

Management's Discussion and Analysis

For the year ended December 31, 2016

(in Canadian dollars unless otherwise noted)

Management's discussion and analysis ("MD&A") is current to May 1, 2017 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 audited consolidated financial statements for the years ended December 31, 2016 and 2015 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.

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") and the OTCQB Venture Market under the symbols "EUO" and "EUCTF", respectively. The Company specializes in the acquisition, development and commercialization of innovative test and measurement technologies and applications for key growth markets globally – energy security / fuel marking, ED-XRF Spectroscopy, wafer inspection and quality control metrology and precision agriculture. The Company has three wholly-owned subsidiaries: Xenemetrix Ltd. ("Xenemetrix"), XwinSys Technology Development Ltd. ("XwinSys") and Croptimal Ltd. ("Croptimal"). Eurocontrol's participation in the energy security market is through its agreement with SICPA S.A. ("SICPA") of Switzerland for earn-out payments of 5% (minimum \$9 million, \$1.5 million per year payable as to \$750,000 every six months) on revenues generated from the oil and gas marking and monitoring field relating to the sale of its former subsidiary Global Fluids International (GFI) S.A. ("GFI") to SICPA in January 2016 and through its subsidiary Xenemetrix that has an exclusive long term supply, maintenance and support agreement.

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, including the analysis of petroleum oils and fuel. Xenemetrix has an exclusive long term supply, maintenance and support agreement with SIPCA GFI to supply Xenemetrix products and services related to the oil and gas marking and monitoring field.

XwinSys has developed fully automated patented metrology technology for the semi-conductor manufacturing process that combines Xenometrix's ED-XRF technology and 3D automated image processing technologies.

Croptimal was formed in early 2017 to introduce a new mobile material analysis laboratory for the precision agriculture industry based on integrated multi-spectral (ED-XRF, IR, NIR, UV) and electro chemistry technology. Croptimal is applying for a patent for its new mobile material analysis laboratory.

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 high growth strategies. This strategic plan commenced with the sale of the Company's former wholly-owned subsidiary, GFI to SICPA that 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) ED-XRF agricultural applications in precision farming; (3) combining ED-XRF and 2D-3D vision technologies to develop further metrology technology for the semi-conductor and related microelectronics industry; and (4) monitoring solutions for marine vessels and geological mapping. Management of the Company believes that there will be increased demand for ED-XRF technology, as a result, new opportunities for the Company to capitalize on this demand.

The Company invested \$2,958,595 in R&D in 2016. 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.

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 \$984,485 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.
- As of the date of the MD&A, the Company has received the first two of the guaranteed earn-out payments of \$750,000 each for a total of \$1,500,000 from SICPA SA.

LEADERSHIP TEAM

W. Bruce Rowlands - Chairman, President and Chief Executive Officer

Doron Reinis – Chief Operating Officer

Andres Tinajero – Chief Financial Officer

Charlotte May – Corporate Secretary

Gilles Léraillé - Director

Dennis Logan – Director ^{(1*)(2)}

Kenneth Wawrew – Director ^{(1)(2)*}

Paul Wood – Director ⁽¹⁾⁽²⁾

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.

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 is leveraging 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, Xenometrix remains the exclusive 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 and a minimum of \$9 million in earn-out payments over the Minimum Earn-out Amount Period. After closing the sale of GFI to SICPA, Eurocontrol focused its efforts on growing the proprietary technology product offerings of Xenometrix and XwinSys which has resulted in an updated product line for Xenometrix, finalization of XwinSys metrology inspection technology for the semi-conductor and related industries and filing of patents and creation of its new subsidiary Cromptal which was formed subsequent to a successful Memorandum of Understanding ("MOU") between Netafim and Xenometrix which sought to find a solution utilizing Xenometrix's ED-XRF based spectroscopy expertise to perform immediate tests of crops, soil and water.

With the success of the MOU and the business opportunity having been verified, in early 2017 the Company formed Cromptal as a new standalone subsidiary. Management is also 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 \$1,664,737 (USD\$1,256,026) (2015 - \$1,271,111 (USD\$994,376)) of the revenue generated for the year ended December 31, 2016, representing 100% (2015 – 16%) of overall revenue, such revenue being generated primarily from new sales of ED-XRF systems. In 2016, Xenemetrix reorganized and enhanced its manufacturing facilities and quality control processes to ensure it can continue to meet the high manufacturing and systems integration standards that its customers have come to expect.

In 2015 and 2016, 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 test and measurement solutions for security, microelectronics, and precision agriculture, Xenemetrix continues to develop opportunities in onboard monitoring of vessels, geological mapping and heavy equipment monitoring.

On March 28, 2016, the Company announced that Xenemetrix had entered into a 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 was developed through the collaboration between Netafim and Xenemetrix and resulted in the formation of Cromptal, a new wholly owned subsidiary that will provide a unique and innovative service to the farming community to perform 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. The success of the MOU was a result of Xenemetrix leveraging 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 and Netafim contributing its extensive market presence and expertise to secure cooperation of prospective clients to assist with defining specifications and laboratory verification of the Xenemetrix prototypes. The MOU 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. The system has also been designed to 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 set 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.

On May 16, 2016, the Company announced that it had entered into a MOU with DigiFlex for a joint venture between Xenemetrix and DigiFlex to investigate a new approach to security printing involving a three-stage coding system with simple implementation and ease of operation. Utilizing DigiFlex's unique ink solution that can be printed with high resolution on any surface (including glass, metals and plastics) and a hand-held reader based on Xenemetrix's ED-XRF technology, it was envisioned that the new technology would be able to identify the composition of elements in the ink and would also have the ability to identify a visual image printed with DigiFlex coded ink to identify and combat counterfeit products. Although the MOU proved the concept, the cost to develop the hand-held reader and pursue the business plan was significant and on December 21, 2016, the Company terminated the MOU with DigiFlex.

Xenemetrix remains focused on the development of new applications for its ED-XRF and establishing new marketing and distribution agreements in various regions. Xenemetrix will introduce its new P Metrix™ mobile system with its newly developed Analytix™ operating software, a light weight, easy to operate, field oriented XRF solution.

XwinSys

XwinSys is a research and development stage company that is pre revenue. XwinSys has developed a synergistic combination 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. On May 10, 2016, Eurocontrol announced that XwinSys was granted a patent from the United States Patent and Trademark Office for its patent application covering a method and a system for inspection of voids in a bump. Testing of the XwinSys NMT technology has demonstrated superior performance for a wide variety of semiconductor applications and the Onyx and Agate Wafer Inspection System has been well received by prospective customers. XwinSys continues to perform advanced demo applications for its prospective semiconductor customers with several of the largest global companies that participate in this market.

The Company had budgeted to invest up to US\$2.0 million in XwinSys in fiscal 2016 and for the year ended December 31, 2016, the Company's research and development expenditures were US\$1,324,164 out of the US\$2.0 million amount budgeted. 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.

In 2017, XwinSys intends to cooperate with its customers to establish the applications capabilities that will eventually lead to systems installation at customers' facility and sale of equipment.

Croptimal

Croptimal was formed in early 2017 subsequent to the successful MOU between Xenemetrix and Netafim. Croptimal is introducing a new mobile material analysis laboratory for the precision agriculture industry based on integrated multi-spectral capabilities (ED-XRF, IR, NIR, UV) and electro chemistry technology which will dramatically change agricultural testing methodology providing for increased crop yields, reduced expenses and increased sustainability.. This state of the art hybrid technology application provides for automatic preparation of samples of soil, water and critical parts of crops that offers the grower collection, preparation, analysis and submission of results in minutes compared to the current 10 day test cycle. Croptimal is applying for a patent for its new mobile material analysis laboratory.

Croptimal represents a business opportunity that has resulted from the novel concept of applying an innovative technological solution to dramatically change the prevailing agricultural testing methodology, thereby enabling an increase in crop yield, savings in costs and increased sustainability. Croptimal's solution will be offered as a service to the agricultural community; farmers, agronomists and organizations with no added burden for the end-customer.

Croptimal's innovative agriculture focused technology provides for in-field testing utilizing a mobile and compact laboratory that automatically prepares samples of soil (by water extraction), water and critical parts of the crops (also referred to as plant tissue) and is equipped with integrated multi-spectral spectroscopy and solution electric measurement units for a full range of material analysis of nutrients and contaminants. This new combined technology-set also addresses the well-known need in the agricultural environment for high accuracy and fast measurement of N, P and K (Nitrogen, Phosphorous and Potassium) in all their forms. The full cycle of sample collection, preparation, analysis and submission of results is completed in minutes as compared to the 10 day cycle for present test throughputs using traditional laboratories.

These innovations dramatically change the prevailing agricultural testing methodology and will allow a marked increase in crop yield and savings in costs with a seamless customer interface – no added burden for the farmer or agronomist.

Croptimal entered into a collaboration agreement at an early stage with Netafim www.netafim.com, an Israeli company that is the global leader in drip and micro-irrigation solutions for agriculture productivity, in order to gain access to the agricultural market and to secure the cooperation of prospective clients.

Croptimal's primary target market is the individual farmer and supporting agronomist, and the Cloud-based data base is additionally targeted at organizations dealing with regional, national and global food supplies. Croptimal's goal is to achieve worldwide commercialization within four years and to leverage the global penetration to expand the scope of its service by collecting and analysing data from additional in-line and off-line sensors.

The Company intends to initiate field tests and to collaboration with local farmers in Israel first, both through Netafim and its own channels to supply testing services.

SUMMARIZED FINANCIAL RESULTS

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue:				
- from continuing operations	717,253	402,312	1,664,737	1,271,111
- from discontinued operations	-	1,848,245	-	6,638,331
Total revenue	717,253	2,250,557	1,664,737	7,909,442
Cost of sales:				
- from continuing operations				
Cost of sales - direct production costs	(390,173)	(273,456)	(842,041)	(657,012)
Cost of sales - amortization and other non cash items	(44,348)	(44,348)	(177,393)	(177,393)
	(434,521)	(317,804)	(1,019,434)	(834,405)
- from discontinued operations				
Cost of sales - direct production costs	-	(727,813)	-	(2,272,288)
Cost of sales - amortization and other non cash items	-	(68,951)	-	(275,809)
	-	(796,764)	-	(2,548,097)
Gross profit - continuing operations	282,732	84,508	645,303	436,706
Gross profit - discontinued operations	-	1,051,481	-	4,090,234
Expenses - continuing operations	(1,487,348)	(1,568,736)	(6,854,628)	(4,267,901)
Expenses - discontinued operations	-	(182,458)	-	(869,820)
Other (expense) income - continuing operations	196,381	(90,631)	950,977	98,172
Other (expense) income - discontinued operations	-	9,341	-	58,554
Income tax recovery - continuing operations	-	2,109,000	308,000	2,109,000
Income tax expense - discontinued operations	-	(9,212)	-	(27,903)
Gain on sale of subsidiary - discontinued operations	-	-	16,484,172	-
Net income (loss) - continuing operations	(1,008,235)	534,141	(4,950,348)	(1,624,023)
Net income (loss) - discontinued operations	-	869,152	16,484,172	3,251,065
Net income (loss)	(1,008,235)	1,403,293	11,533,824	1,627,042
Basic loss per share				
- from continuing operations	(0.01)	-	(0.05)	(0.02)
- from discontinued operations	0.00	0.01	0.18	0.04
- net income (loss)	(0.01)	0.02	0.13	0.02
Diluted loss per share				
- from continuing operations	(0.01)	-	(0.05)	(0.02)
- from discontinued operations	0.01	0.01	0.18	0.04
- net income (loss)	(0.01)	0.02	0.12	0.02
EBITDA	(1,146,971)	(540,772)	13,188,544	161,790
EBIT	(1,205,722)	(679,372)	12,957,819	(386,756)

Continuing operations

Revenue from continuing operations for the year ended December 31, 2016 increased to \$1,664,737 (USD\$1,256,026) from \$1,271,111 (US\$994,376) for the year ended December 31, 2015, a 31% increase in Canadian dollar sales which reflect a 26% increase in US dollar sales as well as by an increase in the exchange rate.

Revenue from continuing operations for the three month period ended December 31, 2016 increased from revenue of \$402,312 (US\$301,357) during the three month period ended December 31, 2015 to revenue of \$717,253 (US\$539,540) during the three month period ended December 31, 2016. The increase represents a 78% increase in Canadian dollars which reflects a 79% increase in US dollar sales offset by the effects of foreign exchange rate.

For the year ended December 31, 2016, the Company had a gross profit from continuing operations of \$645,303 (2015 – \$436,706). For the three month period ended December 31, 2016 the Company had gross profit of \$282,732 (2015 – \$84,508). These amounts include non-cash cost of sales items; consisting of amortization of technology rights and patents amounting to \$44,348 (2015 - \$44,348) for the three month period ended December 31, 2016, and \$177,393 (2015 - \$177,393) for the year ended December 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 46% for the three month period ended December 31, 2016 (2015 – 32%) and 49% for the year ended December 31, 2016 (2015 – 48%). The variance is due to US dollar sales relating to detectors and ancillary equipment having increased by 31% for the year ended December 31, 2016 as well as an increase in foreign exchange between the US dollar and Canadian dollar which averaged at 1.322 for the year ended December 31, 2015 as compared to 1.325 for the year ended December 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 \$657,012 for the year ended December 31, 2015 to \$842,041 for the year ended December 31, 2016. This represents an increase of 28% in cost of sales which increased in line with the increase in revenue.

Discontinued Operations

Revenue from discontinued operations, which relates to sales in GFI, for the three months and year ended December 31, 2016 was \$nil (US\$nil) as GFI was sold on January 4, 2016 as compared to \$1,848,245 (US\$1,384,453) and \$6,638,331 (US\$5,193,093) for the three months and year ended December 31, 2015, respectively.

For the three months and year ended December 31, 2016, the Company had a gross profit from discontinued operations of \$nil and \$nil respectively (2015 – \$1,051,480 and \$4,090,233 respectively). These amounts include non-cash cost of sales items consisting of amortization of technology rights and deferred development costs amounting to \$nil and \$nil respectively (2015 - \$68,951 and \$275,809 respectively) for the three months and year ended December 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% and nil% for the three months and year ended December 31, 2016 respectively (2015 – 61% and 66% respectively).

RESULTS OF OPERATIONS

EBITDA for the year ended December 31, 2016 increased by \$13,026,754 to \$13,188,544 compared to \$161,790 for 2015. EBITDA for the three month period ended December 31, 2016 decreased by \$606,200 to \$(1,146,971) compared to \$(540,771) for 2015. EBITDA for the year ended December 31, 2016 increased as a result of the one time gain on the sale of GFI. For the three month period ended December 31, 2016 EBITDA was negative and decreased as compared to 2015 as the Company no longer has the revenue stream from GFI as compared to 2015 as well as due to the higher research and development budget and expenses incurred during fiscal 2016.

For the year ended December 31, 2016, EBITDA excluding the one-time gain on sale of GFI amounted to \$(5,499,628), a decrease of \$5,661,419 as compared to 2015. The decrease is due to the exclusion of revenue of GFI during the current year ended December 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 \$11,533,824 for the year ended December 31, 2016 compared to a net income of \$1,627,042 for the comparative year ended December 31, 2015. The increased gain is primarily due to the gain on sale of subsidiary of \$16,484,172 (2015 - \$nil). For the three month period ended December 31, 2016, the Company recorded a net loss of \$1,008,235 compared to a net income of \$1,403,293 for the comparative three month period ended December 31, 2015.

Direct cost of sales increased to \$842,041 for continuing operations in the year ended December 31, 2016 from \$657,012 for 2015 for continuing operations. Direct costs of sales increased for continuing operations characterized by the sale of highly customizable ancillary equipment in line with the increase in revenue.

Expenses

Continuing operations

Expenses from continuing operations of \$6,854,628 for the year ended December 31, 2016 increased in comparison with the expenses of \$4,267,901 for the year ended December 31, 2015. The increase for the period is primarily due to the following increases with remaining expenditures remaining consistent between the two periods:

- Administration expenses increased from \$792,106 for the year ended December 31, 2015 to \$1,001,124 for the year ended December 31, 2016 due primarily to an increase in costs in connection with the sale of GFI and travel and other miscellaneous costs incurred as the Company looks for further business opportunities.
- Research and development costs increased to \$2,958,595 for the year ended December 31, 2016 from \$1,636,245 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 investments made in Xenometrix towards its XRF technology platform. XwinSys intends to cooperate with its customers to establish the applications capabilities that will eventually lead to systems installation at customers' facility and sale of equipment in 2017.
- Sales and marketing expenses increased to \$1,060,060 for the year ended December 31, 2016 from \$504,299 for the same period in 2015 due to sales and marketing costs incurred in towards its XRF technology platform.
- Share-based compensation expense in the amount of \$394,000 (2015 - \$44,000) for the year ended December 31, 2016 was recognized on the granting of 3,450,000 stock options during 2016 (775,000 stock options granted during the same period in 2015).

Expenses of \$1,487,348 for the three month period ended December 31, 2016 were consistent in comparison with the expenses of \$1,568,736 for the three month period ended December 31, 2015.

Discontinued operations

Expenses from discontinued operations of \$nil for the three months and year ended December 31, 2016 decreased in comparison with the expenses of \$182,457 and \$869,819 for the three months and year ended December 31, 2015. The decrease is due to the sale of GFI on January 4, 2016 resulting in no expenses during the three months and year ended December 31, 2016.

Other Income/Expenses

The Company also incurred a foreign exchange translation gain of \$237,056 for the year ended December 31, 2016, compared to a gain of \$98,092 for the year ended December 31, 2015. The Company's revenue is earned in US dollars and therefore the Company is subject to currency translation gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. During the year ended December 31, 2016 and 2015, the exchange rate between the US dollar and Canadian dollar increased in favour of the US dollar thus resulting in a foreign exchange gain.

The Company had loans payable denominated in Euros in its former subsidiary GFI. As at December 31, 2015 these loans were included in liabilities of discontinued operations. Included under finance expense of discontinued operations is interest expense of \$nil for the year ended December 31, 2016, compared to \$67,299 for the year ended December 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 \$653,289 (2015 - \$nil) during the year ended December 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:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	\$	\$	\$
Revenue from continuing operations	1,664,737	1,271,111	1,508,391
Revenue from discontinued operations	-	6,638,331	4,448,342
Total revenue	1,664,737	7,909,442	5,956,733
Income (Loss)			
- from continuing operations	(4,950,348)	(1,624,023)	(1,916,075)
- from discontinued operations	16,484,172	3,251,065	1,669,710
- net income (loss)	11,533,824	1,627,042	(246,365)
Income (Loss) per share			
- from continuing operations	(0.05)	(0.02)	(0.02)
- from discontinued operations	0.18	0.04	0.02
- net income (loss)	0.13	0.02	(0.00)
Total assets at end of year	19,640,603	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:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$	\$	\$	\$
Revenue	717,253	250,631	394,180	302,673
Cost of sales	(434,521)	(96,063)	(271,964)	(216,886)
Gross profit	282,732	154,568	122,216	85,787
Expenses	(1,487,348)	(1,665,927)	(1,746,322)	(1,955,031)
Other income (expense)	191,721	220,905	165,164	136,131
Foreign exchange gain (loss)	4,660	1,094	(565)	231,867
Income tax recovery	-	100,000	208,000	-
Income from discontinued operations	-	-	-	16,484,172
	(1,290,967)	(1,343,928)	(1,373,723)	14,897,139
Net income (loss)	(1,008,235)	(1,189,360)	(1,251,507)	14,982,926
Basic income (loss) per share				
- from continuing operations	(0.01)	(0.01)	(0.01)	(0.02)
- from discontinued operations	0.00	0.00	0.00	0.18
- net income (loss)	(0.01)	(0.01)	(0.01)	0.16
Total assets at end of period	19,640,603	20,632,177	21,818,201	23,336,951

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
	\$	\$	\$	\$
Revenue	402,312	275,491	266,711	326,597
Cost of sales	(317,804)	(144,284)	(191,607)	(180,710)
Gross profit	84,508	131,207	75,104	145,887
Expenses	(1,568,736)	(1,046,951)	(960,431)	(691,783)
Other expense (income)	2,109,000	-	-	-
Foreign exchange loss (gain)	(90,631)	(88,095)	195,068	81,830
Income tax recovery	-	-	-	-
Income from discontinued operations	869,152	788,128	583,452	1,010,333
	1,318,785	(346,918)	(181,911)	400,380
Net income (loss)	1,403,293	(215,711)	(106,807)	546,267
Basic and fully diluted income (loss) per share				
- from continuing operations	0.00	(0.01)	(0.01)	(0.01)
- from discontinued operations	0.01	0.01	0.01	0.01
- net income (loss)	0.02	(0.00)	(0.00)	0.01
Total assets at end of period	9,897,556	7,262,712	7,081,485	7,238,068

Over the past eight quarters, revenues from continuing operations have ranged from a low of \$250,631 in the third quarter of 2016 to a high of \$717,253 in the fourth quarter of 2016. Revenues in the other periods have ranged between the historical normal ranges of \$0.2 million to \$0.4 million. The revenue trend has seen sales increase in 2016 which reflects an increase in detectors and ancillary products revenue of Xenometrix due primarily to the investment the Company has made into the ED-XRF platform and marketing which introduced an updated Xenometrix product line, in particular its mobile systems. Cost of sales over the quarters varied depending on the level of customization on equipment sales. During the 2015 quarters, a 34% margin over sales was maintained which increased going into 2016 with gross margin of approximately 52% during 2016. Cost of sales ranged from a low of \$96,063 in the third quarter of 2016 to a high of \$434,521 during the fourth quarter of 2016. The variance in cost of sales is attributed to fluctuations 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 \$691,782 in the first quarter of 2015 to a high of \$1,955,031 in the first quarter of 2016. 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 2016. There could be variations in research and development expenses that might affect the overall expense line. During the first quarter of 2016, expenses were greater than the remaining 2016 quarters due to the Company incurring 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 1, 2017

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	90,780,238 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 7,325,000 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 15, 16 and 17 to the consolidated financial statements for the years ended December 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 17 of the consolidated financial statements for the years ended December 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 \$127,454 as at December 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 December 31, 2016, the carrying value of the intellectual property is \$199,754 (December 31, 2015 - \$249,692).

Total accounts payable, accrued liabilities, deposits received and liabilities of discontinued operations amounted to \$982,787 as at December 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 including 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 had an annual interest rate of 7.2% and a former director of the Company was among creditors in respect of repaid loans.
- As at December 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 fiscal 2016 with cash of \$8,636,990, compared to \$2,155,501 as at December 31, 2015. The Company had working capital of \$13,117,714 as at December 31, 2016 compared to working capital of \$4,001,621 as at December 31, 2015, including discontinued operations.

Cash used in operating activities was \$6,132,078 for the year ended December 31, 2016 compared to cash provided of \$860,815 for the year ended December 31, 2015. Changes to cash flows from operating activities primarily related to 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 \$2,178,026 for the year ended December 31, 2016, compared to cash used of \$773,608 for the year ended December 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 net purchase of marketable securities of \$2,775,239 (2015 - \$nil). The amount of cash provided from investing activities was higher in the year ended December 31, 2015 due to the deposit of \$250,000 received on the sale of GFI offset by the decrease in cash held in relation of assets held for sale of \$955,859.

Cash provided by financing activities was \$78,674 for the year ended December 31, 2016 compared to cash provided by financing activities of \$37,500 for the year ended December 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 \$268,750 (2015 - \$37,500) offset by share repurchases of \$190,076 (2015 - \$nil).

Cash provided by discontinued operations was \$14,780,773 for the year ended December 31, 2016, compared to cash used of \$368,349 for the year ended December 31, 2015. Discontinued operations relate to the operations of GFI. The sale of GFI was closed on January 4, 2017, therefore the increase in cash flows for the year ended December 31, 2016 is due primarily to the proceeds of \$14,780,773 (2015 - \$nil) received on the sale of GFI as previously discussed.

It is not possible to predict if or when the Company will achieve profitable levels of operations as the Company has posted net losses from continuing operations 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 for the next 12 months. As at December 31, 2016, the Company had working capital of \$13,117,714 (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 December 31, 2016 amounted to \$13,117,714 (December 31, 2015 - \$1,434,129). The Company has recorded revenues from continuing operations of \$1,664,737 and \$1,271,111, respectively, for the years ended December 31, 2016 and 2015 and net income of \$11,533,824 and \$1,627,042. Based on working capital of \$13,117,714 (December 31, 2015 - \$4,001,621), the net income for the years ended December 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 year ended December 31, 2016 \$nil (2015 - \$67,299) in interest was charged on the loans payable as described in note 21(c).

Mr. Eli Zahavi, a former director, provided a loan to GFI prior to the Company acquiring GFI in 2006. As at December 31, 2016, the balance of that loan is \$nil (December 31, 2015 - \$145,776) which is included in discontinued operations as described in note 21(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 for the years ended December 31, 2016 and 2015 were as follows:

For the years ended December 31,	Note	2016	2015
Bruce Rowlands (Chairman, CEO)	(i)	\$ 310,000	\$ 450,000
Gadi Gonen (Director and COO; CEO of GFI)	(ii)	107,250	346,538
Andres Tinajero (CFO)	(iii)	140,000	150,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iv)	458,519	372,195
Eli Zahavi (Director)	(v)	107,250	96,041
Charlotte May (Corporate Secretary)	(vi)	124,000	121,000
Michael Rose (Director)	(vii)	-	15,660
Dennis Logan (Director)	(viii)	32,000	46,000
Paul Wood (Director)	(ix)	57,500	20,000
Kenneth Wawrew (Director)	(x)	64,000	15,000
		\$ 1,400,519	\$ 1,632,434

Notes:

- For the year ended December 31, 2016, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$200,000 (2015 - \$450,000) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd. A bonus of \$250,000 is included in the total for the year ended December 31, 2015. In addition, 975,000 stock options with a value of \$110,000 (2015 - \$nil) were issued.
- For the year ended December 31, 2016, Gadi Gonen, the former COO of Eurocontrol and CEO of GFI, was paid \$nil (2015 - \$346,538) 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. Commissions of \$70,425 are included for the year ended December 31, 2015. 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 year ended December 31, 2016, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$100,000 (2015 - \$150,000) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc. A bonus of \$50,000 is included in the total for the year ended December 31, 2015. In addition, 350,000 stock options with a value of \$40,000 (2015 - \$nil) were issued.
- For the year ended December 31, 2016, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$401,519 (2015 - \$372,195) 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 year ended December 31, 2016, Eli Zahavi, a former director and the former Chairman of GFI, was paid \$nil (2015 - \$96,041) 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.
 - (vi) For the year ended December 31, 2016, Charlotte May, through her Company CMA Corporate Management, was paid \$96,000 (2015 - \$121,000) 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. In addition, 250,000 stock options with a value of \$28,000 (2015 - \$nil) were issued.
 - (vii) For the year ended December 31, 2016, Michael Rose, a former director, through his company Rose Partners, was paid \$nil (2015 - \$15,660) in director fees.
 - (viii) For the year ended December 31, 2016, Dennis Logan, through his Company 9703373 Canada Inc., was paid \$18,000 (2015 - \$15,000) in director and consulting fees and was personally issued 125,000 stock options with a value of \$14,000 (2015 - \$14,000) and 375,000 options with a value of \$31,000.
 - (ix) For the year ended December 31, 2016, Paul Wood, through his Company Kappa Advisors Ltd., was paid \$20,500 (2015 - \$20,000) in director fees and was issued 325,000 stock options with a value of \$37,000 (2015 - \$nil).
 - (x) For the year ended December 31, 2016, Kenneth Wawrew, was paid \$24,000 (2015 - \$15,000) in director fees and was issued 350,000 stock options with a value of \$40,000 (2015 - \$nil).

As at December 31, 2016, an amount of \$19,004 (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 overall market movements, commodity prices, government regulation, interest rates, and share price movements of peer companies and competitors may have a significant impact on the market price of the Company's 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 Xenemetrix, through its 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 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 become 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.

COMMITMENTS AND CONTINGENCIES

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 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 December 31, 2016 and 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 December 31, 2016 and 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. As at December 31, 2016, the Company had a cash and cash equivalents balance of \$8,636,990 (December 31, 2015 - \$2,155,501) to settle current liabilities of \$982,787 (December 31, 2015 - \$3,083,652). Working capital for the Company as at December 31, 2016 was \$13,117,714 (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 income by approximately \$58,000 (2015 - \$163,000) based on the foreign currency balances at December 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 December 31, 2016 is as follows:

	CDN Dollar	US Dollar	Total (in CDN dollars)
Financial assets			
Cash and cash equivalents	\$ 7,812,307	\$ 824,683	\$ 8,636,990
Marketable securities	2,709,155	-	2,709,155
Amounts receivable	29,432	576,296	605,728
Current portion of receivable under earn out agreement	1,500,000	-	1,500,000
Receivable under earn out agreement	4,936,180	-	4,936,180
	<u>\$ 16,987,074</u>	<u>\$ 1,400,979</u>	<u>\$ 18,388,053</u>
Financial liabilities			
Accounts payable and accrued liabilities	\$ 165,325	\$ 817,462	\$ 982,787
	<u>\$ 165,325</u>	<u>\$ 817,462</u>	<u>\$ 982,787</u>

(b) Price risk

The Company holds various short term corporate bonds. The Company has classified these investments as FVTPL 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. A 1% change in interest rates over the next year would affect net income by approximately \$27,000 (2016 - \$nil) based on the corporate bond balances at December 31, 2016.

(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. 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 SICPA/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 November 2013 and July 2014 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 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted. No implementation date has been set. 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.

IFRS 16 *Leases* (“IFRS 16”), was issued in January 2016 and it replaces IAS 17 *Leases*. IFRS 16 requires entities to recognize lease assets and lease obligations on the balance sheet. This new standard has not yet been issued by CPA Canada. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are “capitalized” by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligations to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019. Management is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

IAS 7 – Statement of Cash Flows was amended in January 2016. Effective from annual periods beginning on or after January 1, 2017, an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management does not anticipate the amendment will have a significant impact on the Company's financial statements.

MANAGEMENT'S RESPONSIBILITY

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

May 1, 2017
W. Bruce Rowlands
Chairman, President and CEO