0.01) | $ (0.01) | $ (0.02) | $ (0.02) |
| - Diluted | | $ (0.01) | $ (0.01) | $ (0.02) | $ (0.02) |
| From discontinued operations | | | | | |
| - Basic | | $ 0.01 | $ 0.01 | $ 0.03 | $ 0.01 |
| - Diluted | | $ 0.01 | $ 0.01 | $ 0.03 | $ 0.01 |
| Net income (loss) | | | | | |
| - Basic | | $ (0.00) | $ (0.00) | $ 0.00 | $ (0.00) |
| - Diluted | | $ (0.00) | $ (0.00) | $ 0.00 | $ (0.00) |
| Weighted average common shares outstanding | | | | | |
| Basic | | 89,160,738 | 89,160,738 | 89,160,738 | 89,160,738 |
| Diluted | | 89,160,738 | 89,160,738 | 89,318,738 | 89,160,738 |
| **Income (loss) - items that may subsequently reclassify into income (loss)** | | | | | |
| Net income (loss) | | (215,711) | (2,079) | $ 223,749 | $ (84,019) |
| Exchange differences on translation of foreign subsidiary | | (119,152) | 100,054 | (226,301) | 145,174 |
| **Comprehensive income (loss)** | | (334,863) | 97,975 | $ (2,552) | $ 61,155 |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements*

# EUROCONTROL TECHNICS GROUP INC.

**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)**
**(Expressed in Canadian dollars)**

| | Number of Shares | Issued Capital | Share-based Payment Reserve | Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|
| | | (Note 12) | (Note 14) | | | |
| Balance as at December 31, 2013 | 90,160,738 | $ 14,690,341 | $ 395,856 | $ (10,205,426) | $ - | $ 4,880,771 |
| Exchange on translation of foreign subsidiaries | - | - | - | - | 145,174 | 145,174 |
| Loss for the period | - | - | - | (84,019) | - | (84,019) |
| Balance as at September 30, 2014 | 90,160,738 | $ 14,690,341 | $ 395,856 | $ (10,289,445) | $ 145,174 | $ 4,941,926 |
| Exchange on translation of foreign subsidiaries | - | - | - | - | 24,694 | 24,694 |
| Loss for the period | - | - | - | (162,346) | - | (162,346) |
| Balance as at December 31, 2014 | 90,160,738 | 14,690,341 | 395,856 | $ (10,451,791) | $ 169,868 | $ 4,804,274 |
| Exercise of stock options | 375,000 | 48,576 | (11,076) | - | - | 37,500 |
| Share-based expense | - | - | 38,000 | - | - | 38,000 |
| Cancellation of stock options | - | - | (44,687) | 44,687 | - | - |
| Exchange on translation of foreign subsidiaries | - | - | - | - | (226,301) | (226,301) |
| Income for the period | - | - | - | 223,749 | - | 223,749 |
| Balance as at September 30, 2015 | 90,535,738 | $ 14,738,917 | $ 378,093 | $ (10,183,355) | $ (56,433) | $ 4,877,222 |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements*

# EUROCONTROL TECHNICS GROUP INC.

**Condensed Consolidated Interim Statements of Cash Flows (unaudited)**
**(Expressed in Canadian dollars)**

| For the nine month periods ended September 30, | Notes | 2015 | 2014 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| **Operating activities** | | | |
| Income (loss) for the period | | $ 223,749 | $ (84,019) |
| Items not involving cash: | | | |
| Amortization of intellectual property | 5 | 37,454 | 37,453 |
| Depreciation of equipment | 9 | 24,962 | 21,166 |
| Amortization of technology right | 10 | 95,591 | 178,742 |
| Share-based expense | | 38,000 | - |
| Loss on disposal of vehicle | | 5,643 | - |
| Foreign exchange (loss) gain | | (283,799) | 112,167 |
| Working capital changes | | | |
| Change in amounts receivable | | 65,878 | (138,030) |
| Change in inventories | | (43,438) | (103,406) |
| Change in prepaid expenses | | 7,174 | 9,640 |
| Change in accounts payables and accrued liabilities | | 170,045 | 7,179 |
| **Cash flows from operating activities** | | 341,259 | 40,892 |
| **Investing activities** | | | |
| Equipment expenditures | | (29,476) | (26,733) |
| Proceeds from sale of vehicle | | 7,098 | - |
| Repayment of amounts payable | | (8,514) | (12,020) |
| Deposit received on corporate transaction | 18 | 250,000 | - |
| Collection of loans payable | | - | - |
| **Cash flows from (used in) investing activities** | | 219,108 | (38,753) |
| **Financing activities** | | | |
| Proceeds from exercise of stock options | | 37,500 | - |
| Repayment of loans payable | | - | - |
| **Cash flows provided from financing activities** | | 37,500 | - |
| **Cash flow provided from discontinued operations** | | 15,969 | 146,879 |
| **Net increase in cash for the period** | | 613,836 | 149,018 |
| **Effect of exchange rate changes on cash** | | 48,970 | 25,758 |
| **Cash, beginning of the period** | | 454,919 | 466,709 |
| **Cash, end of the period** | | $ 1,117,725 | $ 641,485 |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements*

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Eurocontrol Technics Group Inc. (the "Company") is a publicly listed company incorporated in British Colombia and continued in the Province of Ontario. The Company participates in the energy security and authentication, verification and certification markets globally.

The Company's shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "EUO". The head office and registered address of the Company is located at 365 Bay Street, Suite 400, Toronto, Ontario, M5H 2V1.

Due to a history of annual operating losses, 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. 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 working capital requirements during the next 12 months.

On November 6, 2015, the Company entered into a definitive purchase agreement (the "Purchase Agreement"), pursuant to which the Company has agreed to sell 100% of its wholly owned subsidiary, Global Fluids International S.A. ("GFI") to SICPA Finance SA ("SICPA"), a subsidiary of SICPA SA, each a privately owned company based in Switzerland in exchange for cash and post closing earn-out payments. As a key part of the transaction, the Company, through its wholly-owned subsidiary, Xenemetrix Ltd. ("Xenemetrix") has agreed to enter into a strategic exclusive long term supply, maintenance and support agreement (the "Supply Agreement"), pursuant to which Xenemetrix would continue to supply to GFI, and GFI would continue to purchase, Xenemetrix's products and services currently used by GFI in its business, in each case, on an exclusive basis within the oil and gas marking and monitoring field of GFI's current operations.

The consideration payable to the Company for the sale of GFI is as follows:

- Cash consideration payable to the Company by SICPA on closing of $16 million (less the $250,000 deposit received by the Company and $286,000 in transaction payments, and assuming that, on closing, GFI has positive working capital of $1,000,000), subject to a working capital adjustment.

- Post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts entered into by it following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction, with a minimum guaranteed of $1.5 million per year for the six years earn - out period (total payment of at least $9,000,000).

- Additional post closing payments equal to 5% of the net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts.

- The settlement of loan amounts owing by Eurocontrol to GFI.

While the proposed sale of GFI to SICPA is an arm's length transaction, in accordance with the policies of the TSXV, the transaction is a "Reviewable Disposition" and subject to the prior approval of the TSXV, because it involves a sale of more than 50% of the Company's assets, business or undertaking. The TSXV generally requires shareholder approval for such transactions. In this regard, the Company will hold a special meeting of shareholders on December 18, 2015, at which approval of the transaction will be sought, and shareholders of record as of November 9, 2015 will be entitled to vote their common shares of the Company at the meeting.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 24, 2015.

## 2. BASIS OF PRESENTATION

### Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### Basis of measurement

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2014 annual financial statements.

### Pending Accounting Standards

At the date of authorization of these financial statements, the IASB and IFRIC had issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. The Company is currently assessing what impact the application of these standards or amendments will have on the condensed consolidated interim financial statements of the Company.

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.

## 3. PRINCIPLES OF CONSOLIDATION

These condensed consolidated interim financial statements for the nine month periods ended September 30, 2015 and 2014 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries are as follows:

| Subsidiary | Country of Incorporation | Economic Interest | Basis of Accounting |
|---|---|---|---|
| Global Fluid International S.A. ("GFI") | Nevis | 100% | Full consolidation |
| Xenemetrix Ltd. ("Xenemetrix") | Israel | 100% | Full consolidation |
| XwinSys Technology Development Ltd. ("XwinSys") | Israel | 100% | Full consolidation |

*Subsidiaries*

Subsidiaries are entities over which the Company has control, whereby control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Control is presumed to exist where the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date at which control ceases.

*Business Combinations and Goodwill*

On the acquisition of a subsidiary that meets the definition of a business, the acquisition method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values as at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in the statements of income (loss) and comprehensive income (loss);
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the statement of operations.

All material intercompany transactions between the Company and its subsidiaries are eliminated in consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of condensed consolidated interim 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 condensed consolidated interim financial statements and related notes to the condensed consolidated interim 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.

- ***Collection of amounts receivable and provision for doubtful accounts*** – Management continually assesses the status of collections of its amounts receivable. If an amount is deemed to not be collectable, a provision for doubtful accounts is recorded. The determination of the allowance for doubtful accounts is based on current information available and historical collections. The Company has historically had very low (nominal) to $nil bad debts.

- ***Impairment of technology rights, deferred development costs and intellectual property*** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverability of such assets. Internal sources of information include the manner in which technology rights, deferred development and intellectual property 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 costs and intellectual property, 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.

**(Expressed in Canadian dollars)**

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- ***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 – Agent vs Principal Determination*** – The Company has entered into separate fuel marking and monitoring services agreements with the governments of Tanzania and Uganda and concurrently has entered into separate fuel marker supply contracts for each country with unrelated parties to deliver the services under the agreements to the governments on behalf of the Company. The Company has received letters of indemnity from such unrelated parties in relation to the fulfillment of the government contracts. With regards to these government contracts, the Company makes a determination of whether it is acting as an agent or a principal under these agreements. Management has assessed the facts and circumstances related to these government contracts and made the judgement that the Company is acting as an agent in respect of these government contracts and thus only records revenues for the fuel marker supply contracts that the Company has with the unrelated parties. In making this judgement the Company determined that, while there were mixed indicators, in substance the Company is acting as agent because the unrelated parties, through the fuel marker supply contracts and related indemnifications provided to the Company by the unrelated parties, assumed the risks and rewards arising from the government contracts (such as inventory and credit risk and being responsible for collecting revenues, performing any activities and incurring the costs necessary to execute the government contracts).

- ***Contingencies*** – refer to note 21.

## 5. INTELLECTUAL PROPERTY

The Company, through its wholly owned subsidiary XwinSys, holds intellectual property on image processing technology. The intellectual property is licensed until 2020. Intellectual property is being amortized over the estimated useful life on a straight-line basis of seven years.

| | | |
|---|---|---|
| **Cost** | | |
| Balance as at December 31, 2013 | $ | 349,568 |
| Additions | | - |
| Balance as at December 31, 2014 | | 349,568 |
| Additions | | - |
| Balance as at September 30, 2015 | $ | 349,568 |
| | | |
| **Accumulated amortization** | | |
| Balance as at December 31, 2013 | $ | - |
| Amortization expense | | 49,938 |
| Balance as at December 31, 2014 | | 49,938 |
| Amortization expense | | 37,454 |
| Balance as at September 30, 2015 | $ | 87,392 |
| | | |
| **Carrying amounts** | | |
| Balance as at December 31, 2014 | $ | 299,630 |
| Balance as at September 30, 2015 | $ | 262,176 |

**(Expressed in Canadian dollars)**

## 6. OPERATING SEGMENTS

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company conducts its business as a single operating segment.

*Geographical information*

The Company's revenue from external customers by geographical location are detailed below.

**Revenue from continuing operations:**

| | Revenue from external customers | | | |
|---|---|---|---|---|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Africa | $ 14,426 | $ 49,572 | $ 75,549 | $ 146,802 |
| North America | 85,854 | 149,665 | 258,248 | 228,512 |
| Asia | 80,631 | 196,462 | 312,164 | 431,016 |
| Europe | 94,581 | 15,078 | 222,838 | 322,057 |
| South America | - | 8,494 | - | 63,748 |
| | $ 275,492 | $ 419,271 | $ 868,799 | $ 1,192,135 |

Xenemetrix accounts for $868,799 (2014 - $1,192,135) of the revenue generated for the nine month period ended September 30, 2015, representing 15% (2014 – 26%) of overall revenue. Xenemetrix revenue is from sales of EDXRF systems (three month period ended September 30, 2015, $275,492 (2014 - $419,271).

**Revenue from discontinued operations:**

| | Revenue from external customers | | | |
|---|---|---|---|---|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Africa | | | | |
| Tanzania | $ 902,345 | $ 720,274 | $ 2,482,510 | $ 1,810,129 |
| Uganda | 418,763 | 401,224 | 1,676,296 | 1,236,305 |
| Europe | 413,296 | 71,568 | 631,280 | 263,939 |
| | $ 1,734,404 | $ 1,193,066 | $ 4,790,086 | $ 3,310,373 |

Revenues for GFI are included in discontinued operations. GFI accounts for $4,790,086 (2014 - $3,310,373) of the revenue generated for the nine month period ended September 30, 2015, representing 85% (2014 – 74%) of overall revenue from the sale of its oil markers (three month period ended September 30, 2015, $1,734,404 (2014 - $1,193,066).

**(Expressed in Canadian dollars)**

## 6. OPERATING SEGMENTS (continued)

**Revenue by product (continuing operations and discontinued operations) is as follows:**

| | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|
| Fuel markers | $ 1,734,404 | $ 1,193,066 | $ 4,790,086 | $ 3,310,373 |
| Detectors and other | 275,492 | 419,271 | 868,799 | 1,192,135 |
| | $ 2,009,896 | $ 1,612,337 | $ 5,658,885 | $ 4,502,508 |

Fuel marker revenues which comprise 100% of the revenues for GFI are included in discontinued operations.

Detectors and other revenues which comprise 100% of the revenues for Xenemetrix are included in continuing operations.

The Company’s equipment and intangible assets by geographical location are detailed below:

| As at September 30, 2015 | South America | Asia | Total |
|---|---|---|---|
| Equipment | $ - | $ 152,393 | $ 152,393 |
| Deferred development costs | - | - | - |
| Technology rights | - | 286,773 | 286,773 |
| Intellectual property | - | 262,176 | 262,176 |

| As at December 31, 2014 | South America | Asia | Total |
|---|---|---|---|
| Equipment | $ - | $ 152,092 | $ 152,092 |
| Deferred development costs | - | - | - |
| Technology rights | - | 382,364 | 382,364 |
| Intellectual property | - | 299,630 | 299,630 |

Equipment, deferred development costs and technology rights owned by GFI are included in discontinued operations as disclosed in Note 18.

## 7. AMOUNTS RECEIVABLE

| **As at,** | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Trade receivables | $ 428,137 | $ 522,710 |
| Value added taxes receivables | 48,980 | 18,773 |
| Other | 36,807 | 38,319 |
| | $ 513,924 | $ 579,802 |

**(Expressed in Canadian dollars)**

## 8. INVENTORIES

| As at, | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Materials | $ 257,544 | $ 196,862 |
| Work in process | 118,917 | 130,070 |
| Finished goods | 40,963 | 47,054 |
| | $ 417,424 | $ 373,986 |

Inventories are carried at the lower of cost and net realizable value. Materials, work in process, and finished goods are recorded at cost. For the three and nine month periods ended September 30, 2015, the cost of inventories recognized as an expense and included in cost of sales was $99,936 and $383,556 respectively (three and nine month periods ended September 30, 2014 - $168,189 and $556,872 respectively.

## 9. EQUIPMENT

| | Office furniture, computers and equipment | Vehicles | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance as at December 31, 2013 | $ 193,577 | $ 88,029 | $ 281,606 |
| Additions | 72,160 | - | 72,160 |
| Disposals | (636) | - | (636) |
| Foreign exchange | 30,768 | 7,987 | 38,755 |
| Balance as at December 31, 2014 | 295,870 | $ 96,016 | $ 391,885 |
| Additions | 7,272 | 22,203 | 29,476 |
| Disposals | - | (68,152) | (68,152) |
| Foreign exchange | 44,918 | 11,655 | 56,573 |
| Balance as at September 30, 2015 | $ 348,060 | $ 61,721 | $ 409,781 |
| **Accumulated depreciation** | | | |
| Balance as at December 31, 2013 | $ 155,963 | $ 37,116 | $ 193,080 |
| Depreciation | 15,068 | 13,134 | 28,202 |
| Disposals | - | - | - |
| Foreign exchange | 14,478 | 4,033 | 18,511 |
| Balance as at December 31, 2014 | 185,509 | $ 54,284 | $ 239,793 |
| Depreciation | 17,307 | 7,655 | 24,962 |
| Disposals | - | (42,365) | (42,365) |
| Foreign exchange | 28,935 | 6,064 | 34,999 |
| Balance as at September 30, 2015 | $ 231,751 | $ 25,637 | $ 257,388 |
| **Carrying amounts** | | | |
| Balance as at December 31, 2014 | $ 110,360 | $ 41,732 | $ 152,092 |
| Balance as at September 30, 2015 | $ 116,310 | $ 36,084 | $ 152,393 |

(Expressed in Canadian dollars)

## 10. TECHNOLOGY RIGHTS

The Company, through its wholly owned subsidiary Xenemetrix, holds a licence to produce and sell XRF systems. The XRF systems are licensed until February 2018. Technology rights assets relating to XRF systems are being amortized over their estimated useful lives on a straight-line basis estimated to be ending in fiscal 2022.

| | | XRF Systems |
|---|---|---|
| **Cost** | | |
| Balance as at December 31, 2013 | $ | 892,184 |
| Additions | | - |
| Balance as at December 31, 2014 | | 892,184 |
| Additions | | - |
| Balance as at September 30, 2015 | $ | 892,184 |
| **Accumulated amortization** | | |
| Balance as at December 31, 2013 | $ | 382,365 |
| Amortization expense | | 127,455 |
| Balance as at December 31, 2014 | | 509,820 |
| Amortization expense | | 95,591 |
| Balance as at September 30, 2015 | $ | 605,411 |
| **Carrying amounts** | | |
| Balance as at December 31, 2014 | $ | 382,364 |
| Balance as at September 30, 2015 | $ | 286,773 |

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| **As at,** | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Accounts payable | $ | 365,735 | $ | 287,942 |
| Accrued liabilities | | 313,359 | | 221,107 |
| | $ | 679,094 | $ | 509,049 |

## 12. ISSUED CAPITAL

***Authorized:*** Unlimited common shares without par value

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Issued capital | $ 14,738,917 | $ 14,690,341 |
| Fully paid common shares (1) | 90,535,738 | 90,160,738 |

(1) As at September 30, 2015 and December 31, 2014, included in this number are 1,000,000 shares awaiting issuance, the proceeds for which were received in 2008 and are included in share capital.

**(Expressed in Canadian dollars)**

## 12. ISSUED CAPITAL (continued)

***Common shares issued:***

| | Number of Shares | | Value of shares |
|---|---|---|---|
| Balance as at December 31, 2013 and 2014 | 90,160,738 | $ | 14,690,341 |
| Exercise of stock options | 375,000 | | 37,500 |
| Transfer of reserve for share based payments on exercise of options | - | | 11,076 |
| Balance as at September 30, 2015 | 90,535,738 | $ | 14,738,917 |

## 13. WARRANTS RESERVE

There were no warrants outstanding as of September 30, 2015 and December 31, 2014.

## 14. SHARE-BASED PAYMENT RESERVE

*Stock option plan*

The Board of Directors of the Company adopted a stock option plan (the “Plan") whereby the aggregate number of common shares reserved for issuance under the Plan, including common shares reserved for issuance under any other share compensation arrangement granted or made available by the Company from time to time, may not exceed 10% of the Company's issued and outstanding common shares. The Plan is administered by the Board of Directors and grants made pursuant to the Plan must at all times comply with the policies of the TSXV and the Plan.

The terms of any options granted under the Plan are fixed by the Board of Directors and may not exceed a term of five years. The exercise price of the options granted under the Plan is set at the last closing price of the Company’s common shares before the date of grant or in accordance with TSXV guidance.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following table summarizes information about share-based payment reserve:

| | | |
|---|---|---|
| Balance as at December 31, 2013 and December 31, 2014 | $ | 395,856 |
| Share-based expense | | 38,000 |
| Cancellation of stock options | | (44,687) |
| Exercise of stock options | | (11,076) |
| Balance as at September 30, 2015 | $ | 378,093 |

**(Expressed in Canadian dollars)**

## 14. SHARE-BASED PAYMENT RESERVE (continued)

The following share-based payment arrangements were in existence as at September 30, 2015:

| Number of options outstanding | Number of exercisable options | Grant date | Expiry date | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|
| 1,400,000 | 1,400,000 | February 23, 2011 | February 23, 2016 | $ 0.16 | 201,646 |
| 4,687,500 | 4,687,500 | March 11, 2013 | March 11, 2018 | $ 0.10 | 138,447 |
| 200,000 | 200,000 | January 13, 2015 | January 13, 2020 | $ 0.10 | 7,000 |
| 375,000 | 375,000 | June 30, 2015 | June 30, 2020 | $ 0.13 | 31,000 |
| 6,662,500 | 6,662,500 | | | | $ 378,093 |

The share options outstanding as at September 30, 2015 had a weighted exercise price of $0.11 (December 31, 2014: $0.11) and a weighted average remaining contractual life of 2.19 years (December 31, 2014: 2.7 years).

All options vested on their date of issue and expire within five years of their issue, or 90 days after the resignation of the director, officer, employee or consultant.

*Fair value of share options granted in the nine month period ended September 30, 2015*

On January 13, 2015, 200,000 share options were granted to consultants of the Company to acquire the Company's shares at an exercise price of $0.10 until January 13, 2020. These share options had an estimated fair value of $7,000 at grant date.

On June 30, 2015, 375,000 share options were granted to a director of the Company to acquire the Company's shares at an exercise price of $0.13 until June 30, 2020. These share options had an estimated fair value of $31,000 at grant date.

The share options were priced using the Black-Scholes option-pricing model as at the date of the grant assuming a five year term to maturity with an expected volatility based on historical prices of the Company, an expected dividend yield, and a risk free interest rate, as noted in the table below. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations.

| | **Number of Options Granted** | |
|---|---|---|
| | 200,000 | 375,000 |
| Grant date share price | $ 0.05 | $ 0.11 |
| Exercise price | $ 0.10 | $ 0.13 |
| Expected volatility | 102% | 105% |
| Expected option life | 5 years | 5 years |
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 1.15% | 0.81% |

**(Expressed in Canadian dollars)**

## 14. SHARE-BASED PAYMENT RESERVE (continued)

*Movements in shares options during the period/year:*

The following reconciles the share options outstanding during the nine month period ended September 30, 2015 and year ended December 31, 2014:

| | Number of options | | Weighted average exercise price |
|---|---|---|---|
| Balance as at December 31, 2013 and 2014 | 6,812,500 | $ | 0.11 |
| Granted | 575,000 | $ | 0.12 |
| Exercised | (375,000) | $ | 0.10 |
| Expired | (350,000) | $ | 0.15 |
| Balance as at September 30, 2015 | 6,662,500 | $ | 0.11 |

## 15. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at September 30, 2015 and December 31, 2014 were as follows:

| | | Loans and receivables | Other financial liabilities | | Total |
|---|---|---|---|---|---|
| **As at September 30, 2015** | | | | | |
| Cash | $ | 1,117,725 | - | $ | 1,117,725 |
| Amounts receivable | | 428,137 | - | | 428,137 |
| Accounts payable and accrued liabilities | | - | 679,094 | | 679,094 |
| Amounts payable | | - | - | | - |

| | | Loans and receivables | Other financial liabilities | | Total |
|---|---|---|---|---|---|
| **As at December 31, 2014** | | | | | |
| Cash | $ | 454,919 | - | $ | 454,919 |
| Amounts receivable | | 522,710 | - | | 522,710 |
| Accounts payable and accrued liabilities | | - | 509,049 | | 509,049 |
| Amounts payable | | - | 8,514 | | 8,514 |

As at September 30, 2015, there were no significant concentrations of credit risk for loans and amounts receivable as the Company currently transacts with highly rated counterparties. The carrying amount reflected above represents the Company’s maximum exposure to credit risk for such loans and receivables. As at September 30, 2015 and 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, accounts payable and accrued liabilities are 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.

## 16. RELATED PARTY DISCLOSURES

The Company entered into the following transactions in the ordinary course of business with related parties:

- For the nine month period ended September 30, 2015 $50,176 (2014 - $74,752) in interest was charged on the loans payable as described in note 18.

**(Expressed in Canadian dollars)**

## 16. RELATED PARTY DISCLOSURES (continued)

Mr. Eli Zahavi provided a loan to GFI prior to GFI's acquisition by the Company. As at September 30, 2015, the balance of that loan is $141,769 (December 31, 2014 - $174,182) which is included in loans payable as described in note 18.

*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 nine month periods ended September 30, 2015 and 2014 were as follows:

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | Note | 2015 | 2014 | 2015 | 2014 |
| Bruce Rowlands (Chairman, CEO) | (i) | $ 50,000 | $ 50,000 | $ 150,000 | $ 150,000 |
| Gadi Gonen (Director and COO; CEO of GFI) | (ii) | 71,933 | 97,128 | 273,190 | 257,681 |
| Andres Tinajero (CFO) | (iii) | 25,000 | 25,000 | 75,000 | 75,000 |
| Doron Reinis (President of Xenemetrix and XwinSys) | (iv) | 96,037 | 77,626 | 271,822 | 256,387 |
| Eli Zahavi (Director) | (v) | 24,510 | 18,493 | 70,785 | 61,509 |
| Charlotte May (Corporate Secretary) | (vi) | 14,000 | 9,000 | 37,000 | 27,000 |
| Michael Rose (Director) | (vii) | 3,922 | 2,959 | 11,326 | 9,842 |
| Dennis Logan (Director) | (viii) | - | - | 31,000 | - |
| | | $ 285,402 | $ 280,206 | $ 920,123 | $ 837,419 |

Notes:

(i) For the three and nine month period ended September 30, 2015, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid $50,000 and $150,000 respectively (2014 - $50,000 and $150,000 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 nine month period ended September 30, 2015, Gadi Gonen, was paid $71,933 and $273,190 respectively (2014 - $97,128 and $257,681 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 $69,329 is included in the nine month period ended September 30, 2015 (2014 - $80,534).

(iii) For the three and nine month period ended September 30, 2015, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid $25,000 and $75,000 respectively (2014 - $25,000 and $75,000 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 nine month period ended September 30, 2015, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid $96,037 and $271,822 respectively (2014 - $77,626 and $256,387 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 nine month period ended September 30, 2015, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid $96,037 and $271,822 respectively (2014 - $77,626 and $256,387 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.

## 16. RELATED PARTY DISCLOSURES (continued)

(vi) For the three and nine month period ended September 30, 2015, Eli Zahavi, was paid $24,510 and $70,785 respectively (2014 - $18,493 and $61,509 respectively) for consulting services as Chairman of GFI.

(vii) For the three and nine month period ended September 30, 2015, Charlotte May, through her Company CMA Corporate Management, was paid $14,000 and $37,000 respectively (2014 - $9,000 and $27,000 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 nine month period ended September 30, 2015 (2014 - $nil).

(viii) For the three and nine month period ended September 30, 2015, Michael Rose, through his company Rose Partners, was paid $3,922 and $11,326 respectively (2014 - $2,959 and $9,842 respectively) in Director fees.

(ix) For the three and nine month period ended September 30, 2015, Dennis Logan was issued 375,000 stock options with a value of $31,000 (2014 - $nil).

As at September 30, 2015, an amount of $110,637 (December 31, 2014 - $81,467) due to members of key management personnel, was included in accounts payable and accrued liabilities and liabilities of discontinued operations. This amount is unsecured, non-interest bearing and without fixed terms of repayment.

## 17. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations. The capital of the Company consists of common shares and options. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has entered into commercial operations and has begun to generate cash flows to support the ongoing and longer term strategy of the Company. However, the Company may continue to rely on capital markets to support continued growth.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management in the nine month period ended September 30, 2015. The Company and its subsidiaries are not subject to externally imposed capital requirements.

## 18. DISCONTINUED OPERATIONS

On November 6, 2015, the Company entered into a definitive Purchase Agreement, pursuant to which the Company has agreed to sell 100% of its wholly owned subsidiary, GFI to SICPA in exchange for cash and post closing earn-out payments. As a key part of the transaction, the Company, through its wholly-owned subsidiary, Xenemetrix has agreed to enter into a strategic exclusive long - term supply, maintenance and support agreement (the “Supply Agreement”), pursuant to which Xenemetrix would continue to supply to GFI, and GFI would continue to purchase, Xenemetrix’s products and services currently used by GFI in its business, in each case, on an exclusive basis within the oil and gas marking and monitoring field of GFI’s current operations.

The consideration payable to the Company for the sale of GFI is as follows:

- Cash consideration payable to the Company by SICPA on closing of $16 million (less the $250,000 deposit received by the Company and $286,000 in transaction payments, and assuming that, on closing, GFI has positive working capital of $1,000,000), subject to a working capital adjustment.

**(Expressed in Canadian dollars)**

## 18. DISCONTINUED OPERATIONS (continued)

- Post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts entered into by it following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction, with a minimum guaranteed of $1.5 million per year for the six years earn - out period (total payment of at least $9,000,000).

- Additional post closing payments equal to 5% of the net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts.

- The settlement of loan amounts owing by Eurocontrol to GFI.

As of September 30, 2015, the transaction had not yet closed. The closing of the transaction is expected to take place following the special meeting of shareholders being held December 18, 2015 and prior to January 4, 2016, subject to approval of the TSXV and the Company's shareholders, and the satisfaction of a number of closing conditions as described in the Purchase Agreement.

Assets and liabilities related to GFI have been classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell in the consolidated statements of financial position. The operating results for the three and nine months period ended September 30, 2015 and 2014 related to GFI have been presented separately as the loss from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss).

The breakdown of the loss for the three and nine months ended September 30, 2015 and 2014 from discontinued operations is as follows:

| | **Three month period ended September 30, 2015** | Three month period ended September 30, 2014 | **Nine month period ended September 30, 2015** | Nine month period ended September 30, 2014 |
|---|---|---|---|---|
| Revenue | **1,734,405** | 1,193,066 | **4,790,086** | 3,310,373 |
| Cost of sales | **(520,455)** | (453,176) | **(1,544,475)** | (1,328,855) |
| Direct amortization | **(68,953)** | (68,953) | **(206,858)** | (206,858) |
| Gross profit | **1,144,997** | 670,937 | **3,038,753** | 1,774,660 |
| | | | | |
| Consulting and management | **(116,580)** | (37,676) | **(232,454)** | (134,957) |
| Depreciation | **(16,364)** | (8,239) | **(45,081)** | (34,846) |
| Administration | **(81,732)** | (30,412) | **(253,617)** | (165,966) |
| Research and development | **(129,202)** | (125,084) | **(156,210)** | (159,860) |
| Total expenses | **(343,878)** | (201,411) | **(687,362)** | (495,629) |
| | | | | |
| Income before the undernoted | **801,119** | 469,526 | **2,351,391** | 1,279,031 |
| | | | | |
| Finance (loss) income | **172** | (175) | **16** | (688) |
| Foreign exchange | **7,257** | 108,934 | **99,373** | 116,641 |
| Finance expense | **(16,958)** | (24,084) | **(50,176)** | (74,752) |
| Income before taxes | **791,590** | 554,201 | **2,400,604** | 1,320,232 |
| Income tax expense | **(3,462)** | (4,029) | **(18,691)** | (16,280) |
| Income from discontinued operations | **788,128** | 550,172 | **2,381,913** | 1,303,952 |

**(Expressed in Canadian dollars)**

## 18. DISCONTINUED OPERATIONS (continued)

The cash flows used by operating activities from the discontinued operations during the nine month period ended September 30, 2015 was $137,823 (September 30, 2014 – cash flows provided by of $262,117).

The cash flows used in investing activities from the discontinued operations during the nine month period ended September 30, 2015 was $31,529 (September 30, 2014 – cash provided of $299,374).

The cash flows used by investing activities from the discontinued operations during the nine month period ended September 30, 2015 was $284,243 (September 30, 2014 – $260,898).

As at September 30, 2015 and December 31, 2014, the assets and liabilities held for sale were comprised of:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 1,620,446** | $ 1,813,280 |
| Amounts receivable | **388,389** | 95,753 |
| Inventory | **328,251** | 351,651 |
| Prepaid expenses | **19,585** | 11,965 |
| Equipment | **140,700** | 131,796 |
| Technology rights | **1,727,835** | 299,900 |
| Deferred development costs | **271,785** | 299,900 |
| | **$ 4,496,991** | $ 2,704,345 |
| **Liabilities** | | |
| Trade and other payables | **$ 486,508** | $ 404,193 |
| Loans payable | **969,888** | 1,150,165 |
| | **$ 1,456,396** | $ 1,554,358 |

Details pertaining to various assets listed and liabilities held for sale is contained below:

**(Expressed in Canadian dollars)**

## 18. DISCONTINUED OPERATIONS (continued)

### (i) Technology Rights

The Company, through its wholly owned subsidiary GFI, holds a licence to produce and sell fuel markers and detectors. The fuel markers and detectors are licensed under a 20 year licence agreement from the holder of the patents. Technology rights assets relating to markers and detectors are being amortized over their estimated useful lives on a straight-line basis estimated to be ending in fiscal 2022.

| | | Markers and Detectors |
|---|---|---|
| **Cost** | | |
| Balance as at December 31, 2013 | $ | 7,844,267 |
| Additions | | - |
| Balance as at December 31, 2014 | | 7,844,267 |
| Additions | | - |
| Balance as at September 30, 2015 | $ | 7,844,267 |
| **Accumulated amortization** | | |
| Balance as at December 31, 2013 | $ | 5,699,368 |
| Amortization expense | | 238,322 |
| Balance as at December 31, 2014 | | 5,937,690 |
| Amortization expense | | 178,742 |
| Balance as at September 30, 2015 | $ | 6,116,432 |
| **Carrying amounts** | | |
| Balance as at December 31, 2014 | $ | 1,906,577 |
| Balance as at September 30, 2015 | $ | 1,727,835 |

### (ii) Deferred Development Costs

The estimate of the useful life of the fuel marker is estimated to be ending in fiscal 2022.

| | | Marker |
|---|---|---|
| **Cost** | | |
| Balance as at December 31, 2013 | $ | 920,137 |
| Additions | | - |
| Balance as at December 31, 2014 | | 920,137 |
| Additions | | - |
| Balance as at September 30, 2015 | $ | 920,137 |
| **Accumulated amortization** | | |
| Balance as at December 31, 2013 | $ | 582,749 |
| Amortization expense | | 37,488 |
| Balance as at December 31, 2014 | | 620,237 |
| Amortization expense | | 28,116 |
| Balance as at September 30, 2015 | $ | 648,352 |
| **Carrying amounts** | | |
| Balance as at December 31, 2014 | $ | 299,900 |
| Balance as at September 30, 2015 | $ | 271,785 |

**(Expressed in Canadian dollars)**

## 18. DISCONTINUED OPERATIONS (continued)

(iii) **Loans Payable**

| Euro loan | | | | September 30, 2015 | | December 31, 2014 |
|---|---|---|---|---|---|---|
| Principal | € | 500,000 | $ | 739,147 | $ | 698,066 |
| Interest | € | 476,601 | | 704,556 | | 614,978 |
| | | | | 1,443,703 | | 1,313,043 |
| Repayments | | | | (473,815) | | (162,878) |
| Total | | | $ | 969,888 | $ | 1,150,165 |

The total payable includes the principal amount of €500,000 ($739,147) (December 31, 2014 - €500,000 ($698,066)) and accrued interest of €476,601 ($704,556) (December 31, 2014 - €440,487 ($614,978)) loaned by former shareholders of GFI. These loans payable bear an annual interest rate of 7.2%. A director of the Company is among recipients of such loans.

As at September 30, 2015, the Company repaid €320,515 ($473,815), (December 31, 2014 - €116,664 ($162,878)), resulting in an outstanding balance of €656,086 ($969,888) (December 31, 2014 - €823,823 ($1,150,165)).

## 19. FINANCIAL RISK FACTORS

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 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 September 30, 2015, the Company had a cash balance of $1,117,725 (December 31, 2014 - $454,919) to settle current liabilities of $2,385,490 (December 31, 2014 - $2,063,407). Working capital for the Company as at September 30, 2015 was $4,175,880 (December 31, 2014 - $3,978,702).

Substantively all of the Company's financial liabilities other than loans payable have contractual maturities of less than 365 days and are subject to normal trade terms. The Company cannot ensure there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holding cash.

***Market risk:***

(a) Interest rate risk
The Company carries loans payable with interest and repayment terms as described in note 18. Management believes that interest rate risk is remote as the Company currently does not carry interest-bearing debt at floating rates.

## 19. FINANCIAL RISK FACTORS (continued)

(b) Foreign currency risk
The Company's reporting currency is the Canadian dollar. The functional currency of the Company is the Canadian dollar and the functional currency of its subsidiaries is the US 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 September 30, 2015 is as follows:

| | CDN Dollar | US Dollar | Euro | Total (in CDN dollars) |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ 65,069 | $ 1,052,656 | $ - | $ 1,117,725 |
| Amounts receivable | 35,860 | 478,064 | - | 513,924 |
| | $ 100,929 | $ 1,530,720 | $ - | $ 1,631,649 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 129,256 | $ 549,838 | $ - | $ 679,094 |
| Amounts payable | - | - | - | - |
| | $ 129,256 | $ 549,838 | $ - | $ 679,094 |

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 $198,000 (2014 - $465,000) based on the foreign currency balances at September 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 will be significantly affected by changes 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.

## 20. COMMITMENT AND CONTINGENCIES

(a) 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 unaudited condensed consolidated interim financial statements.

(b) 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 $294,000 during the nine month period ended September 30, 2015. 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.

## 20. COMMITMENT AND CONTINGENCIES (continued)

As of September 30, 2015, the balance of the grants received to date to be repaid is approximately $1,031,000 (December 31, 2014 – $617,000).

(c) As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd. (“Jordan Valley”), 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 amount excluding sales or services to GFI. 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.

## 21. EVENTS AFTER THE REPORTING PERIOD

On November 6, 2015, the Company entered into a definitive Purchase Agreement, pursuant to which the Company has agreed to sell 100% of its wholly owned subsidiary, GFI to SICPA, in exchange for cash and post closing earn-out payments. As a key part of the transaction, the Company, through its wholly - owned subsidiary, Xenemetrix has agreed to enter into a strategic exclusive long term supply, maintenance and support agreement (the “Supply Agreement”), pursuant to which Xenemetrix would continue to supply to GFI, and GFI would continue to purchase, Xenemetrix’s products and services currently used by GFI in its business, in each case, on an exclusive basis within the oil and gas marking and monitoring field of GFI’s current operations.

The consideration payable to the Company for the sale of GFI is as follows:

- Cash consideration payable to the Company by SICPA on closing of $16 million (less the $250,000 deposit received by the Company and $286,000 in transaction payments, and assuming that, on closing, GFI has positive working capital of $1,000,000), subject to a working capital adjustment.

- Post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts entered into by it following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction, with a minimum guaranteed of $1.5 million per year for the six years earn - out period (total payment of at least $9,000,000).

- Additional post closing payments equal to 5% of the net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts.

- The settlement of loan amounts owing by Eurocontrol to GFI.

While the proposed sale of GFI to SICPA is an arm’s length transaction, in accordance with the policies of the TSXV, the transaction is a “Reviewable Disposition” and subject to approval of the TSXV, because it involves a sale of more than 50% of the Company’s assets, business or undertaking. The TSXV generally requires shareholder approval for such transactions. In this regard, the Company will hold a special meeting of shareholders on December 18, 2015, at which approval of the transaction will be sought, and shareholders of record as of November 9, 2015 will be entitled to vote their common shares of the Company at the meeting.