



# EUROCONTROL TECHNICS GROUP INC.

## CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016

(In Canadian dollars)



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## Independent Auditor's Report

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### To the Shareholders of Eurocontrol Technics Group Inc.

We have audited the accompanying consolidated financial statements of Eurocontrol Technics Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eurocontrol Technics Group Inc. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our audit opinion, we draw your attention to Note 1 in the consolidated financial statements that indicates that the Company has a net loss of \$5,423,582, an accumulated deficit of \$2,540,190. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### Other Matters

The consolidated financial statements of the Company for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on April 19, 2017.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants  
Vancouver, BC  
April 20, 2018

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

*"Paul Wood"*  
\_\_\_\_\_  
Paul Wood  
Interim Chief Executive Officer

*"Andres Tinajero"*  
\_\_\_\_\_  
Andres Tinajero  
Chief Financial Officer

# EUROCONTROL TECHNICS GROUP INC.

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at December 31,	Notes	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	\$ 6,500,080	\$ 8,636,990
Marketable securities	6	-	2,709,155
Amounts receivable	10	999,280	605,728
Current portion of long term receivable	21	1,500,000	1,500,000
Inventories	11	706,615	619,385
Prepaid expenses		41,544	29,243
Total current assets		9,747,519	14,100,501
<b>Non-current assets</b>			
Long term receivable	21	4,097,410	4,936,180
Equipment	12	547,123	276,714
Technology rights	13	-	127,454
Intellectual property	8	149,816	199,754
Total non-current assets		4,794,349	5,540,102
<b>TOTAL ASSETS</b>		<b>\$ 14,541,868</b>	<b>\$ 19,640,603</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14, 19	\$ 1,440,117	\$ 982,787
Total current liabilities		1,440,117	982,787
<b>Non-current liabilities</b>			
Deferred tax liability	21	-	95,000
Total liabilities		1,440,117	1,077,787
<b>Shareholders' equity</b>			
Issued capital	15	14,942,091	14,946,541
Share-based payment reserve	17	519,513	519,513
Accumulated other comprehensive income		142,337	213,370
Retained earnings (deficit)		(2,502,190)	2,883,392
Total shareholders' equity		13,101,751	18,562,816
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 14,541,868</b>	<b>\$ 19,640,603</b>

Nature of operations and going concern (note 1)

Commitments and contingencies (note 23)

### APPROVED ON BEHALF OF THE BOARD:

Signed "Paul Wood", Director

Signed "Dennis Logan", Director

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

# EUROCONTROL TECHNICS GROUP INC.

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

For the years ended December 31,	Notes	2017	2016
<b>Revenue</b>	9	\$ 2,701,010	\$ 1,664,737
Cost of sales	11	(1,285,247)	(842,041)
Direct amortization	8, 13	(177,392)	(177,393)
<b>Gross profit</b>		<b>1,238,371</b>	<b>645,303</b>
<b>Expenses</b>			
Consulting and management	19	701,799	1,173,934
Depreciation	12	86,679	53,332
Administration		1,401,191	1,001,124
Sales and marketing expenses		1,634,431	1,060,060
Research and development	19	3,453,764	2,958,595
Public company costs		147,579	213,583
Share-based expense	17	38,000	394,000
<b>Total expenses</b>		<b>7,463,443</b>	<b>6,854,628</b>
<b>Loss before the undernoted</b>		<b>(6,225,072)</b>	<b>(6,209,325)</b>
<b>Other income and expense</b>			
Finance income		83,365	126,716
Foreign currency translation gain (loss)		(40,950)	237,056
Realized gain (loss) on marketable securities	6	2,845	(59,077)
Unrealized gain (loss) on marketable securities	6	-	(7,007)
Interest accretion on long term receivable	21	661,230	653,289
		706,490	950,977
Loss before income taxes		(5,518,582)	(5,258,348)
Deferred tax recovery	24	95,000	308,000
<b>Loss from continuing operations</b>		<b>(5,423,582)</b>	<b>(4,950,348)</b>
Income from discontinued operations	21	-	16,484,172
<b>Net income (loss)</b>		<b>\$ (5,423,582)</b>	<b>\$ 11,533,824</b>
<b>Earnings (loss) per share</b>			
<b>From continuing operations</b>			
- Basic		\$ (0.06)	\$ (0.05)
- Diluted		\$ (0.06)	\$ (0.05)
<b>From discontinued operations</b>			
- Basic		\$ -	\$ 0.18
- Diluted		\$ -	\$ 0.18
<b>Net earnings</b>			
- Basic		\$ (0.06)	\$ 0.13
- Diluted		\$ (0.06)	\$ 0.12
<b>Weighted average common shares outstanding</b>			
- Basic (Note 15)		91,753,261	92,101,569
- Diluted (Note 15)		91,753,261	94,024,288
Net income (loss)		\$ (5,423,582)	\$ 11,533,824
<b>Other comprehensive income (loss) - items that may subsequently reclassify into income or loss</b>			
Exchange differences on translation of foreign subsidiaries		(71,033)	18,414
<b>Comprehensive income (loss)</b>		<b>\$ (5,494,615)</b>	<b>\$ 11,552,238</b>

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

## EUROCONTROL TECHNICS GROUP INC.

Consolidated Statements of Changes in Shareholders' Equity  
(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 15)	Share-based Payment Reserve (Note 17)	Retained earnings (deficit)	Accumulated Other Comprehensive Income	Total
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	(1,143,000)	(190,076)	-	-	-	(190,076)
Share-based expense	-	-	394,000	-	-	394,000
Expiry of stock options	-	-	(129,630)	129,630	-	-
Exchange gain on translation of foreign subsidiaries	-	-	-	-	18,414	18,414
Transfer of cumulative translation difference on sale of subsidiary	-	-	-	-	(276,000)	(276,000)
Net income for the year	-	-	-	11,533,824	-	11,533,824
Balance as at December 31, 2016	91,780,238	\$ 14,946,541	\$ 519,513	\$ 2,883,392	\$ 213,370	\$ 18,562,816
Share repurchase and cancellation	(30,000)	(4,450)	-	-	-	(4,450)
Share-based expense	-	-	38,000	-	-	38,000
Expiry of stock options	-	-	(38,000)	38,000	-	-
Exchange loss on translation of foreign subsidiaries	-	-	-	-	(71,033)	(71,033)
Net loss for the year	-	-	-	(5,423,582)	-	(5,423,582)
Balance as at December 31, 2017	91,750,238	\$ 14,942,091	\$ 519,513	\$ (2,502,190)	\$ 142,337	\$ 13,101,751

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

# EUROCONTROL TECHNICS GROUP INC.

## Consolidated Statements of Cash Flows (Expressed in Canadian dollars)

For the years ended December 31,	Notes	2017	2016
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net income (loss) for the year		\$ (5,423,582)	\$ 11,533,824
Items not involving cash:			
Amortization of intellectual property	8	49,938	49,938
Depreciation of equipment	12	86,679	53,332
Amortization of technology rights	13	127,454	127,455
Share-based expense	17	38,000	394,000
Gain on sale of subsidiary	21	-	(16,484,172)
Deferred tax	24	(95,000)	(308,000)
Unrealized (gain) loss on marketable securities	6	-	7,007
Realized (gain) loss on marketable securities	6	(2,845)	59,077
Interest accretion on long term receivable	21	(661,230)	(653,289)
Loss on disposal of vehicle		-	9,031
Unrealized foreign exchange (loss) gain		4,588	(177,340)
Working capital changes			
Change in amounts receivable		(393,552)	(144,792)
Funds from long term receivable		1,500,000	750,000
Change in inventories		(87,230)	(151,664)
Change in prepaid expenses		(12,301)	25,649
Change in accounts payable and accrued liabilities		457,330	(472,134)
<b>Cash flows used in operating activities</b>		<b>(4,411,751)</b>	<b>(5,382,078)</b>
<b>Investing activities</b>			
Equipment expenditures	12	(385,133)	(152,787)
Sales (purchase) of marketable securities, net		2,712,000	(2,775,239)
<b>Cash flows from (used in) investing activities</b>		<b>2,326,867</b>	<b>(2,928,026)</b>
<b>Financing activities</b>			
Proceeds from exercise of stock options		-	268,750
Share repurchase and cancellation		(4,450)	(190,076)
<b>Cash flows from (used in) financing activities</b>		<b>(4,450)</b>	<b>78,674</b>
<b>Cash flow from discontinued operations</b>	21	-	14,780,773
<b>Net increase (decrease) in cash and cash equivalents for the year</b>		<b>(2,089,334)</b>	<b>6,549,343</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(47,576)</b>	<b>(67,854)</b>
<b>Cash and cash equivalents, beginning of the year</b>		<b>8,636,990</b>	<b>2,155,501</b>
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 6,500,080</b>	<b>\$ 8,636,990</b>
<b>Supplementary cash flow information</b>			
Interest received		\$ 83,365	\$ 126,716

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

# **EUROCONTROL TECHNICS GROUP INC.**

## **Notes to the Consolidated Financial Statements**

**(Expressed in Canadian dollars)**

**For the years ended December 31, 2017 and 2016**

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

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 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’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.

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has a net loss in the year of \$5.4 million and an accumulated deficit of \$2.5 million.

The Company’s ability to continue as a going concern is dependent upon attaining profitable operations, receipt of its long-term receivable from SICPA, and, if required, the ability to raise public equity financing to meet expenditure commitments. There is no assurance that these activities will be successful. The combination of these circumstances set out above represents a material uncertainty which may cast significant doubt upon the Company’s ability to continue as a going concern. However, the Company is confident that it has a reasonable expectation of collecting on its long-term receivable and therefore, the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Company continues to adopt the going concern basis in preparing the annual report and consolidated financial statements. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumptions were not appropriate.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 19, 2018.

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

#### **Statement of compliance**

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) issued by the International Accounting Standards Board (“IASB”).

#### **Basis of measurement**

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

# **EUROCONTROL TECHNICS GROUP INC.**

## **Notes to the Consolidated Financial Statements**

**(Expressed in Canadian dollars)**

**For the years ended December 31, 2017 and 2016**

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

#### **Pending Accounting Standards**

At the date of authorization of these consolidated 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 has assessed the impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in 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 does not expect the adoption of the standard to result in a material impact.

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 does not expect the adoption of the standard to result in a material impact.

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. 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. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian dollars)**  
**For the years ended December 31, 2017 and 2016**

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**3. PRINCIPLES OF CONSOLIDATION**

These consolidated financial statements for the years ended December 31, 2017 and 2016 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
Croptimal Ltd. ("Croptimal")	Israel	100%	Full consolidation

For the year ended December 31, 2016, the balances and operations of GFI (Note 21) 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.

*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 and comprehensive income;
- 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 income and comprehensive income.

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

# EUROCONTROL TECHNICS GROUP INC.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2017 and 2016

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### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, 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. 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 Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2017 and 2016

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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 Company 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, had entered into separate fuel marking and monitoring services agreements with the governments of Tanzania and Uganda and concurrently had 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).

#### 5. SIGNIFICANT ACCOUNTING POLICIES

##### a) Presentation currency

The Company's presentation 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.

##### b) Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign currency translation gains and losses are presented in the statements of income and comprehensive income in the period in which they occur. The Company translates the financial statements of the subsidiaries as follows: items in the statement of income and comprehensive income are translated into the presentation currency using the average exchange rate for the year. Assets and liabilities are translated at the year-end rate. All resulting exchange differences are reported as a separate component of other comprehensive income.

##### c) Borrowing costs

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

# EUROCONTROL TECHNICS GROUP INC.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2017 and 2016

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### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *d) Revenue recognition*

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

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

#### Sale of Fuel Markers

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

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

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

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

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

## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Consolidated Financial Statements**

**(Expressed in Canadian dollars)**

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#### **5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***d) Revenue recognition (continued)***

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

##### Sale of Energy Dispersive X-Ray Fluorescence ("ED-XRF") systems

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

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

##### ***e) Share-based payments***

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

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

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

For those options and warrants that expire or are cancelled after vesting, the recorded value is transferred to retained earnings (deficit).

##### ***f) Finance costs***

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

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Company as lessee**

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

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**h) Taxation**

*Current income tax*

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

*Deferred income tax*

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

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

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

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

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

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

# EUROCONTROL TECHNICS GROUP INC.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

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### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *i) Equipment*

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

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

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

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

#### *Major maintenance and repairs*

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

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

#### *j) Intangible assets*

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

#### *Intellectual property*

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

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Intangible assets (continued)**

*Technology rights*

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

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

*Deferred development costs*

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

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

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

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

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

Marker development	straight-line over 10 years
Equipment development	straight-line over 3 years

## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Consolidated Financial Statements**

**(Expressed in Canadian dollars)**

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#### **5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***k) Impairment of non-financial assets***

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

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

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

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

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

## **EUROCONTROL TECHNICS GROUP INC.**

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#### **5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***1) Financial instruments***

###### *Financial assets*

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

All financial assets are recognised initially at fair value plus, in the case of financial assets not at FVTPL, directly attributable transaction costs.

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

The Company's financial assets include cash and cash equivalents, marketable securities, amounts receivable and long term receivable. For classification of these financial assets, see Note 18.

###### *Subsequent measurement*

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

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

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

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

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***l) Financial instruments (continued)***

*Derecognition*

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

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

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

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

*Impairment of financial assets*

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

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

**5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***1) Financial instruments (continued)***

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

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

*Financial liabilities*

*Initial recognition and measurement:*

Financial liabilities within the scope of IAS 39 are classified as FVTPL, or as other financial liabilities as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

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

*Subsequent measurement:*

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

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

## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Consolidated Financial Statements**

**(Expressed in Canadian dollars)**

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#### **5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***l) Financial instruments (continued)***

###### *Other financial liabilities*

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

###### *Derecognition*

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

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

###### *Offsetting of financial instruments*

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

###### *Fair value of financial instruments*

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

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

##### ***m) Cash and cash equivalents***

Cash and cash equivalents are comprised of cash at banks and cash on hand and short term, highly liquid deposits which are either cashable or with original maturities of less than three months from the date of acquisition.

##### ***n) Inventories***

Inventories consist of materials, work in process and finished goods, are stated at the lower of cost or net realizable value. Cost is determined using the FIFO (first in, first out) method. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion or estimated costs to make the sale.

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#### **5. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***o) Provisions***

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

##### ***p) Earnings (loss) per share***

Basic earnings (loss) per common share has been computed by dividing the earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings (loss) per common share reflects the potential dilution of common share equivalents such as outstanding options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease (loss) per share.

#### **6. MARKETABLE SECURITIES**

As at December 31, 2017 the Company did not hold any marketable securities.

As at December 31, 2016, the balance consists of various short term corporate bonds with a fair market value of \$2,709,155. As at December 31, 2016, these FVTPL investments have been measured at their fair value of \$2,709,155. The revaluation to market value resulted in an unrealized loss of \$7,007 for the year ended December 31, 2016 which has been recognized in the statements of income (loss) and comprehensive income (loss).

During the year ended December 31, 2017 the Company incurred a realized gain of \$2,845 (2016 – \$59,077 loss) on redemption of various bonds and interest income related to the bonds of \$70,498 (2016 – \$126,716).

#### **7. CASH AND CASH EQUIVALENTS**

The balance at December 31, 2017 consists of cash on deposit with major Canadian and Israeli banks in interest bearing accounts totaling \$2,994,413 (December 31, 2016 - \$3,629,470) and cashable guaranteed investment certificates with major Canadian banks of \$3,505,667 (December 31, 2016 - \$5,007,520) for total cash and cash equivalents of \$6,500,080 (December 31, 2016 - \$8,636,990).

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Consolidated Financial Statements****(Expressed in Canadian dollars)****For the years ended December 31, 2017 and 2016**

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**8. INTELLECTUAL PROPERTY**

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

**Cost**

Balance as at December 31, 2015	\$	349,568
Additions		-
Balance as at December 31, 2016		349,568
Additions		-
Balance as at December 31, 2017	\$	349,568

**Accumulated amortization**

Balance as at December 31, 2015	\$	99,876
Amortization expense		49,938
Balance as at December 31, 2016		149,814
Amortization expense		49,938
Balance as at December 31, 2017	\$	199,752

**Carrying amounts**

Balance as at December 31, 2016	\$	199,754
Balance as at December 31, 2017	\$	149,816

**EUROCONTROL TECHNICS GROUP INC.**  
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**9. 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 and all revenue is earned through its operations in Israel.

*Geographical information*

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

**Revenue from continuing operations:**

<b>For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>
North America	\$ 356,654	\$ 112,733
Asia	857,456	969,053
Latin America	44,047	-
Europe	1,442,853	582,951
	\$ 2,701,010	\$ 1,664,737

Xenemetrix accounts for \$2,701,010 (2016 - \$1,664,737) of the revenue generated for the year ended December 31, 2017, representing 100% (2016 - 100%) of revenue from continuing operations and 100% (2016 - 100%) of overall revenue including discontinued operations. Xenemetrix revenue is from sales of ED-XRF systems.

Equipment, deferred development costs and technology rights owned by GFI are included in discontinued operations as disclosed in Note 21.

Other than the long term receivable substantially all of the non-current assets are located in Israel.

**10. AMOUNTS RECEIVABLE**

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
Trade receivables	\$ 686,579	\$ 519,927
Value added taxes receivables	173,045	77,501
Other	139,656	8,300
	\$ 999,280	\$ 605,728

At December 31, 2017, 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 22. The Company holds no collateral for any receivable amounts outstanding as at December 31, 2017 and 2016.

**EUROCONTROL TECHNICS GROUP INC.**  
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**11. INVENTORIES**

As at December 31,	2017	2016
Materials	\$ 498,624	\$ 380,652
Work in process	87,490	163,495
Finished goods	120,501	75,238
	<b>\$ 706,615</b>	<b>\$ 619,385</b>

For the years ended December 31, 2017 and 2016, the cost of inventories recognized as an expense and included in cost of sales was \$1,285,247 and \$842,041 respectively.

**12. EQUIPMENT**

	Office furniture, computers and equipment	Vehicles	Total
<b>Cost</b>			
Balance as at December 31, 2015	\$ 410,421	\$ 65,734	\$ 476,155
Additions	126,414	26,373	152,787
Disposals	-	(22,926)	(22,926)
Foreign exchange	(10,617)	(1,917)	(12,534)
Balance as at December 31, 2016	\$ 526,218	\$ 67,264	\$ 593,482
Additions	340,820	44,313	385,133
Disposals	-	-	-
Foreign exchange	(45,835)	(5,883)	(51,718)
Balance as at December 31, 2017	\$ 821,203	\$ 105,694	\$ 926,897
<b>Accumulated depreciation</b>			
Balance as at December 31, 2015	\$ 246,984	\$ 30,489	\$ 277,473
Depreciation	44,203	9,129	53,332
Disposals	-	(5,606)	(5,606)
Foreign exchange	(7,568)	(863)	(8,431)
Balance as at December 31, 2016	283,619	\$ 33,149	\$ 316,768
Depreciation	73,595	13,084	86,679
Disposals	-	-	-
Foreign exchange	(21,064)	(2,609)	(23,673)
Balance as at December 31, 2017	\$ 336,150	\$ 43,624	\$ 379,774
<b>Carrying amounts</b>			
Balance as at December 31, 2016	\$ 242,599	\$ 34,114	\$ 276,714
Balance as at December 31, 2017	\$ 485,054	\$ 62,070	\$ 547,123

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**13. TECHNOLOGY RIGHTS**

The Company, through its wholly owned subsidiary Xenemetrix, holds a licence to produce and sell ED-XRF systems.

	<u>XRF Systems</u>	
<b>Cost</b>		
Balance as at December 31, 2015	\$	892,184
Additions		-
Balance as at December 31, 2016		892,184
Additions		-
Balance as at December 31, 2017	\$	892,184
<b>Accumulated amortization</b>		
Balance as at December 31, 2015	\$	637,275
Amortization expense		127,455
Balance as at December 31, 2016		764,730
Amortization expense		127,454
Balance as at December 31, 2017	\$	892,184
<b>Carrying amounts</b>		
Balance as at December 31, 2016	\$	127,454
Balance as at December 31, 2017	\$	-

**14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

<b>As at December 31,</b>	2017		2016	
Accounts payable	\$	753,713	\$	503,542
Accrued liabilities		686,404		479,245
	\$	1,440,117	\$	982,787

**15. ISSUED CAPITAL**

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

	December 31, 2017	December 31, 2016
Issued capital	\$ 14,942,091	\$ 14,946,541
Fully paid common shares (1)	91,750,238	91,780,238

(1) As at December 31, 2017 and December 31, 2016, 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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**15. ISSUED CAPITAL (continued)**

**Common shares issued:**

	Number of Shares	Value of shares
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	(1,143,000)	(190,076)
Balance as at December 31, 2016	91,780,238	\$ 14,946,541
Share repurchase and cancellation	(30,000)	(4,450)
Balance as at December 31, 2017	91,750,238	\$ 14,942,091

Normal Course Issuer Bid:

On February 22, 2016, the Company commenced a normal course issuer bid which was effective until February 21, 2017. Under the terms of the issuer bid, the Company could 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 year ended December 31, 2017, 30,000 shares were purchased at a cost of \$4,450. During the year ended December 31, 2016, 1,143,000 shares were purchased at a cost of \$190,076. Any premium paid to purchase the shares in excess of the stated value is charged to retained earnings.

**Diluted weighted average number of shares outstanding**

	Years ended December 31,	
	<b>2017</b>	<b>2016</b>
Basic weighted average shares outstanding:	<b>91,753,261</b>	92,101,569
Effect of outstanding stock options	-	1,922,719
Diluted weighted average shares outstanding	<b>91,753,261</b>	94,024,288

During the year ended December 31, 2017, the Company had a net loss, as such, the diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease (loss) per share.

**16. WARRANTS RESERVE**

There were no warrants outstanding as of December 31, 2017 and 2016.

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**17. SHARE-BASED PAYMENT RESERVE**

*Stock option plan*

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

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

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

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

Balance as at December 31, 2015	\$	384,093
Share-based expense		394,000
Expiry of stock options		(129,630)
Exercise of stock options		(128,950)
Balance as at December 31, 2016	\$	519,513
Share-based expense		38,000
Expiry of stock options		(38,000)
Balance as at December 31, 2017	\$	519,513

The following share-based payment arrangements were in existence as at December 31, 2017:

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
100,000	100,000	July 11, 2016	July 11, 2021	\$ 0.19	15,000
7,025,000	7,025,000				\$ 519,513

The share options outstanding as at December 31, 2017 had a weighted exercise price of \$0.13 (December 31, 2016: \$0.13) and a weighted average remaining contractual life of 1.77 years (December 31, 2016: 2.8 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.

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

*Fair value of share options granted in the year ended December 31, 2017*

On January 6, 2017, 300,000 share options were granted to a director of the Company to acquire the Company's shares at an exercise price of \$0.17 until January 6, 2022. These share options had an estimated fair value of \$38,000 at grant date.

The fair value of share options granted in the year ended December 31, 2017 was calculated using the following assumptions:

	<b>Number of Options Granted</b>	
	06-Jan-17	
	300,000	
Grant date share price	\$	0.17
Exercise price	\$	0.17
Expected volatility		99%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		1.12%

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

On July 11, 2016, 100,000 share options were granted to a consultant of the Company to acquire the Company's shares at an exercise price of \$0.19 until July 11, 2021. These share options had an estimated fair value of \$15,000 at grant date.

The fair value of share options granted in the year ended December 31, 2016 was calculated using the following assumptions:

	<b>Number of Options Granted</b>			
	19-Feb-16		11-Jul-16	
	3,350,000		100,000	
Grant date share price	\$	0.15	\$	0.19
Exercise price	\$	0.15	\$	0.19
Expected volatility		103%		119%
Expected option life		5 years		5 years
Expected dividend yield		0%		0%
Risk-free interest rate		0.60%		0.53%

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

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.

*Movements in share options during the period:*

The following reconciles the share options outstanding for the year ended December 31, 2017 and 2016:

	Number of options	Weighted average exercise price
Balance as at December 31, 2015	6,862,500	\$ 0.11
Granted	3,450,000	\$ 0.15
Exercised	(2,387,500)	\$ 0.11
Expired	(900,000)	\$ 0.16
Balance as at December 31, 2016	7,025,000	\$ 0.13
Granted	300,000	\$ 0.17
Cancelled	(300,000)	\$ 0.17
Balance as at December 31, 2017	7,025,000	\$ 0.13

**18. FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities as at December 31, 2017 and 2016 were as follows:

	Assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
<b>As at December 31, 2017</b>				
Cash and cash equivalents	\$ 6,500,080	\$ -	\$ -	\$ 6,500,080
Marketable securities	-	-	-	-
Current portion of long term receivable	-	1,500,000	-	1,500,000
Long term receivable	-	4,097,410	-	4,097,410
Amounts receivable	-	686,579	-	686,579
Accounts payable and accrued liabilities	-	-	1,440,117	1,440,117

	Assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
<b>As at December 31, 2016</b>				
Cash and cash equivalents	\$ 8,636,990	\$ -	\$ -	\$ 8,636,990
Marketable securities	2,709,155	-	-	2,709,155
Current portion of long term receivable	-	1,500,000	-	1,500,000
Long term receivable	-	4,936,180	-	4,936,180
Amounts receivable	-	519,927	-	519,927
Accounts payable and accrued liabilities	-	-	982,787	982,787

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

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**18. FINANCIAL INSTRUMENTS (continued)**

As at December 31, 2017 and 2016, 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, amounts receivable, accounts payable and accrued liabilities approximate fair value because of the limited terms of these instruments. The long term receivable was discounted using a rate of 10%.

**19. RELATED PARTY DISCLOSURES**

*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 years ended December 31, 2017 and 2016 were as follows:

<b>For the years ended December 31,</b>	Note	2017	2016
Bruce Rowlands (Chairman, CEO)	(i)	\$ 200,000	\$ 310,000
Gadi Gonen (Director and COO; CEO of GFI)	(ii)	-	107,250
Andres Tinajero (CFO)	(iii)	100,000	140,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iv)	419,850	458,519
Eli Zahavi (Director)	(v)	-	107,250
Charlotte May (Corporate Secretary)	(vi)	96,000	124,000
Gilles Leraille (Director)	(vii)	38,000	-
Dennis Logan (Director)	(viii)	18,000	32,000
Paul Wood (Director)	(ix)	18,000	57,500
Kenneth Wawrew (Director)	(x)	18,000	64,000
		\$ 907,850	\$ 1,400,519

Notes:

- (i) For the year ended December 31, 2017, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$200,000 (2016 - \$200,000) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd. In addition, nil (2016 - 975,000) stock options with a value of \$nil (2016 - \$110,000) were issued.
- (ii) For the year ended December 31, 2017, Gadi Gonen, the former COO of Eurocontrol and CEO of GFI, was paid a change of control payment of \$nil (2016 - \$107,250) in connection with the sale of GFI to SICPA.
- (iii) For the year ended December 31, 2017, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$100,000 (2016 - \$100,000) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc. In addition, nil (2016 -350,000) stock options with a value of \$nil (2016 - \$40,000) were issued.
- (iv) For the year ended December 31, 2017, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$419,850 (2016 - \$401,519) in professional service fees for services as COO of Eurocontrol and as President of Xenemetrix, XwinSys and Croptimal pursuant to an agreement assumed by the Company when it acquired Xenemetrix in 2010. In addition, nil (2016 - 500,000) stock options with a value of \$nil (2016 -\$57,000) were issued.

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

- (v) For the year ended December 31, 2017, Eli Zahavi, a former director and the former Chairman of GFI, was paid a change of control payment of \$nil (2016 - \$107,250) in connection with the sale of GFI to SICPA.
- (vi) For the year ended December 31, 2017, Charlotte May, through her Company CMA Corporate Management, was paid \$96,000 (2016 - \$96,000) in professional service fees for Corporate Secretarial services pursuant to an agreement entered into by the Company and CMA Corporate Services. In addition, nil (2016 - 250,000) stock options with a value of \$nil (2016 - \$28,000) were issued.
- (vii) For the year ended December 31, 2017, Gilles Leraille, a director, was issued 300,000 stock options with a value of \$38,000 (Note 17) which options expired September 23, 2017 in accordance with the terms of the Company's stock option plan.
- (viii) For the year ended December 31, 2017, Dennis Logan, through his Company 9703373 Canada Inc., was paid \$18,000 (2016 - \$18,000) in director and consulting fees and was personally issued nil (2016 - 125,000) stock options with a value of \$nil (2016 - \$14,000).
- (ix) For the year ended December 31, 2017, Paul Wood, through his Company Kappa Advisors Ltd., was paid \$18,000 (2016 - \$20,500) in director fees and was issued nil (2016 - 325,000) stock options with a value of \$nil (2016 - \$37,000).
- (x) For the year ended December 31, 2017, Kenneth Wawrew was paid \$18,000 (2016 - \$24,000) in director fees and was issued nil (2016 - 350,000) stock options with a value of \$nil (2016 - \$40,000).

As at December 31, 2017, an amount of \$9,996 (December 31, 2016 - \$19,004) 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.

#### **20. CAPITAL MANAGEMENT**

The Company manages and adjusts its capital structure based on available funds in order to support its operations. The capital of the Company consists of 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 year ended December 31, 2017. The Company and its subsidiaries are not subject to externally imposed capital requirements.

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**21. 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, 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 paid 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 \$984,485 in settlement of loan amounts owing by Eurocontrol to certain former shareholders of GFI and a working capital adjustment of \$410,853.
- Post-closing earn-out payments equal to 5% of the net revenues to be earned by GFI from contracts, inclusive of both marker and logistics to be 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 to be earned by GFI and contracts to be signed during the fourth through sixth years following closing payable until the third anniversary of such contracts.

The operating results for the year ended December 31, 2016 related to GFI have been presented separately as the income from discontinued operations in the consolidated 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		6,532,891
<b>Total purchase price</b>		<b>21,563,664</b>
<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)
<b>Gain on disposition</b>	<b>\$</b>	<b>16,484,172</b>

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**21. DISCONTINUED OPERATIONS (continued)**

As a result of the completion of the transaction, the Company reclassified the net gain from its GFI operations of \$16,484,172 for the year ended December 31, 2016, as gain for the period from discontinued operations.

The breakdown of the income for the year ended December 31, 2016 from discontinued operations is as follows:

<b>Year ended December 31,</b>	<b>2016</b>
Gain on sale of subsidiaries	\$ 18,996,172
Income before taxes	18,996,172
Income tax expense	(2,512,000)
Income from discontinued operations	\$ 16,484,172

As a result of the gain on sale of subsidiary, the Company recorded an income tax provision of \$2,512,000 for the year ended December 31, 2016. The Company utilized non-capital losses which resulted in the decrease in tax payable on the sale of subsidiary and an income tax recovery in the amount of \$308,000 which in addition to the utilization of non-capital losses available from prior year of \$2,109,000 resulted in deferred tax liability of \$95,000 as at December 31, 2016. The deferred tax liability has been further decreased as the Company utilized non-capital losses during the year ended December 31, 2017 resulting in a deferred tax liability of \$nil as at December 31, 2017.

The cash flows provided by investing activities for the discontinued operations for the year ended December 31, 2017 were \$nil (2016 – cash flows provided of \$14,780,773).

**Long term receivable:**

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. Due to the difficulty in estimating the contingent portions of the earn-out payments the Company has not recognized any additional amount above the minimum guaranteed portion. The estimated cash flows were discounted to \$6,532,891 using a discount rate of 10%. The movement in the amount receivable under the earn out agreement during the years ended December 31, 2017 and 2016 is as follows:

	<b>December 31, 2017</b>	December 31, 2016
Opening balance	\$ 6,436,180	\$ -
Earn out receivable	-	6,532,891
Interest accretion	661,230	653,289
Instalment payments received	(1,500,000)	(750,000)
<b>Total receivable under earn out agreement</b>	<b>\$ 5,597,410</b>	<b>\$ 6,436,180</b>
Less: Current portion	1,500,000	1,500,000
Long term portion	<b>\$ 4,097,410</b>	<b>\$ 4,936,180</b>

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## **22. 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, marketable securities, long term receivable, and amounts receivable. Financial instruments included in amounts receivable consist primarily of receivables due from customers. The total amount of the long term receivable is with one party, SICPA. Management believes that the credit risk concentration with respect to these financial instruments is minimal. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company's marketable securities consisted of high quality investments with investment grades.

### ***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, 2017, the Company had a cash and cash equivalents balance of \$6,500,080 (December 31, 2016 - \$8,636,990) to settle current liabilities of \$1,440,117 (December 31, 2016 - \$982,787). Working capital for the Company as at December 31, 2017 was \$8,307,402 (December 31, 2016 - \$13,117,714).

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.

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 \$126,000 (2016 - \$58,000) based on the foreign currency balances at December 31, 2017. 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.

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**22. FINANCIAL RISK FACTORS (continued)**

The exposure of the Company's financial assets and liabilities to foreign currency risk as at December 31, 2017 is as follows:

	<b>CDN Dollar</b>	<b>US Dollar</b>	<b>Total (in CDN dollars)</b>
<b>Financial assets</b>			
Cash and cash equivalents	\$ 5,366,395	\$ 1,133,685	\$ 6,500,080
Marketable securities	-	-	-
Amounts receivable	17,682	981,598	999,280
Current portion of long term receivable	1,500,000	-	1,500,000
Long term receivable	4,097,410	-	4,097,410
	<b>\$ 10,981,487</b>	<b>\$ 2,115,283</b>	<b>\$ 13,096,770</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ 78,868	\$ 1,361,249	\$ 1,440,117
	<b>\$ 78,868</b>	<b>\$ 1,361,249</b>	<b>\$ 1,440,117</b>

(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 \$nil (2016 - \$27,000) based on the corporate bond balances at December 31, 2017.

(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 its former subsidiary 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. 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.

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**23. COMMITMENTS AND CONTINGENCIES**

- (a) 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 year ended December 31, 2017. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full.

As of December 31, 2017, the balance of the grants received to date to be repaid is approximately \$973,000 (December 31, 2016 – \$1,042,000).

- (b) 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 December 31, 2017 and December 31, 2016.

**24. INCOME TAXES**

- a) Income tax recovery

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 26.5% (December 31, 2016 – 26.5%) are as follows:

	December 31, 2017	December 31, 2016
Loss from continuing operations before income taxes	\$ (5,518,582)	\$ (5,258,348)
Expected income tax recovery based on statutory rate	\$ (1,462,424)	\$ (1,393,462)
Adjustments to benefit resulting from:		
Share-based compensation	10,070	(104,410)
Other	2,354	70,872
Tax losses not recognized	1,355,000	1,119,000
Utilization of previously unrecognized loss carryforwards	-	-
Income tax recovery	\$ (95,000)	\$ (308,000)

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**24. INCOME TAXES (continued)**

b) Deferred tax balance

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

	December 31, 2017	December 31, 2016
Non-capital losses	\$ 4,603,504	\$ 3,248,358
Property, plant and equipment	1,602	1,776
	<u>\$ 4,605,106</u>	<u>\$ 3,250,134</u>

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

c) Non-capital loss balance

As at December 31, 2017, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses, and when they expire, is provided below:

	<u>Canada</u>
2030	\$ 1,426,000
2031	1,339,000
2032	1,059,000
2033	614,000
2035	595,000
2037	692,000
	<u>\$ 5,725,000</u>

There are also \$14,030,679 in unused tax losses borne in Israel that carry forward indefinitely.