



# EUROCONTROL TECHNICS GROUP INC.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2016 and 2015

(In Canadian dollars)

(UNAUDITED)

## **EUROCONTROL TECHNICS GROUP INC.**

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

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

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

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

# EUROCONTROL TECHNICS GROUP INC.

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

As at,	Notes	June 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 7,225,299	\$ 2,155,501
Marketable securities	5	6,264,420	-
Amounts receivable	9	437,784	460,936
Current portion of receivable under earn out agreement	20	1,430,194	-
Inventories	10	361,716	467,721
Prepaid expenses		11,827	54,892
Assets of discontinued operation	20	-	3,946,223
<b>Total current assets</b>		<b>15,731,240</b>	<b>7,085,273</b>
<b>Non-current assets</b>			
Receivable under earn out agreement	20	5,421,560	-
Equipment	11	249,497	198,682
Deferred tax asset	20	-	2,109,000
Technology rights	12	191,181	254,909
Intellectual property	7	224,723	249,692
<b>Total non-current assets</b>		<b>6,086,961</b>	<b>2,812,283</b>
<b>TOTAL ASSETS</b>		<b>\$ 21,818,201</b>	<b>\$ 9,897,556</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	13, 18	\$ 782,245	\$ 1,454,921
Taxes payable	20	195,000	-
Deposit on corporate transaction	20	-	250,000
Liabilities of discontinued operation	20	-	1,378,731
<b>Total liabilities</b>		<b>977,245</b>	<b>3,083,652</b>
<b>Shareholders' equity</b>			
Issued capital	14	15,070,826	14,738,917
Share-based payment reserve	16	504,513	384,093
Accumulated other comprehensive income		184,630	470,956
Retained earnings (deficit)		5,080,987	(8,780,062)
<b>Total shareholders' equity</b>		<b>20,840,956</b>	<b>6,813,904</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 21,818,201</b>	<b>\$ 9,897,556</b>

Nature of operations (note 1)

Commitments and contingencies (note 23)

## APPROVED ON BEHALF OF THE BOARD:

Signed "W. Bruce Rowlands", Director

Signed "Dennis Logan", Director

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

# EUROCONTROL TECHNICS GROUP INC.

## Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited)

(Expressed in Canadian dollars)

		Three months ended		Six months ended	
		June 30,		June 30,	
		2016	2015	2016	2015
<b>Revenue</b>	8	\$ 394,180	\$ 266,711	\$ 696,853	\$ 593,308
Costs of sales	10	(227,616)	(147,258)	(400,153)	(283,620)
Direct amortization	7, 12	(44,348)	(44,349)	(88,697)	(88,697)
<b>Gross profit</b>		122,216	75,104	208,003	220,991
<b>Expenses</b>					
Consulting and management	18	241,931	195,991	690,983	373,812
Depreciation	11	12,539	7,852	24,459	18,007
Administration		282,948	251,841	514,716	393,750
Sales and marketing expenses		215,680	128,038	358,493	250,730
Research and development	23 (b)	931,226	313,417	1,619,845	535,661
Public company costs		61,998	32,292	113,857	42,254
Share-based payments	16	-	31,000	379,000	38,000
<b>Total expenses</b>		1,746,322	960,431	3,701,353	1,652,214
<b>Loss before the undernoted</b>		(1,624,106)	(885,327)	(3,493,350)	(1,431,223)
<b>Other income and expense</b>					
Finance income		24,851	-	30,252	-
Foreign currency translation gain (loss)		(565)	443,534	231,302	276,898
Realized loss on marketable securities	5	(8,789)	-	(8,789)	-
Unrealized loss on marketable securities	5	(12,229)	-	(39,031)	-
Interest accretion on earn out receivable	20	161,331	-	318,863	-
		164,599	443,534	532,597	276,898
Loss before income taxes		(1,459,507)	(441,793)	(2,960,753)	(1,154,325)
Income tax recovery	20	208,000	-	208,000	-
<b>Loss from continuing operations</b>		(1,251,507)	(441,793)	(2,752,753)	(1,154,325)
Income from discontinued operations	20	-	334,987	16,484,172	1,593,785
<b>Net income (loss)</b>		(1,251,507)	(106,806) \$	13,731,419 \$	439,460
<b>Earnings (loss) per share</b>					
<b>From continuing operations</b>					
- Basic		\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)
- Diluted		\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)
<b>From discontinued operations</b>					
- Basic		\$ 0.00	\$ 0.00	\$ 0.18	\$ 0.02
- Diluted		\$ 0.00	\$ 0.00	\$ 0.17	\$ 0.02
<b>Net earnings</b>					
- Basic		\$ (0.01)	\$ (0.00)	\$ 0.15	\$ 0.00
- Diluted		\$ (0.01)	\$ (0.00)	\$ 0.14	\$ 0.00
<b>Weighted average common shares outstanding</b>					
- Basic		92,923,238	90,160,738	91,971,244	90,160,738
- Diluted		92,923,238	90,160,738	98,896,244	90,318,738
Net income (loss)		(1,251,507)	(106,806) \$	13,731,419 \$	439,460
<b>Other comprehensive income (loss) - items that may subsequently reclassify into income or loss</b>					
Exchange differences on translation of foreign subsidiaries		4,534	(210,649)	(10,326)	(107,149)
<b>Comprehensive income (loss)</b>		(1,246,973)	(317,455) \$	13,721,093 \$	332,311

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

## EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 14)	Share-based Payment Reserve (Note 16)	Retained earnings (deficit)	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2014	90,160,738	\$ 14,690,341	\$ 395,856	\$(10,451,791)	\$ 169,868	\$ 4,804,274
Share-based expense	-	-	38,000	-	-	38,000
Cancellation of stock options	-	-	(44,687)	44,687	-	-
Exchange on translation of foreign subsidiaries	-	-	-	-	(107,149)	(107,149)
Income for the period	-	-	-	439,460	-	439,460
Balance as at June 30, 2015	90,160,738	\$ 14,690,341	\$ 389,169	\$(9,967,644)	\$ 62,719	\$ 5,174,585
Exercise of stock options	375,000	48,576	(11,076)	-	-	37,500
Share-based expense	-	-	6,000	-	-	6,000
Exchange on translation of foreign subsidiaries	-	-	-	-	408,237	408,237
Income for the period	-	-	-	1,187,582	-	1,187,582
Balance as at December 31, 2015	90,535,738	\$ 14,738,917	\$ 384,093	\$(8,780,062)	\$ 470,956	\$ 6,813,904
Exercise of stock options	2,387,500	397,700	(128,950)	-	-	268,750
Share repurchase and cancellation	(400,000)	(65,791)	-	-	-	(65,791)
Share-based expense	-	-	379,000	-	-	379,000
Expiry of stock options	-	-	(129,630)	129,630	-	-
Exchange on translation of foreign subsidiaries	-	-	-	-	(10,326)	(10,326)
Transfer of cumulative translation difference on sale of subsidiary	-	-	-	-	(276,000)	(276,000)
Income for the period	-	-	-	13,731,419	-	13,731,419
Balance as at June 30, 2016	92,523,238	\$ 15,070,826	\$ 504,513	\$ 5,080,987	\$ 184,630	\$ 20,840,956

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

# EUROCONTROL TECHNICS GROUP INC.

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

For the six month periods ended June 30,	Notes	2016	2015
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Income for the period		\$ 13,731,419	\$ 439,460
Items not involving cash:			
Amortization of intellectual property	7	24,969	24,969
Depreciation of equipment	11	24,459	18,007
Amortization of technology right	12	63,728	63,728
Share-based expense	16	379,000	38,000
Gain on sale of subsidiary	20	(16,484,172)	-
Income tax recovery	20	(208,000)	-
Unrealized loss on marketable securities	5	39,031	-
Realized loss on marketable securities	5	8,789	-
Interest accretion	20	(318,863)	-
Loss on disposal of vehicle		-	5,643
Foreign exchange (loss) gain		(193,941)	(131,108)
Working capital changes			
Change in amounts receivable		386,160	231,913
Change in inventories		106,005	(10,247)
Change in prepaid expenses		43,065	(17,649)
Repayment of amounts payable		-	(6,989)
Change in accounts payables and accrued liabilities		(672,676)	176,925
<b>Cash flows from (used in) operating activities</b>		<b>(3,071,027)</b>	<b>832,652</b>
<b>Investing activities</b>			
Equipment expenditures	11	(90,928)	(28,267)
Proceeds from sale of vehicle		-	7,098
Purchase of marketable securities, net		(6,312,240)	-
<b>Cash flows used in investing activities</b>		<b>(6,403,168)</b>	<b>(21,169)</b>
<b>Financing activities</b>			
Proceeds from exercise of stock options		268,750	-
Share repurchase and cancellation		(65,791)	-
<b>Cash flows provided from financing activities</b>		<b>202,959</b>	<b>-</b>
<b>Cash flow provided from (used in) discontinued operations</b>	20	<b>14,417,765</b>	<b>(655,849)</b>
<b>Net increase in cash for the period</b>		<b>5,146,529</b>	<b>155,634</b>
<b>Effect of exchange rate changes on cash</b>		<b>(76,731)</b>	<b>25,036</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>2,155,501</b>	<b>454,919</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 7,225,299</b>	<b>\$ 635,589</b>
<b>Supplementary cash flow information</b>			
Interest paid		\$ -	\$ 33,218

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

# **EUROCONTROL TECHNICS GROUP INC.**

## **Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (Expressed in Canadian dollars)**

**For the three and six month periods ended June 30, 2016 and 2015**

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### **1. NATURE OF OPERATIONS**

Eurocontrol Technics Group Inc. (“Eurocontrol” or 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”) and the OTCQB Venture Market and trade under the symbols “EUO” and “EUCTF”, respectively. The head office and registered address of the Company is located at 365 Bay Street, Suite 400, Toronto, Ontario, M5H 2V1.

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

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

- Cash consideration payable to the Company by SICPA on closing of \$16 million less the \$250,000 deposit received by the Company 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 to be equal to 5% of the net revenues to be 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, with a minimum guaranteed of \$1.5 million per year for the six years earn - out period (total payment of at least \$9,000,000).
- Additional post closing payments equal to 5% of the net revenues to be earned by GFI from contracts to be signed during the fourth through sixth years following closing payable until the third anniversary of such contracts.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 23, 2016.

After the sale of GFI, the Company does not have an ongoing operation that generates cash, nevertheless, the Company is fully funded after the sale of the subsidiary.

### **2. BASIS OF PRESENTATION**

#### **Statement of compliance**

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

#### **Basis of measurement**

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2015 annual financial statements.

**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
**(Expressed in Canadian dollars)**  
**For the three and six month periods ended June 30, 2016 and 2015**

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**2. BASIS OF PRESENTATION (continued)**

**Basis of measurement (continued)**

These financial statements do not include all information and disclosures required for the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2015. The interim financial statements are unaudited. Financial information in this report reflects any adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with IFRS as issued by the IASB. The results reported in these interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

**Significant accounting policies**

The Company has prepared these unaudited interim financial statements using the same accounting policies and methods as those used in the Company's audited financial statements for the year ended December 31, 2015.

In addition, the following accounting policies have been adopted:

*Cash and cash equivalents*

Cash and cash equivalents include cash in bank accounts and cash securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period.

*Marketable securities*

Marketable securities are highly liquid fixed income securities, which are designated as fair value through profit or loss and are recorded at their fair values with changes recognized in net income in the statement of income (loss) and comprehensive income. Fair values are determined by reference to quoted market prices at the statement of financial position date.

**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.



**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
**(Expressed in Canadian dollars)**  
**For the three and six month periods ended June 30, 2016 and 2015**

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**2. BASIS OF PRESENTATION (continued)**

**Pending Accounting Standards**

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

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income (loss), 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.

**3. PRINCIPLES OF CONSOLIDATION**

These condensed consolidated interim financial statements for the six month periods ended June 30, 2016 and 2015 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company’s subsidiaries are as follows:

<b>Subsidiary</b>	<b>Country of Incorporation</b>	<b>Economic Interest</b>	<b>Basis of Accounting</b>
Xenemetrix Ltd. (“Xenemetrix”)	Israel	100%	Full consolidation
XwinSys Technology Development Ltd. (“XwinSys”)	Israel	100%	Full consolidation

As at December 31, 2015 and for the six months ended June 30, 2015, the balances and operations of GFI are presented under discontinued operations.

*Subsidiaries*

Subsidiaries are entities over which the Company has control, whereby control is defined as the power to direct activities of an entity that significantly affect the entity’s returns 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.

### **3. PRINCIPLES OF CONSOLIDATION (continued)**

#### *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 Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2016 and 2015

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### 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 consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

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

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Collection of amounts receivable and provision for doubtful accounts** – Management continually assesses the status of collections of its amounts receivable. If an amount is deemed to not be collectable, a provision for doubtful accounts is recorded. The determination of the allowance for doubtful accounts is based on current information available and historical collections. The Company has historically had very low (nominal) to \$nil bad debts.
- **Impairment of technology rights, deferred development costs and intellectual property** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverability of such assets. Internal sources of information include the manner in which technology rights, deferred development and intellectual property assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's technology rights, deferred development costs and intellectual property, costs to sell the assets and the appropriate discount rate.
- **Share-based payments** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes** – The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.

## EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2016 and 2015

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

- **Functional currency determination** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.
- **Revenue Recognition – Agent vs Principal Determination** – The Company's former subsidiary, GFI, has entered into separate fuel marking and monitoring services agreements with the governments of Tanzania and Uganda and concurrently has entered into separate fuel marker supply contracts for each country with unrelated parties to deliver the services under the agreements to the governments on behalf of the Company. The Company's former subsidiary received letters of indemnity from such unrelated parties in relation to the fulfillment of the government contracts. With regards to these government contracts, the Company made the determination as to whether it was acting as an agent or a principal under these agreements. Management assessed the facts and circumstances related to these government contracts and made the judgement that the Company's former subsidiary, GFI, was acting as an agent in respect of these government contracts and thus it only recorded revenues for the fuel marker supply contracts that the Company's former subsidiary, GFI, had with the unrelated parties. In making this judgement the Company determined that, while there were mixed indicators, in substance the Company's former subsidiary, GFI, was acting as agent because the unrelated parties, through the fuel marker supply contracts and related indemnifications provided to the Company by the unrelated parties, assumed the risks and rewards arising from the government contracts (such as inventory and credit risk and being responsible for collecting revenues, performing any activities and incurring the costs necessary to execute the government contracts).
- **Contingencies** – refer to note 23.

### 5. MARKETABLE SECURITIES

The balance at June 30, 2016 consists of various short term corporate bonds with a fair market value of \$6,264,420 (December 31, 2015 - \$nil). As at June 30, 2016, these fair value through profit and loss ("FVTPL") investments have been measured at their fair value of \$6,264,420 (December 31, 2015 - \$nil). The revaluation to market value resulted in an unrealized loss of \$39,031 for the six month period ended June 30, 2016 (2015 – nil) which has been recognized in the statements of income and comprehensive income. During the six month period ended June 30, 2016 the Company also incurred a realized loss of \$8,789 (2015 – nil) on redemption of various bonds.

### 6. CASH AND CASH EQUIVALENTS

The balance at June 30, 2016 consists of cash on deposit with major Canadian and Israeli banks in interest bearing accounts totaling \$3,502,812 (December 31, 2015 - \$2,145,501) and cashable guaranteed investment certificates with major Canadian banks of \$3,722,487 (December 31, 2015 - \$10,000) for total cash and cash equivalents of \$7,225,299 (December 31, 2015 - \$2,155,501).

# EUROCONTROL TECHNICS GROUP INC.

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## 7. 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.

<b>Cost</b>	
Balance as at December 31, 2014	\$ 349,568
Additions	-
Balance as at December 31, 2015	349,568
Additions	-
Balance as at June 30, 2016	\$ 349,568

  

<b>Accumulated amortization</b>	
Balance as at December 31, 2014	\$ 49,938
Amortization expense	49,938
Balance as at December 31, 2015	99,876
Amortization expense	24,969
Balance as at June 30, 2016	\$ 124,845

  

<b>Carrying amounts</b>	
Balance as at December 31, 2015	\$ 249,692
Balance as at June 30, 2016	\$ 224,723

## 8. OPERATING SEGMENTS

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

The Company conducts its business as a single operating segment.

### *Geographical information*

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

### **Revenue from continuing operations:**

	<b>Revenue from external customers</b>			
	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Africa	\$ -	\$ 61,123	\$ -	\$ 61,123
North America	17,152	49,745	73,337	172,394
Asia	214,910	27,585	236,446	231,533
Europe	162,118	128,258	387,070	128,258
	\$ 394,180	\$ 266,711	\$ 696,853	\$ 593,308

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### 8. OPERATING SEGMENTS (continued)

Xenemetrix accounts for \$696,853 (2015 - \$593,308) of the revenue generated for the six month period ended June 30, 2016, representing 100% of revenue from continuing operations and 100% (2015 – 16%) of overall revenue including discontinued operations. Xenemetrix revenue is from sales of ED-XRF systems (three month period ended June 30, 2016, \$394,180 (2015 - \$266,711)).

#### Revenue from discontinued operations:

	Revenue from external customers			
	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Africa				
Tanzania	\$ -	\$ 770,032	\$ -	\$ 1,564,943
Uganda	-	460,128	-	1,269,919
Europe	-	220,819	-	220,819
	\$ -	\$ 1,450,979	\$ -	\$ 3,055,681

Revenues for GFI are included in discontinued operations. GFI accounts for \$nil (2015 - \$3,055,682) of the revenue generated for the six month period ended June 30, 2016, representing 100% of revenue from discontinued operations and nil% (2015 – 84%) of overall revenue including continuing operations from the sale of its oil markers (three month period ended June 30, 2016, \$nil (2015 - \$1,450,980)).

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Fuel Markers	\$ -	\$ 1,450,979	\$ -	\$ 3,055,681
Detectors and other	394,180	266,711	696,853	593,308
	\$ 394,180	\$ 1,717,690	\$ 696,853	\$ 3,648,989

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

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

Equipment, deferred development costs and technology rights owned by GFI are included in discontinued operations as disclosed in Note 20.

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2016 and 2015****9. AMOUNTS RECEIVABLE**

<b>As at,</b>	June 30, 2016	December 31, 2015
Trade receivables	\$ 339,744	\$ 277,931
Value added taxes receivables	75,423	152,914
Other	22,617	30,091
	<b>\$ 437,784</b>	<b>\$ 460,936</b>

At June 30, 2016, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 21. The Company holds no collateral for any receivable amounts outstanding as at June 30, 2016 and December 31, 2015.

**10. INVENTORIES**

<b>As at,</b>	June 30, 2016	December 31, 2015
Materials	\$ 330,338	\$ 310,474
Work in process	-	94,717
Finished goods	31,378	62,530
	<b>\$ 361,716</b>	<b>\$ 467,721</b>

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 six month periods ended June 30, 2016 and 2015, the cost of inventories recognized as an expense and included in cost of sales was \$400,153 and \$283,620 respectively.

**EUROCONTROL TECHNICS GROUP INC.**

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**11. EQUIPMENT**

	<b>Office furniture, computers and equipment</b>	<b>Vehicles</b>	<b>Total</b>
<b>Cost</b>			
Balance as at December 31, 2014	\$ 444,603	\$ 96,016	\$ 540,619
Additions	53,061	21,786	74,847
Disposals	-	(66,870)	(66,870)
Transfer to assets held for sale	(174,166)	-	(174,166)
Foreign exchange	86,923	14,802	101,725
Balance as at December 31, 2015	\$ 410,421	\$ 65,734	\$ 476,155
Additions	90,928	-	90,928
Disposals	-	-	-
Foreign exchange	(30,501)	(4,383)	(34,884)
Balance as at June 30, 2016	\$ 470,848	\$ 61,351	\$ 532,199
<b>Accumulated depreciation</b>			
Balance as at December 31, 2014	\$ 202,449	\$ 54,281	\$ 256,730
Depreciation	23,709	9,914	33,623
Disposals	-	(41,568)	(41,568)
Transfer to assets held for sale	(19,415)	-	(19,415)
Foreign exchange	40,241	7,862	48,103
Balance as at December 31, 2015	246,984	\$ 30,489	\$ 277,473
Depreciation	20,003	4,456	24,459
Disposals	-	-	-
Foreign exchange	(17,046)	(2,184)	(19,230)
Balance as at June 30, 2016	\$ 249,941	\$ 32,761	\$ 282,702
<b>Carrying amounts</b>			
Balance as at December 31, 2015	\$ 163,437	\$ 35,245	\$ 198,682
Balance as at June 30, 2016	\$ 220,907	\$ 28,590	\$ 249,497



## EUROCONTROL TECHNICS GROUP INC.

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### 12. TECHNOLOGY RIGHTS

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

	<u>Markers and Detectors</u>	<u>XRF Systems</u>	<u>Total</u>
<b>Cost</b>			
Balance as at December 31, 2014	\$ 7,844,267	892,184	8,736,451
Additions	-	-	-
Transfer to assets held for sale	(7,844,267)	-	(7,844,267)
Balance as at December 31, 2015	-	892,184	892,184
Additions	-	-	-
Balance as at June 30, 2016	\$ -	\$ 892,184	\$ 892,184
<b>Accumulated amortization</b>			
Balance as at December 31, 2014	\$ 5,937,690	\$ 509,820	6,447,510
Amortization expense	238,322	127,455	365,777
Transfer to assets held for sale	(6,176,012)	-	(6,176,012)
Balance as at December 31, 2015	-	637,275	637,275
Amortization expense	-	63,728	63,728
Balance as at June 30, 2016	\$ -	\$ 701,003	\$ 701,003
<b>Carrying amounts</b>			
Balance as at December 31, 2015	\$ -	\$ 254,909	\$ 254,909
Balance as at June 30, 2016	\$ -	\$ 191,182	\$ 191,181

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<b>As at,</b>	June 30, 2016	December 31, 2015
Accounts payable	\$ 389,515	\$ 1,097,254
Accrued liabilities	392,730	357,667
	\$ 782,245	\$ 1,454,921

### 14. ISSUED CAPITAL

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

	June 30, 2016	December 31, 2015
Issued capital	\$ 15,070,826	\$ 14,738,917
Fully paid common shares (1)	92,523,238	90,535,738

(1) As at June 30, 2016 and December 31, 2015, included in this number are 1,000,000 shares awaiting issuance, the proceeds for which were received in 2008 and are included in share capital.

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**14. ISSUED CAPITAL (continued)**

***Common shares issued:***

	Number of Shares	Value of shares
Balance as at December 31, 2014	90,160,738	\$ 14,690,341
Exercise of stock options	375,000	37,500
Transfer of reserve for share based payments on exercise of options	-	11,076
Balance as at December 31, 2015	90,535,738	\$ 14,738,917
Exercise of stock options	2,387,500	268,750
Transfer of reserve for share based payments on exercise of options	-	128,950
Share repurchase and cancellation	(400,000)	(65,791)
Balance as at June 30, 2016	92,523,238	\$ 15,070,826

**Normal Course Issuer Bid:**

On February 22, 2016, the Company commenced a normal course issuer bid which is effective until February 21, 2017. Under the terms of the issuer bid, the Company may acquire or repurchase for cancellation up to 8,705,557 issued common shares of the Company representing approximately 10% of the Company's estimated outstanding shares.

During the six month period ended June 30, 2016, 400,000 shares (2015 – nil shares) were purchased at a cost of \$65,791 (2015 – \$nil). Any premium paid to purchase the shares in excess of the stated value is charged to retained earnings.

**15. WARRANTS RESERVE**

There were no warrants outstanding as of June 30, 2016 and December 31, 2015.

**16. SHARE-BASED PAYMENT RESERVE**

***Stock option plan***

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

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

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

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**16. SHARE-BASED PAYMENT RESERVE (continued)**

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

Balance as at December 31, 2014	\$	395,856
Share-based expense		44,000
Cancellation of stock options		(44,687)
Exercise of stock options		(11,076)
Balance as at December 31, 2015	\$	384,093
Share-based expense		379,000
Expiry of stock options		(129,630)
Exercise of stock options		(128,950)
Balance as at June 30, 2016	\$	504,513

The following share-based payment arrangements were in existence as at June 30, 2016:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
3,200,000	3,200,000	March 11, 2013	March 11, 2018	\$ 0.10	94,513
375,000	375,000	June 30, 2015	June 30, 2020	\$ 0.13	31,000
3,350,000	3,350,000	February 19, 2016	February 19, 2021	\$ 0.15	379,000
6,925,000	6,925,000				\$ 504,513

The share options outstanding as at June 30, 2016 had a weighted exercise price of \$0.13 (December 31, 2015: \$0.11) and a weighted average remaining contractual life of 3.2 years (December 31, 2015: 2.0 years).

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

*Fair value of share options granted in the six month period ended June 30, 2016*

On February 19, 2016, 3,350,000 share options were granted to consultants of the Company to acquire the Company's shares at an exercise price of \$0.15 until February 19, 2021. These share options had an estimated fair value of \$379,000 at grant date.

The fair value of share options granted in the six month period ended June 30, 2016 was calculated using the following assumptions:

	<b>Number of Options Granted</b>	
	19-Feb-16	
	3,350,000	
Grant date share price	\$	0.15
Exercise price	\$	0.15
Expected volatility		103%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		0.60%

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**16. SHARE-BASED PAYMENT RESERVE (continued)**

*Fair value of share options granted in the year ended December 31, 2015*

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

On May 5, 2015, 200,000 share options were granted to consultants of the Company to acquire the Company's shares at an exercise price of \$0.10 until May 5, 2020. These share options had an estimated fair value of \$6,000 at grant date.

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

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

	<b>Number of Options Granted</b>		
	13-Jan-15 200,000	05-May-15 200,000	30-Jun-15 375,000
Grant date share price	\$ 0.05	\$ 0.05	\$ 0.11
Exercise price	\$ 0.10	\$ 0.10	\$ 0.13
Expected volatility	102%	102%	105%
Expected option life	5 years	5 years	5 years
Expected dividend yield	0%	0%	0%
Risk-free interest rate	1.15%	1.15%	0.81%

*Movements in share options during the period:*

The following reconciles the share options outstanding for the six month period ended June 30, 2016 and year ended December 31, 2015:

	Number of options	Weighted average exercise price
Balance as at December 31, 2014	6,812,500	\$ 0.11
Granted	775,000	\$ 0.12
Exercised	(375,000)	\$ 0.10
Expired	(350,000)	\$ 0.15
Balance as at December 31, 2015	6,862,500	\$ 0.11
Granted	3,350,000	\$ 0.15
Exercised	(2,387,500)	\$ 0.11
Expired	(900,000)	\$ 0.16
Balance as at June 30, 2016	6,925,000	\$ 0.13

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**17. FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities as at June 30, 2016 and December 31, 2015 were as follows:

	Assets at fair value through profit	Loans and receivables	Other financial liabilities	Total
<b>As at June 30, 2016</b>				
Cash and cash equivalents	\$ 7,225,299	-	-	\$ 7,225,299
Marketable securities	6,264,420	-	-	6,264,420
Current portion of receivable under earn out agreement	-	1,430,194	-	1,430,194
Receivable under earn out agreement	-	5,421,560	-	5,421,560
Amounts receivable	-	339,744	-	339,744
Accounts payable and accrued liabilities	-	-	782,245	782,245

	Assets at fair value through profit	Loans and receivables	Other financial liabilities	Total
<b>As at December 31, 2015</b>				
Cash	\$ 2,155,501	-	-	\$ 2,155,501
Amounts receivable	-	277,931	-	277,931
Accounts payable and accrued liabilities	-	-	1,454,921	1,454,921

The Company classifies its financial instruments carried at fair value 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 June 30, 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 and amounts receivable as the Company 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 June 30, 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, amounts receivable, accounts payable and accrued liabilities approximate fair value because of the limited terms of these instruments. The receivable under earn out agreement was discounted using a credit-adjusted risk free rate of 10%.

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**18. RELATED PARTY DISCLOSURES**

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

- For the six month period ended June 30, 2016 \$nil (2015 - \$33,218) 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 June 30, 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).

*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 and six month periods ended June 30, 2016 and 2015 were as follows:

	Note	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Bruce Rowlands (Chairman, CEO)	(i)	\$ 50,000	\$ 50,000	\$ 210,000	\$ 100,000
Gadi Gonen (Director and COO; CEO of GFI)	(ii)	-	94,543	107,250	201,257
Andres Tinajero (CFO)	(iii)	25,000	25,000	90,000	50,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iv)	98,718	89,766	256,531	175,785
Eli Zahavi (Director)	(v)	-	23,137	107,250	46,275
Charlotte May (Corporate Secretary)	(vi)	24,000	14,000	76,000	23,000
Michael Rose (Director)	(vii)	-	3,702	-	7,404
Dennis Logan (Director)	(viii)	4,500	31,000	23,000	31,000
Paul Wood (Director)	(ix)	4,500	-	46,000	-
Kenneth Wawrew (Director)	(x)	9,500	-	54,000	-
		\$ 216,218	\$ 331,148	\$ 970,031	\$ 634,721

Notes:

- For the three and six month period ended June 30, 2016, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$50,000 and \$100,000 respectively (2015 - \$50,000 and \$100,000 respectively) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd. In addition, 975,000 stock options with a value of \$110,000 (2015 - \$nil) were issued.
- For the three and six month period ended June 30, 2016, Gadi Gonen, the former COO of Eurocontrol and CEO of GFI, was paid \$nil and \$nil respectively (2015 - \$94,543 and \$201,257 respectively) for services as COO of the Company and for services as CEO of GFI, pursuant to an agreement entered into by the Company and Gadi Gonen 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.
- For the three and six month period ended June 30, 2016, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$25,000 and \$50,000 respectively (2015 - \$25,000 and \$50,000 respectively) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc. In addition, 350,000 stock options with a value of \$40,000 (2015 - \$nil) were issued.

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#### **18. RELATED PARTY DISCLOSURES (continued)**

- (iv) For the three and six month period ended June 30, 2016, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$98,718 and \$199,531 respectively (2015 - \$89,766 and \$175,785 respectively) 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 and six month period ended June 30, 2016, Eli Zahavi, a former director and the former Chairman of GFI, was paid \$nil and \$nil respectively (2015 - \$23,137 and \$46,275 respectively) 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 and six month period ended June 30, 2016, Charlotte May, through her Company CMA Corporate Management, was paid \$24,000 and \$48,000 respectively (2015 - \$14,000 and \$23,000 respectively) in professional service fees for Corporate Secretarial services pursuant to an agreement entered into by the Company and CMA Corporate Services. In addition, 250,000 stock options with a value of \$28,000 (2015 - \$nil) were issued.
- (vii) For the three and six month period ended June 30, 2016, Michael Rose, a former director, through his company Rose Partners, was paid \$nil and \$nil respectively (2015 - \$3,702 and \$7,404 respectively) in Director fees.
- (viii) For the three and six month period ended June 30, 2016, Dennis Logan, through his Company 9703373 Canada Inc., was paid \$4,500 and \$9,000 respectively (2015 - \$nil and \$nil respectively) in director fees and was personally issued 125,000 stock options with a value of \$14,000 (2015 - 375,000 options with a value of \$31,000).
- (ix) For the three and six month period ended June 30, 2016, Paul Wood, through his Company Kappa Advisors Ltd., was paid \$4,500 and \$9,000 respectively (2015 - \$nil and \$nil respectively) in director fees and was issued 325,000 stock options with a value of \$37,000 (2015 - \$nil).
- (x) For the three and six month period ended June 30, 2016, Kenneth Wawrew, was paid \$9,500 and \$14,000 (2015 - \$nil and \$nil respectively) in director fees and was issued 350,000 stock options with a value of \$40,000 (2015 - \$nil).

As at June 30, 2016, an amount of \$23,811 (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.

#### **19. 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 issued capital and share-based payment reserve. 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 six month period ended June 30, 2016. The Company and its subsidiaries are not subject to externally imposed capital requirements.

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### 20. DISCONTINUED OPERATIONS

On January 4, 2016, the Company closed the sale of its 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 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 payable to the Company by SICPA on closing of \$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, with a minimum guaranteed payment of \$1.5 million per year for the six year 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.

At December 31, 2015 the assets and liabilities related to GFI were classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell in the consolidated statements of financial position. The operating results for the three and six month periods ended June 30, 2016 and 2015 related to GFI have been presented separately as the income from discontinued operations in the condensed consolidated interim statements of income and comprehensive income.

As a result of the transaction, the Company recognized a gain on disposal of \$16,484,172 which was determined as follows:

Cash purchase price	\$	15,030,773
Amount receivable under earn out agreement (see note 20(d))		6,532,891
Total purchase price		21,563,664
<b>Net assets disposed of:</b>		
Cash		955,859
Amounts receivable		563,726
Inventory		258,617
Prepaid expenses		19,266
Equipment		218,087
Technology rights		1,668,255
Deferred development costs		262,413
Trade and other payables		(402,990)
Loans payable		(975,741)
	\$	2,567,492
Gain on disposition before taxes	\$	18,996,172
Income tax provision		(2,512,000)
Gain on disposition	\$	16,484,172



**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2016 and 2015****20. DISCONTINUED OPERATIONS (continued)**

As a result of the completion of the transaction, the Company reclassified the net gain from its GFI operations of \$nil and \$16,484,172 for the three and six month periods ended June 30, 2016 and 2015 respectively, and \$583,452 and \$1,593,785 for the three and six month periods ended June 30, 2016 and 2015 respectively, as gain for the period from discontinued operations.

The breakdown of the income for the three and six month periods ended June 30, 2016 and 2015 from discontinued operations is as follows:

	<b>Three month period ended June 30, 2016</b>	Three month period ended June 30, 2015	<b>Six month period ended June 30, 2016</b>	Six month period ended June 30, 2015
Revenue	-	1,450,979	-	3,055,681
Cost of sales	-	(524,718)	-	(1,024,020)
Direct amortization	-	(68,952)	-	(137,905)
Gross profit	-	857,309	-	1,893,756
Consulting and management	-	(70,584)	-	(115,874)
Depreciation	-	(14,379)	-	(28,717)
Administration	-	(100,895)	-	(171,885)
Research and development	-	(19,532)	-	(27,008)
Total expenses	-	(205,390)	-	(343,484)
Income before the undernoted	-	651,919	-	1,550,272
Finance (loss) income	-	(78)	-	(156)
Foreign exchange	-	(291,961)	-	92,116
Finance expense	-	(16,029)	-	(33,218)
Gain on sale of subsidiaries	-	-	16,484,172	-
Income before taxes	-	343,851	16,484,172	1,609,014
Income tax expense	-	(8,864)	-	(15,229)
Income from discontinued operations	-	334,987	16,484,172	1,593,785

As a result of the gain on sale of subsidiary, the Company recorded an income tax provision of \$nil and \$2,512,000 for the three and six month periods ended June 30, 2016 respectively (2015 - \$nil and \$nil). During the six month period ended June 30, 2016, the Company incurred non-capital losses which resulted in the decrease in tax payable on the sale of subsidiary and an income tax recover in the amount of \$208,000 (2015 - \$nil) which in addition to the utilization of non-capital losses available from prior year of \$2,109,000 resulted in current income taxes payable of \$195,000 as at June 30, 2016 (December 31, 2015 - \$nil.).

The cash flows used in operating activities for the discontinued operations for the six month period ended June 30, 2016 were \$nil (2015 – cash flows used of \$390,810).

The cash flows provided by investing activities for the discontinued operations for the six month period ended June 30, 2016 were \$14,417,765 (2015 – cash flows used of \$18,239).

**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
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**20. DISCONTINUED OPERATIONS (continued)**

The cash flows used in financing activities for the discontinued operations for the six month period ended June 30, 2016 were \$nil (2015 – cash flows used of \$246,800).

As at June 30, 2016 and December 31, 2015, the assets and liabilities held for sale were comprised of:

	Notes	June 30, 2016	December 31, 2015
<b>Assets</b>			
Cash		\$ -	\$ 955,859
Amounts receivable		-	563,726
Inventory		-	258,617
Prepaid expenses		-	19,266
Equipment		-	218,087
Technology rights	(a)	-	1,668,255
Deferred development costs	(b)	-	262,413
		\$ -	\$ 3,946,223
<b>Liabilities</b>			
Trade and other payables		\$ -	\$ 402,990
Loans payable	(c)	-	975,741
		\$ -	\$ 1,378,731

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

**(a) Technology Rights**

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

	<b>Markers and Detectors</b>
<b>Cost</b>	
Balance as at December 31, 2014	-
Transferred to assets held for sale	7,844,267
Balance as at December 31, 2015	\$ 7,844,267
Disposed on sale of subsidiary	(7,844,267)
Balance as at June 30, 2016	\$ -
<b>Accumulated amortization</b>	
Balance as at December 31, 2014	-
Transferred to assets held for sale	6,176,012
Balance as at December 31, 2015	\$ 6,176,012
Disposed on sale of subsidiary	(6,176,012)
Balance as at June 30, 2016	\$ -
<b>Carrying amounts</b>	
Balance as at December 31, 2015	\$ 1,668,255
Balance as at June 30, 2016	\$ -

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**20. DISCONTINUED OPERATIONS (continued)**

**(b) Deferred Development Costs**

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

<b>Cost</b>	<b>Marker</b>
Balance as at December 31, 2014	-
Transferred to assets held for sale	920,137
Balance as at December 31, 2015	\$ 920,137
Disposed on sale of subsidiary	(920,137)
Balance as at June 30, 2016	\$ -
<b>Accumulated amortization</b>	
Balance as at December 31, 2014	-
Transferred to assets held for sale	657,724
Balance as at December 31, 2015	\$ 657,724
Disposed on sale of subsidiary	(657,724)
Balance as at June 30, 2016	\$ -
<b>Carrying amounts</b>	
Balance as at December 31, 2015	\$ 262,413
Balance as at June 30, 2016	\$ -

**(c) Loans Payable**

			June 30, 2016	December 31, 2015
<b>Euro loan</b>				
Principal	€	500,000	\$ 746,068	\$ 746,068
Interest	€	488,642	729,120	729,120
			1,475,188	1,475,188
Repayments			(1,475,188)	(499,447)
<b>Total</b>			<b>-</b>	<b>\$ 975,741</b>

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 bore an annual interest rate of 7.2%. A director of the Company was among creditors in respect of such loans.

As at June 30, 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)).

**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
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**20. DISCONTINUED OPERATIONS (continued)**

**(d) Receivable under earn out agreement:**

As part of the sale of GFI, the Company is entitled to 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, with a minimum guaranteed payment of \$1.5 million per year for the six year minimum earn-out period (total payment of at least \$9,000,000).

The Company has estimated cash flows receivable to amount to the minimum earn-out amount of \$9,000,000 based on historical sales of GFI. The estimated cash flows were discounted using a credit-adjusted risk free rate of 10%. The movement in the amount receivable under the earn out agreement during the six month period ended June 30, 2016 and year ended December 31, 2015 is as follows:

	June 30, 2016	December 31, 2016
Opening balance	\$ -	\$ -
Earn out receivable	6,532,891	-
Interest accretion	318,863	-
<b>Total receivable under earn out agreement</b>	<b>\$ 7,851,754</b>	<b>\$ -</b>
Less: Current portion	1,430,194	-
Long term portion	<b>\$ 5,421,560</b>	<b>\$ -</b>

**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 and cash equivalents, receivable under earn out agreement, and amounts receivable. Financial instruments included in amounts receivable consist primarily of receivables due from customers. 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. As at June 30, 2016, the Company had a cash and cash equivalents balance of \$7,225,299 (December 31, 2015 - \$2,155,501) to settle current liabilities of \$977,245 (December 31, 2015 - \$3,083,652). Working capital for the Company as at June 30, 2016 was \$6,248,054 (December 31, 2015 - \$4,001,621).

Substantively all of the Company's financial liabilities 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.

## EUROCONTROL TECHNICS GROUP INC.

### Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2016 and 2015

#### 21. FINANCIAL RISK FACTORS (continued)

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 \$79,000 (2015 - \$155,000) based on the foreign currency balances at June 30, 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 June 30, 2016 is as follows:

	CDN Dollar	US Dollar	Total (in CDN dollars)
<b>Financial assets</b>			
Cash and cash equivalents	\$ 6,928,972	\$ 296,327	\$ 7,225,299
Marketable securities	6,264,420	-	6,264,420
Amounts receivable	98,040	339,744	437,784
Current portion of receivable under earn out agreement	1,430,194	-	1,430,194
Receivable under earn out agreement	5,421,560	-	5,421,560
	<u>\$ 20,143,186</u>	<u>\$ 636,071</u>	<u>\$ 20,779,257</u>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ 115,814	\$ 666,431	\$ 782,245
	<u>\$ 115,814</u>	<u>\$ 666,431</u>	<u>\$ 782,245</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 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. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect prior period's net losses.

## **EUROCONTROL TECHNICS GROUP INC.**

**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
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### **23. 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 condensed consolidated interim financial statements.
- (b) Royalty-bearing grants from the Government of Israel to XwinSys 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 \$nil for the six month period ended June 30, 2016. 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 June 30, 2016, the balance of the grants received to date to be repaid is approximately \$990,000 (December 31, 2015 – \$1,060,000).

- (c) As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd. ("Jordan Valley"), dated June 12, 2008 and subsequent amendments, Xenemetrix agreed to pay up to US\$1.3 million by way of 5% royalties. Such payments are to commence after the first four quarters where Xenemetrix has cumulative sales totaling more than US\$2 million in any calendar year, such amount excluding sales or services to GFI. Should a default in payment occur and such default is not remedied within 14 days, then Jordan Valley has the right to take full exclusive ownership of the intellectual property. As the US\$2 million sales figure has not yet been met, the royalty payments have not been paid nor are they payable and as such, no accrual has been made as of June 30, 2016 and December 31, 2015.

### **24. SUBSEQUENT EVENTS**

Subsequent to the end of the second quarter, the Company received the first of the guaranteed earn-out payments of \$750,000 from SICPA SA.