

AUGUSTA INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Prepared in Canadian dollars)

For The Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Augusta Industries Inc.

We have audited the accompanying consolidated financial statements of Augusta Industries Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Augusta Industries Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Augusta Industries Inc. had a net loss, cumulative deficit and minimal working capital as at December 31, 2016. These conditions along with other matters set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the ability of Augusta Industries Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 13, 2017

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Note	December 31, 2016	December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents		\$ 83	\$ 371
Trade and other accounts receivable		662	258
Inventory	7	111	200
Tax credits receivable	9	22	36
Prepaid expenses and other assets		248	46
Total Current Assets		1,126	911
Non-Current Assets			
Equipment	8	42	56
Total Non-Current Assets		42	56
Total Assets		\$ 1,168	\$ 967
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 877	\$ 746
Deferred revenue		45	64
Long term debt - current portion	10	20	20
Income tax payable		15	-
Debentures	11	43	36
Total Current Liabilities		1,000	866
Non-Current Liabilities			
Long term debt	10	31	50
Total Non-Current Liabilities		31	50
Total Liabilities		1,031	916
Equity			
Share capital	13(a)	5,527	5,447
Warrants	13(b)	690	687
Reserves		1,560	1,544
Accumulated other comprehensive income		11	9
Deficit		(7,651)	(7,636)
Total Equity		137	51
Total Liabilities and Equity		\$ 1,168	\$ 967

Going Concern (Note 2(b))
Commitments (Note 14)
Subsequent event (Note 20)
Approved on Behalf of the Board

"Warren Goldberg, CPA, CA"

Director

"Allen Lone"

Director

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

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Note	<u>Year ended December 31,</u>	
		2016	2015
Sales		\$ 4,596	\$ 2,118
Cost of sales		(3,570)	(1,576)
Gross profit		1,026	542
Expenses			
Research and development		(155)	(199)
Selling		(34)	(48)
General and administrative	18	(830)	(997)
Total expenses		(1,019)	(1,244)
Income (loss) before the undernoted		7	(702)
Finance costs	10,11	(18)	(80)
Loss on sale of investments	6	-	(133)
Unrealized gain on investments	6	-	90
Foreign exchange gain (loss)		17	(100)
Net income (loss) for the year before tax		6	(925)
Income tax expense	12	(21)	-
Net (loss) for the year		(15)	(925)
Other comprehensive income		2	9
Total comprehensive (loss) for the year		\$ (13)	\$ (916)
(Loss) per common share based on			
Net (loss) for the year			
Basic and diluted	13(d)	\$ (0.00)	\$ (0.00)
Basic and diluted weighted average number			
of common shares outstanding	13(d)	254,356	224,151

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

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Share Capital		Warrants	Reserves	Accumulated Other		Deficit	Total Equity/(Deficit)
	Number	Amount			Comprehensive Income			
Balance, December 31, 2014	214,035	\$ 4,127	\$ 162	\$ 1,398	\$ -	\$ (6,711)	\$ (1,024)	
Shares issued	40,080	1,328	-	-	-	-	1,328	
Share issue costs	-	(8)	-	-	-	-	(8)	
Warrants issued, net of costs	-	-	671	-	-	-	671	
Warrants expired	-	-	(146)	146	-	-	-	
Net loss for the year	-	-	-	-	-	(925)	(925)	
Other comprehensive income	-	-	-	-	9	-	9	
Balance, December 31, 2015	254,115	\$ 5,447	\$ 687	\$ 1,544	\$ 9	\$ (7,636)	\$ 51	
Balance, December 31, 2015	254,115	\$ 5,447	\$ 687	\$ 1,544	\$ 9	\$ (7,636)	\$ 51	
Net loss for the year	-	-	-	-	-	(15)	(15)	
Shares issued on conversion of debt	2,000	81	-	-	-	-	81	
Share issue costs	-	(1)	-	-	-	-	(1)	
Warrants issued, net of costs	-	-	19	-	-	-	19	
Warrants expired	-	-	(16)	16	-	-	-	
Other comprehensive income	-	-	-	-	2	-	2	
Balance, December 31, 2016	256,115	\$ 5,527	\$ 690	\$ 1,560	\$ 11	\$ (7,651)	\$ 137	

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

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(All numbers are in Canadian dollars in thousands except for share prices that are expressed in dollars)

	2016	2015
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net (loss) for the year	\$ (15)	\$ (925)
Items not involving cash		
Amortization	14	20
Interest on debentures	4	4
Interest on advances	-	49
Accretion expense on debentures	3	2
Loss on sale of investments	-	133
Unrealized gain on investments	-	(90)
	6	(807)
Changes in non-cash working capital		
Trade and other accounts receivable	(404)	(2)
Inventory	89	(1)
Prepaid expenses and other assets	(202)	18
Income tax payable	15	-
Tax credit receivable	14	1
Accounts payable and accrued liabilities	131	(56)
Deferred revenue	(19)	(14)
	(376)	(54)
Net cash used in operating activities	(370)	(861)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Proceeds from units issued	-	2,004
Share issue costs	(1)	(13)
Repayment of bank indebtedness	-	(400)
Interest paid on advances	-	(49)
Proceeds from advances	137	-
Repayment of advances	(137)	(566)
Repayment of long-term debt	(19)	(20)
Loan received	100	-
Proceeds from sale of investments	-	111
Net cash provided by financing activities	80	1,067
Effect of changes in foreign exchange rate	2	9
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		
	\$ (288)	\$ 215
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	371	156
CASH AND CASH EQUIVALENTS, END OF YEAR		
	\$ 83	\$ 371
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income tax paid	\$ 6	\$ -
Accounts payable and accrued liabilities converted to advances	-	165
Note converted to units	100	-
Interest paid	11	77

AUGUSTA INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

I. NATURE OF OPERATIONS

Augusta Industries Inc. (the "Company" or "Augusta") was incorporated on October 13, 1999 under the laws of the State of Delaware with a registered office and a head-office location at 2455 Cawthra Road, Unit 75, Mississauga, Ontario L5A 3P1 Canada. Augusta's significant shareholder is Knoxbridge Corp. ("Knoxbridge"), who owns 37.4% of the voting shares of the Company (2015 – 37.7%). Augusta is traded on the TSX Venture Exchange ("TSXV") under the symbol "AAO".

Fox-Tek Canada Inc. ("Fox-Tek"), a wholly-owned subsidiary of Augusta, was formed to develop, integrate and sell fiber optic sensing systems for the strain/temperature sensing market. The target market includes the monitoring, communication, alarming and prediction of safe/unsafe conditions in structures and facilities.

Marcon International Inc. ("Marcon"), a wholly-owned subsidiary of Augusta, is in the business of selling equipment to foreign multinational companies operating primarily in the Middle East and to the United States government. The equipment is purchased from various suppliers in Canada, United States and Europe.

The consolidated financial statements were approved for issue by the Board of Directors on April 13, 2017.

2. BASIS OF PRESENTATION AND GOING CONCERN

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") which includes International Financial Reporting Standards, International Accounting Standards ("IAS"), and interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"). These standards are collectively referred to as "IFRS".

(b) Going Concern

The consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

The Company has net income before tax of \$6 and net loss of \$15 after tax for the year ended December 31, 2016 (2015 - net loss of \$925 both before and after tax), has an accumulated deficit of \$7,651 (2015 – \$7,636) from inception and working capital of \$126 (2015 – \$45). The challenges of securing requisite funding beyond December 31, 2016 and the cumulative operating losses indicate the existence of a material uncertainty which cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

(c) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

AUGUSTA INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

(d) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Fiber Optic Systems Technology (Canada), Inc., Fox-Tek Canada, Inc., PinPoint FOX-TEK Inc., Marcon International Inc., Marcon International (USA) Inc., and Marcon International (UK) Ltd. (collectively referred to as the “Company” or “Augusta”).

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in comprehensive loss from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

(e) Critical 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 that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

(i) Convertible debenture

The conversion options require an estimation of the fair value of a similar liability that doesn’t have an associated equity component by using a suitable discount rate at initial recognition and each extension date. The carrying amount of the conversion options is then determined by deducting the fair value of the financial liability from the fair value of the convertible debenture as a whole.

The warrants attached to debentures require an estimation of the fair value at initial recognition and each extension date. Management uses the Black-Scholes option pricing model to estimate the fair value of warrants and conversion options, and the residual equity amount is then allocated to them based on their relative fair values.

(ii) Warrants

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued as part of the Company’s private placements. The Black-Scholes model requires six key inputs to determine the value for a warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company’s control. For example, a longer expected life of the warrant or a higher volatility number would result in an increase in the warrant value.

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(iii) Allowances for impairment of trade and other accounts receivables

The Company's carrying value of trade and other receivables as at December 31, 2016 was approximately \$662 (2015 – \$258), net of allowances for doubtful accounts of \$nil (2015 – \$11). The policy for allowances for impairment on accounts receivable of the Company is based on the evaluation of collectability and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history. If the financial conditions of the debtors of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(iv) Impairment of inventory

Inventory is recorded at the lower of cost and net realizable value. The cost of inventory may not be recoverable if their selling prices have declined. The estimate of net realizable value is based on the expected to be sold for less costs of selling. As at December 31, 2016, the carrying amount of inventory is \$111 (2015 – \$200), net of provision for slow moving and obsolete inventory of \$9 (2015 – \$69).

(v) Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

The information about significant areas of judgment considered by management in preparing the consolidated financial statements are as follows:

(i) *Going concern*

The Company applies judgment in evaluating the going concern assumption and disclosure. The Company prepares a budget to determine its future cash needs and considers future sources of financing. Refer to Note 2(b) for further details.

(ii) *Determination of functional currency*

The effects of Changes in Foreign Exchange Rates (IAS 21) define the functional currency as the currency of the primary economic environment in which an entity operates. The determination of functional currency, which is performed on an entity by entity basis, is based on various judgmental factors outlined in IAS 21.

The consolidated financial statements are presented in Canadian dollars, which is the parent's functional and presentation currency. Each entity in the group determines its own functional currency. Management reviewed the primary and secondary indicators in IAS 21, the effects of changes in foreign exchange rates, and determined that the functional currency for Marcon International (USA) Inc. is the US dollar, for Marcon International (UK) Ltd. is the UK pound, and for all other subsidiaries is the Canadian dollar.

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(iii) *Deferred tax assets*

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. Refer to Note 12 for further details.

(iv) *Revenue recognition*

Management exercises judgement in determining the fair value of its multiple element arrangements. In making their judgement, management considered the criteria of IAS 18, Revenue, to allocate the consideration received in such arrangements. The consideration allocated to the data monitoring and installation is measured by reference to their fair value – the amount for which the services could be sold separately.

(v) *Determination of cash generating units (“CGU”)*

The Company applies judgment when determining their CGUs. The Company has two main sources of cash flows, the sale of equipment to foreign multinationals (the Marcon business) and the sale of fiber optic sensing systems (the Fox Tek business). After analysis of the Company’s asset base, the Company determined that the assets for these two businesses were independent of each other and designated the Fiber Optic CGU and the Marcon CGU.

(vi) *Classification of financial instruments*

The Company applies judgment when selecting the classification of its financial instruments. The Company considered the nature and purpose of each financial asset and liability and selected the classification which aligns with the risk management objectives of the Company.

(vii) *Capitalization of development costs*

Management exercises judgement when establishing whether the criteria under IAS 38 for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable economic future benefits.

3. SIGNIFICANT ACCOUNTING POLICIES

The policies as set out below were consistently applied to all periods presented unless otherwise noted.

(a) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and;

- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from a contract to provide services such as installation and data monitoring is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognized by reference to the stage of completion of the installation to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;

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- Servicing fees included in the data monitoring products sold are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses as incurred.

Revenue from the sale of goods is recognised when title has passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of electric field mapping (“EFM”) monitoring systems and Fox-Tek (“FT”) systems are accounted for as separately identifiable components and the fair value of the consideration received or receivable is allocated between the goods supplied and the installation and data monitoring sold. The consideration allocated to the data monitoring is measured by reference to their fair value – the amount for which the services could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognized as revenue pro rata over the service period.

(b) Investment Policy

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statement of loss. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed so as to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statement of loss as incurred.

(c) Inventory

Inventory consists of raw materials used in the manufacturing of fiber optics sensing systems, work in process and finished goods. Inventory is recorded at the lower of cost and net realizable value. The cost is determined on the weighted average principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other cost incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(d) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and short-term investments with original maturities of less than three months. Cash are offset and the net amount presented in the statements of financial position to the extent that there is a right to set off and a practice of net settlement. Cash includes accrued interest on short-term investments. As at December 31, 2016 and 2015, the Company had no cash equivalents.

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(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

(e) Equipment

Computer hardware, scientific and office equipment, and computer software are stated at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the declining balance method. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The amortization rates for equipment are as follows:

	Method	Rate
Computer hardware	Declining balance	30%
Scientific equipment	Declining balance	30%
Office equipment	Declining balance	20%
Computer software	Declining balance	50%

(f) Research and Development

All research costs are expensed as incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

As at December 31, 2016 and 2015, the Company did not have any projects in the development stage.

(g) Impairment of Equipment

At the end of each reporting period, the Company assess whether there is any indication of an impairment loss. If any such indication exists, then the Company will perform an impairment test. The impairment test is to compare the asset's carrying amount and its recoverable amount, where the recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value, using a

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pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest company of CGU for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company will estimate the recoverable amount of that asset, and reverse the impairment.

(h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. It requires consideration as to whether the fulfillment of the arrangement is dependent on the use of a specific tangible asset or the arrangement conveys a right to use the tangible asset.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense in the consolidated statement of loss on a straight-line basis over the lease term. The Company did not have any finance leases during the years ended December 31, 2016 and 2015.

(i) Foreign Currencies

(i) Functional currency

The consolidated financial statements are presented in Canadian dollars, which is the parent's functional and presentation currency. Each entity in the group determines its own functional currency. Management reviewed the primary and secondary indicators in IAS 21, the effects of changes in foreign exchange rates, and determined that the functional currency for Marcon International (USA) Inc. is US dollars, for Marcon International (UK) Ltd. is UK pounds, and for all other subsidiaries is Canadian dollars.

(ii) Foreign operations

Under IFRS, when the Company translates the financial statements of subsidiaries from their functional currency to presentation currency, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the financial reporting date. Share capital, warrants, equity reserves, accumulated other comprehensive income, and deficit are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated into Canadian dollars at the average exchange rate for the period. Foreign exchange gains and losses on translation are included in other comprehensive income. Foreign exchange differences that arise relating to balances that form part of the net investment in a foreign operation are recognized in a separate component of equity through other comprehensive income. On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference in other comprehensive income is recognized within profit or loss in the consolidated statement of loss.

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(iii) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss resulting from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized within profit or loss in the consolidated statement of loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the consolidated statement of loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(j) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(k) Loss per Common Share

Basic loss per common share is determined by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per common share is calculated in accordance with the if-converted method and based on the weighted average number of common shares outstanding adjusted for the effects of all dilutive potential shares including warrants, convertible debt and stock options. The effect on the diluted loss per share of the exercise of the warrants, convertible debt and stock options would be anti-dilutive during the years ended December 31, 2016 and 2015.

(l) Cost of Private Placement Financing

Incremental costs incurred in respect of raising capital through private placements are charged against equity proceeds raised.

Incremental costs incurred in respect of issuing convertible debentures are charged against the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the convertible debentures and accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within finance costs on the consolidated statement of loss.

(m) Taxation

i. *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not through profit or loss.

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ii. *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statement of loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(a) Tax Credit Receivable

Government assistance and tax credits relating to qualifying expenditures, to the extent that there is reasonable assurance of realization, are accounted for using the cost reduction method, whereby the government assistance and tax credits are recorded as reductions against the related expenses or the carrying value of the related assets. Tax credits are subject to review by the Canada Revenue Agency ("CRA") and any adjustments that may result could reduce the tax credit recorded.

(b) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(c) Financial Assets and Liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The classification of financial assets and liabilities depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of loss.

(i) *Financial assets*

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- a) Fair value through profit or loss ("FVTPL") – This category comprises financial assets held for trading and assets designated upon initial recognition as FVTPL. Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term. On initial recognition it is part of a portfolio of identifiable financial instruments managed together for which there is evidence of a recent pattern of short-term profit taking, or a derivative (excluding a

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derivative used for hedging). FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss for the year.

- b) Loans and receivables – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce loans and receivables to fair value. Subsequently, loans and receivable are measured at initial measurement less any allowance for doubtful accounts.
- c) Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the Company's original effective interest rate. The impairment losses are recognized in the statement of loss.
- d) Available-for-sale – Non-derivative financial assets designated as available-for-sale and financial assets that are not classified as loans and receivables, held to maturity investments or FVTPL. Available-for-sale are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment other than temporary, the amount of the loss is removed from the other comprehensive income and recognized in the statement of loss.

All financial assets except for those recorded at fair value through profit or loss and as available-for-sale are subject to review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

(ii) *Financial liabilities*

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

- a) FVTPL – This category comprises financial liabilities held for trading and liabilities designated upon initial recognition as FVTPL. FVTPL liabilities are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss for the period.
- b) Other financial liabilities – All other financial liabilities except financial liabilities FVTPL.

(iii) *Valuation of financial instruments*

The determination of fair value requires judgment and is based on market information, where available and appropriate. At the end of each financial reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

IFRS 13, Fair Value Measurement, establishes a fair value hierarchy that reflects the significance of inputs in measuring fair value as the following:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's financial instruments consist of the following:

Financial Instrument	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost

The fair values of cash and cash equivalents, trade and other accounts receivable, accounts payable and accrued liabilities and debentures approximate their carrying values due to their short-term nature. As at December 31, 2016 and 2015, there are no financial instruments recognised at fair value.

(iv) *Offsetting of financial instruments*

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

(d) Share-based Compensation

The Company has an employee stock option plan. Employees (including officers), directors, and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Any consideration received on the exercise of stock options is added to share capital. The cost of options is recognized, together with a corresponding increase in equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant optionee becomes fully entitled to the award (the "vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest.

As it is not reliable to estimate the fair value of employee services rendered, the Company values the stock options based on the fair value of stock options. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model. The Company is also required to estimate the expected future forfeiture rate of options in its calculation of share-based payment.

Each tranche of a stock option grant is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches, using the graded vesting method, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Where the terms of a stock option award are modified, the Company recognizes the incremental value, if any, based on the difference between the fair value of the modified option and the value of the old option immediately before its terms are modified.

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(r) Changes in accounting policies

During the year ended December 31, 2016, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IAS 1 and IFRS 7. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

4. Future accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2017. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB as a complete standard in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - Revenue From Contracts With Customers (“IFRS 15”) proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IAS 7 – Statement of Cash Flows (“IAS 7”) was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction

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resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognised in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

5. FINANCIAL RISK MANAGEMENT

The Company has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board of Directors has established the Audit Committee which is responsible for developing and monitoring the Company’s compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities. There have been no material changes in the risks, objectives, policies and procedures during the years ended December 31, 2016 and 2015.

The Company’s risk management program seeks to minimize potential adverse effects on the Company’s financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls, and sound business practices.

The Company’s financial instruments and the nature of the risks which these instruments may be subject to are set out in the following table.

	Risks			
	Credit	Liquidity	Foreign exchange	Market Interest rate
Cash and cash equivalents	Yes	Yes	Yes	Yes
Trade and other accounts receivable	Yes	Yes	Yes	
Accounts payable and accrued liabilities		Yes	Yes	
Debentures		Yes		Yes
Long term debt		Yes		Yes

(a) Credit risk

Trade and other accounts receivable

Trade and other accounts receivable consists primarily of trade accounts receivable from the sale of equipment, installation and reporting services. The Company’s credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss to the Company. This risk is mitigated through established credit management techniques, including monitoring counterparty creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits.

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The carrying amounts of trade and other accounts receivable are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of loss in general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of loss. Historically, trade credit losses have been minimal.

Concentration of credit risk

Five customers represent approximately 89% of sales for the year ended December 31, 2016 (2015 – four customers represented 69% of sales). The sales from major customers and their respective operational segments are as follows:

	Year ended December 31,			
	2016		2015	
	Fox-Tek CGU	Marcon CGU	Fox-Tek CGU	Marcon CGU
Apache	\$ 441	\$ -	\$ -	-
US Air Force	-	689	-	236
US Bureau of Recreation	-	758	-	106
US Navy	-	1,025	-	611
US Army	-	1,156	-	499
	\$ 441	\$ 3,628	\$ -	1,452

The accounts receivable from two customers represents approximately 84% of trade and accounts receivable as of December 31, 2016 (2015 – 51% from 3 customers). The trade and accounts receivable balances from these customers are as follows:

	December 31, 2016	December 31, 2015
CNRL	\$ -	\$ 27
Qatar Petroleum	-	23
US Bureau of Recreation	289	-
US Army	266	-
US Navy	-	82
	\$ 555	\$ 132

The age analysis of the accounts receivable as at December 31, 2016 is as follows:

Current	1 - 30	31 - 60	> 60	Total
\$ 445	\$ 159	\$ 21	\$ 37	\$ 662

The age analysis of the accounts receivable as at December 31, 2015 is as follows:

Current	1 - 30	31 - 60	> 60	Total
\$ 112	\$ 26	\$ 11	\$ 109	\$ 258

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Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers, including outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. For many new international clients, the Company demands that equipment costs are prepaid prior to shipment.

Cash

Cash consist of bank balances and petty cash. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in debt instruments of highly rated financial institutions. As at December 31, 2016, the Company had cash of \$83 (2015 - \$371), and does not expect any counterparties to fail to meet their obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's policy is to actively maintain credit facilities to ensure sufficient available funds to meet its obligations as they come due.

The following items are the contractual maturities of financial liabilities:

December 31, 2016	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Accounts payable and accrued liabilities	\$ 877	\$ 877	\$ 877	\$ -
Debentures	43	43	43	-
Long term debt	51	51	20	31
	\$ 971	\$ 971	\$ 940	\$ 31

December 31, 2015	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Accounts payable and accrued liabilities	\$ 746	\$ 746	\$ 746	\$ -
Debentures	36	43	43	-
Long term debt	70	70	20	50
	\$ 852	\$ 859	\$ 809	\$ 50

In addition to the financial liabilities, the Company has contractual cash flows relating to lease commitments (note 14).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operations. To contend with changes in market prices, the Company constantly reviews its current and planned expenditures to ensure it has adequate resources to continue operations. The

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Company primarily sells goods in Canada and the United States and attempts to limit its exposure by transacting in the local currency, therefore limiting exposure to foreign exchange rates.

(d) Foreign exchange

As at December 31, 2016, the Company's US dollar net monetary assets totaled \$220 (2015 – net monetary liabilities of \$89). Accordingly, a 5% change in the US dollar exchange rate as at December 31, 2016 on this amount would have resulted in an exchange gain or loss and therefore net loss would have increased (decreased) by \$11 (2015 - \$5).

6. INVESTMENTS

On December 23, 2013, the Company completed the purchase of 3,000 common shares of Pinetree Capital Ltd. ("Pinetree"), a publicly-traded investment company (TSX: "PNP"). During the year ended December 31, 2014, the Company sold 1,940 Pinetree shares. The fair value of the remaining 1,060 Pinetree shares at December 31, 2014 was \$154. A former director of the Company was an officer of Pinetree at the time of the acquisition of common shares of Pinetree.

During the year ended December 31, 2015, the Company sold the remaining 1,060 shares for \$111 resulting in a loss on the sale of investments of \$133 and an unrealized gain of \$90 which is included in the consolidated statement of loss for the year ended December 31, 2015.

7. INVENTORY

Inventory is valued at lower of cost or net realizable value. The breakdown of inventory is comprised as follows:

	December 31, 2016	December 31, 2015
Raw materials	\$ 96	\$ 104
Finished goods	15	96
	\$ 111	\$ 200

The total amount of inventory expensed at cost as cost of sales during the year ended December 31, 2016 was \$127 (2015 - \$165) including an impairment of \$9 (2015 - \$69).

8. EQUIPMENT AND INTANGIBLE ASSETS

	Computer Hardware	Scientific Equipment	Office Equipment	Computer Software	Total
Cost					
Balance at December 31, 2014, 2015 and 2016	\$ 56	\$ 73	\$ 62	\$ 34	\$ 225
Accumulated amortization					
Balance at December 31, 2014	\$ 39	\$ 53	\$ 35	\$ 22	\$ 149
Amortization charge	4	6	5	5	20
Balance at December 31, 2015	\$ 43	\$ 59	\$ 40	\$ 27	\$ 169
Amortization charge	4	3	4	3	14
Balance at December 31, 2016	\$ 47	\$ 62	\$ 44	\$ 30	\$ 183
Net Book Value December 31, 2015	\$ 13	\$ 14	\$ 22	\$ 7	\$ 56
Net Book Value December 31, 2016	\$ 9	\$ 11	\$ 18	\$ 4	\$ 42

The assets are pledged under the security charge on the debentures (note 11).

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9. TAX CREDITS RECEIVABLE

The Company undertakes research and development activities, the costs of which are eligible for investment tax credits which may be refunded or applied to reduce the income tax payable in the current year and future years.

The claim for 2015 has been reviewed by the Canada Revenue Agency ("CRA") and a credit of \$32 has been received during the year ended December 31, 2016. Investment tax credits for the fiscal year are dependent upon qualification of each individual project under stringent technical criteria and amounts may vary upon further review by CRA. Adjustments to the claim, if any, will be accounted for in the year of assessment. Historically, the investment tax credits have generally been assessed as filed, accordingly the Company has accrued the refundable credit of \$22 for the year ended December 31, 2016 (2015 - \$36).

10. LONG TERM DEBT

	December 31, 2016	December 31, 2015
Loan payable - 8.5% per annum, due June 15, 2019, repayable in monthly instalments of principal of \$1.7 plus interest, guaranteed by the CEO of the Company	\$ 51	\$ 70
Less: current portion	(20)	(20)
Long - term debt	\$ 31	\$ 50

In May 2014, Marcon obtained a five-year loan of \$100 from Business Development Bank of Canada with a maturity date of June 15, 2019. During the year ended December 31, 2016, \$20 of this loan was repaid (\$20 - 2015). During the year ended December 31, 2016, the Company paid \$5 (2015 - \$7) in interest in relation to this loan and disclosed as finance costs in the consolidated statements of (loss) and comprehensive income (loss) for the years ended December 31, 2016 and 2015.

11. DEBENTURES

Liability		
Balance, December 31, 2014	\$	30
Accrued interest		4
Interest accretion		2
Balance, December 31, 2015	\$	36
Accrued interest		4
Interest accretion		3
Balance, December 31, 2016	\$	43

On December 31, 2013, the Company completed a non-brokered private placement of secured convertible debentures of \$504 with 4,056 detachable warrants. The debentures bear interest at a rate of 12% per annum payable at maturity on December 31, 2016. Each warrant entitled the holder to purchase one common share at \$0.05 per share expiring on December 31, 2016. All or any part of the principal of the debenture can be converted into common shares by the holder at a conversion price of \$0.05 per share for the first 12 months, and \$0.10 per share until December 31, 2016.

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Management used the residual method to allocate the fair value of the conversion options. Management calculated the fair value of the liability component as \$417 using a discount rate of 18%, and then management deducted the fair value of the liability component from the fair value of the convertible debenture as a whole, with the resulting residual amount of \$87 being the fair value of the equity component. The \$87 has been prorated to the conversion option and warrants based on their relative fair values determined by the Black-Scholes pricing model and \$62 has been allocated to the conversion option and \$25 has been allocated to the detachable warrants.

During the year ended December 31, 2014 all convertible debentures were converted into common shares except for debentures with a face value of \$30. Interest and accretion expense of \$4 and \$3, respectively, for the year ended December 31, 2016 (2015 - \$4 and \$2, respectively) are included in finance costs. The debentures matured on December 31, 2016 and are now due on demand.

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12. INCOME TAXES

Note. Income Taxes

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the statutory rate in the US of approximately 40% (2015 - 40%) are as follows:

	December 31, 2016	December 31, 2015
Net income (loss) before income taxes	\$ 6	\$ (925)
Expected income tax expense (recovery) based on statutory rate	2	(370)
Adjustment to expected income tax benefit:		
Non-deductible expenses and other	(32)	(574)
Change in tax and exchange rates	183	(1,462)
Change in deferred tax assets not recognized	(132)	2,406
Total income tax expense	\$ 21	\$ -

Significant components of the income tax recovery (expense) are as follows:

Current income tax provision	\$ 21	\$ -
Deferred income tax recovery	-	-
	\$ 21	\$ -

(b) Unrecognized Deductible Temporary Differences

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

	December 31, 2016	December 31, 2015
Non-capital loss carry-forwards	\$ 27,926	\$ 28,266
Research and development tax credit carry-forwards	688	832
Other temporary differences	52	39
Total	\$ 28,666	\$ 29,137

The tax losses expire from 2026 to 2035. The other temporary differences do not expire under current legislation.

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

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13. SHAREHOLDERS' EQUITY

(a) Share Capital

Authorized: 400,000 shares of voting common stock, par value of US\$0.01 per share.

Issued and outstanding common shares

	No. of shares	Amount
Balance, December 31, 2014	214,035	\$ 4,127
Shares issued pursuant to private placements, net (i)	20,200	594
Shares issued pursuant to private placements, net (ii)	19,880	726
Balance, December 31, 2015	254,115	\$ 5,447
Shares issued on conversion of debt, net (iii)	2,000	80
Balance, December 31, 2016	256,115	\$ 5,527

- (i) In July 2015, the Company raised gross proceeds of \$1,010 through a non-brokered private placement of 20,200 units (the "Units") of the Company at a price of \$0.05 per Unit. Each Unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of \$0.07 per share for a period of three years from date of issuance. The share issuance costs were \$7. A director subscribed for 1,000 units for gross proceeds of \$50 pursuant to this private placement.

The value of the warrants issued as part of this financing was \$409 net of costs of issuance of \$3. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: expected term of 3 years, a risk-free rate of 0.43%, expected dividend yield of 0% and an expected volatility of 144%. The expected volatility is based on the historical volatility of the Company's share price over the life of the warrants. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk-free interest rate is based on the yield of Canadian Benchmark Bonds with equivalent terms. The expected option life in years represents the period of time that the warrants are expected to be outstanding based on historical warrants issued.

- (ii) In December 2015, the Company raised gross proceeds of \$994 through a non-brokered private placement of 19,880 units (the "Units#2") of the Company at a price of \$0.05 per Unit#2. Each Unit#2 consisted of one common share and one half common share purchase warrant ("Warrant#2"). Each whole Warrant#2 will entitle the holder to purchase one common share at a price of \$0.10 per share for a period of one year and thereafter is exercisable at \$0.15 per warrant for a period of two years. The share issuance costs were \$6.

The value of the warrants issued as part of this financing was \$262 net of costs of issuance of \$2. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: expected term of 3 years, a risk-free rate of 0.53%, expected dividend yield of 0% and an expected volatility of 149%. The expected volatility is based on the historical volatility of the Company's share price over the life of the warrants. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk-free interest rate is based on the yield of Canadian Benchmark Bonds with equivalent terms. The expected option life in years represents the period of time that the warrants are expected to be outstanding based on historical warrants issued.

- (iii) In November 7, 2016, an arm's length company advanced \$100 to the Company and subsequently on November 17, 2016 converted the loan into 2,000 units (the "Units#3") of the Company at a price of \$0.05 per Unit#3. The loan matures on May 7, 2017 bearing interest at 12% compounded monthly and principal and interest were payable on maturity. The loan was secured against assets of the Company. On the date of conversion, \$100 loan and \$nil interest were converted into units. Each Unit#3 consisted of one common share and one common share purchase warrant ("Warrant#3"). Each Warrant#3 entitles the holder to

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purchase one common share at a price of \$0.10 per share for a period of one year. The share issuance costs were \$1.

The value of the warrants issued as part of this financing was \$19, net of costs of issuance. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: expected term of 1 year, a risk-free rate of 0.67%, expected dividend yield of 0% and an expected volatility of 124%. The expected volatility is based on the historical volatility of the Company's share price over the life of the warrants. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk-free interest rate is based on the yield of Canadian Benchmark Bonds with equivalent terms. The expected option life in years represents the period of time that the warrants are expected to be outstanding based on historical warrants issued.

(b) Common Stock Purchase Warrants

	No. of Warrants	Value \$	Weighted Average Exercise Price
Balance, December 31, 2014	10,223	\$ 162	\$ 0.05
Warrants expired	(6,667)	(146)	0.10
Warrants issued in June 2015 (13(a)(i))	20,200	409	0.07
Warrants issued in December 2015 (13(a)(ii))	9,940	262	0.15
Balance, December 31, 2015	33,696	\$ 687	\$ 0.09
Warrants expired	(3,556)	(16)	(0.05)
Warrants issued in November 2016 (13(a)(iii))	2,000	19	0.10
Balance, December 31, 2016	32,140	\$ 690	\$ 0.10

As at December 31, 2016, the Company had the following warrants issued and outstanding:

No. of Warrants Issued and Outstanding	Exercise Price	Expiry	Weighted Average Remaining Life in Years
2,000	\$ 0.10	17-Nov-17	0.88
20,200	0.07	14-Jul-18	1.53
9,940	0.15	18-Dec-18	1.96
32,140	\$ 0.10		1.63

(c) Stock Option Plan

The Company has a stock option plan open to directors, officers, full-time employees and consultants of the Company. Under this plan, the Company may grant total options to a maximum of 10% of the issued and outstanding common shares of the Company on a non-diluted basis.

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(d) Basic and diluted (loss) per common share based on net (loss) for the years ended December 31, 2016 and 2015:

Numerator:	Year ended December 31,	
	2016	2015
Net (loss) for the year	\$ (15)	\$ (925)
Denominator:	Year ended December 31,	
	2016	2015
Weighted average number of common shares outstanding – basic	254,356	224,151
Weighted average effect of diluted stock options and warrants (i)	-	-
Weighted average number of common shares outstanding – diluted	254,356	224,151
(Loss) per common share based on loss for the year:	Year ended December 31,	
	2016	2015
Basic and diluted	\$ (0.00)	\$ (0.00)

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 32,140 shares related to convertible securities that were anti-dilutive for the year ended December 31, 2016 (2015 – 34,296 shares).

14. OPERATING LEASE COMMITMENTS

The Company is committed under operating lease agreements for the rental of its premises and a car lease. Minimum annual future lease payments are approximately as follows:

Year	Lease Commitments
2017	\$ 62
2018	62
2019	20
	\$ 144

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15. SEGMENTED INFORMATION

The Company's reportable segments are strategic business units that offer different services and/or products. They are managed separately because each segment requires different strategies and involves different aspects of management expertise.

Fox-Tek develops non-intrusive asset health monitoring sensor systems for the oil and gas market to help operators track the thinning of pipelines and refinery vessels due to corrosion and erosion, strain due to bending or buckling, and process pressure and temperature. Fox-Tek's FT fiber optic sensor and EFM systems allow cost-effective, 24/7 remote monitoring capabilities to improve scheduled maintenance operations, avoid unnecessary shutdowns, and prevent accidents and leaks.

Marcon is an industrial supply contractor servicing the energy sector and a number of US government entities. Marcon's principal business is the sale and distribution of industrial machinery and equipment such as cranes, derricks, diesel engines, conveyor systems, oil refining machines, packing machinery, industrial pumps and welding machinery.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company carries out its operations through wholly-owned entities. These entities are located in Canada and the United States.

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For the year December 31, 2016

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total
Sales	\$ 3,812	\$ 784	\$ -	\$ 4,596
Cost of Sales	(3,358)	(212)	-	(3,570)
Gross profit	454	572	-	1,026
Expenses				
Research and development	-	(155)	-	(155)
Selling	-	(34)	-	(34)
General and administrative	(357)	(144)	(329)	(830)
Total operating expenses	(357)	(333)	(329)	(1,019)
Income (loss) from operations	97	239	(329)	7
Finance costs	(1)	-	(17)	(18)
Foreign exchange gain (loss)	113	(6)	(90)	17
Net income (loss) before income tax	209	233	(436)	6
Income tax expense	(21)	-	-	(21)
Net income (loss)	188	233	(436)	(15)
Other comprehensive income	-	-	2	2
Total comprehensive income (loss)	\$ 188	\$ 233	\$ (434)	\$ (13)

As of December 31, 2016

Equipment	\$ 8	\$ 34	-	\$ 42
Total assets	\$ 877	\$ 269	\$ 22	\$ 1,168

All of the Company's equipment is located in Canada. The Marcon sales revenue of \$3,812 excludes intercompany sales of \$44 to Fox-Tek for the year ended December 31, 2016. The intercompany sales have been eliminated in the consolidated financial statements.

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For the year ended December 31, 2015

	Marcon	Fox-Tek	Corporate	Total
	Operations	Operations	Operations	Company
Sales	\$ 1,608	\$ 510	\$ -	\$ 2,118
Cost of Sales	(1,388)	(188)	-	(1,576)
Gross Profit	220	322	-	542
Expenses				
Research and development	-	(199)	-	(199)
Selling	-	(48)	-	(48)
General and administrative	(325)	(186)	(486)	(997)
Total Operating Expenses	(325)	(433)	(486)	(1,244)
Loss from Operations	(105)	(111)	(486)	(702)
Finance costs	(4)	-	(76)	(80)
Unrealized gain on investment	-	-	90	90
Loss on disposal of investment	-	-	(133)	(133)
Foreign exchange (loss)gain	(121)	45	(24)	(100)
Loss before income tax	(230)	(66)	(629)	(925)
Other comprehensive income	-	-	9	9
Comprehensive loss	\$ (230)	\$ (66)	\$ (620)	\$ (916)
As of December 31, 2015				
Total assets	\$ 255	\$ 434	\$ 278	\$ 967
Equipment	11	45	-	56

All of the Company's equipment is located in Canada. The Marcon sales revenue of \$1,608 excludes intercompany sales of \$82 to Fox-Tek for the year ended December 31, 2015. The intercompany sales have been eliminated in the consolidated financial statements.

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Revenue by Geographic Region

	Year ended December 31,	
	2016	2015
USA	\$ 3,738	\$ 1,538
Canada	646	266
Middle East	201	278
Others	11	36
Total	\$ 4,596	\$ 2,118

16. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. All amounts owing to related parties are unsecured, non-interest bearing and due on demand unless otherwise noted. Related party transactions are as follows:

- (a) During the year ended December 31, 2016, interest expense of \$nil (2015 - \$51) was recognized in relation to the loans that were owed to the CEO of the Company. No balances were outstanding at December 31, 2016 and 2015.
- (b) Included in accounts payable and accrued liabilities as at December 31, 2016 is \$nil (December 31, 2015 - \$15) owing to a law firm in which a director, Jay Vieira, is a former partner.
- (c) Included in professional fees for the year ended December 31, 2016 is \$4 (2015 - \$4) for legal fees and disbursements owing to another law firm in which a director, Jay Vieira, is a former partner. As at December 31, 2016, \$4 (2015 - \$3) is owing to this law firm.
- (d) Included in accounts payable and accrued liabilities as at December 31, 2016 is \$21 (December 31, 2015 - \$43) owing to the CEO and a company controlled by the CEO.
- (e) A director subscribed for 1,000 units for gross proceeds of \$50 pursuant to the private placement in July 2015.
- (f) Included in the consolidated statement of income (loss) for the year ended December 31, 2016 is \$165 (2015 - \$165) paid to a company controlled by the CEO for services rendered by the CEO (Note 17).
- (g) As at December 31, 2016, \$1 (December 31, 2015, \$12) is owing to officers of the Company.
- (h) A former director of the Company, Gerry Feldman, was an officer of Pinetree at the time of the Company's acquisition of the common shares of Pinetree. See note 6.
- (i) During the year ended December 31, 2016, two officers made short term advances to the Company \$137 (2015 - \$129). One of the advances bore no interest and the other carried an interest of 12% pa. All loans were repaid at December 31, 2016 including interest of \$2 (2015 - \$nil).
- (j) During the year ended December 31, 2016, the Company received rent of \$10 (2015 - \$12) from Mooncor Oil & Gas Corp., a company with an officer and director in common with the Company.

17. KEY MANAGEMENT PERSONNEL COMPENSATION

During the year ended December 31, 2016, the Company recognized salaries and short term benefit expenses of \$479 (2015 - \$479) for its key management personnel, including the CEO of the Company, VP of Software Solutions, VP of Operations, and CFO of the Company.

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18. GENERAL AND ADMINISTRATIVE

The general and administrative expenses are comprised as follows:

	Year ended December 31,	
	2016	2015
Salaries and short-term benefits	\$ 531	\$ 556
Professional fees	63	36
Office and general	222	385
Amortization	14	20
Total	\$ 830	\$ 997

19. CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or debt. The Company considers its capital to include shareholders' equity which amounts to \$137 (2015 – \$51).

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than that of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2016, the Company was compliant with the policies of the TSXV.

The Company has no commitments, other than convertible debentures and warrants, to sell or otherwise issue common shares. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company has not changed its approach to capital management during the years ended December 31, 2016 and 2015.

20. SUBSEQUENT EVENT

On January 30, 2017, the Company granted 11,500 stock options to officers, directors and consultants. Each stock option is exercisable into common shares of the Company at an exercise price of \$0.10. The options vest in three equal yearly tranches with the first instalment vesting as at January 30, 2017 with the remaining options vesting on the one and two year anniversaries of the initial release. The options expire on January 30, 2022.