



EUROCONTROL TECHNICS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2018 and 2017

(In Canadian dollars)

(UNAUDITED)

EUROCONTROL TECHNICS GROUP INC.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(Expressed in Canadian dollars)

As at,	Notes	June 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 3,497,677	\$ 6,500,080
Amounts receivable	9	608,372	999,280
Current portion of long term receivable	19	1,500,000	1,500,000
Inventories	10	845,758	706,615
Prepaid expenses		136,464	41,544
Total current assets		6,588,271	9,747,519
Non-current assets			
Long term receivable	19	3,589,780	4,097,410
Equipment	11	616,636	547,123
Intellectual property	7	124,847	149,816
Total non-current assets		4,331,263	4,794,349
TOTAL ASSETS		\$ 10,919,534	\$ 14,541,868
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	12, 17	\$ 1,193,018	\$ 1,440,117
Total current liabilities		1,193,018	1,440,117
Shareholders' equity			
Issued capital	13	14,942,091	14,942,091
Share-based payment reserve	15	416,515	519,513
Accumulated other comprehensive income		180,959	142,337
Accumulated deficit		(5,813,049)	(2,502,190)
Total shareholders' equity		9,726,516	13,101,751
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 10,919,534	\$ 14,541,868

Nature of operations and going concern (note 1)

Commitments and contingencies (note 21)

APPROVED ON BEHALF OF THE BOARD:

Signed "Paul Wood", Director

Signed "Dennis Logan", Director

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

EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (unaudited)
(Expressed in Canadian dollars)

	Notes	Three months ended		Six months ended	
		June 30, 2018	2017	June 30, 2018	2017
Revenue	8	\$ 327,969	\$ 708,563	\$ 676,286	\$ 1,268,811
Cost of sales	10	(280,060)	(213,248)	(517,156)	(586,006)
Direct amortization	7	(12,484)	(44,348)	(24,969)	(88,697)
Gross profit		35,425	450,967	134,161	594,108
Expenses					
Consulting and management	17	122,852	161,210	517,102	430,079
Depreciation	11	31,371	20,437	62,463	37,108
Administration		516,057	337,435	949,378	597,708
Sales and marketing expenses		461,813	369,320	841,338	677,843
Research and development	17	689,946	772,259	1,444,998	1,599,268
Public company costs		11,149	43,463	19,950	90,048
Share-based expense	15	-	-	-	38,000
Total expenses		1,833,188	1,704,124	3,835,229	3,470,054
Loss before the undernoted		(1,797,763)	(1,253,157)	(3,701,068)	(2,875,946)
Other income and expense					
Finance income		6,078	7,423	16,652	60,248
Foreign currency translation gain (loss)		7,988	(20,529)	28,189	(27,110)
Realized gain (loss) on marketable securities	5	-	20,071	-	2,845
Unrealized gain (loss) on marketable securities	5	-	(19,857)	-	-
Interest accretion on long term receivable	19	121,185	257,571	242,370	394,686
		135,251	244,679	287,211	430,669
Loss before income taxes		(1,662,512)	(1,008,478)	(3,413,857)	(2,445,277)
Deferred tax recovery		-	37,000	-	95,000
Net loss		\$ (1,662,512)	\$ (971,478)	\$ (3,413,857)	\$ (2,350,277)
Loss per share - basic and diluted		\$ (0.02)	\$ (0.01)	\$ (0.04)	(0.03)
Weighted average common shares outstanding		91,750,238	91,750,238	91,750,238	91,762,905
Net loss		\$ (1,662,512)	\$ (971,478)	\$ (3,413,857)	\$ (2,350,277)
Other comprehensive income (loss) - items that may subsequently reclassify into income or loss					
Exchange differences on translation of foreign subsidiaries		16,442	(78,856)	38,622	(104,150)
Comprehensive loss		\$ (1,646,070)	\$ (1,050,334)	\$ (3,375,235)	\$ (2,454,427)

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

EUROCONTROL TECHNICS GROUP INC.

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

(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 13)	Share-based Payment Reserve (Note 15)	Retained earnings (deficit)	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2016	91,780,238	\$ 14,946,541	\$ 519,513	\$ 2,883,392	\$ 213,370	\$ 18,562,816
Share repurchase and cancellation	(30,000)	(4,450)	-	-	-	(4,450)
Share-based expense	-	-	38,000	-	-	38,000
Exchange gain on translation of foreign subsidiaries	-	-	-	-	(104,150)	(104,150)
Net income for the period	-	-	-	(2,350,277)	-	(2,350,277)
Balance as at June 30, 2017	91,750,238	\$ 14,942,091	\$ 557,513	\$ 533,115	\$ 109,220	\$ 16,141,939
Expiry of stock options	-	-	(38,000)	38,000	-	-
Exchange gain on translation of foreign subsidiaries	-	-	-	-	33,117	33,117
Net income for the year	-	-	-	(3,073,305)	-	(3,073,305)
Balance as at December 31, 2017	91,750,238	\$ 14,942,091	\$ 519,513	\$ (2,502,190)	\$ 142,337	\$ 13,101,751
Expiry of stock options	-	-	(102,998)	102,998	-	-
Exchange loss on translation of foreign subsidiaries	-	-	-	-	38,622	38,622
Net loss for the year	-	-	-	(3,413,857)	-	(3,413,857)
Balance as at June 30, 2018	91,750,238	\$ 14,942,091	\$ 416,515	\$ (5,813,049)	\$ 180,959	\$ 9,726,516

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

EUROCONTROL TECHNICS GROUP INC.

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

For the six month periods ended June 30,	Notes	2018	2017
Cash provided by (used in):			
Operating activities			
Net loss for the period		\$ (3,413,857)	\$ (2,350,277)
Items not involving cash:			
Amortization of intellectual property	7	24,969	24,969
Depreciation of equipment	11	62,463	37,108
Amortization of technology rights		-	63,728
Share-based expense	15	-	38,000
Deferred tax		-	(95,000)
Unrealized gain on marketable securities	5	-	-
Realized loss on marketable securities	5	-	(2,845)
Interest accretion on long term receivable	19	(242,370)	(394,686)
Unrealized foreign exchange loss		(8,532)	(55,062)
Working capital changes			
Change in amounts receivable		390,908	(267,518)
Funds from long term receivable		750,000	750,000
Change in inventories		(139,143)	(88,021)
Change in prepaid expenses		(94,920)	(84,982)
Change in accounts payable and accrued liabilities		(247,099)	63,758
Cash flows used in operating activities		(2,917,581)	(2,360,828)
Investing activities			
Equipment expenditures	11	(122,768)	(85,308)
Sales of marketable securities, net		-	2,712,000
Cash flows from (used in) investing activities		(122,768)	2,626,692
Financing activities			
Share repurchase and cancellation		-	(4,450)
Cash flows used in financing activities		-	(4,450)
Net increase (decrease) in cash and cash equivalents for the period		(3,040,349)	261,414
Effect of exchange rate changes on cash and cash equivalents		37,946	(38,502)
Cash and cash equivalents, beginning of the period		6,500,080	8,636,990
Cash and cash equivalents, end of the period		\$ 3,497,677	\$ 8,859,902
Supplementary cash flow information			
Interest received		\$ 16,652	\$ 60,248

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

EUROCONTROL TECHNICS GROUP INC.

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

For the three and six month periods ended June 30, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Eurocontrol Technics Group Inc. (“Eurocontrol” or the “Company”) is a publicly listed company incorporated in British Columbia and continued in the Province of Ontario. The Company has three wholly-owned subsidiaries: Xenemetrix Ltd. (“Xenemetrix”), XwinSys Technology Development Ltd. (“XwinSys”) and Cromptal Ltd. (“Cromptal”) 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. *See Subsequent Event Note 22.*

The Company’s shares are listed on the TSX Venture Exchange (“TSXV”) and the OTCQB Venture Market and trade under the symbols “EUO” and “EUCTF”, respectively. The head office and registered address of the Company is located at 365 Bay Street, Suite 400, Toronto, Ontario, M5H 2V1.

The condensed consolidated interim financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has a net loss in the six month period ended June 30, 2018 of \$3,413,857 and an accumulated deficit of \$5,813,049.

The Company’s ability to continue as a going concern is dependent upon attaining profitable operations, receipt of its long-term receivable from SICPA (*see Subsequent Event Note 22*), and, if required, the ability to raise public equity financing to meet expenditure commitments. There is no assurance that these activities will be successful. The combination of these circumstances set out above represents a material uncertainty which may cast significant doubt upon the Company’s ability to continue as a going concern. However, the Company is confident that it has a reasonable expectation of collecting on its long-term receivable and therefore, the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Company continues to adopt the going concern basis in preparing the annual report and consolidated financial statements. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumptions were not appropriate.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 29, 2018.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of measurement

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2017 annual financial statements.

EUROCONTROL TECHNICS GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
(Expressed in Canadian dollars)
For the three and six month periods ended June 30, 2018 and 2017

2. BASIS OF PRESENTATION (continued)

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:

	IAS 39	IFRS 9
Cash and Cash Equivalents	Fair Value through profit or loss	Fair Value through profit or loss
Amounts receivable	Loans and Receivables, measured at amortized cost	Amortized cost
Current portion of long term receivable and long term receivable	Loans and Receivables, measured at amortized cost	Amortized cost
Accounts payable and accrued liabilities	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
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company earns revenue from the sale of Energy Dispersive X-Ray Fluorescence (“EDXRF”) 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 EDXRF 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.

EUROCONTROL TECHNICS GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
(Expressed in Canadian dollars)
For the three and six month periods ended June 30, 2018 and 2017

2. BASIS OF PRESENTATION (continued)

Pending Accounting Standards

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

3. PRINCIPLES OF CONSOLIDATION

These condensed consolidated interim financial statements for the six month periods ended June 30, 2018 and 2017 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company’s subsidiaries are as follows:

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

Subsidiaries - Subsidiaries are entities over which the Company has control, whereby control is defined as the power to direct activities of an entity that significantly affect the entity’s returns so as to obtain benefit from its activities. Control is presumed to exist where the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date at which control ceases.

Business Combinations and Goodwill - On the acquisition of a subsidiary that meets the definition of a business, the acquisition method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values as at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in the statements of income and comprehensive income;

EUROCONTROL TECHNICS GROUP INC.

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

For the three and six month periods ended June 30, 2018 and 2017

3. PRINCIPLES OF CONSOLIDATION (continued)

- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the statement of income and comprehensive income.

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

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

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Collection of amounts receivable and provision for doubtful accounts** – Management continually assesses the status of collections of its amounts receivable. If an amount is deemed to not be collectable, a provision for doubtful accounts is recorded. The determination of the allowance for doubtful accounts is based on current information available and historical collections. The Company has historically had very low (nominal) to \$nil bad debts.
- **Impairment of intellectual property** - While assessing whether any indications of impairment exist for intellectual property, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverability of such assets. Internal sources of information include the manner in which intellectual property assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's intellectual property, costs to sell the assets and the appropriate discount rate.

EUROCONTROL TECHNICS GROUP INC.

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

For the three and six month periods ended June 30, 2018 and 2017

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

- **Share-based payments** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes** – The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.
- **Functional currency determination** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

5. MARKETABLE SECURITIES

As at June 30, 2018 and December 31, 2017 the Company did not hold any marketable securities.

During the six month period ended June 30, 2017, the Company recognized a realized loss of \$2,825 on redemption of various bonds and interest income related to the bonds of \$60,248.

6. CASH AND CASH EQUIVALENTS

The balance at June 30, 2018 consists of cash on deposit with major Canadian and Israeli banks in interest bearing accounts totaling \$3,487,677 (December 31, 2017 - \$2,994,413) and cashable guaranteed investment certificates with major Canadian banks of \$10,000 (December 31, 2017 - \$3,505,667) for total cash and cash equivalents of \$3,497,677 (December 31, 2017 - \$6,500,080).

EUROCONTROL TECHNICS GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
(Expressed in Canadian dollars)
For the three and six month periods ended June 30, 2018 and 2017

7. INTELLECTUAL PROPERTY

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

Cost	
Balance as at December 31, 2016	\$ 349,568
Additions	-
Balance as at December 31, 2017	349,568
Additions	-
Balance as at June 30, 2018	\$ 349,568
Accumulated amortization	
Balance as at December 31, 2016	\$ 149,814
Amortization expense	49,938
Balance as at December 31, 2017	199,752
Amortization expense	24,969
Balance as at June 30, 2018	\$ 224,721
Carrying amounts	
Balance as at December 31, 2017	\$ 149,816
Balance as at June 30, 2018	\$ 124,847

8. OPERATING SEGMENTS

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

The Company conducts its business as a single operating segment and all revenue is earned through its operations in Israel.

Geographical information

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

	Revenue from external customers			
	Three month ended June		Six month ended June 30,	
	2018	2017	2018	2017
North America	151,330	216,239	\$ 280,270	\$ 267,175
Asia	24,710	107,632	188,969	397,271
Europe	151,929	384,691	207,047	604,365
	\$ 327,969	\$ 708,562	\$ 676,286	\$ 1,268,811

Xenemetrix accounted for \$676,286 (2017 - \$1,268,811) of the revenue generated for the six month period ended June 30, 2018, representing 100% (2017 – 100%) of revenue. Xenemetrix revenue is from sales of EDXRF systems.

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

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2018 and 2017****9. AMOUNTS RECEIVABLE**

As at,	June 30, 2018	December 31, 2017
Trade receivables	\$ 341,311	\$ 686,579
Value added taxes receivables	152,992	173,045
Other	114,069	139,656
	\$ 608,372	\$ 999,280

At June 30, 2018, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 20. The Company holds no collateral for any receivable amounts outstanding as at June 30, 2018 and December 31, 2017.

10. INVENTORIES

As at,	June 30, 2018	December 31, 2017
Materials	\$ 492,271	\$ 498,624
Work in process	353,487	87,490
Finished goods	-	120,501
	\$ 845,758	\$ 706,615

For the six month period ended June 30, 2018 and 2017, the cost of inventories recognized as an expense and included in cost of sales was \$517,516 and \$586,006 respectively.

EUROCONTROL TECHNICS GROUP INC.Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2018 and 2017

11. EQUIPMENT

	Office furniture, computers and equipment	Vehicles	Total
Cost			
Balance as at December 31, 2016	\$ 526,218	\$ 67,264	\$ 593,482
Additions	340,820	44,313	385,133
Disposals	-	-	-
Foreign exchange	(45,835)	(5,883)	(51,718)
Balance as at December 31, 2017	\$ 821,203	\$ 105,694	\$ 926,897
Additions	122,768	-	122,768
Disposals	-	-	-
Foreign exchange	27,590	2,201	29,791
Balance as at June 30, 2018	\$ 971,561	\$ 107,895	\$ 1,079,456
Accumulated depreciation			
Balance as at December 31, 2016	\$ 283,619	\$ 33,149	\$ 316,768
Depreciation	73,595	13,084	86,679
Disposals	-	-	-
Foreign exchange	(21,064)	(2,609)	(23,673)
Balance as at December 31, 2017	336,150	\$ 43,624	\$ 379,774
Depreciation	55,256	7,207	62,463
Disposals	-	-	-
Foreign exchange	18,237	2,346	20,583
Balance as at June 30, 2018	\$ 409,643	\$ 53,177	\$ 462,820
Carrying amounts			
Balance as at December 31, 2017	\$ 485,053	\$ 62,070	\$ 547,123
Balance as at June 30, 2018	\$ 561,918	\$ 54,718	\$ 616,636

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at,	June 30, 2018	December 31, 2017
Accounts payable	\$ 644,072	\$ 753,713
Accrued liabilities	548,946	686,404
	\$ 1,193,018	\$ 1,440,117

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13. ISSUED CAPITAL

Authorized: Unlimited common shares without par value

	June 30, 2018	December 31, 2017
Issued capital	\$ 14,942,091	\$ 14,942,091
Fully paid common shares (1)	91,750,238	91,750,238

(1) As at June 30, 2018 and December 31, 2017, included in this number are 1,000,000 shares awaiting issuance, the proceeds for which were received in 2008 and are included in share capital.

Common shares issued:

	Number of Shares	Value of shares
Balance as at December 31, 2016	91,780,238	\$ 14,946,541
Share repurchase and cancellation	(30,000)	(4,450)
Balance as at December 31, 2017 and June 30, 2018	91,750,238	\$ 14,942,091

Normal Course Issuer Bid:

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

During the year ended December 31, 2017, 30,000 shares were purchased at a cost of \$4,450. Any premium paid to purchase the shares in excess of the stated value is charged to retained earnings.

Diluted weighted average number of shares outstanding

	Three month periods ended June 30,		Six month periods ended June 30,	
	2018	2017	2018	2017
Basic weighted average shares outstanding:	91,750,238	91,750,238	91,750,238	91,762,905
Effect of outstanding stock options	-	-	-	-
Diluted weighted average shares outstanding	91,750,238	91,750,238	91,750,238	91,762,905

During the three and six month periods ended June 30, 2018 and 2017, the Company had a net loss, as such, the diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share.

14. WARRANTS RESERVE

There were no warrants outstanding as of June 30, 2018 and December 31, 2017.

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15. SHARE-BASED PAYMENT RESERVE

Stock option plan

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

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

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

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

Balance as at December 31, 2016	\$	519,513
Share-based expense		38,000
Expiry of stock options		(38,000)
Balance as at December 31, 2017	\$	519,513
Expiry of stock options		(102,998)
Balance as at June 30, 2018	\$	416,515

The following share-based payment arrangements were in existence as at June 30, 2018:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
375,000	375,000	June 30, 2015	June 30, 2020	\$ 0.13	31,000
3,275,000	3,275,000	February 19, 2016	February 19, 2021	\$ 0.15	370,515
100,000	100,000	July 11, 2016	July 11, 2021	\$ 0.19	15,000
3,750,000	3,750,000				\$ 416,515

The share options outstanding as at June 30, 2018 had a weighted exercise price of \$0.15 (December 31, 2017: \$0.13) and a weighted average remaining contractual life of 2.59 years (December 31, 2017: 1.77 years).

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

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

On January 6, 2017, 300,000 share options were granted to a director of the Company to acquire the Company's shares at an exercise price of \$0.17 until January 6, 2022. These share options had an estimated fair value of \$38,000 at grant date and expired on September 26, 2017.

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15. SHARE-BASED PAYMENT RESERVE (continued)

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

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

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

Movements in share options during the period:

The following reconciles the share options outstanding for the six month period ended June 30, 2018 and year ended December 31, 2017:

Balance as at December 31, 2016	7,025,000	\$	0.13
Granted	300,000	\$	0.17
Cancelled	(300,000)	\$	0.17
Balance as at December 31, 2017	7,025,000	\$	0.13
Cancelled	(3,275,000)	\$	0.10
Balance as at June 30, 2018	3,750,000	\$	0.15

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16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at June 30, 2018 and December 31, 2017 were as follows:

	Assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
As at June 30, 2018				
Cash and cash equivalents	\$ 3,497,677	\$ -	\$ -	\$ 3,497,677
Current portion of long term receivable	-	1,500,000	-	1,500,000
Long term receivable	-	3,589,780	-	3,589,780
Amounts receivable	-	341,311	-	341,311
Accounts payable and accrued liabilities	-	-	1,193,018	1,193,018

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

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

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

As at June 30, 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, amounts receivable, accounts payable and accrued liabilities approximate fair value because of the limited terms of these instruments. The long term receivable was discounted using a rate of 10%.

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17. RELATED PARTY DISCLOSURES

Compensation of key management personnel of the Company

In accordance with IAS 24, key management personnel, including companies controlled by them, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the compensation committee.

The remuneration of directors and other members of key management personnel during the three and six month periods ended June 30, 2018 and 2017 were as follows:

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Bruce Rowlands (Chairman, former CEO)	(i)	\$ -	\$ 50,000	\$ 250,000	\$ 100,000
Andres Tinajero (CFO)	(ii)	25,000	25,000	50,000	50,000
Doron Reinis (President of Xenemetrix and XwinSys)	(iii)	103,835	108,988	208,006	212,660
Charlotte May (Corporate Secretary)	(iv)	24,000	24,000	48,000	48,000
Gilles Leraille (Director)	(v)	-	-	-	38,000
Dennis Logan (Director)	(vi)	4,500	4,500	34,000	9,000
Paul Wood (CEO and Director)	(vii)	54,500	4,500	89,000	9,000
Kenneth Wawrew (Director)	(viii)	4,500	4,500	29,000	9,000
		\$ 216,335	\$ 221,488	\$ 708,006	\$ 475,660

Notes:

- (i) For the three and six month period ended June 30, 2018, Bruce Rowlands, through his Company W. B. Rowlands & Company Ltd., was paid \$nil and \$50,000 respectively (2017 - \$50,000 and \$100,000 respectively) in professional service fees for CEO services pursuant to an agreement entered into by the Company and W. B. Rowlands & Company Ltd. In addition, \$200,000 (2017 - \$nil) was paid for severance.
- (ii) For the three and six month period ended June 30, 2018, Andres Tinajero, through his Company, 2222263 Ontario Inc., was paid \$25,000 and \$50,000 respectively (2017 - \$25,000 and \$50,000 respectively) in professional service fees for CFO services pursuant to an agreement entered into by the Company and 2222263 Ontario Inc.
- (iii) For the three and six month period ended June 30, 2018, Doron Reinis, through Business Processes Logistic Services Ltd. ("BPLS"), a company that Doron Reinis holds a 50% interest in, was paid \$103,835 and \$208,006 respectively (2017 - \$108,988 and \$212,660 respectively) in professional service fees for services as COO of Eurocontrol and as President of Xenemetrix, XwinSys and Cromptal pursuant to an agreement assumed by the Company when it acquired Xenemetrix in 2010.
- (iv) For the three and six month period ended June 30, 2018, Charlotte May, through her Company CMA Corporate Management, was paid \$24,000 and \$48,000 respectively (2017 - \$24,000 and \$48,000 respectively) 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 and six month period ended June 30, 2018, Gilles Leraille, a director, was issued nil and nil (2017 - nil and 300,000 respectively) stock options respectively with a value of \$nil and \$nil respectively (2017 - \$nil and \$38,000 respectively). 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 and six month period ended June 30, 2018, Dennis Logan, through his Company 9703373 Canada Inc., was paid \$4,500 and \$34,000 respectively (2017 - \$4,500 and \$9,000 respectively) in director and special committee fees.
- (vii) For the three and six month period ended June 30, 2018, Paul Wood, through his Company Kappa Advisors Ltd., was paid \$54,500 and \$89,000 (2017 - \$4,500 and \$9,000 respectively) for CEO services and director fees and special committee fees.

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17. RELATED PARTY DISCLOSURES (continued)

- (viii) For the three and six month period ended June 30, 2018, Kenneth Wawrew was paid \$4,500 and \$29,000 respectively (2017 - \$4,500 and \$9,000 respectively) in director fees and special committee fees.

As at June 30, 2018, an amount of \$32,986 (December 31, 2017 - \$9,996) due to key management personnel, was included in accounts payable and accrued liabilities. This amount is unsecured, non-interest bearing and without fixed terms of repayment.

18. CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations. The capital of the Company consists of issued capital and share-based payment reserve. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has entered into commercial operations and has begun to generate cash flows to support the ongoing and longer term strategy of the Company. However, the Company may continue to rely on capital markets to support continued growth.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management in the six month period ended June 30, 2018. The Company and its subsidiaries are not subject to externally imposed capital requirements.

19. LONG TERM RECEIVABLE

As part of the sale of GFI in 2016, the Company is entitled to post-closing earn-out payments equal to 5% of the net revenues earned by GFI from contracts, inclusive of both marker and logistics, entered into by it following the execution of the purchase agreement and during the period ending six years from the closing of the transaction, with a minimum guaranteed payment of \$1.5 million per year for the six year minimum earn-out period (total payment of at least \$9,000,000).

The Company has estimated cash flows receivable to amount to the minimum earn-out amount of \$9,000,000. Due to the difficulty in estimating the contingent portions of the earn-out payments the Company has not recognized any additional amount above the minimum guaranteed portion. The estimated cash flows were discounted using a discount rate of 10%. The movement in the amount receivable under the earn out agreement during the six month period ended June 30, 2018 and year ended December 31, 2017 is as follows:

	June 30, 2018	December 31, 2017
Opening balance	\$ 5,597,410	\$ 6,436,180
Interest accretion	242,370	661,230
Instalment payments received	(750,000)	(1,500,000)
Total receivable under earn out agreement	\$ 5,089,780	\$ 5,597,410
Less: Current portion	1,500,000	1,500,000
Long term portion	\$ 3,589,780	\$ 4,097,410

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20. FINANCIAL RISK FACTORS

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

Credit risk:

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

Liquidity risk:

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. As at June 30, 2018, the Company had a cash and cash equivalents balance of \$3,497,677 (December 31, 2017 - \$6,500,080) to settle current liabilities of \$1,193,018 (December 31, 2017 - \$1,440,117). Working capital for the Company as at June 30, 2018 was \$5,395,253 (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 \$162,000 (2017 - \$190,000) based on the foreign currency balances at June 30, 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.

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20. FINANCIAL RISK FACTORS (continued)

The exposure of the Company's financial assets and liabilities to foreign currency risk as at June 30, 2018 is as follows:

	CDN Dollar	US Dollar	Total (in CDN dollars)
Financial assets			
Cash and cash equivalents	\$ 2,849,132	648,545	\$ 3,497,677
Amounts receivable	74,141	534,231	608,372
Current portion of long term receivable	1,500,000	-	1,500,000
Long term receivable	3,589,780	-	3,589,780
	\$ 8,013,053	\$ 1,182,776	\$ 9,195,829
Financial liabilities			
Accounts payable and accrued liabilities	\$ 97,221	\$ 1,095,797	\$ 1,193,018
	\$ 97,221	\$ 1,095,797	\$ 1,193,018

(b) Commodities price risk

The Company, through its earn-out payments and its subsidiary Xenemetrix's exclusive long term supply, maintenance and support agreement with its former subsidiary GFI to supply Xenemetrix products and services, related to oil and gas marking and monitoring field is exposed to price risk with respect to commodity prices. 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.

21. COMMITMENTS AND CONTINGENCIES

- (a) Royalty-bearing grants from the Government of Israel to XwinSys for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to approximately \$nil for the six month period ended June 30, 2018. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full.

As of June 30, 2018, the balance of the grants received to date to be repaid upon commercialization is approximately \$1,021,000 (December 31, 2017 – \$973,000).

- (b) As part of the asset purchase agreement of Xenemetrix from Jordan Valley Semiconductors Ltd. ("Jordan Valley"), dated June 12, 2008 and subsequent amendments, Xenemetrix agreed to pay up to US\$1.3 million by way of 5% royalties. Such payments are to commence after the first four quarters where Xenemetrix has cumulative sales totaling more than US\$2 million in any calendar year, such amount excluding sales or services to GFI. Should a default in payment occur and such default is not remedied within 14 days, then Jordan Valley has the right to take full exclusive ownership of the intellectual property. As the US\$2 million sales figure has not yet been met, the royalty payments have not been paid nor are they payable and as such, no accrual has been made as of June 30, 2018 and December 31, 2017.
- (c) On June 21, 2018, Yellow Brick Capital Advisers (UK) Limited filed a claim against the Company, its subsidiary, Croptimal Ltd., and one of its officers in the Magistrates Court, in Tel Aviv, Israel. The lawsuit alleges that the Company and one of its officers lacked good faith in carrying out and terminating negotiations for a possible sale of the shares of Croptimal Ltd. In its claim, the plaintiff seeks monetary damages of 518,459 New Israeli Shekels (approximately, 185,245 Canadian).

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21. COMMITMENTS AND CONTINGENCIES (Continued)

dollars). The Company's management believes the claim is without merit and plans to defend itself in court.

22. SUBSEQUENT EVENTS

On July 31, 2018, announced that it plans to discontinue operating in Israel through its indirect wholly-owned subsidiaries, Xenemetrix, XwinSys and Croptimal. The Board of Directors of the Company, on the recommendation of its special committee, unanimously determined that this change is in the best interests of the Company, after measures taken by management to reduce operating costs and to create a viable model for continued operations of these entities have not produced results that justify further investment by the Company in these operations, or made available any superior alternative.

In connection with these operational changes, the Company and Xenemetrix have entered into a comprehensive agreement with SICPA, SICPA SA, and SICPA Global Fluids Integrity SA ("GFI"), pursuant to which the parties have terminated, with immediate effect, the surviving material agreements entered into between them in connection with the purchase and sale transaction (the "GFI Transaction") in which SICPA Finance acquired GFI from the Company in January 2016. The termination agreement was entered into by the Company to help facilitate an orderly transition of its business, eliminate risk and to strengthen its short-term cash position.

Under the terms of the agreement, SICPA Finance has agreed to pay the Company a total of \$3,400,000 in full satisfaction of all of the remaining net revenue based earn-out obligations owed by it to the Company in connection with the GFI Transaction, payable in instalments of \$800,000 (paid), \$1,300,000 and \$1,300,000 on August 2, 2018, October 1, 2018 and January 3, 2019, respectively. Each of the parties have also agreed to terminate the related purchase agreement and exclusive supply agreement, and release each other from all claims and liabilities in connection therewith.