

## Management's Discussion and Analysis

For the three month period ended March 31, 2018

*(in Canadian dollars unless otherwise noted)*

Management's discussion and analysis ("MD&A") is current to May 30, 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 unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2018 and 2017 and notes thereto and 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](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

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

### BUSINESS OVERVIEW AND STRATEGY

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange ("TSXV") and the OTCQB Venture Market under the symbols "EUO" and "EUCTF", respectively. The Company has three wholly-owned subsidiaries: Xenemetrix Ltd. ("Xenemetrix"), XwinSys Technology Development Ltd. ("XwinSys") and Croptimal Ltd. ("Croptimal") involved in test and measurement technologies and applications. 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.

The Company is currently conducting a strategic review which is further addressed in the Recent Developments and Outlook section below.

- **Xenemetrix** manufactures and markets 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.

Xenemetrix accounted for \$348,317 (US\$275,524) (2017 - \$560,248 (US\$423,468)) of the revenue generated for the three month period ended March 31, 2018, representing 100% (2017 – 100%) of overall revenue, such revenue being generated primarily from new sales of ED-XRF systems. The decrease of \$211,931 represents a 38% decrease in revenues from the same period in 2017.

- **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 that overcomes limitations of currently entrenched technologies for measuring thin and ultra-thin films. XwinSys has been granted a patent from the United States Patent and Trademark Office for its technology and testing has demonstrated superior performance for a wide variety of semiconductor applications. 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.
- **Croptimal** was formed in early 2017 subsequent to a MOU between Xenemetrix and Netafim which provides for an exclusivity period that expires July 12, 2019. Croptimal's mobile material analysis laboratory for the precision agriculture industry provides in-field testing that automatically prepares and analyses samples of soil, water and critical parts of the crops provides immediate actionable results compared to the 10 day cycle for present test throughputs using traditional laboratories.

Croptimal has focused its marketing efforts on Israel where it has a number of farmers utilizing its technology. On January 22, 2018, Eurocontrol announced that the Centre for Desert Agriculture, an Israeli government institution involved in R&D for agriculture in the Negev Highlands, southern Israel is providing a 20% financial subsidy for farmers in southern Israel to utilize Croptimal's technology to optimize crop growth and profitability.

On January 29, 2018, Croptimal entered into a Memorandum of Understanding with Canndoc Ltd., a leading Israeli medical Cannabis company, to discuss CropCan, a potential joint venture company that would 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.

Croptimal is working with a number of farms in Israel where a complete solution that includes samples collection, preparation and testing, along with final detailed analysis including agronomic recommendations is being provided. The Croptimal technology is delivering timely and actionable 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 US\$539,548 in the interim period ended March 31, 2018. Eurocontrol is actively seeking strategic relationships and has reduced staffing levels at Croptimal.

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.

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

## **LEADERSHIP TEAM**

Paul Wood – Interim President and Chief Executive Officer, Director <sup>(1)(2)(3\*)</sup>

Dennis Logan – Chairman <sup>(1\*)(2)(3)</sup>

Doron Reinis – Chief Operating Officer

Andres Tinajero – Chief Financial Officer

Charlotte May – Corporate Secretary

Christine Macqueen – Director

W. Bruce Rowlands - Director

Kenneth Wawrew – Director <sup>(1)(2\*)(3)</sup>

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](http://www.eurocontrol.ca).

## **RECENT DEVELOPMENTS AND OUTLOOK**

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. 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.

As part of the strategic review process that is being overseen by a special committee of independent directors of Eurocontrol, steps have been implemented to reduce staffing levels at Xenemetrix, Croptimal and XwinSys. The Company is continuing to consider and evaluate strategic alternatives and is evaluating potential investment opportunities that will enhance the Company's growth profile and future profitability. There is no assurance that the strategic review will result in a transaction or other strategic alternative and the Board of Directors has not set a timetable for the completion of the review process.

**SUMMARIZED FINANCIAL RESULTS**

	Three Months Ended March 31,	
	2018 \$	2017 \$
<b>Revenue</b>	348,317	560,248
<b>Cost of sales</b>		
Cost of sales - direct production costs	(237,096)	(372,758)
Cost of sales - amortization and other non cash items	(12,485)	(44,349)
	<u>(249,581)</u>	<u>(417,107)</u>
<b>Gross profit</b>	<u>98,736</u>	<u>143,141</u>
Expenses	(2,002,041)	(1,765,930)
Other (expense) income	151,960	185,990
Income tax recovery	-	58,000
	<u>(1,751,345)</u>	<u>(1,378,799)</u>
Net loss		
	<u>(1,751,345)</u>	<u>(1,378,799)</u>
Basic and diluted loss per share	<u>(0.02)</u>	<u>(0.02)</u>
EBITDA	<u>(1,839,527)</u>	<u>(1,565,799)</u>
EBIT	<u>(1,883,104)</u>	<u>(1,626,739)</u>

Revenue for the three month period ended March 31, 2018 decreased to \$348,317 (US\$275,524) from \$560,248 (US\$423,458) for the three month period ended March 31, 2017, a 38% decrease in Canadian dollar sales which reflect a 35% decrease in US dollar sales with the difference attributable to changes in the foreign exchange rate.

For the three month period ended March 31, 2018, the Company had a gross profit of \$98,736 (2017 – \$143,141). These amounts include non-cash cost of sales items consisting of amortization of technology rights and patents amounting to \$12,485 (2017 - \$44,349) for the three month period ended March 31, 2018. 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 32% in the three month period ended March 31, 2018 (2017 – 33%). The variance in gross margin is due to US dollar sales relating to detectors and ancillary equipment having decreased by 38% for the three month period ended March 31, 2018. The margin on detectors and ancillary equipment varies based on the level of customization. The cost of sales during the comparable periods decreased from \$372,758 for the three month period ended March 31, 2017 to \$237,096 for the three month period ended March 31, 2018 representing a decrease of 36%, in line in relation to the decrease in revenue.

**RESULTS OF OPERATIONS**

EBITDA for the three month period ended March 31, 2018 decreased by \$273,728 to \$(1,839,527) compared to \$(1,565,799) for 2017. EBITDA for the three month period ended March 31, 2018 decreased in comparison to 2017 primarily due to a severance payment of \$200,000 made to the Company's former CEO.

For the three month period ended March 31, 2018, net loss amounted to \$(1,751,345), which is higher than the net loss of \$1,378,799 in 2017. The higher net loss in 2018 is due to decreases in revenue as discussed

above as well as an increase in consulting fees due to the severance payment made to the Company's former CEO.

### Expenses

Expenses of \$2,002,041 for the three month period ended March 31, 2018, increased in comparison with the expenses of \$1,765,930 for the three month period ended March 31, 2017. 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 increased from \$268,869 for the three month period ended March 31, 2017 to \$394,250 for the three month period ended March 31, 2018 due primarily to the severance payment made to the former CEO.
- Administration expenses increased to \$433,321 for the three month period ended March 31, 2018 from \$260,273 for the same period in 2017 due to an increase in staffing at Croptimal due to increased projects.

### Other Income/Expenses

The Company also incurred a foreign exchange translation gain of \$20,201 for the three month period ended March 31, 2018, compared to a loss of \$6,581 for the three month period ended March 31, 2017. 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 Company also recorded interest accretion income of \$121,185 (2017 - \$137,115) during the three month period ended March 31, 2018, 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.

### 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:

	<b>Three Months Ended March 31, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>
	\$	\$	\$
Revenue	348,317	2,701,010	1,664,737
Income (Loss)			
- from continuing operations	(1,751,345)	(5,423,582)	(4,950,348)
- from discontinued operations	-	-	16,484,172
- net income (loss)	(1,751,345)	(5,423,582)	11,533,824
Income (Loss) per share			
- from continuing operations	(0.02)	(0.06)	(0.05)
- from discontinued operations	-	-	0.18
- net income (loss)	(0.02)	(0.06)	0.13
Total assets at end of period/year	12,642,331	14,541,868	19,640,603

**SUMMARY OF QUARTERLY RESULTS**

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

	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	348,317	940,005	492,194	708,563
Cost of sales	(249,581)	(561,220)	(226,716)	(257,596)
Gross profit	98,736	378,785	265,478	450,967
Expenses	(2,002,041)	(2,205,397)	(1,787,992)	(1,704,124)
Other income (expense)	131,759	146,139	143,522	265,208
Foreign exchange gain (loss)	20,201	3,117	(16,957)	(20,529)
Income tax recovery	-	-	-	37,000
	(1,850,081)	(2,056,141)	(1,661,427)	(1,422,445)
Net loss	(1,751,345)	(1,677,356)	(1,395,949)	(971,478)
Basic income (loss) per share				
- from continuing operations	(0.02)	(0.03)	(0.02)	(0.01)
- from discontinued operations	0.00	0.00	0.00	0.00
- net income (loss)	(0.02)	(0.03)	(0.02)	(0.01)
Total assets at end of period	12,642,331	14,541,868	15,729,379	17,188,484

	<b>Q1 2017</b>	<b>Q4 2016</b>	<b>Q3 2016</b>	<b>Q2 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	560,248	717,253	250,631	394,180
Cost of sales	(417,107)	(434,521)	(96,063)	(271,964)
Gross profit	143,141	282,732	154,568	122,216
Expenses	(1,765,930)	(1,487,348)	(1,665,927)	(1,746,322)
Other expense (income)	192,571	191,721	220,905	165,164
Foreign exchange loss (gain)	(6,581)	4,660	1,094	(565)
Income tax recovery	58,000	-	100,000	208,000
	(1,521,940)	(1,290,967)	(1,343,928)	(1,373,723)
Net income (loss)	(1,378,799)	(1,008,235)	(1,189,360)	(1,251,507)
Basic and fully diluted income (loss) per share				
- from continuing operations	(0.02)	(0.01)	(0.01)	(0.01)
- from discontinued operations	0.00	0.00	0.00	0.00
- net income (loss)	(0.02)	(0.01)	(0.01)	(0.01)
Total assets at end of period	18,304,747	19,640,603	20,632,177	21,818,201

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 saw sales increase in 2016 and 2017 reflecting an increase in detectors and ancillary products revenue of Xenometrix due primarily to the investment the Company made into the ED-XRF platform and marketing which introduced the updated Xenometrix product line, in particular its mobile systems. Cost of sales over the quarters varied depending on the level of customization on equipment sales. In the first quarter 2018,

the Company experienced a 28% margin over sales compared to an average margin of 52% during 2017 due to the impact of fixed associated cost over less revenue. 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.

#### **Disclosure of Outstanding Share Data as of May 30, 2018**

	<b>Authorized</b>	<b>Outstanding</b>
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 13, 14 and 15 to the condensed consolidated interim financial statements for the three month periods ended March 31, 2018 and 2017 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, 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 15 of the condensed consolidated

interim financial statements for the three month periods ended March 31, 2018 and 2017 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**

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of \$349,568. As at March 31, 2018, the carrying value of the intellectual property is \$149,816 (December 31, 2017 - \$137,331).

Total accounts payable, accrued liabilities, deposits received and liabilities of discontinued operations amounted to \$1,269,745 as at March 31, 2018 (December 31, 2017 - \$1,440,117).

### **LIQUIDITY AND CASH FLOWS**

The Company ended the first quarter of fiscal 2018 with cash of \$5,410,306, compared to \$6,500,080 as at December 31, 2017. The Company had working capital of \$7,168,776 as at March 31, 2018 compared to working capital of \$8,307,402 as at December 31, 2017.

Cash used in operating activities was \$1,048,302 for the three month period ended March 31, 2018 compared to cash used of \$987,104 for the three month period ended March 31, 2017. Cash flows used in operating activities was consistent between the two periods.

Cash flows used in investing activities was \$65,939 for the three month period ended March 31, 2018, compared to cash provided by of \$1,968,747 for the three month period ended March 31, 2017. Investing activities mainly related to investments in marketable securities. The amount of cash provided by investing activities was higher in the comparable period primarily due to the net sale of marketable securities of \$nil (2017 - \$2,000,000).

Cash used in financing activities was \$nil for the three month period ended March 31, 2018 compared to cash used in financing activities of \$4,450 for the three month period ended March 31, 2017. Financing activities mainly relate to the issuance of shares. The use of cash in the comparable period was due to the share repurchases of \$4,450 during that period.

It is not possible to predict if or when the Company will achieve profitable levels of operations as the Company has posted net losses for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, as well as the proceeds from sale of GFI will be adequate to meet its short-term working capital requirements for the next 12 months. As at March 31, 2018, the Company had working capital of \$7,168,776 (December 31, 2017 - \$8,307,402). The Company has recorded revenues of \$348,317 and \$560,248, respectively, for the three month periods ended March 31, 2018 and 2017 and net loss of \$1,751,345 and \$1,378,799. Based on working capital of \$7,168,776 (December 31, 2017 - \$8,307,402) 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 three month periods ended March 31, 2018 and 2017 were as follows:

<b>Related Party</b>		<b>2018</b>	<b>2017</b>
Bruce Rowlands (Director, former Chairman and CEO)	(i)	\$250,000	\$50,000
Andres Tinajero (CFO)	(ii)	25,000	25,000
Doron Reinis (COO and President: Xenemetrix, Croptimal & XwinSys)	(iii)	104,171	103,672
Charlotte May (Corporate Secretary)	(iv)	24,000	24,000
Gilles leraille (Former Director)	(v)	Nil	38,000
Dennis Logan (Chairman)	(vi)	29,500	4,500
Paul Wood (Director, Interim President & CEO)	(vii)	34,500	4,500
Kenneth Wawrew (Director)	(viii)	24,500	4,500
		<u>\$491,671</u>	<u>\$254,172</u>

### Notes:

- (i) For the three month period ended March 31, 2018, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$50,000 (2017 - \$50,000) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd and \$200,000 (2017 - \$nil) was paid for severance.
- (ii) For the three month period ended March 31, 2018, Andres Tinajero, through his company, 2222263 Ontario Inc., was paid \$25,000 (2017 - \$25,000) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc.
- (iii) For the three month period ended March 31, 2018, Doron Reinis, through Business Processes Logistic Services Ltd., a company that Doron Reinis holds a 50% interest in, was paid \$104,171 (2017 - \$103,672) 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.
- (iv) For the three month period ended March 31, 2018, Charlotte May, through her company CMA Corporate Management, was paid \$24,000 (2017 - \$24,000) in professional service fees for Corporate Secretarial services pursuant to an agreement entered into by the Company and CMA Corporate Services.
- (v) For the three month period ended March 31, 2018, Gilles Leraille, a director, was issued nil (2017 - 300,000) stock options with a value of \$nil (2017 - \$38,000). These options later expired unexercised on September 23, 2017 in accordance with the terms of the Company's stock option plan.
- (vi) For the three month period ended March 31, 2018, Dennis Logan, through his company 9703373 Canada Inc., was paid \$29,500 (2017 - \$4,500) in director and special committee fees.
- (vii) For the three month period ended March 31, 2018, Paul Wood, through his company Kappa Advisors Ltd., was paid \$24,500 (2017 - \$4,500) in director fees and special committee fees.
- (viii) For the three month period ended March 31, 2018, Kenneth Wawrew was paid \$24,500 (2017 - \$4,500) in director fees and special committee fees.

As at March 31, 2018, an amount of \$nil (December 31, 2017 - \$9,996) due to key management personnel, was included in accounts payable and accrued liabilities.

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 the Company's business in the future, or will generate awareness of its 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, Eurocontrol 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, receivable under earn out agreement, long term portion of receivable under earn out agreement, amounts receivable, and accounts payable and accrued liabilities. In the opinion of management of the Company, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values.

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

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

As at March 31, 2018 and December 31, 2017, there were no significant concentrations of credit risk for cash and cash equivalents, 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, and receivables. As at March 31, 2018 and December 31, 2017, cash and cash equivalents were recorded at fair value under level 1 within the fair value hierarchy.

The carrying value of cash and cash equivalents, 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 March 31, 2018, the Company had a cash and cash equivalents balance of \$5,410,306 (December 31, 2017 - \$6,500,080) to settle current liabilities of \$1,269,745 (December 31, 2017 - \$1,440,117). Working capital for the Company as at December 31, 2017 was \$7,168,776 (December 31, 2017 - \$8,307,402).

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 \$111,000 (2017 - \$116,000) based on the foreign currency balances at March 31, 2018. This analysis only addresses the impact on financial instruments with respect to currency movement and excludes other economic or geo-political implications of such currency fluctuation. In practice, actual results will likely differ from this analysis and the difference may be material.

The exposure of the Company's financial assets and liabilities to foreign currency risk as at March 31, 2018 is as follows:

	CDN Dollar	US Dollar	Total (in CDN dollars)
<b>Financial assets</b>			
Cash and cash equivalents	\$ 4,558,890	851,416	\$ 5,410,306
Amounts receivable	55,209	540,498	595,707
Current portion of long term receivable	1,500,000	-	1,500,000
Long term receivable	3,468,595	-	3,468,595
	\$ 9,582,694	\$ 1,391,914	\$ 10,974,608
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	\$ 76,712	\$ 1,193,033	\$ 1,269,745
	\$ 76,712	\$ 1,193,033	\$ 1,269,745

(b) *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.

(c) *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**

**Adoption New Accounting Standards**

The adoption of the following new standards, interpretations and amendments were included in the financial statements for the year beginning January 1, 2018.

IFRS 9 Financial Instruments ("IFRS 9") – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9's key changes include but are not limited to eliminating the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale and (ii) replacing IAS 39's incurred loss model with the expected credit loss model in evaluating certain financial assets for impairment. In implementing IFRS 9, the Company updated the financial instrument classifications within its accounting policy as follows:

	<b>IAS 39</b>	<b>IFR 9</b>
<b>Cash and Cash Equivalents</b>	Fair Value through profit or loss	Fair Value through profit or loss
<b>Amounts receivable</b>	Loans and Receivables, measured at amortized cost	Amortized cost
<b>Current portion of long term receivable and long term receivable</b>	Loans and Receivables, measured at amortized cost	Amortized cost
<b>Investments</b>	Available for sale	Financial asset at fair value through other comprehensive income
<b>Accounts payable and accrued liabilities</b>	Financial liabilities at amortized cost	Financial liabilities at amortized cost

There was no material impact on the Company's condensed consolidated interim financial statements upon adoption of this standard.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") – In May 2014, the IASB issued IFRS 15, which covers principles that an entity shall apply to report useful information to users of financial statements

about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. In implementing IFRS 15, the Company converted its revenue recognition policy into a five step model to recognize revenue upon satisfying performance obligations and transferring control of its inventory to its customers. The following is the new accounting policy for revenue recognition under IFRS 15: The five step model is summarized as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company earns revenue from the sale of ED-XRF systems delivered to its customers, sold at a sales price based on customization of the system. The Company recognizes revenue when it transfers control of the ED-XRF systems to the customer, which generally occurs upon delivery. Payment is receivable on the date of transfer of control. There was no material impact on the Company's condensed interim consolidated financial statements upon adoption of this standard.

### **Pending Accounting Standards**

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

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.

### **MANAGEMENT'S RESPONSIBILITY**

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

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

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

May 30, 2018

Paul Wood  
Interim President and CEO, Director