



EUROCONTROL TECHNICS GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2014 and 2013

(In Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Eurocontrol Technics Group Inc. are the responsibility of management and the Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Bruce Rowlands"

Bruce Rowlands
Chief Executive Officer

"Andres Tinajero"

Andres Tinajero
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Eurocontrol Technics Group Inc.

We have audited the accompanying consolidated financial statements of Eurocontrol Technics Group Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of the Company as at December 31, 2013 and for the year then ended were audited by other auditors who expressed an opinion without reservation under Canadian generally accepted auditing standards on those statements in their report dated April 22, 2014.

Toronto, Canada
April 27, 2015

Zeifmans LLP
Chartered Accountants
Licensed Public Accountants

EUROCONTROL TECHNICS GROUP INC.

Consolidated Statements of Financial Position (Expressed in Canadian dollars)

As at December 31,	Notes	2014	2013
ASSETS			
Current assets			
Cash		\$ 2,268,199	\$ 2,185,662
Amounts receivable	8	675,555	583,698
Inventories	9	725,637	545,360
Prepaid expenses		34,445	28,340
Total current assets		3,703,836	3,343,060
Non-current assets			
Loan receivable	22	-	322,807
Equipment	10	283,888	223,288
Deferred development costs	11	299,900	337,388
Technology rights	12	2,288,941	2,654,718
Intellectual property	6	299,630	349,568
Total non-current assets		3,172,359	3,887,769
TOTAL ASSETS		\$ 6,876,195	\$ 7,230,829
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13, 19	\$ 913,242	\$ 835,987
Loans payable	14	1,150,165	1,491,322
Total current liabilities		2,063,407	2,327,309
Non-current liabilities			
Amounts payable		8,514	22,749
Total liabilities		2,071,921	2,350,058
Shareholders' equity			
Issued capital	15	14,690,341	14,690,341
Share-based payment reserve	17	395,856	395,856
Accumulated other comprehensive income		169,868	-
Deficit		(10,451,791)	(10,205,426)
Total shareholders' equity		4,804,274	4,880,771
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 6,876,195	\$ 7,230,829

Nature of operations and going concern (note 1)

Commitments and contingencies (note 24)

APPROVED ON BEHALF OF THE BOARD:

Signed "W. BRUCE ROWLANDS" _____, Director

Signed "GADI GONEN" _____, Director

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

EUROCONTROL TECHNICS GROUP INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (Expressed in Canadian dollars)

For the years ended December 31,		2014	2013
Revenue	7	\$ 5,956,733	\$ 6,448,834
Costs of sales	9	(2,627,545)	(2,585,997)
Direct amortization	6, 11, 12	(453,203)	(1,108,340)
Gross profit		2,875,985	2,754,497
Expenses			
Consulting and management	19	882,616	934,217
Depreciation	10	81,554	60,189
Administration		787,192	840,656
Sales and marketing expenses		395,443	399,125
Research and development	24 (b)	830,068	724,752
Public company costs		150,772	114,011
Share-based expense	17	-	151,000
Total expenses		3,127,645	3,223,950
Loss before the undernoted		(251,660)	(469,453)
Other income and expense			
Finance (loss) income		(328)	(561)
Currency translation		133,214	146,018
Finance expense	19	(98,851)	(97,371)
		34,035	48,086
Loss before income taxes		(217,625)	(421,367)
Provision for income taxes	23	(28,740)	(20,854)
Net loss		\$ (246,365)	\$ (442,221)
Loss per share			
Basic		\$ (0.00)	\$ (0.00)
Diluted		\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding			
Basic		89,160,738	89,160,738
Diluted		89,160,738	89,168,738
Income (loss) - items that may subsequently reclassify into income (loss)			
Net loss		\$ (246,365)	\$ (442,221)
Exchange gain on translation of foreign subsidiary		169,868	-
Comprehensive income (loss)		\$ (76,497)	\$ (442,221)

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

EUROCONTROL TECHNICS GROUP INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 15)	Warrants Reserve (Note 16)	Share-based Payment Reserve (Note 17)	Deficit	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2012	90,160,738	\$ 14,690,341	\$ 866,379	\$ 296,736	\$(10,681,464)	\$ -	\$ 5,171,992
Expiry of warrants	-	-	(866,379)	-	866,379	-	-
Expiry of stock options	-	-	-	(51,880)	51,880	-	-
Share-based expense	-	-	-	151,000	-	-	151,000
Loss for the year	-	-	-	-	(442,221)	-	(442,221)
Balance as at December 31, 2013	90,160,738	\$ 14,690,341	\$ -	\$ 395,856	\$(10,205,426)	\$ -	\$ 4,880,771
Exchange gain on translation of foreign subsidiary	-	-	-	-	-	169,868	169,868
Loss for the year	-	-	-	-	(246,365)	-	(246,365)
Balance as at December 31, 2014	90,160,738	\$ 14,690,341	\$ -	\$ 395,856	\$(10,451,791)	\$ 169,868	\$ 4,804,274

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

EUROCONTROL TECHNICS GROUP INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended December 31,	Notes	2014	2013
Cash provided by (used in):			
Operating activities			
Loss for the year		\$ (246,365)	\$ (442,221)
Items not involving cash:			
Amortization of intellectual property		49,938	-
Depreciation of equipment	10	81,554	60,189
Amortization of deferred development costs	11	37,488	184,190
Amortization of technology right	12	365,777	924,150
Share-based expense		-	151,000
Foreign exchange gain		(41,815)	(130,837)
Foreign exchange loss (gain) on loans payable		(57,862)	151,037
Accrued interest on shareholder loans		98,851	97,371
Working capital changes			
Change in amounts receivable		(91,857)	412,191
Change in inventories		(180,277)	81,595
Change in prepaid expenses		(6,105)	60,985
Change in accounts payables and accrued liabilities		77,255	(653,026)
Cash flows from operating activities		86,582	896,624
Investing activities			
Equipment expenditures		(121,498)	(94,463)
Repayment of amounts payable		(14,235)	-
Collection of loans payable		322,807	-
Cash flows from (used in) investing activities		187,074	(94,463)
Financing activities			
Repayment of loans payable		(382,146)	(309,275)
Cash flows used in financing activities		(382,146)	(309,275)
Effect of exchange rate changes on cash		191,027	110,746
Net increase in cash for the year		82,537	603,632
Cash, beginning of the year		2,185,662	1,582,030
Cash, end of the year		\$ 2,268,199	\$ 2,185,662
Supplementary cash flow information			
Interest paid		\$ 98,851	\$ 97,371

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

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

1. NATURE OF OPERATIONS AND GOING CONCERN

Eurocontrol Technics Group Inc. (the “Company”) is a publicly listed company incorporated in British Columbia 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 principal and registered address and records office of the Company is located at 401 Bay Street, Suite 2828, Toronto, Ontario, M5H 2Y4.

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.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 27, 2015.

2. BASIS OF PRESENTATION

Statement of compliance

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with 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

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 5. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Adoption of revised and new standards and interpretations

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

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

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

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

2. BASIS OF PRESENTATION, (continued)

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

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

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 consolidated 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.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

3. PRINCIPLES OF CONSOLIDATION

These consolidated financial statements for the year ended December 31, 2014 and 2013 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries are as follows:

Name	Country of incorporation	Economic interest	Basis of Accounting
Global Fluids International S.A. ("GFI")	Nevis	100%	Full consolidation
Xenemetrix Ltd. ("Xenemetrix")	Israel	100%	Full consolidation
XwinSys 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.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Impairment of technology rights, deferred development 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.
- **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.
- **Contingencies** – refer to note 24.

5. SIGNIFICANT ACCOUNTING POLICIES

a) Presentation currency

The Company's presentation currency is the Canadian dollar. The functional currency of the Company and its subsidiaries is the US dollar.

b) Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign currency translation gains and losses are presented in the statements of income (loss) and comprehensive income (loss) in the period in which they occur.

c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

d) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

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

Sale of Fuel Markers

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

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

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

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

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

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

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

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

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

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

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the statements of income (loss) and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

f) Finance costs

Finance costs comprise interest expense on borrowings calculated using the effective interest rate method.

g) Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Taxation

Current income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income (loss) and comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

No deferred tax liability is recognized on taxable temporary differences associated with investments to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that these differences will not reverse in the foreseeable future.

No deferred tax asset is recognized on the deductible temporary differences associated with investments in subsidiaries as it is not probable that the temporary differences will reverse in the foreseeable future.

i) Equipment

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Equipment is amortized over its estimated useful life on a straight line basis as follows:

Office furniture, computers and equipment	7% to 33%
Machinery and spectrometer equipment	30%
Vehicle	15%

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Equipment (continued)

An item of equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of operations when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that is separately depreciated and is written off or replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset is not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the statement of operations when the asset is derecognised.

Intellectual property

Intellectual property is being amortized over the estimated useful life on a straight-line basis of seven years.

Technology rights

Technology rights are amortized over their estimated useful lives on an annual straight-line basis as follows:

Licence - markers and detectors	10 years
Licence - XRF Systems	7 years

During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Intangible assets (continued)

Deferred development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- the ability to use or sell the intangible asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Deferred development costs are amortized over their estimated useful life on a straight line basis as follows:

Marker development	straight-line over ten years
Equipment development	straight-line over three years

During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

k) Impairment of non-financial assets

The Company conducts annual internal assessments of the carrying values of non-financial assets including equipment and intangible assets (technology rights, deferred development costs and intellectual property). The carrying values of capitalised equipment and intangible assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other group of assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of income (loss) and comprehensive income (loss) so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognised in the statements of income (loss) and comprehensive income (loss) in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of non-financial assets (continued)

For assets excluding goodwill and indefinite life intangibles, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statements of income (loss) and comprehensive income (loss). Impairment losses recognised in relation to goodwill or indefinite life intangibles are not reversed for subsequent increases in their recoverable amount.

l) Financial instruments

Financial assets

Financial assets within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss ("FVTPL", loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash, amounts receivable, and loan receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL includes financial assets held for trading and financial assets designated upon initial recognition as FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. FVTPL financial assets are carried in the statements of financial position at fair value with changes in fair value recognised in finance income and finance costs in the statement of income (loss) and comprehensive income (loss).

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of operations. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

1) Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statements of income (loss) and comprehensive income (loss). The losses arising from impairment are recognised in the statement of income (loss) and comprehensive income (loss).

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or,
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In this case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

1) Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income (loss) and comprehensive income (loss). Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of income (loss) and comprehensive income (loss). Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statements of income (loss) and comprehensive income (loss).

Financial liabilities

Initial recognition and measurement:

Financial liabilities within the scope of IAS 39 are classified as FVTPL, or as other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, less directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, loans payable and amounts payable.

Subsequent measurement:

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statements of income (loss) and comprehensive income (loss).

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments (continued)

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of income (loss) and comprehensive income (loss) when the liabilities are derecognised, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of income (loss) and comprehensive income (loss).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, is cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income (loss) and comprehensive income (loss).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

m) Cash

Cash comprises of cash at banks and on hand. For the purpose of the consolidated statements of cash flows, cash is net of outstanding bank overdrafts.

n) Inventories

Inventories consist of materials, work in process and finished goods, are stated at the lower of cost or net realizable value and are accounted for using the FIFO (first in, first out) method. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions

Provisions are recognised when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of income (loss) and comprehensive income (loss) net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

p) Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted loss per common share reflects the potential dilution of common share equivalents such as outstanding options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. For the years ended December 31, 2014 and 2013, all options and warrants were excluded from the computation of diluted loss per share as they were anti-dilutive.

6. 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, 2012	\$	349,568
Additions		-
Balance as at December 31, 2013		349,568
Additions		-
Balance as at December 31, 2014	\$	349,568
Accumulated amortization		
Balance as at December 31, 2012	\$	-
Amortization expense		-
Balance as at December 31, 2013		-
Amortization expense		49,938
Balance as at December 31, 2014	\$	49,938
Carrying amounts		
Balance as at December 31, 2013	\$	349,568
Balance as at December 31, 2014	\$	299,630

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

7. 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.

For the years ended December 31,	Revenue from external customers	
	2014	2013
Africa	\$ 4,484,495	\$ 4,704,110
North America	181,767	148,736
Asia	577,293	646,629
Europe	642,774	876,491
South America	70,404	72,868
	\$ 5,956,733	\$ 6,448,834

GFI accounts for \$4,448,342 (2013 - \$4,561,565) of the revenue generated for the year ended December 31, 2014, representing 75% (2013 – 71%) of overall revenue from the sale of its oil markers. Xenometrix accounts for \$1,508,391 (2013 - \$1,887,269) of the revenue generated for the year ended December 31, 2014, representing 25% (2013 – 29%) of overall revenue. Xenometrix revenue is from sales of EDXRF systems.

Revenue by product is as follows:

For the years ended December 31,	2014	2013
Fuel markers	\$ 4,448,342	\$ 4,561,565
Detectors and other	1,508,391	1,887,269
	\$ 5,956,733	\$ 6,448,834

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

7. OPERATING SEGMENTS (continued)

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

	As at December 31, 2014		
	South America	Asia	Total
Equipment	\$ -	\$ 283,888	\$ 283,888
Deferred development costs	299,900	-	299,900
Technology rights	1,906,577	382,364	2,288,941
Intellectual property	-	299,630	299,630

	As at December 31, 2013		
	South America	Asia	Total
Equipment	\$ -	\$ 223,288	\$ 223,288
Deferred development costs	337,388	-	337,388
Technology rights	2,144,899	509,819	2,654,718
Intellectual property	-	349,568	349,568

8. AMOUNTS RECEIVABLE

As at December 31,	2014	2013
Trade receivables	\$ 626,798	\$ 580,272
Value added taxes receivables	18,773	-
Other	29,984	3,426
	\$ 675,555	\$ 583,698

9. INVENTORIES

As at December 31,	2014	2013
Materials	\$ 196,862	\$ 138,284
Work in process	130,070	44,001
Finished goods	398,705	363,075
	\$ 725,637	\$ 545,360

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 years ended December 31, 2014 and 2013, the cost of inventories recognized as an expense and included in cost of sales was \$2,627,545 and \$2,585,997 respectively.

EUROCONTROL TECHNICS GROUP INC.**Notes to the Consolidated Financial Statements****(Expressed in Canadian dollars)****For the years ended December 31, 2014 and 2013****10. EQUIPMENT**

		Office furniture, computers and equipment	Vehicles	Total
Cost				
Balance as at December 31, 2012	\$	231,682	64,291	295,973
Additions		115,225	-	115,225
Disposals		(28,350)	-	(28,350)
Balance as at December 31, 2013		318,557	64,291	382,848
Additions		121,498	-	121,498
Disposals		(636)	-	(636)
Foreign exchange		30,617	6,292	36,909
Balance as at December 31, 2014	\$	470,036	70,583	540,619
Accumulated depreciation				
Balance as at December 31, 2012	\$	85,459	\$ 21,500	\$ 106,959
Depreciation		46,464	13,725	60,189
Disposals		(7,588)	-	(7,588)
Balance as at December 31, 2013		124,335	\$ 35,225	\$ 159,560
Depreciation		68,420	13,134	81,554
Disposals		-	-	-
Foreign exchange		12,169	3,448	15,617
Balance as at December 31, 2014	\$	204,925	\$ 51,807	\$ 256,732
Carrying amounts				
Balance as at December 31, 2013	\$	194,222	\$ 29,066	\$ 223,288
Balance as at December 31, 2014	\$	265,111	\$ 18,776	\$ 283,888

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

11. DEFERRED DEVELOPMENT COSTS

During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

	<u>Marker</u>	<u>Equipment</u>	<u>Total</u>
Cost			
Balance as at December 31, 2012	\$ 920,137	\$ 651,922	\$ 1,572,059
Additions	-	-	-
Balance as at December 31, 2013	920,137	651,922	1,572,059
Additions	-	-	-
Balance as at December 31, 2014	\$ 920,137	\$ 651,922	\$ 1,572,059
Accumulated amortization			
Balance as at December 31, 2012	\$ 460,065	590,416	1,050,481
Amortization expense	122,684	61,506	184,190
Balance as at December 31, 2013	582,749	651,922	1,234,671
Amortization expense	37,488	-	37,488
Balance as at December 31, 2014	\$ 620,237	\$ 651,922	\$ 1,272,159
Carrying amounts			
Balance as at December 31, 2012	\$ 337,388	\$ -	\$ 337,388
Balance as at December 31, 2014	\$ 299,900	\$ -	\$ 299,900

12. TECHNOLOGY RIGHTS

The Company, through its wholly owned subsidiaries GFI and Xenemetrix, holds a licence to produce and sell fuel markers, detectors and XRF systems. The fuel markers and detectors are licensed under a 20 year licence agreement from the holder of the patents. The XRF systems are licensed until February 2018. Technology rights assets relating to markers and detectors and XRF Systems are being amortized over their estimated useful lives on a straight-line basis of 10 years (ending in fiscal 2016) and seven years (ending in fiscal 2018), respectively. During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

	<u>Markers and Detectors</u>	<u>XRF Systems</u>	<u>Total</u>
Cost			
Balance as at December 31, 2012	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Additions	-	-	-
Balance as at December 31, 2013	7,844,267	892,184	8,736,451
Additions	-	-	-
Balance as at December 31, 2014	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Accumulated amortization			
Balance as at December 31, 2012	\$ 4,902,673	254,910	5,157,583
Amortization expense	796,695	127,455	924,150
Balance as at December 31, 2013	5,699,368	382,365	6,081,733
Amortization expense	238,322	127,455	365,777
Balance as at December 31, 2014	\$ 5,937,690	\$ 509,820	\$ 6,447,510
Carrying amounts			
Balance as at December 31, 2013	\$ 2,144,899	\$ 509,819	\$ 2,654,718
Balance as at December 31, 2014	\$ 1,906,577	\$ 382,364	\$ 2,288,941

EUROCONTROL TECHNICS GROUP INC.**Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)****For the years ended December 31, 2014 and 2013****13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As at December 31,	2014	2013
Accounts payable	\$ 287,942	\$ 289,945
Accrued liabilities	625,300	546,042
	\$ 913,242	\$ 835,987

14. LOANS PAYABLE

			December 31, 2014	December 31, 2013
Euro loan				
Principal	€	500,000	\$ 698,066	\$ 731,420
Interest	€	440,487	614,978	556,708
			1,313,043	1,288,128
Repayments			(162,878)	-
Total outstanding Euro loan			1,150,165	1,288,128
US dollar loan				
Principal	\$	850,000	986,085	904,060
Interest	\$	378,395	438,976	400,559
			1,425,061	1,304,619
Repayments			(1,425,061)	(1,101,425)
Total outstanding US loan			-	203,194
Total			\$ 1,150,165	\$ 1,491,322

The total payable includes the principal amount of €500,000 (\$698,066) (December 31, 2013 - €500,000 (\$731,420)) and accrued interest of €440,487 (\$614,978) (December 31, 2013 - €380,567 (\$556,708)) loaned by 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 December 31, 2014, the Company repaid €116,664 (\$162,878), (December 31, 2013 - €nil (\$nil)) resulting in an outstanding balance of €823,823 (\$1,150,165).

The remainder of the loans payable balance relates to the principal amount of US\$850,000 (\$986,085) (December 31, 2013 - US\$850,000 (\$904,060)) and accrued interest of US\$378,395 (\$438,976) (December 31, 2013 - US\$376,607 (\$400,559)) in loans payable to former shareholders of GFI. The US dollar loans payable will be repaid through 25% of the income generated by contracts of GFI. This portion of the loans payable bears an annual interest rate of 5.0%.

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

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

15. ISSUED CAPITAL

Authorized: Unlimited common shares without par value

	December 31, 2014	December 31, 2013
Issued capital	\$ 14,690,341	\$ 14,690,341
Fully paid common shares (1)	90,160,738	90,160,738

(1) As at December 31, 2014 and 2013, included in this number is 1,000,000 shares awaiting issuance, the proceeds for which were received in 2008 and are included in share capital.

16. WARRANTS RESERVE

The following table summarizes information about warrants:

	Number of Warrants	Value
Balance as at December 31, 2012	15,154,665	\$ 866,379
Warrants expired	(15,154,665)	(866,379)
Balance as at December 31, 2013 and December 31, 2014	-	\$ -

There were no warrants outstanding as of December 31, 2014.

17. 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 TSX 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, 2012	\$ 296,736
Share based payments	151,000
Expiry of stock options	(51,880)
Balance as at December 31, 2013 and December 31, 2014	\$ 395,856

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

17. SHARE-BASED PAYMENT RESERVE (continued)

The following share-based payment arrangements were in existence as at December 31, 2014:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
1,700,000	1,700,000	February 23, 2011	February 23, 2016	\$ 0.16	244,856
5,112,500	5,112,500	March 11, 2013	March 11, 2018	\$ 0.10	151,000
6,812,500	6,812,500				\$ 395,856

The share options outstanding as at December 31, 2014 had a weighted exercise price of \$0.11 (December 31, 2013: \$0.11) and a weighted average remaining contractual life of 2.7 years (December 31, 2013: 3.7 years).

All options vested on their date of issue and expire within five years of their issue, or 30 days after the resignation of the director, officer, employee or consultant.

Fair value of share options granted in the year ended December 31, 2014

During the year ended December 31, 2014, no share options were granted.

Fair value of share options granted in the year ended December 31, 2013

On March 11, 2013, 5,112,500 share options were granted to directors, officers and consultants of the Company to acquire the Company's shares at an exercise price of \$0.10 until March 11, 2018. These share options had an estimated fair value of \$151,000 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	
	5,112,500	
Grant date share price	\$	0.04
Exercise price	\$	0.10
Expected volatility		123%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		1.39%

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

17. SHARE-BASED PAYMENT RESERVE (continued)

Movements in shares options during the period/year:

The following reconciles the share options outstanding during the year ended December 31, 2014 and 2013:

	Number of options	Weighted average exercise price
Balance as at December 31, 2012	2,050,000	\$ 0.18
Granted	5,112,500	\$ 0.10
Expired	(350,000)	\$ 0.28
Balance as at December 31, 2013 and December 31, 2014	6,812,500	\$ 0.11

18. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at December 31, 2014 and 2013 were as follows:

	Loans and receivables	Other financial liabilities	Total
As at December 31, 2014			
Cash	\$ 2,268,199	-	\$ 2,268,199
Amounts receivable	626,798	-	626,798
Loans receivable	-	-	-
Accounts payable and accrued liabilities	-	913,242	913,242
Loans payable	-	1,150,165	1,150,165
Amounts payable	-	8,514	8,514

	Loans and receivables	Other financial liabilities	Total
As at December 31, 2013			
Cash	\$ 2,185,662	-	\$ 2,185,662
Amounts receivable	580,272	-	580,272
Loans receivable	322,807	-	322,807
Accounts payable and accrued liabilities	-	835,987	835,987
Loans payable	-	1,491,322	1,491,322
Amounts payable	-	22,749	22,749

As at December 31, 2014, there are 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 December 31, 2014 and December 31, 2013, the Company did not hold financial instruments recorded at fair value that would require classification within the fair value hierarchy.

The carrying value of cash, amounts receivable, loan receivable, accounts payable and accrued liabilities and loan 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.

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

19. RELATED PARTY DISCLOSURES

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

- For the year ended December 31, 2014 \$98,851 (2013 - \$97,371) in interest was charged on the loans payable as described in note 14.

Compensation of key management personnel of the Company

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

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

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

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

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

20. 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 year ended December 31, 2014. The Company and its subsidiaries are not subject to externally imposed capital requirements.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements (Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

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

Liquidity risk:

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

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. The Company is currently seeking sources of funding to meet short term liabilities, and short term cash requirements. The terms of the loans payable are described in note 14.

Market risk:

(a) Interest rate risk

The Company carries loans payable with interest and repayment terms as described in note 14. 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 and its subsidiaries 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.

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

21. FINANCIAL RISK FACTORS (continued)

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

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

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

(c) Price risk

The Company is engaged in the development and implementation of marking systems for various types of oil. As a result, the Company is exposed to price risk with respect to commodity prices, specifically oil. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations 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.

22. LOAN RECEIVABLE

On September 20, 2012, the Company, through its wholly owned subsidiary Global Fluids International S.A., loaned US\$200,000 and paid for various expenses amounting to US\$114,094 on behalf of GFI U Ltd., a non-related company, pursuant to a five year contract extension with the Ministry of Energy and Mineral Development, Government of the Republic of Uganda for the continued deployment of the Company's Petromark™ technology in that country. The loan carried an interest rate of 10% and was without fixed terms of repayment. As at December 31, 2014, the loan was fully repaid and the balance of principal and interest outstanding amounts to \$nil (December 31, 2013 – \$322,807).

EUROCONTROL TECHNICS GROUP INC.
Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
For the years ended December 31, 2014 and 2013

23. INCOME TAXES

a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 27% (December 31, 2013 – 27%) are as follows:

	December 31, 2014	December 31, 2013
Loss before income taxes	\$ (217,625)	\$ (421,367)
Expected income tax recovery based on statutory rate	\$ (59,000)	\$ (112,000)
Adjustments to benefit resulting from:		
Share-based compensation	-	40,000
Other	128,000	373,000
Expiry of non-capital losses	64,000	-
Benefit of tax losses not recognized	(104,260)	(280,146)
Provision for income taxes	\$ 28,740	\$ 20,854

b) Deferred tax balance

Deferred tax assets have not been recognized in respect of the following temporary differences:

	December 31, 2014	December 31, 2013
Non-capital losses	\$ 9,554,504	\$ 10,218,347
Share issue costs	7,330	34,995
Unrealized foreign exchange gain	20,476	104,601
Other temporary differences	8,482	11,013
	\$ 9,590,792	\$ 10,368,956

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company will be able to use these benefits.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2014 and 2013

23. INCOME TAXES (continued)

c) Non-capital loss balance

As at December 31, 2014, the Company has non-capital losses in Canada, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses, stated in Canadian dollars, expire as follows:

	<u>Canada</u>
2025	\$ 142,000
2026	803,000
2027	875,000
2028	817,000
2029	624,000
2030	1,490,000
2031	1,339,000
2032	1,059,000
2033	614,000
	<u>\$ 7,763,000</u>

As at December 31, 2014, the Company has \$1,791,504 in non-capital losses in Xenemetrix which expire in 2016, which under certain circumstances can be used to reduce the taxable income of future years.

24. 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 consolidated 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 \$414,000 during the year ended December 31, 2014. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full. As of December 31, 2014, the balance of the grants received to date to be repaid is approximately \$617,000.