

## Management's Discussion and Analysis

For the three month period ended March 31, 2016

*(in Canadian dollars unless otherwise noted)*

*Management's discussion and analysis ("MD&A") is current to May 30, 2016 and is management's assessment of the operations and the financial results together with future prospects of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company"). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2016 and 2015 and notes thereto and the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 and notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise. Additional information relevant to Eurocontrol's activities, including Eurocontrol's press releases can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **FORWARD-LOOKING STATEMENTS**

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

### **BUSINESS OVERVIEW AND STRATEGY**

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange ("TSXV") under the symbol "EUO". The Company specializes in the acquisition, development and commercialization of innovative security, authentication, verification and certification markets globally through its two wholly-owned subsidiaries: Xenemetrix Ltd. ("Xenemetrix") and XwinSys Technology Development Ltd. ("XwinSys"). Xenemetrix is a leading designer, manufacturer and marketer of energy-dispersive x-ray fluorescence (ED-XRF) systems, a technology that is the most accurate and economic method for determining the chemical composition of many types of materials. Xenemetrix has an exclusive long term supply, maintenance and support agreement with SIPCA/GFI to supply Xenemetrix products and services related to oil and gas marking and monitoring field. XwinSys is developing technology and intellectual property that combines 2D and 3D image processing technology with Xenemetrix's ED-XRF technology for application in the semi-conductor manufacturing process.

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

Eurocontrol's international operations expose the Company to additional risk unique to such international markets. Eurocontrol intends to grow its international business operations.

For a discussion of risks, please refer to the Risks and Uncertainties section of this MD&A.

The Company has been focused on implementing a strategic plan designed to increase the Company's value and create opportunities for growth by focusing its' resources and capital in pursuit of higher growth strategies. This strategic plan commenced with the sale of the Company's former wholly-owned subsidiary, Global Fluids International (GFI) S.A. ("GFI") to SICPA Finance SA ("SICPA"), a subsidiary of SICPA SA, each a privately owned company based in Switzerland, which closed January 4, 2016. The Company receives an earn out payment from SICPA/GFI for a six to nine year period. Further details on the sale of GFI are included below under Sale Transaction.

In particular, Eurocontrol intends to focus its business growth efforts in the following areas: (1) material analysis on mobile platforms; (2) monitoring solutions for marine vessels and geological mapping; (3) ED-XRF agricultural applications in precision farming; and (4) ED-XRF/2D-3D Semiconductor and related microelectronics industry applications. Management of the Company believes that there will be increased demand for ED-XRF technology and automated 2D and 3D image processing technologies in these areas and, as a result, new opportunities for the Company to capitalize on this demand.

The Company has committed to investments in R&D programs within Xenemetrix and XwinSys, the Company's two remaining wholly-owned subsidiary. To facilitate product development and growth in these core businesses, in 2016, the Company plans on investing \$2 million into R&D. Additionally, the growth of Eurocontrol through acquisitions and integration of complementary businesses is an important component of the Company's business strategy. Eurocontrol continues to seek opportunities to acquire or invest in businesses, products and technologies that are complementary and would provide for expansion in the areas of authentication, verification and certification. To this end, the Company is currently engaged in comprehensive global search for suitable merger and acquisition opportunities.

## **SALE TRANSACTION**

On January 4, 2016, the Company closed the sale of GFI to SICPA in exchange for cash and post-closing earn-out payments.

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

- Cash consideration paid to the Company by SICPA on closing was \$16 million less the \$250,000 deposit received by the Company on signing of the Letter of Intent in August 2015, less \$395,595 in transaction payments, less \$984,128 in settlement of loan amounts owing by Eurocontrol to certain former shareholders of GFI and a working capital adjustment of \$410,858.
- Post closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts, inclusive of both marker and logistics, entered into by it following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction (the "Minimum Earn-out Amount Period"), with a minimum guaranteed of \$1.5 million per year for the 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.

## LEADERSHIP TEAM

W. Bruce Rowlands - Chairman, President and Chief Executive Officer  
Andres Tinajero – Chief Financial Officer  
Charlotte May – Corporate Secretary  
Dennis Logan – Director <sup>(1\*)(2)</sup>  
Kenneth Wawrew – Director <sup>(1)(2\*)</sup>  
Paul Wood – Director <sup>(1)(2)</sup>

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- \* Denotes Committee Chair

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

## RECENT DEVELOPMENTS AND OUTLOOK

Management believes that the sale of its former subsidiary, GFI, to SICPA is a very positive step forward in the go-to-market strategy for GFI. SICPA has a long established business with very significant reach within the security and authentication marketplace. Historically, SICPA is recognized as a force in the global market for bank notes having seen its security inks used in peseta notes since the 1940's. SICPA has evolved and benefitted from its development and deployment of a continuous stream of sophisticated new technologies in the identification, traceability and tax reconciliation verticals. SICPA has a significant presence in many markets that GFI has identified as potential targets for its Petromark™ solution. GFI will be able to leverage SICPA's extensive logistical expertise and customer base to expand its customer base, which Eurocontrol will benefit from in the form of 5% earn-out payments on net revenues from all new marking technology sales and operational logistics for a minimum of six years from closing and additional post-closing earn-out payments of 5% of net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts.

Historically, Eurocontrol was limited to revenue from the sale of fuel markers and analyzers/detectors. The sale of GFI to SICPA expands Eurocontrol's exposure to the fuel marking market significantly through the inclusion of operational logistics in the earn-out payment stream. Logistics revenue as a component of the over-all revenue derived from a comprehensive fuel marking program are generally a multiple of the revenue generated from sales of markers and detectors. Under the terms of the sale of GFI to SICPA, Xenemetrix remains the supplier of detectors to SICPA/GFI on all new contracts entered into during the six year earn-out period. The Purchase Agreement provided Eurocontrol with approximately \$16 million in cash, a minimum of \$9 million in earn-out payments over the Minimum Earn-out Amount Period and two wholly-owned subsidiaries focused on growing their proprietary technology product offerings. Management is evaluating other potential investment opportunities that it anticipates will enhance the Company's growth profile and future profitability.

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

## **Xenemetrix**

Xenemetrix accounted for \$302,673 (USD\$220,430) (2015 - \$326,597 (USD\$263,746)) of the revenue generated for the three month period ended March 31, 2016, representing 100% (2015 – 17%) of overall revenue, such revenue being generated primarily from the sales of ED-XRF systems for GFI's Petromark™ fuel marking business. In connection with GFI, in November 2015, Xenemetrix entered into a long term supply and support agreement with SICPA as part of the sale of GFI to SICPA. This long term supply and support agreement will also enable Xenemetrix to cooperate with SICPA and use SICPA's considerable knowledge base and field experience to significantly improve the capabilities of Xenemetrix's existing product lines, as well as develop new products and solutions for field applications. Xenemetrix is reorganizing and enhancing its manufacturing facilities as well as its quality control processes to ensure it can continue to meet the high manufacturing and systems integration standards that its customers have come to expect.

Also in 2015, Xenemetrix expanded its capabilities and product line by presenting new unique applications with the ED-XRF technology focusing its state of the art ability to measure and monitor through the development of a hybrid capability on mobile platforms that will replace cumbersome monitoring processes for a wide range of applications. In addition to offering onboard monitoring solutions for marine vessels, geological mapping and heavy equipment monitoring these mobile platforms can also be utilized for agriculture applications such as "precise farming" where the monitoring of soil, plant and tree leaves during the different stages of the growth process will allow efficiencies in the fertilization and irrigation of agricultural soil and improve the growth yield.

On March 28, 2016, the Company announced that Xenemetrix had entered into a Memorandum of Understanding ("MOU") with Netafim, an Israeli company that is the global leader in drip and micro-irrigation solutions for sustainable agricultural productivity, to develop a unique and innovative testing system utilizing Xenemetrix's ED-XRF technology for farmers and the greater farming community. The solution that will be developed through the collaboration between Netafim and Xenemetrix will be offered as a unique and innovative service to Netafim's farming client base for performing immediate tests of crops, soil and water in the field to replace the traditional method of sending samples to laboratories and waiting days for results. Xenemetrix will leverage its ED-XRF-based spectroscopy expertise to develop a dedicated mobile and compact system for performing at-site (in-field) testing and analysis of material elements, primarily N, P and K (Nitrogen, Phosphorous and Potassium) in the soil, water and critical parts of the crops, at set intervals. Netafim will contribute its extensive market presence and expertise to secure cooperation of prospective clients to assist with defining specifications and laboratory verification of Xenemetrix prototypes. The MOU also provides for an exclusivity term of two years for the initial commercialization phase to ensure the rapid time-to-market and launch of a mature solution that will boost revenue and reduce expenses for the farmer. A critical value add is the risk avoidance that will be achieved by this highly accelerated testing process that will result in increased sustainability through improved yields and a decrease in waste. The Xenemetrix system will also allow for the collection of measured data and GPS coordinates that will be fed into a cloud-based repository that over time will form a big-data base that can be offered as a service to agro-companies and organizations to deal with the increasing food demand of the world's growing population and will enable insights into patterns and trends on as wide a geography as required.

Xenemetrix remains focused on the development of new applications for its ED-XRF and establishing new marketing and distribution agreements in various regions. The Company believes that the on-site hybrid solution under development will enable the Company to offer a new approach by replacing entrenched off-line material analysis processes with on-site real-time methodology.

## **XwinSys**

XwinSys is a research and development stage company that is pre revenue. XwinSys has been focused on the development of synergistic combinations of ED-XRF technology and automated 2D and 3D image processing technologies for the semiconductor and related microelectronics industries. On February 23, 2016, the Company announced that XwinSys has finalized the integration of its novel XRF technology, named NMT (Noise-reduced Multilayer Thin-film measurement), in its state-of-the-art hybrid product line. This technology is intended to serve the evolving metrology and inspection needs of the semiconductor industry that have evolved recently to keep pace with the advent of 3D (three dimensional) stacking structures for continued miniaturization of devices at an affordable cost. XwinSys was founded to satisfy a need to analyze solder bumps for the fledgling 3D IC (integrated circuit) market segment and thus gained critical insight into additional opportunities. The XwinSys NMT technology enhances traditional X-ray fluorescence (XRF) solutions and overcomes limitations of currently entrenched technologies for measuring thin and ultra-thin films. These thin films, which can be a single layer of atoms of a specific material, are a critical component in the construction of advanced semiconductor devices. The key attribute of the NMT technology is a dramatic improvement in sensitivity which is achieved by improving signal to background noise. Testing of the XwinSys NMT technology has demonstrated superior performance for a wide variety of semiconductor applications. XwinSys continues to perform advanced demo applications for its prospective semiconductor customers with several of the largest global companies that participate in this market.

As at March 31, 2016, the funds received from granting institutions for fiscal years 2012 through 2016 total US\$776,000. There is no assurance that XwinSys will receive further funds under the qualified grants as the proceeds received from the Office of the Chief Scientist of Israel are dependent on expenditures incurred by XwinSys and approvals by the Office of the Chief Scientist of Israel. In 2013, 2014, 2015 and 2016, XwinSys continued working towards commercialization of its wafer inspection and measurement system. There exists a significant demand for this technology in the semiconductor and related micro-electronics industries.

The Company has budgeted to invest up to US\$2.0 million in fiscal 2016 to advance XwinSys towards achieving certain milestones, and depending on the outcome of these milestones, the Company may begin commercial production in late 2016. For the three month period ended March 31, 2016, the Company's research and development expenditures amounted to approximately US\$378,000 out of the US\$2.0 million amount budgeted for 2016. XwinSys' enhanced hybrid concept is supported by an intellectual property package including a portfolio of pending patents, state-of-the-art know-how and trade secrets. This ensures that the Company will be able to establish first-mover status and maintain this advantage to capture significant market share. XwinSys has also formalized a strategy for building on its modular hybrid platform to add additional detection capabilities to achieve a wider scope of applications and to enhance its overall inspection and analytical solutions. (Status ongoing)

**SUMMARIZED FINANCIAL RESULTS**

	Three Months Ended March 31,	
	2016	2015
	\$	\$
<b>Revenue:</b>		
- from continuing operations	302,673	326,597
- from discontinued operations	-	1,604,702
Total revenue	<u>302,673</u>	<u>1,931,299</u>
<b>Cost of sales:</b>		
- from continuing operations		
Cost of sales - direct production costs	(172,537)	(136,362)
Cost of sales - amortization and other non cash items	<u>(44,349)</u>	<u>(44,348)</u>
	(216,886)	(180,710)
- from discontinued operations		
Cost of sales - direct production costs	-	(499,302)
Cost of sales - amortization and other non cash items	-	<u>(68,953)</u>
	-	(568,255)
<b>Gross profit - continuing operations</b>	<u>85,787</u>	<u>145,887</u>
<b>Gross profit - discontinued operations</b>	-	<u>1,036,447</u>
Expenses - continuing operations	(1,955,031)	(691,782)
Expenses - discontinued operations	-	(138,094)
Other (expense) income - continuing operations	367,998	(166,636)
Other (expense) income - discontinued operations	-	366,810
Income tax expense - discontinued operations	-	(6,365)
Gain on sale of subsidiary - discontinued operations	16,484,172	-
Net income (loss) - continuing operations	<u>(1,501,246)</u>	<u>(712,531)</u>
Net income (loss) - discontinued operations	<u>16,484,172</u>	<u>1,258,798</u>
Net income (loss)	<u>14,982,926</u>	<u>546,267</u>
Basic loss per share		
- from continuing operations	<u>(0.02)</u>	<u>(0.01)</u>
- from discontinued operations	<u>0.18</u>	<u>0.01</u>
- net income (loss)	<u>0.16</u>	<u>0.01</u>
Diluted loss per share		
- from continuing operations	<u>(0.02)</u>	<u>(0.01)</u>
- from discontinued operations	<u>0.17</u>	<u>0.01</u>
- net income (loss)	<u>0.15</u>	<u>0.01</u>
EBITDA	<u>17,388,949</u>	<u>707,615</u>
EBIT	<u>17,332,680</u>	<u>569,821</u>

### **Continuing operations**

Revenue from continuing operations for the three month period ended March 31, 2016 decreased to \$302,673 (US\$220,430) from \$326,597 (US\$263,746) for the three month period ended March 31, 2015, a 7% decrease in Canadian dollar sales which reflect a 16% decrease in US dollar sales offset by an increase in the exchange rate.

For the three month period ended March 31, 2016, the Company had a gross profit from continuing operations of \$85,787 (2015 – \$145,887). These amounts include non-cash cost of sales items; consisting of amortization of technology rights and patents amounting to \$44,349 (2015 - \$44,348) for the three month period ended March 31, 2016. These non-cash cost of sales items are recurring costs based on the original development of the technology that the Company does not have any cost control over. Gross margin excluding of these non-cash cost of sales items is 43% for the three month period ended March 31, 2016 (2015 – 58%). The variance is due to US dollar sales relating to detectors and ancillary equipment having decreased by 7% for the three month period ended March 31, 2016 offset by an increase in foreign exchange between the US dollar and Canadian dollar which averaged at 1.238 for the three month period ended March 31, 2015 as compared to 1.373 for the three month period ended March 31, 2016. The margin on detectors and ancillary equipment varies based on the level of customization. The cost of sales related to the same sales during the comparable periods increased from \$136,362 for the three month period ended March 31, 2015 to \$172,537 for the three month period ended March 31, 2016. This represents an increase of 27% in cost of sales which contributed to the decrease in margin between the two periods.

### **Discontinued Operations**

Revenue from discontinued operations, which relates to sales in GFI, for the three month period ended March 31, 2016 was \$nil (US\$nil) as GFI was sold on January 4, 2016 as compared to \$1,604,702 (US\$1,295,891) for the three month period ended March 31, 2015.

For the three month period ended March 31, 2016, the Company had a gross profit from discontinued operations of \$nil (2015 – \$1,036,447). These amounts include non-cash cost of sales items consisting of amortization of technology rights and deferred development costs amounting to \$nil (2015 - \$68,953) for the three month period ended March 31, 2016. These non-cash cost of sales items were recurring costs based on the original development of the technology that the Company did not have any cost control over. Gross margin from discontinued operations excluding of these non-cash cost of sales items was nil% for the three month period ended March 31, 2016 (2015 – 69%).

## **RESULTS OF OPERATIONS**

EBITDA for the three month period ended March 31, 2016 increased by \$16,681,334 to \$17,388,949 compared to \$707,615 for 2015. EBITDA for the three month period ended March 31 increased as a result of the one time gain on the sale of GFI.

EBITDA excluding this one-time gain amounted to \$(1,607,223), a decrease of \$2,314,838 as compared to 2015. The decrease is due to the exclusion of revenue of GFI during the current three month period ended March 31, 2016, as GFI was sold on January 4, 2016, as well as higher research and development costs reflecting the higher R&D budget for 2016 as well as compensation and change of control payments made on closing of the sale of GFI.

The Company recorded a net income of \$14,982,926 for the three month period ended March 31, 2016 compared to a net income of \$546,267 for the comparative three month period ended March 31, 2015. The increased gain is primarily due to the gain on sale of subsidiary of \$16,484,172 (2015 - \$nil).

Direct cost of sales increased slightly in the three month period ended March 31, 2016 from \$136,362 for 2015 to \$172,537 for 2016 for continuing operations. Direct costs of sale increased for continuing operations characterized by the sale of highly customizable ancillary equipment as described above.

## **Expenses**

### ***Continuing operations***

Expenses from continuing operations of \$1,955,031 for the three month period ended March 31, 2016 increased in comparison with the expenses of \$691,782 for the three month period ended March 31, 2015. The increase for the period is primarily due to the following increases with remaining expenditures remaining consistent between the two periods:

- Consulting and management expenses increased to \$449,052 for the three month period ended March 31, 2016 compared to \$177,821 for the three month period ended March 31, 2015. The increase is primarily due to change of control payments and other costs paid on closing of the sale of GFI.
- Administration expenses increased from \$141,908 for the three month period ended March 31, 2015 to \$231,768 for the three month period ended March 31, 2016. The increase is primarily due to an increase in costs in connection with the sale of GFI.
- Research and development costs increased to \$688,619 for the three month period ended March 31, 2016 from \$222,244 for the same period in 2015 due to research and development costs incurred in connection with XwinSys' strategy for building on its modular hybrid concept to add additional detection capabilities and investment made in Xenometrix towards its XDRF technology.
- Share-based compensation expense in the amount of \$379,000 (2015 - \$7,000) for the three month period ended March 31, 2016 was recognized on the granting of 3,350,000 stock options during 2016 (200,000 stock options granted during the same period in 2015).

### ***Discontinued operations***

Expenses from discontinued operations of \$nil for the three month period ended March 31, 2016 decreased in comparison with the expenses of \$138,094 for the three month period ended March 31, 2015. The decrease is due to the sale of GFI on January 4, 2016 resulting in no expenses during the three month period ended March 31, 2016.

## **Other Income/Expenses**

The Company also incurred a foreign exchange translation gain of \$231,867 for the three month period ended March 31, 2016, compared to a loss of \$166,636 for the three month period ended March 31, 2015. The Company's revenue is earned in US dollars. The Company is therefore subject to currency translation gains and losses due to fluctuations in these currencies relative to the Canadian dollar. During the three month period ended March 31, 2016, the exchange rate between the US dollar and Canadian dollar increased in favour of the US dollar thus resulting in a higher foreign exchange gain.

The Company had loans payable denominated in Euros in its former subsidiary GFI. As at December 31, 2015 these loans are included in liabilities of discontinued operations. Included under finance expense of discontinued operations is interest expense of \$nil for the three month period ended March 31, 2016, compared to \$17,189 for the three month period ended March 31, 2015, related to the GFI loans payable, due to the former shareholders of GFI. As the loan was repaid on closing of the sale of GFI, there was no interest expense during the current period.



The Company also recorded interest accretion income of \$157,532 (2015 - \$nil) during the three month period ended March 31, 2016 representing interest accretion on the long term portion of the earn out proceeds receivable from SICPA as per the terms of the sale of GFI.

### SELECTED FINANCIAL INFORMATION

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

	Three Months Ended March 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	\$	\$	\$
Revenue from continuing operations	302,673	1,271,111	1,508,391
Revenue from discontinued operations	-	6,638,331	4,448,342
Total revenue	302,673	7,909,442	5,956,733
Income (Loss)			
- from continuing operations	(1,501,246)	(1,624,023)	(1,916,075)
- from discontinued operations	16,484,172	3,251,065	1,669,710
- net income (loss)	14,982,926	1,627,042	(246,365)
Income (Loss) per share			
- from continuing operations	(0.02)	(0.02)	(0.02)
- from discontinued operations	0.18	0.04	0.02
- net income (loss)	0.16	0.02	(0.00)
Total assets at end of period/year	23,336,951	9,897,556	6,876,195

### SUMMARY OF QUARTERLY RESULTS

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

	Q1 2016 \$	Q4 2015 \$	Q3 2015 \$	Q2 2015 \$
Revenue	302,673	402,312	275,491	266,711
Cost of sales	(216,886)	(317,804)	(144,284)	(191,607)
Gross profit	85,787	84,508	131,207	75,104
Expenses	(1,955,031)	(1,568,736)	(1,046,951)	(960,431)
Other expense (income)	136,131	2,109,000	-	-
Foreign exchange gain (loss)	231,867	(90,631)	(88,095)	195,068
Income from discontinued operations	16,484,172	869,152	788,128	583,452
	14,897,139	1,318,785	(346,918)	(181,911)
Net income (loss)	14,982,926	1,403,293	(215,711)	(106,807)
Basic income (loss) per share				
- from continuing operations	(0.02)	0.00	(0.01)	(0.01)
- from discontinued operations	0.18	0.01	0.01	0.01
- net income (loss)	0.16	0.02	(0.00)	(0.00)
Total assets at end of period	23,336,951	9,897,556	7,262,712	7,081,485

	Q1 2015 \$	Q4 2014 \$	Q3 2014 \$	Q2 2014 \$
Revenue	326,597	316,256	419,271	379,891
Cost of sales	(180,710)	(236,874)	(212,537)	(225,642)
Gross profit	145,887	79,382	206,734	154,249
Expenses	(691,782)	(607,167)	(712,668)	(665,534)
Other expense (income)	-	79	-	2
Foreign exchange loss (gain)	(166,636)	(398)	(46,317)	(16,191)
Income from discontinued operations	1,258,798	365,758	550,172	386,605
	400,380	(241,728)	(208,813)	(295,118)
Net income (loss)	546,267	(162,346)	(2,079)	(140,869)
Basic and fully diluted income (loss) per share				
- from continuing operations	(0.01)	(0.00)	(0.01)	(0.01)
- from discontinued operations	0.01	0.00	0.01	0.00
- net income (loss)	0.01	(0.00)	(0.00)	0.00
Total assets at end of period	7,238,068	6,876,195	7,115,271	7,082,649

Over the past eight quarters, revenues from continuing operations have ranged from a low of \$266,711 in the second quarter of 2015 to a high of \$419,271 in the third quarter of 2014. Revenues in the remaining periods have ranged between the historical normal ranges of \$0.2 million to \$0.4 million. The revenue trend has seen sales decreasing from 2013 into 2015 which reflects the decrease in detectors and ancillary products revenue of Xenemetrix. The trend picks up in the fourth quarter of 2015 due to the significant increase in foreign exchange rates between the US and Canadian dollars. The forecast trend sees sales picking up in 2016 due primarily to the sale of GFI to SICPA which is expected to increase the sale of ancillary devices from Xenemetrix to SICPA through GFI. Cost of sales over the quarters varied depending on the level of customization on equipment sales. During the 2014 quarters, a 39% margin over sales was maintained and this trend continued into 2015 with gross margin of approximately 34% during 2015. Cost of sales ranged from a low of \$144,284 in the third quarter of 2015 to a high of \$317,804 during the fourth quarter of 2015. The variance is attributed to and fluctuated based on the degree of customization on detector and ancillary equipment sales with gross profit varying in correlation as well as the effect of foreign exchange rates. Expenses also fluctuated somewhat quarter over quarter ranging from a low of \$607,167 in the fourth quarter of 2014 to a high of \$1,955,031 in the first quarter of 2016. Expenses were consistent quarter to quarter during 2014 and into the first part of 2015 ranging between \$600,000 to \$700,000, since the Company had recurring contracts and costs associated with these contracts are expected to be consistent quarter to quarter. The trend has seen costs increase in 2015 and into 2016 with higher costs due to the sale of GFI and also due to the higher R&D budget in 2015 and into 2016. There could be variations in research and development expenses that might affect the overall expense line. The higher trend in expenses during the second half of 2015 is due to additional funding towards the development of XwinSys' strategy for building on its modular hybrid concept to add additional detection capabilities to enhance its overall inspection and analytical solutions. Expenses were higher than the expected range in the second and third quarter of 2015 as well due to work around the Company's continuous disclosure surrounding its public filings as well as work in connection with the negotiation and sale of GFI. These costs continued into the fourth quarter of 2015 which also saw an increase in the form of management compensation due to the granting of bonuses which contributed to the higher expenses in the last quarter of 2015. During the first quarter of 2016, the Company also incurred change of control payments and other costs in connection with the closing of the sale of GFI to SICPA. Income from discontinued operations has varied significantly from quarter to quarter and the fluctuations are mainly based on fluctuations in revenue from GFI contracts as well as expenditures reported by GFI.

**Disclosure of Outstanding Share Data as of May 30, 2016**

	<b>Authorized</b>	<b>Outstanding</b>
Voting or equity securities issued and outstanding	Unlimited Common Shares	92,923,238 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 6,925,000 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 14, 15 and 16 to the condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015 for more detailed disclosure of outstanding shares data.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Financial Instruments and Other Instruments**

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

**Dividends**

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

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

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

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

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 16 of the condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015 for full disclosure.

**Assessment of Recoverability of Receivables**

The carrying amount of amounts receivable, receivable under earn out agreement and long term portion of receivable under earn out agreement are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded. The Company considers current receivables to be fully collectible.

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

Technology rights of \$223,045 as at March 31, 2016 (December 31, 2015 - \$254,909) represent technology rights assets relating to ED-XRF systems are being amortized over their estimated useful lives on a straight-line basis estimated to be ending in fiscal 2022.

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of \$349,568. As at March 31, 2016, the carrying value of the intellectual property is \$237,207 (December 31, 2015 - \$249,692).

Total accounts payable, accrued liabilities, deposits received and liabilities amounted to \$1,183,231 as at March 31, 2016 (December 31, 2015 - \$3,083,652). The loans payable which are included in liabilities of discontinued operations amounted to \$nil (December 31, 2015 - \$975,741) and were paid off on the closing of the sale of GFI to former shareholders of GFI who advanced funds to GFI prior to its acquisition by the Company. The loans payable consisted of two amounts:

- The total payable includes the principal amount of €nil (\$nil) (December 31, 2015 - €500,000 (\$746,068)) and accrued interest of €nil (\$nil) (December 31, 2015 - €488,642 (\$729,120)) loaned by former shareholders of GFI. These loans payable bear an annual interest rate of 7.2%. A former director of the Company was among creditors in respect of such loans.
- As at March 31, 2016, the Company repaid the total amount of principal and interest as the loans were repaid concurrent with the closing of the sale of GFI, as described above, (December 31, 2015 - €334,720 (\$499,448)), resulting in an outstanding balance of €nil (\$nil) (December 31, 2014 - €653,922 (\$975,741)).

## **LIQUIDITY AND CASH FLOWS**

The Company ended the first quarter of fiscal 2016 with cash of \$6,828,491, compared to \$2,155,501 as at December 31, 2015. The Company had working capital of \$16,176,627 as at March 31, 2016 compared to working capital of \$4,001,621 as at December 31, 2015, including discontinued operations.

Cash used in operating activities was \$2,337,571 during the three month period ended March 31, 2016 compared to cash provided of \$856,917 during the three month period ended March 31, 2015. Changes to cash flows from operating activities primarily related to lower sales revenues for the period ended March 31, 2016 as well as higher costs in regards to research and development costs and consulting and management costs as well as payment of various bonuses accrued as at December 31, 2015 included in accounts payable and accrued liabilities.

Cash flows used in investing activities was \$7,529,049 during the three month period ended March 31, 2016, compared to cash used of \$14,274 during the three month period ended March 31, 2015. Investing activities mainly relate to equipment and intangible asset acquisitions and disposals and loans. The amount of cash used in investing activities was lower primarily due to the purchase of marketable securities of \$7,502,572 (2015 - \$nil).

Cash provided by financing activities was \$173,900 during the three month period ended March 31, 2016 compared to cash provided by financing activities of \$nil during the three month period ended March 31, 2015. Financing activities mainly relate to the issuance of shares. The increase was due to the exercise of stock options during the current period which resulted in proceeds of \$173,900 (2015 - \$nil).

Cash provided by discontinued operations was \$14,417,765 during the three month period ended March 31, 2016, compared to cash used of \$521,718 during the three month period ended March 31, 2015. Discontinued operations relate to the operations of GFI. The sale of GFI was closed on January 4<sup>th</sup>, therefore there the increase in cash flows during the three month period ended March 31, 2016 is due to the proceeds of \$14,417,765 (2015 - \$nil) received on the sale of GFI as previously discussed offset

It is not possible to predict if the Company will maintain profitable levels of operations as the Company has posted net losses for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, as well as the proceeds from sale of GFI will be adequate to meet its short-term working capital requirements during the next 12 months. As at March 31, 2016, the Company had working capital of \$16,176,627 (December 31, 2015 - \$4,001,621). This amount includes \$nil (December 31, 2015 - \$2,567,492) in working capital related to the discontinued operations of GFI. Excluding the working capital from the assets and liabilities of the discontinued operations of GFI, working capital as at March 31, 2016 amounted to \$16,176,627 (December 31, 2015 - \$1,434,129). The Company has recorded revenues from continuing operations of \$302,763 and \$326,597, respectively, for the three month periods ended March 31, 2016 and 2015 and net income of \$14,982,926 and \$546,267. Based on working capital of \$16,176,627 (December 31, 2015 - \$4,001,621), the net income for the three month periods ended March 31, 2016 and 2015, and the proceeds from the sale of GFI and corresponding proceeds from the earn out agreement, the Company believes it will meet its working capital requirements for the next 12 months.

## TRANSACTIONS WITH RELATED PARTIES

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

- For the three month period ended March 31, 2016 \$nil (2015 - \$17,189) in interest was charged on the loans payable as described in note 20(c).

Mr. Eli Zahavi, a former director, provided a loan to GFI prior to GFI's acquisition by the Company. As at March 31, 2016, the balance of that loan is \$nil (December 31, 2015 - \$145,776) which is included in discontinued operations as described in note 20(c) of the condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015).

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

In accordance with IAS 24, key management personnel, including companies controlled by them, 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 month periods ended March 31, 2016 and 2015 were as follows:

<b>For the three month periods ended March 31,</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Bruce Rowlands (Chairman, CEO)	(i)	\$ 160,000	\$ 50,000
Gadi Gonen (Director and COO; CEO of GFI)	(ii)	107,250	66,868
Andres Tinajero (CFO)	(iii)	65,000	25,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iv)	157,813	86,319
Eli Zahavi (Director)	(v)	107,250	23,218
Charlotte May (Corporate Secretary)	(vi)	52,000	9,000
Michael Rose (Director)	(vii)	-	3,715
Dennis Logan (Director)	(viii)	18,500	-
Paul Wood (Director)	(ix)	41,500	-
Kenneth Wawrew (Director)	(x)	44,500	-
		\$ 753,813	\$ 264,120

Notes:

- (i) For the three month period ended March 31, 2016, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$50,000 (2015 - \$50,000) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd. In addition, 975,000 stock options with a value of \$110,000 (2015 - \$nil) were issued.
- (ii) For the three month period ended March 31, 2016, Gadi Gonen, the former COO of Eurocontrol and CEO of GFI, was paid \$nil (2015 - \$66,868) 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 which agreement terminated effective January 4, 2016. A change of control payment of \$107,250 (2015 - \$nil) was made to Gadi Gonen in connection with the sale of GFI to SICPA.
- (iii) For the three month period ended March 31, 2016, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$25,000 (2015 - \$25,000) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc. In addition, 350,000 stock options with a value of \$40,000 (2015 - \$nil) were issued.
- (iv) For the three month period ended March 31, 2016, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$100,813 (2015 - \$86,319) in professional service fees for services as COO of Eurocontrol and as President of Xenemetrix and XwinSys pursuant to an agreement assumed by the Company when it acquired Xenemetrix in 2010. In addition, 500,000 stock options with a value of \$57,000 (2015 - \$nil) were issued.
- (v) For the three month period ended March 31, 2016, Eli Zahavi, a former director and the former Chairman of GFI, was paid \$nil (2015 - \$23,218) for consulting services as Chairman of GFI. A change of control payment of \$107,250 (2015 - \$nil) was made to Eli Zahavi in connection with the sale of GFI to SICPA.
- (vi) For the three month period ended March 31, 2016, Charlotte May, through her Company CMA Corporate Management, was paid \$24,000 (2015 - \$9,000) in professional service fees for Corporate Secretarial services pursuant to an agreement entered into by the Company and CMA Corporate Services. A bonus of \$50,000 is included for the year ended December 31, 2015 (2014 - \$nil). In addition, 250,000 stock options with a value of \$28,000 (2015 - \$nil) were issued.
- (vii) For the three month period ended March 31, 2016, Michael Rose, a former director, through his company Rose Partners, was paid \$nil (2015 - \$3,715) in Director fees.
- (viii) For the three month period ended March 31, 2016, Dennis Logan, was paid \$4,500 (2015 - \$nil) in director fees and was issued 125,000 stock options with a value of \$14,000 (2015 - \$nil).
- (ix) For the three month period ended March 31, 2016, Paul Wood, through his Company Kappa Advisors Ltd., was paid \$4,500 (2015 - \$nil) in director fees and was issued 325,000 stock options with a value of \$37,000 (2015 - \$nil).
- (x) For the three month period ended March 31, 2016, Kenneth Wawrew, was paid \$4,500 (2015 - \$nil) in director fees and was issued 350,000 stock options with a value of \$40,000 (2015 - \$nil).

As at March 31, 2016, an amount of \$9,585 (December 31, 2015 - \$627,589) due to 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.

## **RISKS AND UNCERTAINTIES**

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

the Company, its business, operations, and results, are given in this section. However, the factors and uncertainties are not limited to those stated. The Company has policies and practices mandated by the Board of Directors to manage the Company's risks which include the risks described elsewhere in this MD&A and below.

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

### **Market Risk for Securities**

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

### **Technology Risk**

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

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

### **Competitive and Pricing Risk**

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

### **Intellectual Property Risk**

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

### **Advertising and Promotional Risk**

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

### **Uninsured or Uninsurable Risk**

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

### **Key Personnel Risk**

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

### **Global Economy Risk**

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

### **Foreign Customers**

The Company's subsidiary Xenometrix, through its exclusive long term supply, maintenance and support agreement with SIPCA/GFI to supply Xenometrix products and services related to oil and gas marking and monitoring field is exposed to customers that are located mainly in countries that may be considered to be politically and/or economically unstable.

### **Other Risk Factors**

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

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

The Company cannot guarantee that it will be able to develop a commercially viable ED-XRF technology combined with automated 2D and 3D image processing technologies on the timetable it anticipates, or at all. The commercialization of our combined ED-XRF technology with automated 2D and 3D image processing technologies requires substantial technological advances. Eurocontrol cannot guarantee that



it will be able to internally develop the technology necessary for commercialization. Further, if field tests reveal technical defects or the technology does not meet performance goals, commercialization could be delayed, and potential purchasers may decline to purchase our new system and products.

## **COMMITMENTS AND CONTINGENCIES**

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

As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd. ("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 cumulative sales number being calculated 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 earn-out payments have not been paid nor are they payable.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, receivable under earn out agreement, long term portion of receivable under earn out agreement, amounts receivable, and accounts payable and accrued liabilities. In the opinion of management of the Company, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values.

The Company classifies its financial instruments according to a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly;
- Level 3 – Inputs for assets or liabilities that are not based on observable market data

As at March 31, 2016 and December 31, 2015, there were no significant concentrations of credit risk for cash and cash equivalents, marketable securities, receivable under earn out agreement, long term portion of receivable under earn out agreement 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 cash and cash equivalents, marketable securities and receivables. As at March 31, 2016 and December 31, 2015, cash and cash equivalents and marketable securities were recorded at fair value under level 1 within the fair value hierarchy.

The carrying value of cash and cash equivalents, marketable securities, receivable under earn out agreement, long term portion of receivable under earn out agreement amounts receivable, accounts payable and accrued liabilities approximate fair value because of the limited terms of these instruments.

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

### **Credit Risk**

The Company's credit risk is primarily attributable to cash and cash equivalents, receivable under earn out agreement, amounts receivable, and long term portion of receivable under earn out agreement. 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 capital markets 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 March 31, 2016, the Company had a cash and cash equivalents balance of \$6,828,491 (December 31, 2015 - \$2,155,501) to settle current liabilities of \$1,183,231 (December 31, 2015 - \$3,083,652). Working capital for the Company as at March 31, 2016 was \$16,176,627 (December 31, 2015 - \$4,001,621).

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.

### **Market Risk**

#### **(a) 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 currency exchange rates against the Canadian dollar. The Company does not use derivative instruments to reduce exposure to foreign currency risk.

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 \$105,000 (2015 - \$236,000) based on the foreign currency balances at March 31, 2016. This analysis only addresses the impact on financial instruments with respect to currency movement and excludes other economic or geo-political implications of such currency fluctuation. In practice, actual results will likely differ from this analysis and the difference may be material.

The exposure of the Company's financial assets and liabilities to foreign currency risk as at March 31, 2016 is as follows:

	CDN Dollar	US Dollar	Total (in CDN dollars)
<b>Financial assets</b>			
Cash and cash equivalents	\$ 6,156,839	\$ 671,652	\$ 6,828,491
Marketable securities	7,475,770	-	7,475,770
Amounts receivable	419,392	690,286	1,109,678
Current portion of receivable under earn out agreement	1,396,519	-	1,396,519
Receivable under earn out agreement	5,293,904	-	5,293,904
	<u>\$ 20,742,424</u>	<u>\$ 1,361,938</u>	<u>\$ 22,104,362</u>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ 106,737	\$ 673,494	\$ 780,231
	<u>\$ 106,737</u>	<u>\$ 673,494</u>	<u>\$ 780,231</u>

(b) Price risk

The Company holds various short term corporate bonds. The Company has classified these investments as fair value through profit and loss investments and such securities are subject to bond market volatility. The value of this financial instrument fluctuates on a daily basis due to external market factors that are not within the control of the Company. The Company monitors the trading value of these corporate bond holdings in order to ensure that, if in the best interest of the Company, sale of the bonds is made under favourable conditions.

(c) Commodities price risk

The Company, through its earn-out payments and its subsidiary Xenemetrix's exclusive long term supply, maintenance and support agreement with SIPCA/GFI to supply Xenemetrix products and services related to oil and gas marking and monitoring field is exposed to price risk with respect to commodity prices, specifically oil. 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.

(d) Political risk

The Company, through its earn-out payments and its subsidiary Xenemetrix's exclusive long term supply, maintenance and support agreement with SIPCA/GFI to supply Xenemetrix products and services related to oil and gas marking and monitoring field is exposed to SICPA/GFI's business which operates in jurisdictions and countries in which access to infrastructure, political stability and security, among other things, may be unknown, or known, and prevent, or severely compromise, the Company from earning ear-out payments and carrying out its business, respectively.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

*Adoption of New Standards*

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The

amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of the amendment did not have an impact on the Company's financial statements.

IAS 38 - Intangible Assets ("IAS 38") and IAS 16 – Property, Plant and Equipment ("IAS 16"), were amended in May 2014 to clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of the amendment did not have an impact on the Company's financial statements.

#### *Accounting Standards issued but not yet applied*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

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

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. 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.

## **MANAGEMENT'S RESPONSIBILITY**

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

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

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

May 30, 2016

W. Bruce Rowlands  
Chairman, President and CEO