eurocontrol
TECHNICS GROUP

Management's Discussion and Analysis

For the year ended December 31, 2017

(in Canadian dollars unless otherwise noted)

Management's discussion and analysis ("MD&A") is current to April 24, 2018 and is management's assessment of the operations and the financial results together with future prospects of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise. Additional information relevant to Eurocontrol's activities, including Eurocontrol's press releases can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

BUSINESS OVERVIEW AND STRATEGY

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange ("TSXV") and the OTCQB Venture Market under the symbols "EUO" and "EUCTF", respectively. The Company specializes in the acquisition, development and commercialization of innovative test and measurement technologies and applications for key growth markets globally – ED-XRF Spectroscopy, wafer inspection and quality control metrology and precision agriculture. The Company has three wholly-owned subsidiaries: Xenemetrix Ltd. ("Xenemetrix"), XwinSys Technology Development Ltd. ("XwinSys") and Croptimal Ltd. ("Croptimal"). Eurocontrol also participates in the energy security market through its agreement with SICPA Finance S.A. ("SICPA") of Switzerland for earn-out payments of 5% (minimum $9 million, $1.5 million per year payable as to $750,000 every six months) on net revenues resulting from the products and services marketed by its former subsidiary Global Fluids International (GFI) S.A. ("GFI") and through its subsidiary Xenemetrix that has a long term supply, maintenance and support agreement with GFI.

Xenemetrix is a leading designer, manufacturer and marketer of energy-dispersive x-ray fluorescence (ED-XRF) systems, a technology that is the most accurate and economic method for determining the chemical composition of many types of materials, including the analysis of petroleum oils and fuel. Xenemetrix has an exclusive long term supply, maintenance and support agreement with SICPA GFI to supply Xenemetrix products and services for projects that were in existence in January 2016 and a right of good faith consultation for any future GFI projects during the contract period.

XwinSys has developed innovative fully automated patented metrology technology for the semi-conductor manufacturing process that combines ED-XRF technology with 2D and 3D automated image processing technologies.

Croptimal was formed in early 2017 to introduce a new mobile material analysis laboratory for the agricultural testing/precision agriculture industries based on integrated multi-spectral (ED-XRF, IR, NIR, UV) and electro chemistry technology. Croptimal is applying for a patent for its new mobile material analysis laboratory as well as sample preparation and self-calibration methods and hardware.

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

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

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

The Company has been focused on implementing a strategic plan designed to increase the Company's value and create opportunities for growth by focusing resources and capital in pursuit of high growth strategies. This strategic plan commenced with the sale of the Company's former wholly-owned subsidiary, GFI to SICPA that closed January 4, 2016. The Company receives an earn out payment from SICPA GFI for a six to nine year period. Further details on the sale of GFI are included below under Sale Transaction.

On March 15, 2018, the Company announced the initiation of a formal process to explore a broad range of strategic alternatives. Eurocontrol also announced a change of management with the appointment of Paul Wood, a director of the Company who has a background in mergers and acquisitions, transaction structuring and strategic initiatives to replace Bruce Rowlands who remains a director of the Company. The Board of Directors believes that the Company's strong balance sheet underpinned by cash and the SICPA GFI earn-out receivable of $1.5 million per year until 2022, with potential incremental upside from now through to 2024, combined with its innovative technologies, places Eurocontrol in a unique position to undertake a strategic transaction.

SALE TRANSACTION

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

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

- Cash consideration paid to the Company by SICPA on closing was $16 million less the $250,000 deposit received by the Company on signing of the Letter of Intent in August 2015, less $395,595 in transaction payments, less $984,485 in settlement of loan amounts owing by Eurocontrol to certain former shareholders of GFI and a working capital adjustment of $410,858.

- Post closing earn-out payments equal to 5% of the net revenues earned by GFI from the products and services following the execution of the Purchase Agreement and during the period ending six years from the closing of the transaction (the "Minimum Earn-out Amount Period"), with a minimum guaranteed of $1.5 million per year for the Earn-out Period (total payment of at least $9,000,000).

- Additional post closing payments equal to 5% of the net revenues earned by GFI from contracts signed during the fourth through sixth years following closing paid until the third anniversary of such contracts.

· As of the date of the MD&A, the Company has received the first four of the guaranteed earn-out payments of $750,000 each for a total of $3,000,000 from SICPA.

LEADERSHIP TEAM

Paul Wood – Interim President and Chief Executive Officer, Director (1)(2)(3*)
Dennis Logan – Chairman (1*)(2)(3)
Doron Reinis – Chief Operating Officer
Andres Tinajero – Chief Financial Officer
Charlotte May – Corporate Secretary
Christine Macqueen – Director
W. Bruce Rowlands - Director
Kenneth Wawrew – Director (1)(2*)(3)

Notes:
(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Special Committee
* Denotes Committee Chair

Experience profiles for the board and management are available at www.eurocontrol.ca.

RECENT DEVELOPMENTS AND OUTLOOK

On March 15, 2018, the Company announced that in the best interests of the Company's shareholders, a formal process to explore a broad range of strategic alternatives that may be available to Eurocontrol was initiated. The Company will provide updates at such time as the board of directors approves a strategic alternative, or otherwise determines that further disclosure is appropriate or required.

After closing the sale of GFI to SICPA, Eurocontrol focused its efforts on growing the proprietary technology product offerings of Xenemetrix and XwinSys which has resulted in an updated product line for Xenemetrix, finalization of XwinSys metrology inspection technology for the semi-conductor and related industries including the filing of patents for this technology and the incorporation of a new wholly-owned subsidiary Croptimal, that was formed subsequent to a successful Memorandum of Understanding ("MOU") between Netafim and Xenemetrix which sought to find a solution utilizing Xenemetrix's ED-XRF based spectroscopy expertise to perform immediate tests of crops, soil and water. Management is also evaluating other potential investment opportunities that it anticipates will enhance the Company's growth profile and future profitability.

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

Xenemetrix

Xenemetrix accounted for $2,701,010 (US$2,081,865) (2016 - $1,664,737 (US$1,256,026)) of the revenue generated for the year ended December 31, 2017, representing 100% (2016 – 100%) of overall revenue, such revenue being generated primarily from new sales of ED-XRF systems. The increase of $1,036,273 represents a 62% growth in revenues for the year.

In 2015 and 2016, Xenemetrix expanded its capabilities and product line by presenting new unique applications with the ED-XRF technology focusing its state of the art ability to measure and monitor through the development of a hybrid capability on mobile platforms to replace cumbersome monitoring processes for a wide range of applications. Xenemetrix also reorganized and enhanced its manufacturing facilities and quality control processes to ensure its ability to meet the high manufacturing and systems integration standards that its customers have come to expect.

On March 28, 2016, the Company announced that Xenemetrix had entered into a MOU with Netafim, an Israeli company that is the global leader in drip and micro-irrigation solutions for sustainable agricultural productivity, to develop a unique and innovative testing system utilizing Xenemetrix's ED-XRF technology for farmers and the greater farming community. The solution was developed through the collaboration between Netafim and Xenemetrix and resulted in the formation of Croptimal in early 2017, a wholly owned subsidiary that provides a unique and innovative service to the farming community to perform immediate tests of crop tissue, soil and water in the field to replace the traditional method of sending samples to laboratories and waiting days for results. The success of the MOU was a result of Xenemetrix leveraging its ED-XRF-based spectroscopy expertise to develop a dedicated mobile and compact system for performing at-site (in-field) testing and analysis of material elements, primarily N, P and K (Nitrogen, Phosphorous and Potassium) in the soil, water and critical parts of the crops and Netafim contributing its extensive market presence and expertise to secure cooperation of prospective clients to assist with defining specifications and laboratory verification of the Xenemetrix prototypes. The MOU provided for an exclusivity term until July 12, 2019 in favour of Netafim in relation to irrigation projects identified by Croptimal.

In 2017, Xenemetrix completed the development of P Metrix™, a light weight, mobile field oriented ED-XRF system that utilizes Xenemetrix proprietary Analytix™ operating software. Xenemetrix also focused its efforts on OEM opportunities to expand the distribution base of its leading edge ED-XRF equipment.

XwinSys

XwinSys is a pre-revenue company that has entered into its marketing phase. XwinSys has developed a synergistic combination of ED-XRF technology and automated 2D and 3D image processing technologies for the semiconductor and related microelectronics industries. On February 23, 2016, the Company announced that XwinSys has finalized the integration of its novel XRF technology, named NMT (Noise-reduced Multilayer Thin-film measurement), in its state-of-the-art hybrid product line. This technology is intended to serve the metrology and inspection needs of the semiconductor industry that have evolved with the advent of 3D (three dimensional) stacking structures for continued miniaturization of devices at an affordable cost. XwinSys was founded to satisfy a need to analyze solder bumps for the fledgling 3D IC (integrated circuit) market segment and thus gained critical insight into additional opportunities. The XwinSys NMT technology enhances traditional X-ray fluorescence (XRF) solutions and overcomes limitations of currently entrenched technologies for measuring thin and ultra-thin films. These thin films, which can be a single layer of atoms of a specific material, are a critical component in the construction of advanced semiconductor devices. The key attribute of the NMT technology is a dramatic improvement in sensitivity which is achieved by improving signal to background noise. On May 10, 2016, Eurocontrol announced that XwinSys was granted a patent from the United States Patent and Trademark Office for its patent application covering a method and a system for inspection of voids in a bump. Testing of the XwinSys NMT technology has demonstrated superior performance for a wide variety of semiconductor applications and the Onyx and Agate Wafer Inspection Systems have been well received by prospective customers.

The Company's research and development expenditures were US$1.1 million out of the US$1.4 million amount budgeted for 2017. XwinSys' enhanced hybrid concept is supported by an intellectual property package including a portfolio of granted patent and pending patents, state-of-the-art know-how and trade secrets. With the Onyx and Agate wafer inspection systems being fully advanced and capabilities demonstrated and the expected long and unpredictable sales cycles for this new metrology technology, XwinSys is now limiting its activities to performing advanced demonstrations for its prospective semiconductor customers. In late 2017, the Company integrated key XwinSys personnel within Xenemetrix's operations to reduce expenses and ensure continuity of technological know-how. No budget has been allocated for this subsidiary in 2018.

eurocontrol
TECHNICS GROUP

Croptimal

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

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

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

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

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

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

One of Croptimal's first customers is the Kibbutz Sha'ar HaAmakim, a farm that has over 200 acres of almond crops located in northern Israel where a complete solution that includes samples collection, preparation and testing, along with final detailed analysis including agronomic recommendations is being provided. The commencement of commercialization at Kibbutz Sha'ar HaAmakim triggered the two year exclusivity rights for the irrigation sector to Netafim which will expire July 12, 2019.

At year end December 31, 2017, Croptimal had initiated several projects in collaboration with local farmers in Israel, both through Netafim and its own channels to supply testing services.

On January 22, 2018, Croptimal received an endorsement from the Centre for Desert Agriculture, an Israeli government institution involved in R&D for agriculture in the Negev Highlands, southern Israel. This endorsement of Croptimal's disruptive precision agriculture testing technology provides encouragement and a 20% financial subsidy for farmers in southern Israel to utilize Croptimal's technology as it believes that precise and efficient fertilization will result in an optimization of crop growth and profitability. Croptimal's technology came to the attention of the Centre for Desert Agriculture at Moshav Kadesh Barnea where Croptimal is optimizing the growing process of tomatoes.

On January 29, 2018, Croptimal entered into a Memorandum of Understanding with Canndoc Ltd., a leading Israeli medical Cannabis company since 2009, to form CropCan, a joint venture company that will be owned 50/50 by Croptimal and Canndoc to market a service utilizing Croptimal's unique in-field measurement tools, together with an innovative system of big database analysis (machine learning) and Canndoc's expertise in the field of growing medical Cannabis.

The Croptimal technology is delivering exceptional test results providing an opportunity for Eurocontrol to leverage its investment with potential partners. The Company invested US$1.3 million in Croptimal in the year ended December 31, 2017 and is actively seeking strategic relationships. The Company is reviewing the Company's performance to assess the 2018 budget.

SUMMARIZED FINANCIAL RESULTS

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
	$	$	$	$
Revenue	940,005	717,253	2,701,010	1,664,737
Cost of sales				
Cost of sales - direct production costs	(516,873)	(390,173)	(1,285,247)	(842,041)
Cost of sales - amortization and other non cash items	(44,347)	(44,348)	(177,392)	(177,393)
	(561,220)	(434,521)	(1,462,639)	(1,019,434)
Gross profit	378,785	282,732	1,238,371	645,303
Expenses	(2,205,397)	(1,487,348)	(7,463,443)	(6,854,628)
Other (expense) income	149,256	196,381	706,490	950,977
Income tax recovery	-	-	95,000	308,000
Gain on sale of subsidiary - discontinued operations	-	-	-	16,484,172
Net loss - continuing operations	(1,677,356)	(1,008,235)	(5,423,582)	(4,950,348)
Net income - discontinued operations	-	-	-	16,484,172
Net income (loss)	(1,677,356)	(1,008,235)	(5,423,582)	11,533,824
Basic loss per share				
- from continuing operations	(0.03)	(0.01)	(0.06)	(0.05)
- from discontinued operations	0.00	0.00	0.00	0.18
- net income (loss)	(0.03)	(0.01)	(0.06)	0.13
Diluted loss per share				
- from continuing operations	(0.03)	(0.01)	(0.06)	(0.05)
- from discontinued operations	-	0.01	0.00	0.18
- net income (loss)	(0.03)	(0.01)	(0.06)	0.12
EBITDA	(1,750,199)	(1,146,971)	(5,999,106)	13,188,544
EBIT	(1,823,495)	(1,205,722)	(6,263,177)	12,957,819

Revenue for the year ended December 31, 2017 increased to $2,701,010 (US$2,081,865) from $1,664,737 (US$1,256,026) for the year ended December 31, 2016, a 62% increase in Canadian dollar sales which reflect a 66% increase in US dollar sales with the difference attributable to changes in the foreign exchange rate.

Revenue from continuing operations for the three month period ended December 31, 2017, increased from revenue of $717,253 (US$539,540) during the three month period ended December 31, 2016 to revenue of $940,005 (US$733,459). The increase represents a 31% increase in Canadian dollars (a 36% increase in US dollar) sales due to increased system sales net of the effects of foreign exchange rate.

For the year ended December 31, 2017, the Company had a gross profit of $1,238,371 (2016 – $645,303). For the three month period ended December 31, 2017, the Company had gross profit of $378,785 (2016 – $282,732). These amounts include non-cash cost of sales items consisting of amortization of technology rights and patents amounting to $44,347 (2016 - $44,348) for the three month period ended December 31, 2017 and $177,392 (2016 - $177,393) for the year ended December 31, 2017. These non-cash cost of sales items are recurring costs based on the original development of the technology that the Company does not have any cost control over. Gross margins excluding these non-cash cost of sales items was 45% in the three month period ended December 31, 2017 (2016 – 46%) and 52% for the year ended December 31, 2017 (2016 – 49%). The variance in gross margins is due to US dollar sales relating to detectors and ancillary equipment having increased by 62% for the year ended December 31, 2017. The margin on detectors and ancillary equipment varies based on the level of customization. The cost of sales during the comparable periods increased from $842,041 for the year ended December 31, 2016 to $1,285,247 for the year ended December 31, 2017 representing an increase of 54%, in line in relation to the increase in revenue.

RESULTS OF OPERATIONS

EBITDA for the year ended December 31, 2017 decreased by $19,187,650 to $(5,999,106) compared to $13,188,544 for 2016. EBITDA for the three month period ended December 31, 2017 decreased to $(1,750,199) compared to $(1,146,971) for 2016. EBITDA for the year ended December 31, 2017 decreased in comparison to 2016 as the 2016 results included the one time gain on the sale of GFI. For the three month period and year ended December 31, 2017, EBITDA was negative mainly due to higher sales and marketing expenses incurred during fiscal 2017, primarily in connection with marketing of Croptimal's technology as well as higher research and development costs.

For the year ended December 31, 2017, net loss excluding the one-time gain on sale of GFI amounted to $(5,423,582), which is higher than the net loss of $473,234 in 2016. The higher net loss in 2017 is due to increases in sales and marketing expenses, mainly in connection with marketing of Croptimal's technology, as well as higher research and development costs in line with approved budget expenditures. These higher costs were offset by lower consulting and management fees in 2017 as compared to 2016 which included compensation and change of control payments associated with the sale of GFI as well as lower share based payments reflecting lower number of options issued in the current quarter compared to prior year.

The Company recorded a net loss of $5,423,582 for the year ended December 31, 2017 compared to a net loss of $4,950,348 for the comparative year ended December 31, 2016 from continuing operations. The difference attributable to the current period relates primarily to a higher gross profit due to increased sales, offset by increases in sales and marketing and research and development costs as discussed above. On a discontinued operations basis, the Company reported a net loss $nil for the year ended December 31, 2017 compared to net income of $16,484,172 for the comparative year ended December 31, 2016. The lower income from discontinued operations is due to the gain on sale of Company's former subsidiary of $16,484,172 in early 2016. For the three month period ended December 31, 2017, the Company recorded a net loss of $1,677,356 compared to a net loss of $1,008,235 for the comparative three month period ended December 31, 2016. Net loss for the three month periods increased due to the same reasons as the increase for the year.

eurocontrol
TECHNICS GROUP

Expenses

Expenses of $7,463,443 for the year ended December 31, 2017 increased in comparison with the expenses of $6,854,628 for the year ended December 31, 2016. The increase for the period is primarily due to the following variances with remaining expenditures remaining consistent between the two periods:

- Consulting and management expenses decreased from $1,173,934 for the year ended December 31, 2016 to $701,799 for the year ended December 31, 2017 due primarily to compensation and change of control payments made on closing of the sale of GFI during the year ended December 31, 2016.
- Sales and marketing expenses increased to $1,634,431 for the year ended December 31, 2017 from $1,060,060 for the same period in 2016 due to sales and marketing costs incurred to increase sales and distribution channels for its XRF technology platform as well as marketing of Croptimal's technology.
- Research and development expenses increased to $3,453,764 for the year ended December 31, 2017 from $2,958,595 for the same period in 2016 due to research and development budgets set for the year as described in the recent developments and outlook section.
- Share-based compensation expense in the amount of $38,000 (2016 - $394,000) for the year ended December 31, 2017 was recognized on the granting of 300,000 stock options during 2017 (3,450,000 stock options granted during the same period in 2016).

Expenses of $2,205,397 for the three month period ended December 31, 2017 increased in comparison with the expenses of $1,487,348 for the three month period ended December 31, 2016, with notable increases in sales and marketing expenses and research and development costs due to the same reason as for the change in the year discussed above.

Other Income/Expenses

The Company also incurred a foreign exchange translation loss of $40,950 for the year ended December 31, 2017, compared to a gain of $237,056 for the year ended December 31, 2016. The Company's revenue is earned in US dollars and therefore the Company is subject to currency translation gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The higher amount for the comparable period is due to the foreign exchange gain recognized on the sale of GFI.

The Company also recorded interest accretion income of $661,230 (2016 - $653,289) during the year ended December 31, 2017, representing interest accretion on the long term portion of the earn out proceeds receivable from SICPA as per the terms of the sale of GFI. The amount is expected to decrease over time as the receivable is repaid.

eurocontrol
TECHNICS GROUP

SELECTED FINANCIAL INFORMATION

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

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
	$	$	$
Revenue from continuing operations	2,701,010	1,664,737	1,271,111
Revenue from discontinued operations	-	-	6,638,331
Total revenue	2,701,010	1,664,737	7,909,442
Income (Loss)			
- from continuing operations	(5,423,582)	(4,950,348)	(1,624,023)
- from discontinued operations	-	16,484,172	3,251,065
- net income (loss)	(5,423,582)	11,533,824	1,627,042
Income (Loss) per share			
- from continuing operations	(0.06)	(0.05)	(0.02)
- from discontinued operations	-	0.18	0.04
- net income (loss)	(0.06)	0.13	0.02
Total assets at end of year	14,541,868	19,640,603	9,897,556

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2017 $	Q3 2017 $	Q2 2017 $	Q1 2017 $
Revenue	940,005	492,194	708,563	560,248
Cost of sales	(561,220)	(226,716)	(257,596)	(417,107)
Gross profit	378,785	265,478	450,967	143,141
Expenses	(2,205,397)	(1,787,992)	(1,704,124)	(1,765,930)
Other income (expense)	146,139	143,522	265,208	192,571
Foreign exchange gain (loss)	3,117	(16,957)	(20,529)	(6,581)
Income tax recovery	-	-	37,000	58,000
Income from discontinued operations	-	-	-	-
	(2,056,141)	(1,661,427)	(1,422,445)	(1,521,940)
Net loss	(1,677,356)	(1,395,949)	(971,478)	(1,378,799)
Basic income (loss) per share				
- from continuing operations	(0.03)	(0.02)	(0.01)	(0.02)
- from discontinued operations	0.00	0.00	0.00	0.00
- net income (loss)	(0.03)	(0.02)	(0.01)	(0.02)
Total assets at end of period	14,541,868	15,729,379	17,188,484	18,304,747

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

Over the past eight quarters, revenues from continuing operations have ranged from a low of $250,631 in the third quarter of 2016 to a high of $940,005 in the fourth quarter of 2017. Revenues in the other periods have ranged between the historical normal ranges of $0.3 million to $0.7 million. The revenue trend has seen sales increase in 2016 and 2017 which reflects an increase in detectors and ancillary products revenue of Xenemetrix due primarily to the investment the Company has made into the ED-XRF platform and marketing which introduced an updated Xenemetrix product line, in particular its mobile systems. Cost of sales over the quarters varied depending on the level of customization on equipment sales. During 2017, a 52% margin over sales was achieved. Cost of sales ranged from a low of $96,063 in the third quarter of 2016 to a high of $516,873 during the fourth quarter of 2017 which variance is attributed to fluctuations based on the degree of customization on detector and ancillary equipment sales with gross profit varying in correlation as well as the effect of foreign exchange rates. Expenses have also fluctuated somewhat quarter over quarter ranging from a low of $1,487,348 in the fourth quarter of 2016 to a high of $2,205,397 in the fourth quarter of 2017. The trend has seen costs increase from the fourth quarter of 2015 into 2016 and through to 2017 primarily from increased R&D budgets. During the first quarter of 2016, expenses were greater than the remaining 2016 quarters due to the Company incurring change of control payments and other costs in connection with the closing of the sale of GFI to SICPA. Income from discontinued operations has varied significantly from quarter to quarter and the fluctuations are mainly based on fluctuations in revenue from GFI contracts as well as expenditures reported by GFI, prior to the sale of GFI.

Disclosure of Outstanding Share Data as of April 24, 2018

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	90,750,238 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 3,750,000 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 15, 16 and 17 to the consolidated financial statements for the years ended December 31, 2017 and 2016 for more detailed disclosure of outstanding shares data.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Instruments and Other Instruments

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

Dividends

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

Assessment of Recoverability of Deferred Income Tax Assets

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

Estimate of Stock Based Compensation and Associated Assumptions

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 17 of the consolidated financial statements for the years ended December 31, 2017 and 2016 for more detailed disclosure of outstanding shares data.

Assessment of Recoverability of Receivables

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

CARRYING VALUE OF BALANCE SHEET ITEMS

Technology rights of $nil as at December 31, 2017 (December 31, 2016 - $127,454) represent technology rights assets relating to ED-XRF systems are being amortized over their estimated useful lives on a straight-line basis.

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of $349,568. As at December 31, 2017, the carrying value of the intellectual property is $149,816 (December 31, 2016 - $199,754).

Total accounts payable, accrued liabilities, deposits received and liabilities of discontinued operations amounted to $1,440,117 as at December 31, 2017 (December 31, 2016 - $982,787).

LIQUIDITY AND CASH FLOWS

The Company ended the fourth quarter of fiscal 2017 with cash of $6,500,080, compared to $8,636,990 as at December 31, 2016. The Company had working capital of $8,307,402 as at December 31, 2017 compared to working capital of $13,117,714 as at December 31, 2016.

Cash used in operating activities was $4,411,751 for the year ended December 31, 2017 compared to cash used of $5,382,078 for the year ended December 31, 2016. Cash flows used in operating activities decreased during primarily due to additional payments received from the long term receivable stemming from the sale of GFI to SICPA. The Company received two earn-out payments from SICPA during the year ended December 31, 2017 as compared to the receipt of one earn-out payment for year ended December 31, 2016.

Cash flows provided by investing activities was $2,326,867 for the year ended December 31, 2017, compared to cash used of $2,928,026 for the year ended December 31, 2016. Investing activities mainly related to investments in marketable securities associated with the deposit of proceeds from the sale of GFI to SICPA. The amount of cash provided by investing activities was higher primarily due to the net sale of marketable securities of $2,712,000 (2016 - $2,775,239 net purchase).

Cash used in financing activities was $4,450 for the year ended December 31, 2017 compared to cash provided by financing activities of $78,674 for the year ended December 31, 2016. Financing activities mainly relate to the issuance of shares. The decrease was due to the exercise of stock options during the period which resulted in proceeds of $nil (2016 - $268,750) offset by share repurchases of $4,450 (2016 - $190,076).

Cash provided by discontinued operations was $14,780,773 for the year ended December 31, 2016. Discontinued operations relate to the operations of GFI. The sale of GFI to SICPA closed on January 4, 2016, therefore the higher cash flows for the year ended December 31, 2016 as compared to $nil for 2017 is due primarily to the proceeds of $14,780,773 received on the sale of GFI as previously discussed.

It is not possible to predict if or when the Company will achieve profitable levels of operations as the Company has posted net losses from continuing operations for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, as well as the proceeds from sale of GFI will be adequate to meet its short-term working capital requirements for the next 12 months. As at December 31, 2017, the Company had working capital of $8,307,402 (December 31, 2016 - $13,117,714). The Company has recorded revenues from continuing operations of $2,701,010 and $1,664,737, respectively, for the years ended December 31, 2017 and 2016 and net loss of $5,423,582 and income of $11,533,824. Based on working capital of $8,307,402 (December 31, 2016 - $13,117,714) and proceeds receivable from the sale of GFI, the Company believes it will meet its working capital requirements for the next 12 months.

TRANSACTIONS WITH RELATED PARTIES

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:

For the years ended December 31,	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 (Former CEO), 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.

(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 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.

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

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

Market Risk for Securities

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

Technology Risk

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

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

Competitive and Pricing Risk

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

Intellectual Property Risk

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

Advertising and Promotional Risk

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

Uninsured or Uninsurable Risk

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

Key Personnel Risk

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

Global Economy Risk

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

Foreign Customers

The Company's subsidiary Xenemetrix, through its supply of products and services related to oil and gas marking and monitoring field is exposed to customers that are located mainly in countries that may be considered to be politically and/or economically unstable.

Other Risk Factors

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

Eurocontrol may not be able to achieve commercialization of its combined ED-XRF technology businesses, XwinSys and Croptimal, on the timetable Management anticipates, or at all.

COMMITMENTS AND CONTINGENCIES

As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd. ("Jordan Valley"), dated June 12, 2008 and subsequent amendments, Xenemetrix agreed to pay up to US$1.3 million by way of 5% royalties. Such payments are to commence after the first four quarters where Xenemetrix has cumulative sales totaling more than US$2 million in any calendar year, such cumulative sales number being calculated excluding sales or services to GFI. Should a default in payment occur and such default is not remedied within 14 days, then Jordan Valley has the right to take full exclusive ownership of the intellectual property. As the US$2 million sales figure has not yet been met, the earn-out payments have not been paid nor are they payable.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

As at December 31, 2017 and 2016, there were no significant concentrations of credit risk for cash and cash equivalents, marketable securities, receivable under earn out agreement, long term portion of receivable under earn out agreement and amounts receivable as the Company currently transacts with highly rated counterparties. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such cash and cash equivalents, marketable securities and receivables. As at December 31, 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, receivable under earn out agreement, long term portion of receivable under earn out agreement amounts receivable, accounts payable and accrued liabilities approximate fair value because of the limited terms of these instruments.

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

Credit Risk

The Company's credit risk is primarily attributable to cash and cash equivalents, receivable under earn out agreement, amounts receivable, and long term portion of receivable under earn out agreement. Financial instruments included in amounts receivable consist primarily of receivables due from customers. Management believes that the credit risk concentration with respect to these financial instruments is minimal.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. As at December 31, 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 other than loans payable have contractual maturities of less than 365 days and are subject to normal trade terms.

Market Risk

(a) Foreign currency risk

The Company's reporting currency is the Canadian dollar. The functional currency of the Company is the Canadian dollar and the functional currency of its subsidiaries is the US dollar. The Company undertakes transactions denominated in foreign currencies, including US dollars and Euros, and as such is exposed to price risk due to fluctuations in foreign currency exchange rates against the Canadian dollar. The Company does not use derivative instruments to reduce exposure to foreign currency risk.

A 10% change in foreign exchange rates between the Canadian dollar and these foreign currencies over the next year would affect net income by approximately $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.

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

	CDN Dollar	US Dollar	Total (in CDN dollars)
Financial assets			
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
	$ 10,981,487	$ 2,115,283	$ 13,096,770
Financial liabilities			
Accounts payable and accrued liabilities	$ 78,868	$ 1,361,249	$ 1,440,117
	$ 78,868	$ 1,361,249	$ 1,440,117

(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 supply of products and services, related to oil and gas marking and monitoring field is exposed to price risk with respect to commodity prices. The Company's future operations could be significantly affected by changes in the market prices for oil. Oil prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for oil, the level of interest rates, the rate of inflation, investment decisions by large holders of oil, and stability of exchange rates can all cause significant fluctuations in oil prices. Such external economic factors are in turn influenced by changes in international investment patterns, and monetary systems and political developments.

(d) *Political risk*

The Company, through its earn-out payments and its subsidiary Xenemetrix's supply of products and services, related to oil and gas marking and monitoring field is exposed to SICPA/GFI's business which operates in jurisdictions and countries in which access to infrastructure, political stability and security, among other things, may be unknown, or known, and prevent, or severely compromise, the Company from earning earn-out payments beyond the guaranteed $1.5 million in annual payments and with respect to carrying out its business.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Accounting Standards issued but not yet applied

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

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in November 2013 and July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of the standard to result in a material impact.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted. No implementation date has been set. The Company 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. This new standard has not yet been issued by CPA Canada. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are "capitalized" by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligations to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019. Management is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY

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

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

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

April 24, 2018

Paul Wood
Interim President and CEO, Director