FORM 2A

INTELLAEQUITY INC.

LISTING STATEMENT

1. Table of Contents

2. Corporate Structure

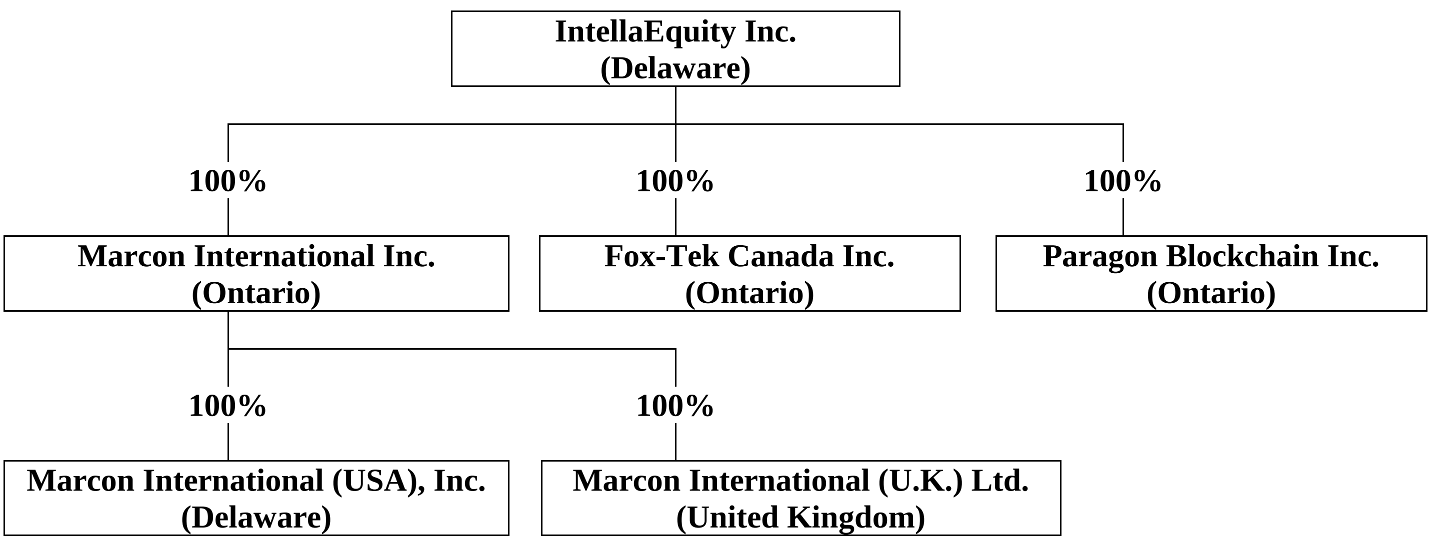
2.1 State the full corporate name of the Issuer or, if the Issuer is an unincorporated entity, the full name under which the entity exists and carries on business and the address(es) of the Issuer's head and registered office.

IntellaEquity Inc. (formerly Augusta Industries Inc.)
2455 Cawthra Road
Suite 75
Mississauga, Ontario L5A 3P1

2.2 State the statute under which the Issuer is incorporated or continued or organized or, if the Issuer is an unincorporated entity, the laws of the jurisdiction or foreign jurisdiction under which the Issuer is established and exists. Describe the substance of any material amendments to the articles or other constating or establishing documents of the Issuer.

***General Corporate Law* of the State of Delaware**

2.3 Describe, by way of a diagram or otherwise, the intercorporate relationships among the Issuer and the Issuer's subsidiaries. For each subsidiary state



2.4 If the Issuer is requalifying following a fundamental change or is proposing an acquisition, amalgamation, merger, reorganization or arrangement, describe by way of diagram or otherwise these intercorporate relationships both before and after the completion of the proposed transaction.

N/A

2.5 Non-corporate Issuers and Issuers incorporated outside of Canada must describe how their governing legislation or constating documents differ materially from Canadian corporate legislation with respect to the corporate governance principles set out in Policy 4.

N/A

3. General Development of the Business

3.1 Describe the general development of the Issuer's business over its three most recently completed financial years and any subsequent period. Include only major events or conditions that have influenced the general development of the Issuer's business. If the business consists of the production or distribution of more than one product or the rendering of more than one kind of service, describe the principal products or services. Also discuss changes in the business of the Issuer that are expected to occur during the current financial year of the Issuer.

IntellaEquity was incorporated on October 13, 1999 under the laws of the State of Delaware and has offices in Mississauga, Ontario and Calgary, Alberta.

Marcon International Inc. ("Marcon") was incorporated under the laws of the Province of Ontario on April 28, 2010. In July 2010, Marcon purchased certain assets from Knoxbridge Corp. ("Knoxbridge") pursuant to an asset purchase agreement dated May 13, 2010, as amended by an amending agreement dated July 23, 2010 (the "Marcon Purchase Agreement"). Pursuant to the Marcon Purchase Agreement, Marcon purchased all of the contracts, intellectual property and goodwill of Knoxbridge that pertained to the business of Knoxbridge for $750,000 which was satisfied through the issuance of an aggregate of 73,397,870 common shares of Marcon. All discussion of the business of Marcon will include a discussion of the business of Knoxbridge.

In addition, Allen Lone, the sole shareholder of Knoxbridge, transferred all of his shares in Marcon International (USA), Inc. (a Delaware corporation) and Marcon International (UK) Ltd. (an England and Wales corporation) to Marcon in consideration for $1. The transactions contemplated by the Marcon Purchase Agreement and the transfer of all of the shares of Marcon International (USA), Inc. and Marcon (UK) Ltd. to Marcon are non-arm's length transactions as Allen Lone is the sole shareholder of Knoxbridge, Marcon International (USA), Inc. and Marcon (UK) Ltd. as well as the sole officer and director of Marcon. Marcon International (USA), Inc. ("Marcon USA") and Marcon International (UK) Ltd. ("Marcon UK") were incorporated to facilitate the procurement of contracts in the United States and European Union.

Over the last ten (10) fiscal years the development of the business has been influenced by the global economic crisis and the decision of various governments and companies to curtail spending. As the economy recovers and spending increases, Marcon believes that its business will grow with the increased spending.

During the past three years, aside from the proposed transaction with Fox-Tek as described herein, there have been no major business events for Marcon.
IntellaEquity is constantly working to improve its position in terms of intellectual property and what it offers to its customers. In the first quarter of 2018, the company continues to focus on

improvements to its technology in markets with the highest perceived potential payoff, particularly oil and gas sectors.

Notable events include the following:

Blockchain Technology

IntellaEquity has created a wholly owned subsidiary, Paragon Blockchain Inc. ("Paragon") to commence the process of implementing Blockchain technology. Paragon has entered into a Memorandum of Understanding with an undisclosed blockchain company (the "UBC") to advise and develop a new set of blockchain applications for IntellaEquity. The UBC will act as technical advisor and initiate the process of developing a new set of blockchain applications that will integrate, amongst other things, artificial intelligence for the purpose of sorting critical procurement opportunities within US government agencies for Marcon and Fox-Tek.

Blockchain technology has the potential to unlock substantial new opportunities capable of impacting the business of Marcon. Specifically, Marcon seeks to create an eco-system in the supply chain management of clients to change the dynamics of the scoping and bidding process by providing vendors and subcontractors with artificial intelligence data mining tools to proactively drive the process.

Change of Business

After a thorough evaluation of the IntellaEquity's existing operations and a review of strategic options for the company generally, IntellaEquity's board of directors and management determined to refocus its business operations from an "industrial company" to an "investment issuer". The Board believes that its network of business contacts, the depth of experience of its management team and its overall entrepreneurial approach will enable it to identify and capitalize upon investment opportunities as an "investment issuer". There will be no specific transaction or acquisition completed in connection with the proposed change of business.

If shareholders approve the proposed change of business at the shareholders' meeting schedulked for July 11, 2018, IntellaEquity intends to continue its operations as a diversified investment and merchant banking firm focused on public companies and commodities. IntellaEquity's proposed investment activities will include (i) public companies, (ii) near public companies and private capital, (iii) global venture capital initiatives and (iv) strategic physical commodities. However, IntellaEquity may take advantage of special situations and merchant banking opportunities, as such opportunities arise, and make investments in other sectors which the company identifies from time to time as offering particular value.

A copy of the proposed investment policy for IntellaEquity is enclosed hereto as Schedule "A".

3.2 Disclose:

(1) (a) any significant acquisition completed by the Issuer or any significant probable acquisition proposed by the Issuer, for which financial statements would be required under National Instrument 41-101 *General Prospectus Requirements* if this Listing Statement were a prospectus; and

N/A

(b) any significant disposition completed by the Issuer during the most recently completed financial year or the current financial year for which *pro forma* financial statements would be required under National Instrument 41-101 *General Prospectus Requirements* if this Listing Statement were a prospectus.

Pursuant to a letter of intent dated May 27, 2018 and an amalgamation agreement dated June 11, 2018, Sensor Technologies Inc. (formerly Mooncor Oil and Gas Corp.) ("Mooncor") has agreed to acquire all of the issued and outstanding securities in the capital of Fox-Tek for an aggregate purchase price of $21,500,000. The purchase price will be satisfied as follows:

- **$9,500,000 will be satisfied through the issuance of an aggregate of 47,500,000 common shares in the capital of Mooncor at a price of $0.20 per share; and**

- **$12,000,000 will be satisfied through a royalty of 15% on all future sales of Fox-Tek's products and a 20% royalty on all future sales of Fox-Tek services. The royalties shall be payable until the earlier of (a) the 10 year anniversary of the closing of the sale of Fox-Tek or (b) the aggregate payment of $12 million in royalties.**

(2) Under paragraph (1) include particulars of

(a) the nature of the assets acquired or disposed of or to be acquired or disposed of;

All of the issued and outstanding securities of Fox-Tek

(b) the actual or proposed date of each significant acquisition or significant disposition;

July 26, 2018

(c) the consideration, both monetary and non-monetary paid, or to be paid, to or by the Issuer;

- **47,500,000 common shares in the capital of Mooncor at a price of $0.20 per share; and**

- **$12,000,000 through a royalty of 15% on all future sales of Fox-Tek's products and a 20% royalty on all future sales of Fox-Tek services. The royalties shall be payable until the earlier of (a) the 10 year anniversary of the closing of the sale of Fox-Tek or (b) the aggregate payment of $12 million in royalties.**

(d) any material obligations that must be complied with to keep any significant acquisition or significant disposition agreement in good standing;

N/A

(e) the effect of the significant acquisition or significant disposition on the operating results and financial position of the Issuer;

Will have minimal impact of the financial position of IntellaEquity.

(f) any valuation opinion obtained within the last 12 months required under Canadian securities legislation, a directive of a Canadian securities regulatory authority, or a requirement of a Canadian stock exchange or other Canadian market to support the value of the consideration received or paid by the Issuer or any of its subsidiaries for the assets, including the name of the author, the date of the opinion, the assets to which the opinion relates and the value attributed to the assets; and

N/A

(g) whether the transaction is with a Related Party of the Issuer and if so, disclose the identity of the other parties and the relationship of the other parties to the Issuer.

The transaction between IntellaEquity and Mooncor is a non-arm's length transaction as Allen Lone, a director, officer and majority shareholder of IntellaEquity, is also a director and officer of Mooncor. Mr. Lone owns, directly and indirectly, 6,920,000 common shares (4.13%) in the capital of Mooncor. Pursuant to Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions ("MI 61-101") IntellaEquity will seek majority of minority approval for the sale of Fox-Tek to Mooncor at its shareholders' meeting scheduled for July 11, 2018.

3.3 Discuss any trend, commitment, event or uncertainty that is both presently known to management and reasonably expected to have a material effect on the Issuer's business, financial condition or results of operations, providing forward-looking information based on the Issuer's expectations as of the date of the Listing Statement.

N/A

4 Narrative Description of the Business

4.1 General

(1) Describe the business of the Issuer with reference to the reportable operating segments as defined in the Handbook and the Issuer's business in general. Include the following for each reportable operating segment of the Issuer:

(a) state the business objectives that the Issuer expects to accomplish in the forthcoming 12-month period;

IntellaEquity has been an industrial issuer since its inception. At its shareholders' meeting held on July 11, 2018, the shareholders approved the sale of Fox-Tek Canada Inc. to Mooncor Oil & Gas Corp. and approved a change of business for IntellaEquity from an industrial issuer to an investment issuer.

IntellaEquity's primary business objective going forward is to become a diversified investment and venture capital firm focused on providing investors with long term capital growth by investing in a portfolio of undervalued companies and assets in the n the mining, technology and real estate sectors. In addition to its investments in Marcon and Mooncor, IntellaEquity seeks to invest in an additional 2 to 4 investments in the next 12 months.

The following shall be the guidelines for IntellaEquity's investment strategy:

1. **Investments shall be focused in (i) public companies, (ii) near public companies and private capital, global venture capital initiatives and (iii) strategic physical commodities.**

2. **The investment portfolio may be comprised of securities of both public and private issuers primarily in the mining, technology and real estate sectors, but may also include investments in certain other sectors, including real estate, water, green energy, alternative energy, and agriculture.**

3. **Target investments shall encompass companies at all stages of development, including pre-initial public offering and/or early stage companies requiring start-up or development capital, as well as intermediate and senior companies.**

4. **Initial investments of equity, debt or a combination thereof may be made through a variety of financial instruments including, but not limited to, private placements, participation in initial public offerings, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, royalties, net profit interests and other hybrid instruments, which will be acquired and held both for long-term capital appreciation and shorter-term gains.**

5. **The nature and timing of IntellaEquity's investments will depend, in part, on available capital at any particular time and the investment opportunities identified and available to IntellaEquity.**

6. **A key aspect of the investment strategy shall be seeking undervalued companies backed by strong management teams and solid business models that can benefit from macro-economic trends. Notwithstanding this requirement, consideration will be given to opportunities where existing management may need the infusion of high level guidance, direction and expertise from IntellaEquity. In such situations, IntellaEquity intends to work closely with an investee company's management and board of directors to structure and deliver the strategic and financial resources to help such company best take advantage of its position on the sector and to mature into a successful commercial enterprise.**

7. IntellaEquity will invest in concentrated, long-term positions in public companies. IntellaEquity may invest in securities of issuers in special situations, including event-driven situations such as corporate restructurings, mergers, hostile takeovers, bankruptcies or leveraged buyouts. IntellaEquity may also invest in (i) public companies where there is an opportunity to invest to gain control over the strategic direction of such public company, thereby fully exploiting the corporate structure to execute opportunistic transactions which would otherwise be unavailable, such as take-over bids using publicly-traded securities as currency, (ii) accretive acquisitions of similar structures, and (iii) public and private companies that would otherwise be problematic to accommodate in a fund structure with short term redemption features.

8. IntellaEquity's investment strategy will also include structuring and initiating deals focused on particular themes, or regions as well as launching the development of businesses in select industries by providing assistance with the hiring of management teams, providing seed capital and facilitating the transition of such private companies to the public market.

9. In the resource sector, the primary focus of IntellaEquity will be to invest in securities of issuers which have quality proven or prospective resources in locations which management of IntellaEquity believes are, or will become, amenable to development of the resource. In the technology and industrial sectors, IntellaEquity expects to invest in securities of issuers which it believes have competitive advantages in an area with a large potential market.

10. IntellaEquity may take positions in strategic commodities which it believes have strong long term fundamentals and which otherwise are difficult to gain exposure to. Investments may be structured as direct physical purchases or off-take contracts.

11. IntellaEquity may borrow funds, which may be used for various purposes, including making investments, effecting market purchases of common shares and paying fees and expenses of IntellaEquity (the "Borrowings"). Such Borrowings shall never exceed 250% of the net assets of IntellaEquity. IntellaEquity expects that the terms, conditions, interest rates, fees and expenses of and under such Borrowings will be typical of borrowings of this nature.

12. In general, the investment activities of IntellaEquity are expected to be passive. However, IntellaEquity may, from time to time, seek a more active role in situations where involvement of IntellaEquity is expected to make a significant difference to success and resulting appreciation. IntellaEquity may seek equity participation in situations to which IntellaEquity can potentially add value by its involvement, not only financially but also by the contribution of guidance and additional management expertise.

13. Immediate liquidity shall not be a requirement, but each investment shall be evaluated in terms of a clear exit strategy designed to maximize the relative return in light of changing fundamentals and opportunities.

14. Subject to applicable laws, there are no restrictions on the size or market capitalization with respect to IntellaEquity's investments in the equity securities of public or private issuers.

15. Cash reserves may, from time to time as appropriate, be placed into high quality money market investments, including Canadian Treasury Bills or corporate notes rated at least R-1 by DBRS Limited, each with a term to maturity of less than one year.

16. IntellaEquity will not purchase or sell commodities, purchase the securities of any mutual fund, purchase mortgages or sell mortgages or purchase or sell derivatives (except that IntellaEquity may sell call options to purchase securities owned by IntellaEquity as a means of locking in gains or avoiding future losses).

17. Subject to the full approval of the board of directors of IntellaEquity (the "Board"), the investment committee (the "Investment Committee") established by IntellaEquity may consider certain special investment situations, including assuming a controlling or joint-controlling interest in an investee company, which may also involve the provision of advice to management and/or board participation.

18. All investments shall be made in full compliance with applicable laws in relevant jurisdictions, and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

(b) describe each significant event or milestone that must occur for the business objectives in (a) to be accomplished and state the specific time period in which each event is expected to occur and the costs related to each event;

The company has already identified various investment targets. The milestones set out below must be accomplished to meet IntellaEquity's business objective of becoming a diversified investment fund.

Identify Potential Investments

IntellaEquity must first identify target companies that demonstrate potential, have strong management teams and/or are involved with a segment of the market that is consistent with or otherwise complimentary to IntellaEquity's macro position. IntellaEquity expects to locate such companies in the next 6 to 12 months.

Conduct Due Diligence

After identifying target companies that demonstrate investment potential, IntellaEquity must conduct due diligence on the individual companies to ensure a strong management team is in place. During the due diligence stage, IntellaEquity will evaluate securities of a company using an evaluation method consistent with the method used to evaluate securities of other issuers in the same industry. In selecting securities for its portfolio, the following factors in relation to any particular issuer, will be considered:

- **inherent value of its assets or intellectual property;**

- **proven management, clearly-defined management objectives and strong technical and professional support;**
- **future capital requirements to develop the full potential of its business and the expected ability to raise the necessary capital;**
- **anticipated rate of return and the level of risk;**
- **financial performance; and**
- **exit strategies and criteria.**

The diligence review will take place on an ongoing basis over the next 12 months as new investment opportunities arise.

Invest

The final milestone that must be achieved is investing in a company that is complimentary to IntellaEquity`s investment policy. It is expected that IntellaEquity will commence investing in up to 2 to 4 additional companies in the next 12 months.

Specialized Skills and Knowledge

IntellaEquity's business requires specialized skills and knowledge include knowledge and experience in the areas of investing, technology, biotechnology and resource sectors. IntellaEquity's directors and management are composed of a team of individuals who have extensive expertise in these areas and knowledge in managing and investing in companies as the Chief Executive Officer and the Chief Financial Officer of IntellaEquity is a Chartered Accountant and Chartered Professional Accountant and the Controller of IntellaEquity is a Chartered Professional Accountant and Chartered Management Accountant. IntellaEquity's performance will be largely dependent on the talents, efforts and performance of its senior management and key technical personnel.

(c) disclose the total funds available to the Issuer and the following breakdown of those funds:

(i) the estimated consolidated working capital (deficiency) as of the most recent month end prior to filing the Listing Statement, and

As at March 31, 2018, the company had a working capital deficit of approximately $394,000. However, current liabilities include deferred revenue of approximately $223,000 and advances of approximately $407,000. The deferred revenue should not be included in current liabilities as the company will fulfil these orders over the next 12 months and the advances have been repaid in full as of the date hereof. Having excluded these items, the company will have positive working capital of approximately $236,000. In addition, the company’s wholly owned subsidiary, Marcon International Inc., is a going concern and generates sufficient revenue to cover the working capital of the company for the next 12 months. For the three months ending March 31, 2018, Marcon generated gross profits of approximately $201,000 and gross profits of $236,000 for the year ended December 31, 2017.

The company intends to use its securities for all of its investing activities for the next 12 months. The company has identified several investment opportunities where the targets have agreed to accept securities in the capital of the company as consideration.

(ii) the total other funds, and the sources of such funds, available to be used to achieve the objectives and milestones set out in paragraphs (a) and (b); and

N/A

(d) describe in reasonable detail and, if appropriate, using tabular form, each of the principal purposes, with approximate amounts, for which the funds available described under the preceding paragraph will be used by the Issuer.

The expenses for the company for the next 12 months will be as follows:

Rent:	**$5,444**
Overhead:	**$260,348**
Administrative:	**$4,905**

The working capital of $236,000 and the revenue generated by Marcon International is more than sufficient to cover these expenses.

(2) For principal products or services describe:

N/A

(3) Concerning production and sales, disclose:

N/A

(4) Describe the competitive conditions in the principal markets and geographic areas in which the Issuer operates, including, if reasonably possible, an assessment of the Issuer's competitive position.

IntellaEquity is neither a mutual fund nor an investment fund but does compete with these investment vehicles for the purposes of investment opportunities, in addition to hedge funds, other institutional investors and corporate buyers. Many of these competitors have greater financial, technical and other resources than IntellaEquity. However, IntellaEquity believes that IntellaEquity's competitive position vis-a-vis these other players is enhanced by virtue of its network of business contacts, the collective experience of its management team and its overall entrepreneurial approach, all of which contribute to its ability to source, identify and capitalize upon investment opportunities relatively quickly.

(5) With respect to lending operations of an Issuer's business, describe the investment policies and lending and investment restrictions.

N/A

(6) Disclose the nature and results of any bankruptcy, or any receivership or similar proceedings against the Issuer or any of its subsidiaries or any voluntary bankruptcy, receivership or similar proceedings by the Issuer or any of its subsidiaries, within the three most recently completed financial years or the current financial year.

N/A

(7) Disclose the nature and results of any material restructuring transaction of the Issuer within the three most recently completed financial years or completed during or proposed for the current financial year.

N/A

(8) If the Issuer has implemented social or environmental policies that are fundamental to the Issuer's operations, such as policies regarding the Issuer's relationship with the environment or with the communities in which the Issuer does business, or human rights policies, describe them and the steps the Issuer has taken to implement them.

N/A

4.2 In respect of any outstanding asset-backed securities, disclose the following information:

N/A

4.3 For Issuers with a mineral project, disclose and insert here the information required by Appendix A for each property material to the Issuer.

N/A

4.4 For Issuers with Oil and Gas Operations disclose and insert here the information required by Appendix B (in tabular form, if appropriate).

N/A

5. Selected Consolidated Financial Information

5.1 Annual Information — Provide the following financial data for the Issuer in summary form for each of the last three completed financial years and any period subsequent to the most recent financial year end for which financial statements have been prepared, accompanied by a discussion of the factors affecting the comparability of the data, including discontinued operations, changes in accounting policies, significant acquisitions or significant dispositions and major changes in the direction of the Issuer's business:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Total Revenues	**2,556,000**	**4,596,000**	**2,118,000**
Net Income (loss)	**(929,000)**	**6,000**	**(925,000)**
Total Assets	**524,000**	**1,168,000**	**967,000**
Total Liabilities	**1,068,000**	**1,031,000**	**916,000**
Cash dividends declared per share	**Nil**	**Nil**	**Nil**

5.2 Quarterly Information — For each of the eight most recently completed quarters ending at the end of the most recently completed financial year, provide the information required in paragraphs (a), (b) and (b) of Section 5.1.

	3 Months Ending March 31, 2018	12 Months Ending December 32, 2017	9 Months Ending September 30, 2017	6 Months Ending June 30, 2017
Total Revenues	**$1,720,000**	**$2,556,000**	**$2,225,000**	**$1,576,000**
Net Income (loss)	**($18,000)**	**($929,000)**	**($431,000)**	**($265,000)**
Total Assets	**$2,154,000**	**$524,000**	**$1,180,000**	**$883,000**
Total Liabilities	**$2,679,000**	**$1,068,000**	**$1,275,000**	**$854,000**

	3 months Ending March 31, 2017	12 Months Ending December 31, 2016	9 Months Ending September 30, 2016	6 Months Ending June 30, 2016
Total Revenues	**$879,000**	**$4,596,000**	**$3,297,000**	**$1,818,000**
Net Income (loss)	**($181,000)**	**($15,000)**	**$74,000**	**($149,000)**
Total Assets	**$1,092,000**	**$1,168,000**	**$1,544,000**	**$1,249,000**
Total Liabilities	**$1,036,000**	**$1,031,000**	**$1,424,000**	**$1,056,000**

5.3 Dividends:

(a) any restriction that could prevent the Issuer from paying dividends; and

N/A

(b) the Issuer's dividend policy and, if a decision has been made to change the dividend policy, the intended change in dividend policy.

IntellaEquity has no fixed dividend policy and no dividends have been declared on any class of shares of the company since the date of incorporation. The payment of dividends is subject to the discretion of the Board and will depend on, among other factors, earnings, capital requirements and operating and financial condition. IntellaEquity does not intend to pay dividends in the foreseeable future but instead intends to retain future earnings, if any, to finance the growth and development of the company's business.

5.4 Foreign GAAP — An Issuer may present the selected consolidated financial information required in this section on the basis of foreign GAAP if:

N/A

6. Management's Discussion and Analysis

Annual MD&A

6.1 Date - Specify the date of the MD&A. The date of the MD&A must be no earlier than the date of the auditor's report on the financial statements for the Issuer's most recently completed financial year.

MD&A for the years ended December 31, 2017, 2016 and 2015 are attached hereto as Schedule "B"

6.2 Overall Performance - Provide an analysis of the Issuer's financial condition, results of operations and cash flows. Discuss known trends, demands, commitments, events or uncertainties that are reasonably likely to have an effect on the Issuer's business. Compare the Issuer's performance in the most recently completed financial year to the prior year's performance. The analysis should address at least the following:

Please refer to the MD&A for the respective year.

Selected Annual Financial Information

6.3 Provide the following financial data derived from the Issuer's financial statements for each of the three most recently completed financial years:

	Year Ended December 31, 2017	**Year Ended December 31, 2016**	**Year Ended December 31, 2015**
Total Revenues	**2,556,000**	**4,596,000**	**2,118,000**
Net Income (loss)	**(929,000)**	**6,000**	**(925,000)**
Total Assets	**524,000**	**1,168,000**	**967,000**
Total Liabilities	**1,068,000**	**1,031,000**	**916,000**
Cash dividends declared per share	**Nil**	**Nil**	**Nil**

6.4 Variations - Discuss the factors that have caused period to period variations including discontinued operations, changes in accounting policies, significant acquisitions or dispositions and changes in the direction of the Issuer's business, and any other information the Issuer believes would enhance an understanding of, and would highlight trends in, financial condition and results of operations.

Please refer to the MD&A for the respective year.

6.5 Results of Operations - Discuss management's analysis of the Issuer's operations for the most recently completed financial year, including:

Please refer to the MD&A for year ended December 31, 2017.

6.6 Summary of Quarterly Results - Provide the following information in summary form, derived from the Issuer's financial statements, for each of the eight most recently completed quarters:

	3 Months Ending March 31, 2018	**12 Months Ending December 32, 2017**	**9 Months Ending September 30, 2017**	**6 Months Ending June 30, 2017**
Total Revenues	**$1,720,000**	**$2,556,000**	**$2,225,000**	**$1,576,000**
Net Income (loss)	**($18,000)**	**($929,000)**	**($431,000)**	**($265,000)**
Total Assets	**$2,154,000**	**$524,000**	**$1,180,000**	**$883,000**
Total Liabilities	**$2,679,000**	**$1,068,000**	**$1,275,000**	**$854,000**

	3 months Ending March 31, 2017	**12 Months Ending December 31, 2016**	**9 Months Ending September 30, 2016**	**6 Months Ending June 30, 2016**
Total Revenues	**$879,000**	**$4,596,000**	**$3,297,000**	**$1,818,000**
Net Income (loss)	**($181,000)**	**($15,000)**	**$74,000**	**($149,000)**
Total Assets	**$1,092,000**	**$1,168,000**	**$1,544,000**	**$1,249,000**
Total Liabilities	**$1,036,000**	**$1,031,000**	**$1,424,000**	**$1,056,000**

6.7 Liquidity - Provide an analysis of the Issuer's liquidity.

Contractual Obligations	**Payments Due by Period**				
	Total	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Long Term Debt	**181,000**	**56,000**	**125,000**	**-**	**-**
Capital Lease Obligations	**-**	**-**	**-**	**-**	**-**
Operating Leases	**101,000**	**71,000**	**29,000**	**1,000**	**-**
Purchase Obligations	**-**	**-**	**-**	**-**	**-**
Other Long Term Obligations	**-**	**-**	**-**	**-**	**-**
Total Contractual Obligations	**282,000**	**127,000**	**154,000**	**1,000**	**-**

6.8 Capital Resources - Provide an analysis of the Issuer's capital resources, including

N/A

6.9 Off-Balance Sheet Arrangements - Discuss any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Issuer including, without limitation, such considerations as liquidity and capital resources. This discussion shall include their business purpose and activities, their economic substance, risks associated with the arrangements, and the key terms and conditions associated with any commitments, including:

N/A

6.10 Transactions with Related Parties - Discuss all transactions involving related parties as defined by the Handbook.

(a) As at December 31, 2017, $4,000 is owing to a law firm in which a director, Jay Vieira, is a former partner.

(b) Included in accounts payable and accrued liabilities as at December 31, 2017 is $21,000, owing to the CEO and a company controlled by the CEO.

(c) As at December 31, 2017, $20,000 is owing to other officers of the company.

(d) Included in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2017 is $165,000 paid to a company controlled by the CEO for services rendered by the CEO.

(e) During the year ended December 31, 2017, the company granted 5,500,000 options to directors and officers of the Company at an exercise price of $0.10 per share expiring on January 30, 2022.

6.11 Fourth Quarter - Discuss and analyze fourth quarter events or items that affected the Issuer's financial condition, cash flows or results of operations, including extraordinary items, year-end and other adjustments, seasonal aspects of the Issuer's business and dispositions of business segments.

Some of the notable events and items in the 4th quarter of 2017 that affected the financial conditions, cash flows and results of operations are as follows: (All figures are in $'000s)

1. IntellaEquity recorded a bad debt provision for Enerdynamic Hybrid Technologies Corp. ("EHT") of $125. In the second quarter of 2017, Marcon entered into an agreement with EHT to undertake sales and marketing efforts on behalf of the company for a fee of $125 plus applicable taxes to help with the initial cost enlisting the company's products to potential customers and in particular various US government agencies. EHT has failed to follow up on its commitments and have not responded to Marcon's numerous attempts for payment of the fee as agreed.

2 IntellaEquity booked inventory impairment of $77 during the fourth quarter of 2017 and also booked interest and legal costs of a $32 awarded to Collins Barrow, its previous auditor.

3. On January 30, 2017, IntellaEquity granted 11,500 stock options to directors, officers and consultants of the company exercisable at a price of $0.10 per share and expiring on January 30, 2022. The options vest in three equal yearly tranches with the first instalment vesting on

January 30, 2017 with the remaining options vesting on the one and two year anniversaries of the initial release. For the three months ended December 31, 2017, included in the consolidated statements of loss and comprehensive loss is stock-based compensation of $38 relating to the stock options granted to directors, officers and consultants of the company.

4. **IntellaEquity has debentures of $48 that have already matured and are now due on demand. The company has negotiated and agreed with the debenture holder to commence cash payments of the interest on the debentures starting in May 2018.**

5. **Fox-Tek is working closely with CANMET on the development of a new sensor technology (RFID corrosion sensor) to be used as a way to determine the damage of time on pipeline coatings. A letter of Interest submitted to a government initiative. IntellaEquity has been selected to phase 2 - LOI Technical review. The potential revenue from this is $4,000.**

6. **Subsequent to December 31, 2017, IntellaEquity has created a wholly owned subsidiary, Paragon Blockchain Inc. ("Paragon") to commence the process of implementing blockchain technology. Paragon" has entered into a memorandum of understanding with an undisclosed blockchain company (the "UBC") to advise and develop a new set of blockchain applications for IntellaEquity. The UBC will act as technical advisor and initiate the process of developing a new set of blockchain applications that will integrate, amongst other things, artificial intelligence (A.I.) for the purpose of sorting critical procurement opportunities within US government agencies for Marcon and Fox-Tek. Blockchain technology has the potential to unlock substantial new opportunities capable of impacting the business of Marcon. Specifically, Marcon seeks to create an eco-system in the supply chain management of clients to change the dynamics of the scoping and bidding process by providing vendors and subcontractors with A.I. data mining tools to proactively drive the process. Blockchain technology is of critical importance to Fox-Tek as well particularly the expansion of its' non-intrusive technology in the oil & gas industry, whose clients include many of the biggest companies in the world. Fox-Tek believes a common system of record connecting data collected for events is of paramount importance to clients. IntellaEquity will create a platform that will allow for the analysis of data that incorporates an auditing system built for regulatory and quality assurance oversight. The platform will implement a distributed blockchain ledger using smart contracts. These smart contracts provide customization of blockchain data.**

7. **Subsequent to December 31, 2017, IntellaEquity announced that it has entered into a letter of intent (the "LOI") pertaining to the sale of Fox-Tek to Mooncor for an aggregate purchase price of up to $21,500,000 (the "Purchase Price"). $9,500,000 of the Purchase Price will be satisfied through the issuance of an aggregate of 47,500,000 post-consolidated common shares (the "Consideration Shares") in the capital of Mooncor at a price of $0.20 per Consideration Share. The balance of the Purchase Price, being up to $12,000,000, will be satisfied through a royalty of 15% on all future sales of Fox-Tek's products and a 20% royalty on all future sales of Fox-Tek's services (collectively, the "Royalty"). The Royalty shall be payable until the earlier of (i) the 10 year anniversary of the closing of the acquisition of Fox-Tek, and (ii) the aggregate payment of $12 million. Pursuant to the LOI, Fox-Tek and Sensor Technologies Inc. ("Sensor"), a wholly owned subsidiary of Mooncor, will enter into**

an amalgamation agreement (the "Agreement") whereby Fox-Tek will amalgamate with Sensor to form a new company ("AmalCo"). Both IntellaEquity and Mooncor will receive shares in AmalCo as a result of the amalgamation. IntellaEquity will transfer its securities in the capital of AmalCo to Mooncor in exchange for the Consideration Shares. As a result of the amalgamation, and the issuance of the Consideration Shares, Fox-Tek will be a wholly owned subsidiary of Mooncor.

6.12 Proposed Transactions - Discuss the expected effect on financial condition, results of operations and cash flows of any proposed asset or business acquisition or disposition if the Issuer's board of directors, or senior management who believe that confirmation of the decision by the board is probable, have decided to proceed with the transaction. Include the status of any required shareholder or regulatory approvals.

N/A

6.13 Changes in Accounting Policies including Initial Adoption - Discuss and analyze any changes in the Issuer's accounting policies.

During the year ended December 31, 2017, IntellaEquity adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included:

(i) IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2017 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. The implementation of amendments to IAS 7 had no impact to the Company's consolidated statements for the year ended December 31, 2017.

(ii) IAS 12 – Income Taxes ("IAS 12") was amended in January 2017 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 resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of amendments to IAS 12 had no impact to the Company's consolidated statements for the year ended December 31, 2017.

In the first quarter of 2018, IntellaEquity adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included:

1. 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.

2. **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.**

3. **IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") was issued in December 2017 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.**

The implementation of the new policies had no impact to IntellaEquity's interim consolidated statements for the three months ended March 31, 2018.

6.14 Financial Instruments and Other Instruments - For financial instruments and other instruments:

N/A

<u>Interim MD&A</u>

6.15 Date - Specify the date of the interim MD&A.

MD&A for the three months ending March 31, 2018 is attached hereto as Schedule "B"

6.16 Updated Disclosure - Interim MD&A must update the Issuer's annual MD&A for all disclosure required by sections 6.2 to 6.14 except sections 6.3 and 6.4. This disclosure must include:

Please refer to the MD&A for the three months ending March 31, 2018 is attached hereto as Schedule "B"

6.17 Additional Disclosure for Issuers without Significant Revenue:

N/A

6.18 Description of Securities:

(a) disclose the designation and number or principal amount of:

The authorized capital of IntellaEquity consists of 400,000,000 Common Shares with a par value of US$0.01. The holders of common shares are entitled to receive notice of and attend all meetings of the shareholders of the Corporation and are entitled to one vote in respect of each common share held at such meetings. Subject to the prior rights of any class of shares from time to time having priority over the common shares, the holders of the common shares shall have the right to receive such dividends (if any) as the directors in their sole discretion may declare. In the event of liquidation, dissolution or winding-up of the Corporation, the holders of common shares are entitled to share rateably the remaining assets of the Corporation.

(b) if the exact number or principal amount of voting or equity securities of the Issuer that are issuable on the conversion, exercise or exchange of outstanding securities of the Issuer is not determinable, the Issuer must disclose the maximum number or principal amount of each class and series of voting or equity securities that are issuable on the conversion, exercise or exchange of outstanding securities of the Issuer and, if that maximum number or principal amount is not determinable, the Issuer must describe the exchange or conversion features and the manner in which the number or principal amount of voting or equity securities will be determined; and

As of the date hereof, IntellaEquity has an aggregate of 256,114,871 common shares issued and outstanding.

6.19 Provide Breakdown:

(a) if the Issuer has not had significant revenue from operations in either of its last two financial years, disclose a breakdown of material components of:

N/A

(b) present the analysis of capitalized or expensed exploration and development costs required by subsection (a) on a property-by-property basis, if the Issuer's business primarily involves mining exploration and development; and

N/A

(c) provide the disclosure in subsection (a) for the following periods:

N/A

6.20 Negative cash-flow - If the Issuer had negative operating cash flow in its most recently completed financial year for which financial statements have been included, disclose:

IntellaEquity had negative cash flow of $190,000 for the twelve (12) months ended December 31, 2017. IntellaEquity believes that the income generated from sales and business activities will be sufficient to fund its operations on a going forward basis.

6.21 Additional disclosure for Issuers with significant equity investees:

N/A

7. Market for Securities

7.1 Identify the exchange(s) and quotation and trade reporting system(s) on which the Issuer's securities are listed and posted for trading or quoted.

TSX Venture Exchange under the symbol "AAO"

8. Consolidated Capitalization

8.1 Describe any material change in, and the effect of the material change on, the share and loan capital of the Issuer, on a consolidated basis, since the date of the comparative financial statements for the Issuer's most recently completed financial year contained in the Listing Statement.

N/A

9. Options to Purchase Securities

9.1 State, in tabular form, as at a specified date not more than 30 days before the date of the Listing Statement, information as to options to purchase securities of the Issuer or a subsidiary of the Issuer that are held by:

Five (5) current officers and directors and two (2) consultants were granted an aggregate of 11,500,000 options in January 2017.

10. Description of the Securities

10.1 General - State the description or the designation of each class of equity securities and describe all material attributes and characteristics, including:

The authorized capital of IntellaEquity consists of 400,000,000 common shares with a par value of US$0.01.

The holders of common shares are entitled to receive notice of and attend all meetings of the shareholders of the Corporation and are entitled to one vote in respect of each common share held at such meetings. Subject to the prior rights of any class of shares from time to time having priority over the common shares, the holders of the common shares shall have the right to receive such dividends (if any) as the directors in their sole discretion may declare. In the event of liquidation, dissolution or winding-up of the Corporation, the holders of common shares are entitled to share rateably the remaining assets of the Corporation.

10.2 Debt securities - If debt securities are being listed, describe all material attributes and characteristics of the indebtedness and the security, if any, for the debt, including:

N/A

10.4 Other securities - If securities other than equity securities or debt securities are being listed, describe fully the material attributes and characteristics of those securities.

N/A

10.5 Modification of terms:

N/A

10.6 Other attributes:

N/A

10.7 Prior Sales - State the prices at which securities of the same class as the securities to be listed have been sold within the 12 months before the date of the Listing Statement, or are to be sold, by the Issuer or any Related Person and the number of securities of the class sold or to be sold at each price.

N/A

10.8 Stock Exchange Price:

Month	High ($)	Low ($)	Volume
March 2018	**0.03**	**0.02**	**2,930,730**
February 2018	**0.03**	**0.025**	**9,204,590**
January 2018	**0.035**	**0.025**	**31,612,990**
December 2017	**0.03**	**0.02**	**5,634,950**
November 2017	**0.04**	**0.025**	**8,202,490**
October 2017	**0.045**	**0.035**	**7,173,334**

Quarter			
September 2017	**0.04**	**0.025**	**21,845,556**
June 2017	**0.035**	**0.025**	**11,184,390**
March 2017	**0.06**	**0.035**	**38,108,430**
December 2016	**0.07**	**0.025**	**69,703,200**
September 2016	**0.04**	**0.025**	**10,114,270**
June 2016	**0.035**	**0.02**	**50,889,120**
March 2016	**0.04**	**0.02**	**42,022,710**

11. Escrowed Securities

11.1 State as of a specified date within 30 days before the date of the Listing Statement, in substantially the following tabular form, the number of securities of each class of securities of the Issuer held, to the knowledge of the Issuer, in escrow (which, for the purposes of this Form includes any securities subject to a pooling agreement) and the percentage that number represents of the outstanding securities of that class. In a note to the table, disclose the name of the depository, if any, and the date of and conditions governing the release of the securities from escrow.

N/A

12. Principal Shareholders

12.1 (1) Provide the following information for each principal shareholder of the Issuer as of a specified date not more than 30 days before the date of the Listing Statement:

Name and Address	Class of Securities	Number of securities owned or controlled	Percentage of class of outstanding voting shares
Allen Lone [(1)] **Oakville, Ontario**	**Common Shares**	**76,754,264**	**29.97%**

Notes:

(1) Mr. Allen owns 3,494,096 common shares directly and 73,260,168 common shares through Knoxbridge Corp., a private company wholly owned by Mr. Lone.

(2) On a fully diluted basis, Mr. Allen will own an aggregate of 78,254,264 common shares, directly and indirectly, or 26.28%.

(2) If the Issuer is requalifying following a fundamental change or has proposed an acquisition, amalgamation, merger, reorganization or arrangement, indicate, to the extent known, the holding of each person of company described in paragraph (1) that will exist after giving effect to the transaction.

No changes are anticipated

(3) If, to the knowledge of the Issuer, more than 10 per cent of any class of voting securities of the Issuer is held, or is to be held, subject to any voting trust or other similar agreement, disclose, to the extent known, the designation of the securities, the number or amount of the securities held or to be held subject to the agreement and the duration of the agreement. State the names and addresses of the voting trustees and outline briefly their voting rights and other powers under the agreement.

N/A

(4) If, to the knowledge of the Issuer, any principal shareholder is an associate or affiliate of another person or company named as a principal shareholder, disclose, to the extent known, the material facts of the relationship, including any basis for influence over the Issuer held by the person or company other than the holding of voting securities of the Issuer.

N/A

13 Directors and Officers

13.1 List the name and municipality of residence of each director and executive officer of the Issuer and indicate their respective positions and offices held with the Issuer and their respective principal occupations within the five preceding years.

Name and State/Province of Residence	Position	Principal Occupation	Director / Officer Since	Number of Voting Securities Beneficially Held, Directed or Controlled
Allen Lone Oakville, Ontario	**Director, President and C.E.O.**	**President of IntellaEquity**	**September 27, 2010**	**76,754,264 (29.97%)**
Warren Goldberg (2) Toronto, Ontario	**Director**	**Partner at DNTW Toronto LLP, Chartered Accountants**	**January 20, 2015**	**5,000 (0.001%)**
Tony Boogmans (2) Calgary, Alberta	**Director**	**President, Arenal Resources Ltd.**	**September 27, 2010**	**2,000,000 (0.78%)**
Steve Ewaskiw (2) Calgary, Alberta	**Director**	**President, Avanos Holdings Inc.**	**September 27, 2010**	**3,500,000 (1.37%)**
Jay Vieira Richmond Hill, Ontario	**Director**	**Since 2016, Vice President, Corporate & Legal Affairs for Distinct Infrastructure Group Inc. Prior thereto, partner at Blaney McMurtry LLP and Fogler Rubinoff LLP.**	**September 27, 2010**	**Nil**

Momen Rahman	**Chief Financial Officer**	**Chief Financial Officer of IntellaEquity**	**January 30, 2013.**	**1,200,000 (0.47%)**

13.2 State the period or periods during which each director has served as a director and when his or her term of office will expire.

Please see 13.1

13.3 State the number and percentage of securities of each class of voting securities of the Issuer or any of its subsidiaries beneficially owned, directly or indirectly, or over which control or direction is exercised by all directors and executive officers of the Issuer as a group.

Please see 13.1

13.4 Disclose the board committees of the Issuer and identify the members of each committee.

The audit committee is the only committee of IntellaEquity. The audit committee is comprised of Warren Goldberg, Steve Ewaskiw and Tony Boogmans. All of the directors are considered to be "independent" within the mean of NI 52-110.

13.5 If the principal occupation of a director or officer of the Issuer is acting as an officer of a person or company other than the Issuer, disclose the fact and state the principal business of the person or company.

Please see 13.1

13.6 Disclose if a director or officer of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer, is, or within 10 years before the date of the Listing Statement has been, a director or officer of any other Issuer that, while that person was acting in that capacity:

N/A

13.7 Describe the penalties or sanctions imposed and the grounds on which they were imposed or the terms of the settlement agreement and the circumstances that gave rise to the settlement agreement, if a director or officer of the Issuer, or a shareholder holding sufficient securities of the Issuer to affect materially the control of the Issuer, has:

N/A

13.8 Despite section 13.7, no disclosure is required of a settlement agreement entered into before December 31, 2000 unless the disclosure would likely be important to a reasonable investor in making an investment decision.

N/A

13.9 If a director or officer of the Issuer, or a shareholder holding sufficient securities of the Issuer to affect materially the control of the Issuer, or a personal holding company of any such persons has, within the 10 years before the date of the Listing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer, state the fact.

N/A

13.10 Disclose particulars of existing or potential material conflicts of interest between the Issuer or a subsidiary of the Issuer and a director or officer of the Issuer or a subsidiary of the Issuer.

N/A

13.11 Management — In addition to the above provide the following information for each member of management:

Allen Lone, Chief Executive Officer, President and Director, Age 51 - Mr. Lone has acted as the President of the Corporation since 2010. Mr. Lone served as a director and the President, Chief Executive Officer and Chief Financial Officer of Ketchum Capital Corporation, a capital pool company listed on the TSXV from 2007 to 2008. He also served as a Director of Ammonite Energy Ltd., a junior oil and gas company, whose shares were listed on the TSXV from 2008 to 2009. Mr. Lone is an independent businessman with various business interests. Mr. Lone holds a Masters of Business Administration from Lindenwood University, St. Louis, Missouri and a Bachelor of Science in Business Administration and General Studies from South East Missouri State University

Momen Rahman, Chief Financial Officer, Age 61 - Mr. Rahman has acted as Chief Financial Officer for the Corporation since 2013.

14. Capitalization

14.1 Prepare and file the following chart for each class of securities to be listed:

Issued Capital

Public Float	**Number of Securities (non-diluted)**	**Number of Securities (fully-diluted)**	**%of Issued (non-diluted)**	**% of Issued (fully diluted)**
Total outstanding (A)	**256,114,871**	**297,754,871**	**100%**	**100%**
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who	**83,459,264**	**88,959,264**	**32.59%**	**29.88%**

beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B)				
Total Public Float (A-B)	**172,655,607**	**208,795,607**	**67.41%**	**70.12%**
Freely-Tradeable Float				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	-	-	-	-
Total Tradeable Float (A-C)	**172,655,607**	**208,795,607**	**67.41%**	**70.12%**

Public Securityholders (Registered)

Instruction: For the purposes of this report, "public securityholders" are persons other than persons enumerated in section (B) of the previous chart. List registered holders only.

Class of Security

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	**23**	**829**
100 – 499 securities	**111**	**25,957**
500 – 999 securities	**115**	**71,670**
1,000 – 1,999 securities	**187**	**231,527**
2,000 – 2,999 securities	**141**	**310,487**
3,000 – 3,999 securities	**79**	**252,730**
4,000 – 4,999 securities	**59**	**247,613**

5,000 or more securities	**1,131**	**139,829,143**
	1,843	**140,969,956**

Public Securityholders (Beneficial)

> **Instruction:** Include (i) beneficial holders holding securities in their own name as registered shareholders; and (ii) beneficial holders holding securities through an intermediary where the Issuer has been given written confirmation of shareholdings. For the purposes of this section, it is sufficient if the intermediary provides a breakdown by number of beneficial holders for each line item below; names and holdings of specific beneficial holders do not have to be disclosed. If an intermediary or intermediaries will not provide details of beneficial holders, give the aggregate position of all such intermediaries in the last line.

Class of Security

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities		
100 – 499 securities		
500 – 999 securities		
1,000 – 1,999 securities		
2,000 – 2,999 securities		
3,000 – 3,999 securities		
4,000 – 4,999 securities		
5,000 or more securities		
Unable to confirm		

Non-Public Securityholders (Registered)

Instruction: For the purposes of this report, "non-public securityholders" are persons enumerated in section (B) of the issued capital chart.

Class of Security

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities		
100 – 499 securities		
500 – 999 securities		
1,000 – 1,999 securities		
2,000 – 2,999 securities		
3,000 – 3,999 securities		
4,000 – 4,999 securities		
5,000 or more securities	**6**	**83,459,264**
	6	**83,459,264**

14.2 Provide the following details for any securities convertible or exchangeable into any class of listed securities

Description of Security (include conversion / exercise terms, including conversion / exercise price)	**Number of convertible / exchangeable securities outstanding**	**Number of listed securities issuable upon conversion / exercise**
Options	**11,500,000**	**11,500,000**
Warrants	**30,140,000**	**30,140,000**

1. **The options are exercisable at an exercise price of $0.10 per share at any time until January 30, 2022.**

2. **20,200,000 warrants are exercisable at an exercise price of $0.07 per share at any time until July 14, 2018. The remaining 9,940,000 warrants are exercisable at an exercise price of $0.15 per share at any time until December 18, 2018.**

14.3 Provide details of any listed securities reserved for issuance that are not included in section 14.2.

N/A

15. Executive Compensation

15.1 Attach a Statement of Executive Compensation from Form 51-102F6 or any successor instrument and describe any intention to make any material changes to that compensation.

Name and Principal Position	Year	Salary ($)	Share based awards ($)	Option based awards ($) [3]	Non-equity incentive plan compensation ($)		Pension value ($)	All other compensation ($)	Total compensation ($)
					Annual incentive plans	Long-term incentive plans			
Allen Lone [1] CEO and President	2017 2016 2015	165,000 165,000 165,000	Nil Nil Nil	48,000 Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	213,000 165,000 165,000
Momen Rahman [2] CFO	2017 2016 2015	70,000 70,000 70,000	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	70,000 70,000 70,000

Notes:

(1) Allen Lone was appointed President and Chief Executive Officer of the Corporation effective September 27, 2010.

(2) Momen Rahman was appointed Chief Financial Officer of the Corporation effective January 30, 2013.

(3) The values reported represent an estimate of the grant date fair value of the options calculated in accordance with the Black-Scholes pricing model. Please see the audited annual financial statements of the Corporation for the year ended December 31, 2016 for details regarding the assumptions underlying these Black-Scholes estimates. The Black-Scholes model is a pricing model which may or may not reflect the actual value of the options. The options have not been and may never be exercised and actual gain, if any, on exercise will depend on the value of the Common Shares on the date of exercise.

16. Indebtedness of Directors and Executive Officers

16.1 Aggregate Indebtedness

N/A

17. Risk Factors

No Operating History as an Investment Issuer

IntellaEquity does not have any record of operating as an investment issuer or undertaking merchant banking operations. As such, upon completion of the proposed change of business, IntellaEquity will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that IntellaEquity will not achieve its financial objectives as estimated by management or at all. Furthermore, past successes of management, the Board or the Investment Committee does not guarantee future success.

Portfolio Exposure and Sensitivity to Macro-Economic Conditions

Given the nature of IntellaEquity's proposed investment activities, the results of operations and financial condition of IntellaEquity will be dependent upon the market value of the securities that will comprise IntellaEquity's investment portfolio. Market value can be reflective of the actual or anticipated operating results of companies in the portfolio and/or the general market conditions that affect the resource, technology and industrial sectors. Various factors affecting the resource, technology and industrial sectors could have a negative impact on IntellaEquity's portfolio of investments and thereby have an adverse effect on its business. Additionally, IntellaEquity may invest in small-cap businesses that may never mature or generate adequate returns or may require a number of years to do so. This may create an irregular pattern in IntellaEquity's investment gains and revenues (if any).

Macro factors such as fluctuations in global political and economic conditions could also negatively affect IntellaEquity's portfolio of investments. Due to IntellaEquity's proposed focus on the resource, technology and industrial sectors, the success of IntellaEquity's investments will be interconnected to the strength of the various industries. IntellaEquity may be adversely affected by the falling share prices of the securities of investee companies; as such, share prices may directly and negatively affect the estimated value of IntellaEquity's portfolio of investments. Moreover, Corporation-specific risks, such as the risks associated with mining operations generally, could have an adverse effect on one or more of the investments that may comprise the portfolio at any point in time. Corporation-specific and industry-specific risks that may materially adversely affect IntellaEquity's investment portfolio may have a materially adverse impact on operating results. The factors affecting current macro economic conditions are beyond the control of IntellaEquity.

Furthermore, the occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks or natural disasters, could create economic and financial disruptions and could lead to operational difficulties that could impair IntellaEquity's ability to manage its business.

Cash Flow and Revenue

It is expected that IntellaEquity's revenue and cash flow will be generated primarily from financing activities and proceeds from the disposition of investments. The availability of these sources of

income and the amounts generated from these sources are dependent upon various factors, many of which are outside of IntellaEquity's direct control. IntellaEquity's liquidity and operating results may be adversely affected if its access to capital markets is hindered, whether as a result of a downturn in market conditions generally or to matters specific to IntellaEquity, or if the value of its investments decline, resulting in losses upon disposition.

Private Issuers and Illiquid Securities

IntellaEquity may invest in securities of private issuers, illiquid securities of public issuers and publicly-traded securities that have low trading volumes. The value of these investments may be affected by factors such as investor demand, resale restrictions, general market trends and regulatory restrictions. Fluctuation in the market value of such investments may occur for a number of reasons beyond the control of IntellaEquity and there is no assurance that an adequate market will exist for investments made by IntellaEquity. Many of the investments made by IntellaEquity may be relatively illiquid and may decline in price if a significant number of such investments are offered for sale by IntellaEquity or other investors.

Volatility of Stock Price

The market price of the Common Shares have been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if IntellaEquity is successful in maintaining revenues, cash flows or earnings. The purchase of the Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Securities of IntellaEquity should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in IntellaEquity should not constitute a major portion of an investor's portfolio.

Trading Price of the Common Shares Relative to Net Asset Value

Assuming completion of the Proposed change of business, IntellaEquity will neither be a mutual fund nor an investment fund and, due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of the Common Shares, at any time, may vary significantly from IntellaEquity's net asset value per Common Share. This risk is separate and distinct from the risk that the market price of the Common Shares may decrease.

Available Opportunities and Competition for Investments

Assuming completion of the proposed change of business, the success of IntellaEquity's operations will depend upon, among others: (a) the availability of appropriate investment opportunities; (b) IntellaEquity's ability to identify, select, acquire, grow and exit those investments; and (c) IntellaEquity's ability to generate funds for future investments. IntellaEquity can expect to encounter competition from other entities having similar investment objectives, including

institutional investors and strategic investors. These groups may compete for the same investments as IntellaEquity, will have a longer operating history and may be better capitalized, have more personnel and have different return targets. As a result, IntellaEquity may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing, which may further limit IntellaEquity's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to invest in or that such investments can be made within a reasonable period of time. There can also be no assurance that IntellaEquity will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that IntellaEquity is unable to find and make a sufficient number of investments.

Share Prices of Investments

Investments in securities of public companies are subject to volatility in the share prices of such companies. There can be no assurance that an active trading market for any of the subject shares comprising IntellaEquity's investment portfolio is sustainable. The trading prices of such subject shares could be subject to wide fluctuations in response to various factors beyond IntellaEquity's control, including, but not limited to, quarterly variations in the subject companies' results of operations, changes in earnings, results of exploration and development activities, estimates by analysts, conditions in the resource industry and general market or economic conditions. In recent years, equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of IntellaEquity's investments.

Concentration of Investments

Other than as described herein, assuming completion of the proposed change of business, there are no restrictions on the proportion of IntellaEquity's funds and no limit on the amount of funds that may be allocated to any particular investment. IntellaEquity may participate in a limited number of investments and, as a consequence, its financial results may be substantially adversely affected by the unfavourable performance of a single investment. Completion of one or more investments may result in a highly concentrated investment in a particular company, commodity or geographic area, resulting in the performance of IntellaEquity depending significantly on the performance of such company, commodity or geographic area.

Dependence on Management, Directors and Investment Committee

Assuming completion of the Proposed change of business, IntellaEquity will be dependent upon the efforts, skill and business contacts of key members of management, the Board and the Investment Committee for, among other things, the information and deal flow they generate during the normal course of their activities and the synergies that exist amongst their various fields of expertise and knowledge. Accordingly, IntellaEquity's success may depend upon the continued service of these individuals to IntellaEquity. The loss of the services of any of these individuals could have a material

adverse effect on IntellaEquity's revenues, net income and cash flows and could harm its ability to maintain or grow assets and raise funds.

From time to time, IntellaEquity will also need to identify and retain additional skilled management to efficiently operate its business. Recruiting and retaining qualified personnel is critical to IntellaEquity's success and there can be no assurance of its ability to attract and retain such personnel. If IntellaEquity is not successful in attracting and training qualified personnel, IntellaEquity's ability to execute its business model and growth strategy could be affected, which could have a material and adverse impact on its profitability, results of operations and financial condition.

Additional Financing Requirements

IntellaEquity anticipates ongoing requirements for funds to support its growth and may seek to obtain additional funds for these purposes through public or private equity, or debt financing. There are no assurances that additional funding will be available at all, on acceptable terms or at an acceptable level. Any limitations on IntellaEquity's ability to access the capital markets for additional funds could have a material adverse effect on its ability grow its investment portfolio.

No Guaranteed Return

There is no guarantee that an investment in the securities of IntellaEquity will earn any positive return in the short-term or long-term. The task of identifying investment opportunities, monitoring such investments and realizing a significant return is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully. IntellaEquity's past performance provides no assurance of its future success.

Due Diligence

The due diligence process undertaken by IntellaEquity in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, IntellaEquity will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, IntellaEquity may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, IntellaEquity will rely on resources available, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that is carried out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Exchange Rate Fluctuations

Assuming completion of the proposed change of business, it is anticipated that a proportion of IntellaEquity's investments will be made in Canadian dollars and IntellaEquity may also invest in securities denominated or quoted in U.S. dollars or other foreign currencies. Changes in the value of the foreign currencies in which IntellaEquity's investments are denominated could have a negative impact on the ultimate return on its investments and overall financial performance.

Non-Controlling Interests

IntellaEquity's investments are likely to consist only of debt instruments and equity securities of companies that it does not control. These investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which IntellaEquity does not agree or that the majority stakeholders or the management of the investee company may take risks or otherwise act in a manner that does not serve IntellaEquity's interests. If any of the foregoing were to occur, the values of IntellaEquity's investments could decrease and its financial condition, results of operations and cash flow could suffer as a result.

Potential Conflicts of Interest

Certain of the directors and officers of IntellaEquity and the members of the Investment Committee are or may, from time to time, be involved in other financial investments and professional activities that may on occasion cause a conflict of interest with their duties to IntellaEquity. These include serving as directors, officers, advisers or agents of other public and private companies, including companies involved in similar businesses to IntellaEquity or companies in which IntellaEquity may invest, management of investment funds, purchases and sales of securities and investment and management counselling for other clients. Such conflicts of IntellaEquity's directors and officers and members of the Investment Committee may result in a material and adverse effect on IntellaEquity's results of operations and financial condition.

Potential Transaction and Legal Risks

IntellaEquity intends to manage transaction risks through allocating and monitoring its capital investments in circumstances where the risk to its capital is minimal, carefully screening transactions, and engaging qualified personnel to manage transactions, as necessary. Nevertheless, transaction risks may arise from IntellaEquity's investment activities. These risks include market and credit risks associated with its operations. An unsuccessful investment may result in the total loss of such an investment and may have a material adverse effect on IntellaEquity's business, results of operations, financial condition and cash flow.

IntellaEquity may also be exposed to legal risks in its business, including potential liability under securities or other laws and disputes over the terms and conditions of business arrangements. IntellaEquity also faces the possibility that counterparties in transactions will claim that it improperly failed to inform them of the risks involved or that they were not authorized or permitted to enter into such transactions with IntellaEquity and that their obligations to IntellaEquity are not enforceable. During a prolonged market downturn, IntellaEquity expects these types of claims to

increase. These risks are often difficult to assess or quantify and their existence and magnitude often remains unknown for substantial periods of time. IntellaEquity may incur significant legal and other expenses in defending against litigation involved with any of these risks and may be required to pay substantial damages for settlements and/or adverse judgments. Substantial legal liability or significant regulatory action against IntellaEquity could have a material adverse effect on its results of operations and financial condition.

18. Promoters

N/A

19. Legal Proceedings

N/A

20. Interest of Management and Others in Material Transactions

Other than the amalgamation agreement entered into between IntellaEquity and Mooncor, as disclosed herein, there no material transactions where management has an interest therein.

21. Auditors, Transfer Agents and Registrars

21.1 State the name and address of the auditor of the Issuer.

Wasserman Ramsay, Chartered Accountants
3601 Hwy 7 East, Suite 1008
Markham, Ontario L3R 0M3

21.2 For each class of securities, state the name of any transfer agent, registrar, trustee, or other agent appointed by the Issuer to maintain the securities register and the register of transfers for such securities and indicate the location (by municipality) of each of the offices of the Issuer or transfer agent, registrar, trustee or other agent where the securities register and register of transfers are maintained or transfers of securities are recorded.

TSX Trust Company
100 Adelaide Street West, Suite 301
Toronto, Ontario M5H 4H1

22. Material Contracts

22.1 Give particulars of every material contract, other than contracts entered into in the ordinary course of business that was entered into within the two years before the date of Listing Statement by the Issuer or a subsidiary of the Issuer.

Amalgamation agreement entered into between IntellaEquity and Mooncor pertaining to the sale of Fox-Tek Canada Inc. by IntellaEquity to Mooncor for an aggregate purchase price of up to $21,500,000 (the "Purchase Price").

$9,500,000 of the Purchase Price will be satisfied through the issuance of an aggregate of 47,500,000 post-consolidated common shares (the "Consideration Shares") in the capital of Mooncor at a price of $0.20 per Consideration Share. The balance of the Purchase Price, being up to $12,000,000, will be satisfied through a royalty of 15% on all future sales of Fox-Tek's products and a 20% royalty on all future sales of Fox-Tek's services (collectively, the "Royalty"). The Royalty shall be payable until the earlier of (i) the 10 year anniversary of the closing of the acquisition of Fox-Tek, and (ii) the aggregate payment of $12 million.

Pursuant to the amalgamation agreement, Fox-Tek and Sensor Technologies Inc. ("Sensor"), a wholly owned subsidiary of Mooncor, will amalgamate to form a new company ("AmalCo"). Both IntellaEquity and Mooncor will receive shares in AmalCo as a result of the amalgamation. IntellaEquity will transfer its securities in the capital of AmalCo to Mooncor in exchange for the Consideration Shares. As a result of the amalgamation, and the issuance of the Consideration Shares, Fox-Tek will be a wholly owned subsidiary of Mooncor.

22.2 If applicable, attach a copy of any co-tenancy, unitholders' or limited partnership agreement.

N/A

23 Interest of Experts

23.1 Disclose all direct or indirect interests in the property of the Issuer or of a Related Person of the Issuer received or to be received by a person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of the Listing Statement or prepared or certified a report or valuation described or included in the Listing Statement.

Other than Wasserman Ramsay, Chartered Accountants, who prepared the auditor's report for IntellaEquity's financial statements, there are no persons or companies whose professional business gives authority to a statement made by the person or company who is named as having prepared or certified a part of this Listing Statement or prepared or certified a report or valuation described in this Listing Statement.

23.2 Disclose the beneficial ownership, direct or indirect, by a person or company referred to in section 23.1 of any securities of the Issuer or any Related Person of the Issuer.

As at the date hereof, partners and associates of Wasserman Ramsay, Chartered Accountants, who are directly involved in services provided to IntellaEquity, do not own, directly or indirectly, any securities of the company. No partner or associate of Wasserman Ramsay, Chartered Accountants, is expected to be elected, appointed or employed as a director, officer or employee of IntellaEquity or of any associate or affiliate of the company.

24. Other Material Facts

24.1 Give particulars of any material facts about the Issuer and its securities that are not disclosed under the preceding items and are necessary in order for the Listing Statement to contain full, true and plain disclosure of all material facts relating to the Issuer and its securities.

N/A

25. Financial Statements

25.1 Provide the following audited financial statement for the Issuer:

Attached hereto as Schedule "C" are the audited financial statements for the years ended December 31, 2017, 2016 and 2015

25.2 For Issuers re-qualifying for listing following a fundamental change provide

N/A

CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, IntellaEquity Inc., hereby applies for the listing of the above mentioned securities on the Exchange. The foregoing contains full, true and plain disclosure of all material information relating to IntellaEquity Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Toronto, Ontario this 23rd day of August, 2018

"Allen Lone"	*"Momen Rahman"*
Allen Lone Chief Executive Officer	Momen Rahman Chief Financial Officer
"Jay Vieira"	*"Warren Goldberg"*
Jay Vieira Director	Warren Goldberg Director

SCHEDULE "A"
INVESTMENT POLICY

Investment Objective

The investment objective of Augusta Industries Inc. (the "**Corporation**") is to provide investors with long term capital growth by investing in a portfolio of undervalued companies in the mining, technology and real estate sectors.

The following shall be the guidelines for the Corporation's investment strategy:

1. Investments shall be focused in (i) public companies, (ii) near public companies and private capital, (global venture capital initiatives and (iii) strategic physical commodities.

2. The investment portfolio may be comprised of securities of both public and private issuers primarily in the mining, technology and real estate sectors, but may also include investments in certain other sectors, including real estate, water, green energy, alternative energy, and agriculture.

3. Target investments shall encompass companies at all stages of development, including pre-initial public offering and/or early stage resource companies requiring start-up or development capital, as well as intermediate and senior companies.

4. Initial investments of equity, debt or a combination thereof may be made through a variety of financial instruments including, but not limited to, private placements, participation in initial public offerings, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, royalties, net profit interests and other hybrid instruments, which will be acquired and held both for long-term capital appreciation and shorter-term gains.

5. The nature and timing of the Corporation's investments will depend, in part, on available capital at any particular time and the investment opportunities identified and available to the Corporation.

6. A key aspect of the investment strategy shall be seeking undervalued companies backed by strong management teams and solid business models that can benefit from macro-economic trends. Notwithstanding this requirement, consideration will be given to opportunities where existing management may need the infusion of high level guidance, direction and expertise from the Corporation. In such situations, the Corporation intends to work closely with an investee company's management and board of directors to structure and deliver the strategic and financial resources to help such company best take advantage of its position on the sector and to mature into a successful commercial enterprise.

7. The Corporation will invest in concentrated, long-term positions in public companies. The Corporation may invest in securities of issuers in special situations, including event-driven situations such as corporate restructurings, mergers, hostile takeovers, bankruptcies or leveraged buyouts. The Corporation may also invest in (i) public companies where there is an opportunity to invest to gain control over the strategic direction of such public company, thereby fully exploiting the corporate structure to execute opportunistic transactions which would otherwise be unavailable, such as take-over bids using publicly-traded securities as currency, (ii) accretive acquisitions of similar structures, and (iii) public and private companies that would otherwise be problematic to accommodate in a fund structure with short term redemption features.

8. The Corporation's investment strategy will also include structuring and initiating deals focused on particular themes, or regions as well as launching the development of businesses in select industries by providing assistance with the hiring of management teams, providing seed capital and facilitating the transition of such private companies to the public market.

9. In the resource sector, the primary focus of the Corporation will be to invest in securities of issuers which have quality proven or prospective resources in locations which management of the Corporation believes are, or will become, amenable to development of the resource. In the technology and industrial sectors, the Corporation expects to invest in securities of issuers which it believes have competitive advantages in an area with a large potential market.

10. The Corporation may take positions in strategic commodities which it believes have strong long term fundamentals and which otherwise are difficult to gain exposure to. Investments may be structured as direct physical purchases or off-take contracts.

11. The Corporation may borrow funds, which may be used for various purposes, including making investments, effecting market purchases of common shares and paying fees and expenses of the Corporation (the "**Borrowings**"). Such Borrowings shall never exceed 250% of the net assets of the Corporation. The Corporation expects that the terms, conditions, interest rates, fees and expenses of and under such Borrowings will be typical of borrowings of this nature.

12. In general, the investment activities of the Corporation are expected to be passive. However, the Corporation may, from time to time, seek a more active role in situations where involvement of the Corporation is expected to make a significant difference to success and resulting appreciation. The Corporation may seek equity participation in situations to which the Corporation can potentially add value by its involvement, not only financially but also by the contribution of guidance and additional management expertise.

13. Immediate liquidity shall not be a requirement, but each investment shall be evaluated in terms of a clear exit strategy designed to maximize the relative return in light of changing fundamentals and opportunities.

14. Subject to applicable laws, there are no restrictions on the size or market capitalization with respect to the Corporation's investments in the equity securities of public or private issuers.

15. Cash reserves may, from time to time as appropriate, be placed into high quality money market investments, including Canadian Treasury Bills or corporate notes rated at least R-1 by DBRS Limited, each with a term to maturity of less than one year.

16. The Corporation will not purchase or sell commodities, purchase the securities of any mutual fund, purchase mortgages or sell mortgages or purchase or sell derivatives (except that the Corporation may sell call options to purchase securities owned by the Corporation as a means of locking in gains or avoiding future losses).

17. Subject to the full approval of the board of directors of the Corporation (the "**Board**"), the investment committee (the "**Investment Committee**") established by the Corporation may consider certain special investment situations, including assuming a controlling or joint-controlling interest in an investee company, which may also involve the provision of advice to management and/or board participation.

18. All investments shall be made in full compliance with applicable laws in relevant jurisdictions, and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

From time to time, the Board may authorize such additional investments outside of the guidelines described herein as its sees fit for the benefit of the Corporation and its shareholders.

Asset Allocation

In determining the sector weighting of the investment portfolio, the Investment Committee shall analyze the current economic conditions and trends in North American and global economies and shall seek to respond quickly to such changes. The investment portfolio shall be positioned in accordance with the market view of the Investment Committee from time to time. Sector allocations may vary significantly over time.

Rebalancing

Asset allocations will be reviewed by the Investment Committee on a monthly basis. Reallocations are anticipated to be required infrequently except during extremely volatile market periods.

Implementation

The officers, directors and management of the Corporation shall work jointly and severally to uncover appropriate investment opportunities. These individuals have a broad range of business experience and their own networks of business partners, financiers, venture capitalists and finders through whom potential investments may be identified.

Prospective investments will be channelled through the Investment Committee. The Investment Committee shall make an assessment of whether the proposal fits with the investment and corporate strategy of the Corporation in accordance with the investment evaluation process below, and then proceed with preliminary due diligence, leading to a decision to reject or move the proposal to the next stage of detailed due diligence. This process may involve the participation of outside professional consultants.

Once a decision has been reached to invest in a particular situation, a short summary of the rationale behind the investment decision should be prepared by the Investment Committee and submitted to the Board. This summary should include guidelines against which future progress can be measured. The summary should also highlight any finder's or agents' fees payable.

All investments shall be submitted to the Board for final approval. The Investment Committee will select all investments for submission to the Board and monitor the Corporation's investment portfolio on an ongoing basis, and will be subject to the direction of the Board. One member of the Investment Committee may be designated and authorized to handle the day-to-day trading decisions in keeping with the directions of the Board and the Investment Committee.

Negotiation of terms of participation is a key determinant of the ultimate value of any opportunity to the Corporation. Negotiations may be on-going before and after the performance of due diligence. The representative(s) of the Corporation involved in these negotiations will be determined in each case by the circumstances.

Investment Evaluation Process

The Investment Committee shall use both a top-down and bottom-up approach in identifying and submitting investments to the Board for approval. The investment approach will be to develop a macro view of a sector, build a position consistent with such view by identifying micro-cap opportunities within that sector, and devise an exit strategy designed to maximize the relative return in light of changing fundamentals and opportunities.

In selecting securities for the investment portfolio of the Corporation, the Investment Committee will consider various factors in relation to any particular issuer, including:

(a) inherent value of its assets;

(b) proven management, clearly-defined management objectives and strong technical and professional support;

(c) future capital requirements to develop the full potential of its business and the expected ability to raise the necessary capital;

(d) anticipated rate of return and the level of risk;

(e) financial performance; and

(f) exit strategies and criteria.

Conflicts of Interest

The Corporation has assembled a strong Board and management team, with diverse backgrounds and significant business expertise and experience. In assembling a Board with these characteristics, the Corporation has two primary goals:

(a) to gain exposure to a wide variety of potential investments, including investments that Board members may already be familiar with or that come to their attention through other business dealings: and

(b) where a Board member has a personal interest in a potential investment, to ensure that the Corporation has independent, qualified directors available to conduct an independent assessment.

The Corporation has no restrictions with respect to investing in companies in which a Board member may already have an interest. Any potential investments where there is a material conflict of interest involving an employee, officer or director of the Corporation may only proceed after receiving approval from disinterested directors of the Board. The Corporation is also subject to the "related party" transaction policies of the TSX Venture Exchange Inc., which mandates disinterested shareholder approval to certain transactions.

Management Participation

The Corporation may, from time to time, seek a more active role in the companies in which it invests, and provide such companies with financial and personnel resources, as well as strategic counsel. The Corporation may also ask for board representation in cases where it makes a significant investment in the business of an investee company. The Corporation's nominee(s) shall be determined by the Board as appropriate in such circumstances.

Monitoring and Reporting

The Corporation's Chief Financial Officer shall be primarily responsible for the reporting process whereby the performance of each of the Corporation's investments is monitored. Quarterly financial and other progress reports shall be gathered from each corporate entity, and these shall form the basis for a quarterly review of the Corporation's investment portfolio by the Investment Committee. Any deviations from expectation are to be investigated by the Investment Committee, and if deemed to be significant, reported to the Board.

With public company investments, the Corporation is not likely to have any difficulty accessing financial information relevant to its investment. In the event the Corporation invests in private enterprises, it shall endeavor in each case to obtain a contractual right to be provided with timely access to all books and records it considers necessary to monitor and protect its investment in such private enterprises.

A full report of the status and performance of the Corporation's investments is to be prepared by the Investment Committee and presented to the Board at the end of each fiscal year.

SCHEDULE "B"
FINANCIAL STATEMENTS

AUGUSTA INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Prepared in Canadian dollars)

For The Years Ended December 31, 2017 and 2016

NOTE TO READER

The Company is refiling the annual consolidated financial statements for the years ended December 31, 2017 and 2016 that were filed on April 30, 2018 to amend an incorrect header that was included in the Consolidated Statement of Cash Flows. The title of the Consolidated Statement of Cash Flows stated "Notes to the Consolidated Financial Statements" whereas it should have read "Consolidated Statements of Cash Flows".

Dated: May 10, 2018

AUGUSTA INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Prepared in Canadian dollars)

For The Years Ended December 31, 2017 and 2016

Wasserman Ramsay

Chartered Accountants

3601 Hwy 7 East, Suite 1008, Markham, Ontario L3R 0M3
Tel. 905-948-8637 Fax 905.948.8638
email: wram@wassermanramsay.ca

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, 2017, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in deficit and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a history of operating losses. As at December 31, 2017 the Company as an accumulative deficit of $8,580. These conditions along with other matters set forth in Note 2(b) indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other matter

The consolidated financial statements of Augusta Industries Inc. as at December 31, 2016 and for the year then ended, were audited by other auditors who expressed an unmodified opinion on those statements on April 13, 2017.

Wasserman Ramsay

Chartered Accountants
Licensed Public Accountants

Markham, Ontario
April 27, 2018

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017 AND 2016
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Note	December 31, 2017	December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents		$ 83	$ 83
Trade and other accounts receivable		99	662
Inventory	6	33	111
Tax credits receivable	8	20	22
Prepaid expenses and other assets		257	248
Total Current Assets		492	1,126
Non-Current Assets			
Equipment	7	32	42
Total Non-Current Assets		32	42
Total Assets		$ 524	$ 1,168
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities		$ 721	$ 877
Deferred revenue		45	45
Long term debt - current portion	9	56	20
Income tax payable		3	15
Debentures	10	48	43
Total Current Liabilities		873	1,000
Non-Current Liabilities			
Long term debt	9	195	31
Total Non-Current Liabilities		195	31
Total Liabilities		1,068	1,031
(Deficiency) Equity			
Share capital	12(a)	5,535	5,527
Warrants	12(b)	671	690
Reserves		1,829	1,560
Accumulated other comprehensive income		1	11
Deficit		(8,580)	(7,651)
Total (Deficiency) Equity		(544)	137
Total Liabilities and (Deficiency) Equity		$ 524	$ 1,168

Going Concern (Note 2(b))
Commitments (Note 13)
Subsequent Events (Note 20)

Approved on Behalf of the Board

"Warren Goldberg, CPA, CA"	"Allen Lone"
Director	**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, 2017 AND 2016
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Year ended December 31,	
	2017	**2016**
Sales	$ 2,556	$ 4,596
Cost of sales	(2,013)	(3,570)
Gross profit	**543**	**1,026**
Expenses		
Research and development	(148)	(155)
Selling	(38)	(34)
General and administrative	(1,023)	(830)
Total expenses	(1,209)	(1,019)
(Loss) income before the undernoted	(666)	7
Finance costs	(20)	(18)
Stock based compensation	(250)	-
Foreign exchange gain	14	17
Net (loss) income for the year before tax	(922)	6
Income tax expense	(7)	(21)
Net (loss) income for the year after tax	(929)	(15)
Other comprehensive (loss) income	(10)	2
Total comprehensive (loss) for the year	$ (939)	$ (13)
(Loss) income per common share based on Net (loss) income for the year		
Basic and diluted	$ (0.00)	$ (0.00)
Basic and diluted weighted average number of common shares outstanding	256,135	254,356

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, 2017 AND 2016
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Share Capital				Accumulated Other		
	Number	Amount	Warrants	Reserves	Comprehensive Income/(Loss)	Deficit	Total Equity/(Deficiency)
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 debts	2,000	81	-	-	-	-	81
Share issue costs	-	(1)	-	-	-	-	(1)
Warrant issued, net of costs	-		19	-	-	-	19
Warrants expired	-		(16)	16	-	-	0
Other comprehensive income	-	-	-	-	2	-	2
Balance, December 31, 2016	256,115	$ 5,527	$ 690	$ 1,560	$ 11	$ (7,651)	$ 137
Balance, December 31, 2016	256,115	$ 5,527	$ 690	$ 1,560	$ 11	$ (7,651)	$ 137
Net loss for the year	-	-	-	-	-	(929)	(929)
Shares issued on conversion of debts net of cost	181	8	-	-	-	-	8
Warrants expired	-		(19)	19	-	-	-
Stock based compensation	-	-	-	250	-	-	250
Other comprehensive loss	-	-	-	-	(10)	-	(10)
Balance, December 31, 2017	256,296	$ 5,535	$ 671	$ 1,829	$ 1	$ (8,580)	$ (544)

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, 2017 AND 2016
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Year ended December 31, 2017	2016
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net (loss) for the year after tax	$ (929)	$ (15)
Items not involving cash		
Amortization	10	14
Stock based compensation	250	-
Interest on debentures	5	4
Accretion expense on debentures	-	3
	(664)	6
Changes in non-cash working capital		
Trade and other accounts receivable	563	(404)
Inventory	78	89
Prepaid expenses and other assets	(9)	(202)
Income tax payable	(12)	15
Tax credit receivable	2	14
Accounts payable and accrued liabilities	(148)	131
Deferred revenue	-	(19)
	474	(376)
Net cash used in operating activities	(190)	(370)
CASH FLOWS GENERATED FROM (USED IN) FINANCING ACTIVITIES		
Repayment of bank indebtedness	-	(1)
Proceeds from advances	-	137
Repayment of advances	-	(137)
Loan received	-	100
Proceeds from long term debts	213	-
Repayment of long-term debt	(13)	(19)
Net cash generated from financing activities	200	80
Effect of changes in foreign exchange rate	(10)	2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE year	$ -	$ (288)
CASH AND CASH EQUIVALENTS, BEGINNING OF year	83	371
CASH AND CASH EQUIVALENTS, END OF year	$ 83	$ 83
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income tax paid	$ 15	$ 6
Shares issued on conversion of debt net of costs	8	-
Note converted to units	-	100
Interest paid	$ 9	$ 11

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

1. 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 30.1% of the voting shares of the Company (2016 – 37.4%). 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 27, 2018.

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 loss of $929 for the year ended December 31, 2017 (2016 - $15), has an accumulated deficit of $8,580 (2016 – $7,651) from inception and working capital deficiency of $381 (2016 – working capital of $126). The challenges of securing requisite funding beyond December 31, 2017 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.

(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.

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

The Company's carrying value of trade and other receivables as at December 31, 2017 was $99 (2016 – $662), net of allowances for doubtful accounts of $141 (2016 – $nil). 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, 2017, the carrying amount of inventory is $33 (2016 – $111). Provision for slow moving and obsolete inventory for the year ended December 31, 2017 was $85 (2016 – $9).

(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.

(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 11 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.

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;
- 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) 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.

(c) 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, 2017 and 2016, the Company had no cash equivalents.

(d) 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%

(e) 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, 2017 and 2016, the Company did not have any projects in the development stage.

(f) 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 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.

(g) 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, 2017 and 2016.

(h) 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.

(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.

(i) 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.

(j) 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, 2017 and 2016.

(k) 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.

(l) 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.

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.

(m) 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.

(n) 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.

(o) 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 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).

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.

(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.

(p) 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.

(r) Changes in accounting policies

During the year ended December 31, 2017, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included:

(i) IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2017 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. The implementation of amendments to IAS 7 had no impact to the Company's consolidated statements for the year ended December 31, 2017.

(ii) IAS 12 – Income Taxes ("IAS 12") was amended in January 2017 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 resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of amendments to IAS 12 had no impact to the Company's consolidated statements for the year ended December 31, 2017.

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, 2018. 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 2017 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.

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") was issued in December 2017 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, 2017 and 2016.

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			
				Market
	Credit	Liquidity	Foreign exchange	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

Four customers represent approximately 77% of sales for the year ended December 31, 2017 (2016 – five customers represented 89% of sales). The sales from major customers and their respective operational segments are as follows:

	Year ended December 31,	
	2017	**2016**
Apache	-	441
US Air Force	309	689
US Bureau of Reclamation	321	758
US Navy	753	1,025
US Army	588	1,156
	$ 1,971	$ 4,069

The accounts receivable from one customer represents approximately 43% of trade and accounts receivable as of December 31, 2017 (2016 – 84% from 2 customers). The trade and accounts receivable balances from these customers are as follows:

	Year ended December 31,	
	2017	**2016**
US Air Force	42	-
US Army	-	266
US Bureau of Reclamation	-	289
	$ 42	$ 555

The age analysis of the accounts receivable as at December 31, 2017 is as follows:

Current	1 - 30	31 - 60	> 60	Total
$ 70	$ 16	$ -	$ 13	$ 99

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

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

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, 2017, the Company had cash of $83 (2016 - $83), 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, 2017	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Accounts payable and accrued liabilities	$ 721	$ 721	$ 721	$ -
Debentures	48	48	48	-
Income tax payable	3	3	3	-
Non-cash liabilities	45	45	45	-
Long term debt	251	251	56	195
	$ 1,068	**$ 1,068**	**$ 873**	**$ 195**

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	-
Income tax payable	15	15	15	-
Non-cash liabilities	45	45	45	-
Long term debt	51	51	20	31
	$ 1,031	**$ 1,031**	**$ 1,000**	**$ 31**

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

In addition to the financial liabilities, the Company has contractual cash flows relating to lease commitments (note 13).

(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 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.

(iii) Foreign exchange

As at December 31, 2017, the Company's US dollar net monetary liabilities totaled $64 (2016 - net monetary assets of $220). Accordingly, a 5% change in the US dollar exchange rate as at December 31, 2017 on this amount would have resulted in an exchange gain or loss and therefore net loss would have increased (decreased) by $3 (2016 - $11).

6. INVENTORY

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

	December 31, 2017	December 31, 2016
Raw materials	$ 33	$ 96
Finished goods	-	15
	$ 33	**$ 111**

The total amount of inventory expensed at cost as cost of sales during the year ended December 31, 2017 was $24 (2016 - $127). Impairment expenses during the year ended December 31, 2017 was $85 (2016 - $9).

7. EQUIPMENT AND INTANGIBLE ASSETS

	Computer Hardware	Scientific Equipment	Office Equipment	Computer Software	Total
Cost					
Balance at December 31, 2015, 2016 and 2017	**$ 56**	**$ 73**	**$ 62**	**$ 34**	**$ 225**
Accumulated amortization					
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**
Amortization charge	2	3	3	2	10
Balance at December 31, 2017	**$ 49**	**$ 65**	**$ 47**	**$ 32**	**$ 193**
Net Book Value December 31, 2016	**$ 9**	**$ 11**	**$ 18**	**$ 3**	**$ 41**
Net Book Value December 31, 2017	**$ 7**	**$ 8**	**$ 15**	**$ 2**	**$ 32**

8. 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.

During the year ended December 31, 2017, the Company recognized $24 (2016 - $22) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 the Canada Revenue Agency. Adjustments to the claim, if any, will be accounted for in the year of assessment. Historically, the investment tax credits have been assessed as filed, accordingly the Company has accrued a refundable credit of $20 for year ended December 31, 2017 (2016 - $22). As at December 30, 2017, the Company received $26 against the 2016 receivable.

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

9. LONG TERM DEBT

	December 31, 2017	December 31, 2016
Loan payable - 8.05% per annum, due December 15, 2022, Only interest is payable till December 15, 2017 and thereafter the loan is repayable in monthly instalments of principal of $4.1 plus interest with effect from January 15,2018, guaranteed by the CEO of the Company and by Fox-Tek Canada Inc and Augusta Industries Inc.	$ 251	$ 51
Less: current portion	(56)	(20)
Long - term debt	**$ 195**	**$ 31**

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, 2017, the Company repaid $13 of this loan (2016 - $20). During the year ended December 31, 2017, the Company took an additional loan of $213 for a total outstanding loan of $251, payable over 60 months starting January 15, 2018. During the year ended December 31, 2017, the Company paid $9 (2016 - $5) in interest related to this loan which is disclosed as finance costs in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2017 and 2016.

10. DEBENTURES

Liability	
Balance, December 31, 2015	**$ 36**
Accrued interest	4
Interest accretion	3
Balance, December 31, 2016	**$ 43**
Accrued interest	5
Balance, December 31, 2017	**$ 48**

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, 2017. Each warrant entitled the holder to purchase one common share at $0.05 per share expiring on December 31, 2017. 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, 2017. None of the debentures were converted into common shares.

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 of $5 and accretion expense of $nil for the year ended December 31, 2017 (2016 – interest $4 and accretion $3) are included in finance costs.

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The debentures matured on December 31, 2016 and are now due on demand. The Company has negotiated and agreed with the debenture holder to commence cash payments of the interest on the debentures starting in May 2018.

11. 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 30% (2016 - 40%) are as follows:

	December 31, 2017	December 31, 2016
Net income (loss) before income taxes	$ (922)	$ 6
Expected income tax expense (recovery) based on statutory rate	(277)	2
Adjustment to expected income tax benefit:		
Non-deductible expenses and other	(7)	(32)
Change in tax and exchange rates	555	183
Change in deferred tax assets not recognized	(264)	(132)
Total income tax expense	$ 7	$ 21

Significant components of the income tax expense are as follows:

Current income tax provision	$ 7	$ 21
Deferred income tax recovery	-	-
	$ 7	$ 21

(b) Unrecognized Deductible Temporary Differences

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

	December 31, 2017	December 31, 2016
Non-capital loss carry-forwards	$ 26,898	$ 27,926
Research and development tax credit carry-forwards	592	688
Other temporary differences	54	52
Total	$ 27,544	$ 28,666

The tax losses expire from 2026 to 2037. 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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12. SHAREHOLDERS' EQUITY

(a) Share Capital

The Company is authorized to issue 400,000 common shares (par value of US0.01 per share) of which 256,296 are issued and outstanding.

(i) On 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#1) of the Company at a price of $0.05 per Unit#1. 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#1"). Each Warrant#3 entitles the holder to 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.

(ii) On October 16, 2017, the Company issued 181 common shares for $9 of debt owing to an arm's length company. The share issuance costs were $1 relating to the exchange of shares for debt.

(iii) In November 2017, the TSXV had been advised by the Company that pursuant to a notice of intention to make a normal course issuer bid dated Nov. 14, 2017 (the "2017 NCIB"), it may repurchase for cancellation up to 17,340,061 common shares in its own capital stock. The purchases are to be made through the facilities of the TSXV during the period from Nov. 20, 2017, to Nov. 19, 2018. Purchases pursuant to the 2017 NCIB will be made by TD Securities on behalf of the Company. No shares have been bought back under the 2017 NCIB as at the filing of these consolidated financial statements.

(b) Common Stock Purchase Warrants

	No. of Warrants	Value	Weighted Average Exercise Price
Balance, December 31, 2015	**33,696**	**$ 687**	**$ 0.09**
Warrants expired	(3,556)	(16)	(0.05)
Warrants issued in November 2016 (8(a)(i))	2,000	19	0.10
Balance, December 31, 2016	**32,140**	**$ 690**	**$ 0.10**
Warrants expired	(2,000)	(19)	0.10
Balance, December 31, 2017	30,140	671	0.10

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

As at December 31, 2017, the Company had the following warrants issued and outstanding:

No. of Warrants Issued and Outstanding		Exercise Price	Expiry	Weighted Average Remaining Life in Years
20,200		0.07	14-Jul-18	0.53
9,940		0.15	18-Dec-18	0.96
30,140	**$**	**0.10**		**0.68**

(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.

On January 30, 2017, the Company granted 11,500 stock options to directors, officers and consultants of the Company exercisable at a price of $0.10 per share and expiring on January 30, 2022. The options vest in three equal yearly tranches with the first instalment vesting on January 30, 2017 with the remaining options vesting on the one and two year anniversaries of the initial release. The fair value at date of grant was $0.032 per option granted. The fair value of the options was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years, a risk-free rate of 1.14%, expected dividend yield of 0% and an expected volatility of 134%. The expected volatility is based on the historical volatility of the Company's share price over the life of the options. 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 options are expected to be outstanding based on historical warrants issued.

For the year ended December 31, 2017, included in the consolidated statements of loss and comprehensive loss is stock-based compensation of $250 (2016 – $nil) relating to the stock options granted to directors, officers and consultants of the Company.

A summary of the status of the Company's stock options as at December 31, 2017 and changes during the period then ended is presented below:

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2016 and 2015	-	$	-
Granted	11,500		0.10
Balance, December 31, 2017	**11,500**	**$**	**0.10**

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The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017:

# of Options Outstanding and Exercisable	# of Options Excercisable	Exercise Price	Expiry Date	Remaining Contractual Life (years)
11,500	3,833	$ 0.10	January 30, 2022	4.08
11,500	3,833			

(d) Basic and diluted loss per common share based on net loss for the years ended December 31, 2017 and 2016:

Numerator:	**Year ended December 31, 2017**	**2016**
Net (loss) for the year	$ (929)	$ (15)

Denominator:	**Year ended December 31, 2017**	**2016**
Weighted average number of common shares outstanding – basic	256,153	254,356
Weighted average effect of diluted stock options and warrants (i)	-	-
Weighted average number of common shares outstanding – diluted	256,153	254,356

(Loss) per common share based on (loss) for the year:	**Year ended December 31, 2017**	**2016**
Basic and diluted	$ (0.00)	$ (0.00)

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 42,120 shares related to convertible securities that were anti-dilutive for the year ended December 31, 2017 (2016 – 32,140 shares).

13. 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	
2018		71
2019		24
	$	95

14. 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.

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

For the year ended December 31, 2017

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Company
Sales	$ 2,089	$ 467	$ -	$ 2,556
Cost of sales	(1,888)	(125)	-	(2,013)
Gross profit	**201**	**342**	-	**543**
Expenses				
Research and development	-	(148)	-	(148)
Selling	-	(38)	-	(38)
General and administrative	(382)	(237)	(404)	(1,023)
Total operating expenses	(382)	(423)	(404)	(1,209)
(Loss) before the undernoted	(181)	(81)	(404)	(666)
Finance costs	(3)	-	(17)	(20)
Stock based compensation	-	-	(250)	(250)
Foreign exchange gain (loss)	18	(4)	-	14
Net (loss) for the year before income tax	(166)	(85)	(671)	(922)
Income tax expense	(7)	-	-	(7)
Net (loss) for the year	(173)	(85)	(671)	(929)
Other comprehensive loss	(10)	-	-	(10)
Total comprehensive (loss) for the year	$ (183)	$ (85)	$ (671)	$ (939)

As of December 31, 2017				
Equipment	$ 6	$ 26	$ -	$ 32
Total assets	$ 321	$ 126	$ 77	$ 524

All of the Company's equipment is located in Canada. The Marcon sales revenue of $2,089 excludes intercompany sales of $23 to Fox-Tek for the year ended December 31, 2017. The intercompany sales have been eliminated in the consolidated financial statements.

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

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.

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

Revenue by Geographic Region

	Year ended December 31,	
	2017	**2016**
USA	$ 2,140	$ 3,738
Canada	238	646
Middle East	114	201
Others	64	11
Total	**$ 2,556**	**$ 4,596**

15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Officers of the Company and enterprises that are controlled by these individuals as well as certain persons performing similar functions. The transactions with related parties were in the normal course of operations and were measured at fair value. Related party transactions not disclosed elsewhere in these interim consolidated statements are as follows:

(a) As at December 31, 2017, $4 (December 31, 2016 - $4) is owing to a law firm in which a director, Jay Vieira, is a former partner.
(b) Included in accounts payable and accrued liabilities as at December 31, 2017 is $21 (December 31, 2016 - $21) owing to the CEO and a company controlled by the CEO.
(c) As at December 31, 2017, $20 (December 31, 2016, $1) is owing to other officers of the Company.
(d) Included in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2017 is $165 (2016 - $165) paid to a company controlled by the CEO for services rendered by the CEO (Note 16).
(e) During the year ended December 31, 2017, the Company granted 5,500 options to directors and officers of the Company at an exercise price of $0.10 per share expiring on January 30, 2022. Included in the statements of loss and comprehensive loss for the year ended December 31, 2017 is stock-based compensation expense of $120 relating to options granted to related parties (Note 12(c)).

16. KEY MANAGEMENT PERSONNEL COMPENSATION

During the year ended December 31, 2017, the Company recognized salaries and short term benefit expenses of $479 (2016 - $479) for its key management personnel, including the CEO of the Company, VP of Software Solutions, VP of Operations, and CFO of the Company.

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

17. GENERAL AND ADMINISTRATIVE

The general and administrative expenses are comprised as follows:

	Year ended December 31, 2017	2016
Salaries and short-term benefits	$ 574	$ 531
Professional fees	159	63
Office and general	280	222
Amortization	10	14
Total	**$ 1,023**	**$ 830**

18. 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' deficiency which amounts to $544 (2016 – equity of $137).

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, 2017, the Company was not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion 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, 2017 and 2016.

19. AMALGAMATION AGREEMENT

On September 27, 2017, the Company entered into an amalgamation agreement (the "Agreement") with Sensor Technologies Inc. ("Sensor"). Pursuant to the Agreement, Sensor had agreed to purchase all of the issued and outstanding securities (the "Spin-Out Transaction") in the capital of Fox-Tek Canada Inc. ("Fox-Tek") for an aggregate purchase price of $25 million (the "Purchase Price"). The Purchase Price would be satisfied through the issuance of an aggregate 50,000 common shares (the "Sensor Shares") to the Company. It is the intention of the Company to distribute the Sensor Shares, on a pro rata basis, to its shareholders. In November 2017, the directors and officers of the Company, holding an aggregate of 83,454,264 common shares of the Company entered into a lock-up agreement where they have agreed to vote the shares in support of the spin-off of FOX-TEK Canada Inc.

Subsequent to December 31, 2017, the Company has decided to suspend the proposed amalgamation to further evaluate the Spin-Out Transaction. The Company continues to work with its financial and legal advisers to ascertain the best course of action for both the Company and its shareholders.

20. SUBSEQUENT EVENTS

1. Subsequent to the year ended December 31, 2017, the Company signed promissory notes secured against the assets of the Company and received $432 from a company controlled by a director of the Company. The loans are due between May 6, 2018 and July 4, 2018 and bear interest at 10% per annum. The notes were repaid on April 11, 2018 with interest of $4.

2. Subsequent to December 31, 2017, the Company has created a wholly owned subsidiary, Paragon Blockchain Inc. ("Paragon") to commence the process of implementing Blockchain technology. " Paragon" has entered into a Memorandum Of Understanding with an Undisclosed Blockchain Company (The "UBC") to advise and develop a new set of blockchain applications for Augusta. The UBC will act as technical advisor and initiate the process of developing a new set of blockchain applications that will integrate, amongst other things, artificial intelligence (A.I.) for the purpose of sorting critical procurement opportunities within US government agencies for Marcon and FOX-TEK.

AUGUSTA INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Prepared in Canadian dollars)

For The Years Ended December 31, 2016 and 2015

UHY McGovern Hurley LLP
Chartered Professional Accountants

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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

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 13, 2017

(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"	"Allen Lone"
Director	**Director**

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

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

	Note	Year ended December 31, 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

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					Accumulated Other		
	Number	Amount	Warrants	Reserves		Comprehensive Income	Deficit	Total Equity/(Deficit)
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

	Number	Amount	Warrants	Reserves		Accumulated Other Comprehensive Income	Deficit	Total Equity/(Deficit)
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.

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

1. 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.

(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.

(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.

(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;

- 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.

(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 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.

(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.

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 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).

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.

(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 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.

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

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

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

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

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

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).

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

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.

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.

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

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.

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

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

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

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.

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

(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**

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.

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

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

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total
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.

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

For the year ended December 31, 2015

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total 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.

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

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.

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

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.

AUGUSTA INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Prepared in Canadian dollars)

For The Years Ended December 31, 2015 and 2014

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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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, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity/(deficiency) 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, 2015 and 2014 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 continuing losses during the year ended December 31, 2015 and a cumulative deficit and limited working capital as at December 31, 2015. These conditions along with other matters set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about Augusta Industries Inc.'s ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 27, 2016

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

	Note	December 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents		$ 371	$ 156
Trade and other accounts receivable		258	256
Investments	7	-	154
Inventory	8	200	199
Tax credits receivable	10	36	37
Prepaid expenses and other assets		46	64
Total Current Assets		911	866
Non-Current Assets			
Equipment	9	56	76
Total Assets		$ 967	$ 942
Liabilities and Equity			
Current Liabilities			
Bank indebtedness	11	$ -	$ 400
Accounts payable and accrued liabilities		746	967
Advances	12	-	401
Deferred revenue		64	78
Long term debt - current portion	13	20	20
Convertible debentures	14	36	-
Total Current Liabilities		866	1,866
Non-Current Liabilities			
Long term debt	13	50	70
Convertible debentures	14	-	30
Total Non-Current Liabilities		50	100
Total Liabilities		916	1,966
Shareholders' Equity/(Deficiency)			
Share capital	16 (a)	5,447	4,127
Warrants	16 (b)	687	162
Reserves	16 (c)	1,544	1,398
Accumulated other comprehensive income		9	-
Deficit		(7,636)	(6,711)
Total Shareholders' Equity/(Deficiency)		51	(1,024)
Total Liabilities and Shareholders' Equity/(Deficiency)		$ 967	$ 942

Going Concern (Note 2(b))
Commitments (Note 17)
Approved on Behalf of the Board

"Warren Goldberg, CPA, CA"	"Allen Lone"
Director	**Director**

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

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

	Note		Year Ended December 31, 2015		Year Ended December 31, 2014
Sales		$	2,118	$	2,358
Cost of sales			(1,576)		(1,885)
Gross Profit			**542**		**473**
Expenses					
Research and development			(199)		(207)
Selling			(48)		(62)
General and administrative	21		(997)		(1,107)
Total Operating Expenses			(1,244)		(1,376)
Loss from Operations			(702)		(903)
Finance costs			(80)		(169)
Goodwill impairment	5		-		(1,013)
Intangible assets impairment	9		-		(163)
Unrealized gain/(loss) on investments	7		90		(270)
(Loss)/gain on sale of investments	7		(133)		302
Foreign exchange loss			(100)		(30)
Loss Before Income Taxes			(925)		(2,246)
Current income tax recovery	15		-		27
Deferred income tax recovery	15		-		23
Net Loss		$	(925)	$	(2,196)
Other Comprehensive Income			9		1
Total Comprehensive Loss		$	(916)	$	(2,195)
Basic and diluted loss per share		$	(0.00)	$	(0.01)
Basic and diluted weighted average number of common shares outstanding (000'S)			224,151		204,285

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

AUGUSTA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY/(DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Share Capital				Accumulated Other		
	Number	Amount	Warrants	Reserves	Comprehensive Income/(Loss)	Deficit	Total Equity/(Deficiency)
Balance, December 31, 2013	202,928	$ 3,603	$ 164	$ 1,439	$ (1)	$ (4,515)	$ 690
Shares issued on debenture conversion	10,607	497	-	(41)	-	-	456
Shares issued on exercise of warrants	500	27	(2)	-	-	-	25
Net loss for the year	-	-	-	-	-	(2,196)	(2,196)
Other comprehensive income	-	-	-	-	1	-	1
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

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, 2015 AND 2014
(Expressed in Canadian dollars. All numbers are in thousands except for share prices expressed in dollars)

	Year Ended December 31, 2015	Year Ended December 31, 2014
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the year	$ (925)	$ (2,196)
Items not involving cash		
Amortization	20	24
Interest on convertible debentures	4	55
Interest on advances	49	61
Accretion expense on convertible debentures	2	7
Interest on long term debt	-	5
Loss/(gain) on sale of investments	133	(302)
Unrealized (gain)/loss on investments	(90)	270
Intangible assets impairment	-	163
Inventory impairment	-	28
Goodwill impairment	-	1,013
Deferred income tax recovery	-	(23)
	(807)	(895)
Changes in non-cash working capital		
Trade and other accounts receivable	(2)	242
Inventory	(1)	90
Prepaid expenses and other assets	18	3
Income tax payable	-	(27)
Tax credit receivable	1	5
Accounts payable and accrued liabilities	(56)	(45)
Deferred revenue	(14)	42
	(54)	310
Net cash used in operating activities	(861)	(585)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Proceeds from warrant exercise	-	25
Proceeds from private placements	2,004	-
Share issuance costs	(13)	-
Repayment of bank indebtedness	(400)	(214)
Proceeds from advances	-	281
Interest paid on advances	(49)	(13)
Repayment of advances	(566)	(309)
Interest paid on long term debt	-	(5)
Proceeds from long-term debt	-	100
Repayment of long-term debt	(20)	(10)
Proceeds from sale of investments	111	747
Net cash provided by financing activities	1,067	602
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of equipment	-	(15)
Net cash used in investing activities	-	(15)
Effect of changes in foreign exchange rate	9	2
NET INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	$ 215	$ 4
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	156	152
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 371	$ 156
SUPPLEMENTAL CASH FLOW INFORMATION:		
Taxes paid	$ -	$ -
Accounts payable and accrued liabilities converted to advances	165	-
Interest paid	77	18

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

1. 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 37.7% of the voting shares of the Company (2014 – 45.5%).

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 27, 2016.

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 incurred a net loss of $925 for the year ended December 31, 2015 (2014 - $2,196), has an accumulated deficit of $7,636 (2014 – $6,711) from inception and working capital of $45 (2014 – deficit of $1,000). The challenges of securing requisite funding beyond December 31, 2015 and the continued operating losses indicate the existence of a material uncertainty that may 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, except for certain financial assets which are measured at fair value. 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.

(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 with convertible debenture 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) Warrant

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 a 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.

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

The Company's carrying value of trade and other receivables as at December 31, 2015 was approximately $258 (2014 – $256), net of allowances for doubtful accounts of $11(2014 – $nil). 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 goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. The calculation of value in use requires the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. If the recoverable amount of the CGU is less than its carrying amount, an impairment is recorded. As at December 31, 2015 and 2014, the carrying amount of goodwill is $nil.

(v) *Impairment of equipment and intangible assets*

Equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value of the equipment and intangible assets less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where recoverable amount is determined to be less than the carrying amount, an impairment loss may arise. During the year ended December 31, 2015, the Company recognized an impairment of $nil (2014 - $163) with respect to its intangible assets.

(vi) *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 most reliable information available at the time the estimates are made, of the amount the inventory is expected to realize. As at December 31, 2015, the carrying amount of inventory is $200 (2014 – $199), net of provision for slow moving and obsolete inventory of $69 (2014 – $65).

(vii) *Income, value added, withholding and other taxes 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:

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 above for further details.

Determination of functional currency

The Effects of Changes in Foreign Exchange Rates (IAS 21) defines 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.

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 15 for further details.

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.

Determination of CGUs

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.

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.

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;
- 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) Investments

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) 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%

(e) 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.

(f) Impairment of Equipment and Finite Life Intangible Assets

At the end of each reporting period, the Company assesses 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 assets 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 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.

(g) 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.

(h) 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.

(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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(i) 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 end of 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 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.

(m) 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.

(n) 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.

(o) 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 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).

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	Loans and receivables	Amortized cost
Cash equivalents	Loans and receivables	Amortized cost
Trade and other accounts receivable	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Advances	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

The fair values of cash and cash equivalents, trade and other accounts receivable, investments, bank indebtedness, accounts payable and accrued liabilities, and advances, approximate their carrying values due to their short-term nature.

As of December 31, 2015 and 2014, except for investments, none of the Company's financial instruments are recorded at fair value in the consolidated statement of financial position. Investments are classified as Level I.

(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.

(p) Share-based Compensation

The Company has an employee stock option plan, which is described in note 16(c). 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.

(q) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed at their respective fair values. Goodwill is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units ("CGU") that is expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(r) Changes in accounting policies

During the year ended December 31, 2015, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 8, IFRS 13 and ISA 24. 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 on or after January 1, 2016 or later periods. 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 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued in May 2014, which replaced IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs.

The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

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* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 7 – Financial Instruments: Disclosures ("IFRS 7") was amended in September 2014 to clarify whether a servicing contract is continuing involvement in a transferred asset for purposes of determining the disclosures required. IFRS 7 was also amended to clarify that the additional disclosures relating to offsetting are not specifically required for interim periods unless required by IAS 34. The amendments are effective for annual periods beginning on or after January 1, 2016.

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 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

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

5. GOODWILL

The Company has two CGUs: Marcon operations and Fiber Optic operations. All of the goodwill is related to the Fiber Optic CGU.

As at December 31, 2014, the Company assessed the impairment of goodwill. Management used the value in use as the recoverable amount of the Fiber Optic CGU, which was compared with its carrying amount including goodwill to identify a potential impairment. The cash flow forecasts employed for the computation of recoverable amount were extracted from the 2015 budget document approved by the Board of Directors. The 2015 forecast cash flows were projected forward for five years using the same assumptions as those applied in the 2014 budget. A terminal value reflecting inflation of 3% with no other growth were applied to the Year Five cash flows. A present value of the future cash flows was calculated using a before tax discount rate of 18%.

Based on the results of the goodwill impairment test, the recoverable amount based on the value in use impairment test was lower than the carrying amount of the Fiber Optic CGU and accordingly, an impairment charge of $1,013 was recorded in 2014 and as at December 31, 2015 and 2014, the carrying amount of goodwill is $nil.

6. 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, 2015 and 2014.

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.

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

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.

	Credit	Liquidity	Foreign exchange	Market Interest rate
Cash and cash equivalents	Yes	Yes	Yes	Yes
Trade and other accounts receivable	Yes	Yes	Yes	
Investments		Yes		
Bank indebtedness		Yes		Yes
Accounts payable and accrued liabilities		Yes	Yes	
Advances		Yes	Yes	
Convertible 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.

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

Four customers represent approximately 69% of sales for the year ended December 31, 2015 (2014 – 70% of sales). The sales from major customers are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
US Air Force	$ 236	$ 445
US Bureau of Reclamation	106	193
US Navy	611	508
US Army	499	495
	$ 1,452	**$ 1,641**

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

The accounts receivable from three customers represents approximately 51% of trade and accounts receivable as of December 31, 2015 (2014 – 60% from 5 customers). The trade and accounts receivable balances from these customers are as follows:

	December 31, 2015	December 31, 2014
Qatar Petroleum	$ 23	$ 24
CNRL	27	1
US Navy	82	33
US Air Force	-	72
US Army	-	24
	$ 132	**$ 154**

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 and cash equivalents

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, 2015, the Company had cash of $371 (2014 - $156), 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:

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

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

December 31, 2014	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Bank indebtedness	$ 400	$ 400	$ 400	$ -
Accounts payable and accrued liabilities	967	967	967	-
Advances	401	401	401	-
Convertible debentures	30	35	-	35
Long term debt	90	90	20	70
	$ 1,888	**$ 1,893**	**$ 1,788**	**$ 105**

In addition to the financial liabilities, the Company has contractual cash flows relating to lease commitments (note 17).

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

(e) Interest rate

The Company has cash balances which are exposed to interest rate fluctuations. The interest rate on convertible debentures and long term debt is fixed. As at December 31, 2015, cash, convertible debentures and long term debt totals $265. An increase of 100 basis points in the market interest rate would have on average, increased net loss by approximately $3, (a 100 basis point decrease would have had the equal but opposite effect) for the year ended December 31, 2015.

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

7. 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 which resulted in a gain of $302 on the sale of investments which was included in the consolidated statement of loss for the year ended December 31, 2014. 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.

8. INVENTORY

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

		December 31, 2015		December 31, 2014
Raw materials	$	104	$	148
Finished goods		96		51
	$	**200**	**$**	**199**

The total amount of inventory expensed as cost of goods sold was $165 (2014 - $121) including an impairment of $69 (2014 - $65).

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

9. EQUIPMENT AND INTANGIBLE ASSETS

	Computer Hardware	Scientific Equipment	Office Equipment	Computer Software	Intangible assets	Total
Cost						
Balance at December 31, 2013	**$ 53**	**$ 73**	**$ 62**	**$ 21**	**$ 163**	**$ 372**
Additions	3	-	-	13	-	16
Impairment	-	-	-	-	(163)	(163)
Balance at December 31, 2014	**$ 56**	**$ 73**	**$ 62**	**$ 34**	**$ -**	**$ 225**
Balance at December 31, 2015	**$ 56**	**$ 73**	**$ 62**	**$ 34**	**$ -**	**$ 225**

	Computer Hardware	Scientific Equipment	Office Equipment	Computer Software	Intangible assets	Total
Accumulated amortization						
Balance at December 31, 2013	**$ 33**	**$ 46**	**$ 29**	**$ 17**	**$ -**	**125**
Amortization charge	6	7	6	5	-	24
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**
Net Book Value December 31, 2014	**$ 17**	**$ 20**	**$ 27**	**$ 12**	**$ -**	**$ 76**
Net Book Value December 31, 2015	**$ 13**	**$ 14**	**$ 22**	**$ 7**	**$ -**	**$ 56**

The assets are pledged under the security charge on the convertible debentures (note 14).

Intangible assets were written off during the year ended December 31, 2014 as management determined that the criteria as set out in IAS 38 – Intangible Assets was no longer met.

10. 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 2014 has been reviewed by the Canada Revenue Agency ("CRA") and a credit of $35 has been received during the year ended December 31, 2015. 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 been assessed as filed, accordingly the Company has accrued the refundable credit of $36 for the year ended December 31, 2015 (2014 - $37).

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

11. BANK INDEBTEDNESS

	December 31, 2015	December 31, 2014
Line of credit - prime plus 5.0% per annum due on demand, guaranteed by the CEO	$ -	$400
	$ -	**$400**

The line of credit was secured by a general security agreement covering all assets of Marcon and guaranteed by Allen Lone, the Chief Executive Officer ("CEO")/director and shareholder of the Company. The line of credit was repaid in full in October 2015 and closed.

12. ADVANCES

	December 31, 2015	December 31, 2014
Loan payable - 12% per annum, due on demand, owing to the CEO of the Company, secured against a first charge on equity of Marcon International (USA) Inc. (See (i))	$ -	$ 135
Loan payable - 12% per annum, due on demand, owing to an arm's length third party, secured against a first charge on equity of Marcon International (USA) Inc. (See (i))	-	135
Loan payable - 15% per annum, due on demand, owing to an arm's length third party, secured against a first charge on equity of Marcon International (USA) Inc. (See (ii))	-	127
Loan payable - 15% per annum, due on demand, owing to the CEO of the Company and to a Company controlled by the CEO, secured against a first charge on equity of Marcon International (USA) Inc. (See (iii))	-	4
Promisory notes payable - 12% per annum, due on demand, owing to a Company controlled by the CEO of the Company (See (iv))	-	-
Total advances	**$ -**	**$ 401**

(i) During the year ended December 31, 2012, two parties loaned US$99.5 each to Marcon. One of the parties is the CEO and director of the Company and the other is an arm's length third-party. The loans bore interest at 12% per annum, and were secured against a first charge on the equity of Marcon International (USA) Inc. During the year ended December 31, 2015, the loans were paid in full including accrued interest of $68.

(ii) During the year ended December 31, 2013, an arm's length third-party loaned $150 to Fox-Tek. The loan bore interest at 15% per annum, and was secured against a first charge on the equity of Marcon International (USA) Inc. In 2014, $50 of this loan was repaid and the balance was repaid in full during the year ended December 31, 2015 including accrued interest of $35.

(iii) During the year ended December 31, 2014, the CEO and a company controlled by an officer of the Company advanced US$22 to Marcon International (USA) Inc. The advances bore interest at 15% per annum, were secured against a first charge on the equity of Marcon International (USA) Inc., and had a maturity date of December 31, 2014. In 2014, $19 was repaid and the remaining balance including the accrued interest of $2 was paid in full during the year ended December 31, 2015.

(iv) Included in accounts payable and accrued liabilities on December 31, 2014 was $165 owing to a company controlled by the CEO for services rendered by the CEO. During the year ended December 31, 2015, these payables were converted into two promissory notes and have been repaid including accrued interest of $16.

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

During the year ended December 31, 2015, interest expense of $71 (2014 - $48) was recognized in relation to these loans of which $51 (2014 – $27) was owed to the CEO of the Company.

13. LONG TERM DEBT

		December 31, 2015		December 31, 2014
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	$	70	$	90
Less: current portion		(20)		(20)
Long - term debt	**$**	**50**	**$**	**70**

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, 2015, $20 of this loan was repaid ($10 – 2014).

14. CONVERTIBLE DEBENTURES

Liability		
Balance, December 31, 2013	**$**	**423**
Accrued interest		56
Interest accretion		7
Value of converted debentures		(497)
Value of conversion option on converted debenture		41
Balance, December 31, 2014	**$**	**30**
Accrued interest		4
Interest accretion		2
Balance, December 31, 2015	**$**	**36**

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 entitles 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.

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 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, 2015, no convertible debentures were converted into common shares (2014 - $474 principal amount). Interest and accretion expense of $4 and $2, respectively, for the year ended December 31, 2015 (2014 - $56 and $7, respectively) are included in finance costs.

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

15. INCOME TAXES

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the statutory rate of 40% (2014 - 40%) are as follows:

	December 31, 2015	December 31, 2014
Loss before income taxes	$ 925	$ 2,246
Expected income tax recovery based on statutory rate	370	898
Adjustment to expected income tax benefit:		
Non-deductible expenses and other	574	(310)
Change in tax and exchange rates	1,462	-
Change in deferred tax assets not recognized	(2,406)	(538)
Total income tax expense	$ -	$ 50

Significant components of the income tax recovery are as follows:

Current income tax recovery	$ -	$ 27
Deferred income tax recovery	-	23
	$ -	$ 50

(b) Unrecognized Deductible Temporary Differences

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

	December 31, 2015	December 31, 2014
Non-capital loss carry-forwards	$ 28,266	$ 21,321
Research and development tax credit carry-forwards	832	1,529
Other temporary differences	39	219
Total	$ 29,137	$ 23,069

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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16. 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 ('000)	Amount
Balance, December 31, 2013	**202,928**	**$ 3,603**
Shares issued on conversion of debenture	10,607	497
Shares issued on exercise of warrants	500	27
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

(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 will entitle 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.

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(b) Common Stock Purchase Warrants

	No. of Warrants ('000)		Value $		Weighted Average Exercise Price
Balance, December 31, 2013	10,723	$	**164**	$	0.05
Warrants excercised (i)	(500)		(2)		0.05
Balance, December 31, 2014	**10,223**	$	**162**	$	**0.05**
Warrants expired	(6,667)		(146)		0.10
Warrants issued in June 2015 (Note 16(a)(i))	20,200		409		0.07
Warrants issued in December 2015 (Note 16(a)(ii))	9,940		262		0.13
Balance, December 31, 2015	**33,696**	$	**687**	$	**0.09**

(i) During the year ended December 31, 2014, 500 warrants were exercised at a price of $0.05.

As at December 31, 2015, the Company had the following warrants issued and outstanding:

No. of Warrants Issued and Outstanding		Exercise Price	Expiry	Weighted Average Remaining Life in Years
3,556	$	0.05	31-Dec-16	1.00
20,200	$	0.07	14-Jul-18	2.50
9,940	$	0.10	18-Dec-18	3.00
33,696	$	**0.08**		2.50

(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.

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

17. 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	
2016	$	78
2017		62
2018		62
2019		26
	$	**228**

18. 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.

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

For the year ended December 31, 2015

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total 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.

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

For the year ended December 31, 2014

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total Company
Sales	$ 1,878	$ 480	$ -	$ 2,358
Cost of Sales	(1,660)	(226)	-	(1,885)
Gross Profit	**219**	**254**	**-**	**473**
Expenses				
Research and development	-	(207)	-	(207)
Selling	-	(62)	-	(62)
General and administrative	(297)	(225)	(585)	(1,107)
Total Operating Expenses	(297)	(494)	(585)	(1,376)
Loss from Operations	(78)	(240)	(585)	(903)
Finance costs	(2)	-	(167)	(169)
Goodwill impairment	-	(1,013)	-	(1,013)
Intangible asset inpairment	-	(163)	-	(163)
Unrealized loss ininvestment	-	-	(270)	(270)
Gain on disposal of investment	-	-	302	302
Foreign exchange (loss)gain	(56)	29	(3)	(30)
Loss before income tax	(136)	(1,387)	(723)	(2,246)
Current income tax	27	-	-	27
Deferred income tax	-	-	23	23
Segment (loss)	(109)	(1,387)	(700)	(2,196)
Other comprehensive income	1	-	-	1
Comprehensive loss	$ (108)	$ (1,387)	$ (700)	$ (2,195)

As of December 31, 2014				
Total assets	$ 178	$ 764	$ -	$ 942
Capital and intangible assets	$ 14	$ 62	$ -	$ 76

All of the Company's equipment is located in Canada. The Marcon sales revenue of $1,878 excludes intercompany sales of $59 to Fox-Tek for the year ended December 31, 2014. The intercompany sales have been eliminated in the consolidated financial statements.

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

Revenue by Geographic Region

	Year ended December 31, 2015	Year ended December 31, 2014
USA	$ 1,538	$ 1,708
Canada	266	342
Middle East	278	223
Others	36	85
Total	$ 2,118	$ 2,358

19. 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:

Amount owing to the CEO of the Company and to a Company controlled by him – see note 12:

	December 31, 2015	December 31, 2014
Loan payable - 12% per annum, due on demand, owing to the CEO of the Company, secured against a first charge on equity of Marcon International (USA) Inc.	$ -	$ 135
Loan payable - 15% per annum, due on demand, owing to the CEO of the Company and to a Company controlled by the CEO, secured against a first charge on equity of Marcon International (USA) Inc.	-	4
Promisory note payable - 12% per annum, due on demand, owing to a Company controlled by the CEO of the Company	-	-
	$ -	**$ 139**

(a) During the year ended December 31, 2015, interest expense of $51 (2014 - $27) was recognized in relation to the loans that were owed to the CEO of the Company.
(b) Included in professional fees for the year ended December 31, 2015 is $nil (2014 - $57) for legal fees and disbursements owing to a law firm in which a director, Jay Vieira, was a former partner. Included in accounts payable and accrued liabilities as at December 31, 2015 is $15 (2014 - $43) owing to this law firm.
(c) Included in professional fees for the year ended December 31, 2015 is $4 (2014 - $nil) for legal fees and disbursements owing to a law firm in which a director, Jay Vieira, was a partner. As at December 31, 2015, $3 (2014 - $nil) is owing to this law firm.
(d) 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 7.
(e) Officers and directors participated in the convertible debenture issuance during the year ended December 31, 2013 in the amount of $239 and converted their debentures into shares of the Company during the year ended December 31, 2014 in exchange for 5,371 common shares of the Company.
(f) Included in accounts payable and accrued liabilities is $43 (2014 - $175) owing to the CEO and a company controlled by the CEO.
(g) A director subscribed for 1,000 units for gross proceeds of $50 pursuant to the private placement in July 2015.

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

(h) Included in the consolidated statement of loss is $165 (2014 - $165) paid to a company controlled by the CEO for services rendered by the CEO in lieu of his salaries.
(i) The line of credit of the Company was secured by a general security agreement covering all assets of Marcon and guaranteed by Allen Lone, the Chief Executive Officer ("CEO")/director and shareholder of the Company. The line of credit was repaid in full in October 2015.
(j) As at December 31, 2015, $12 (2014 - $nil) is owing to officers of the Company.
(k) During the year, several officers loaned the Company $129 interest free. All loans were repaid at December 31, 2015.

20. KEY MANAGEMENT PERSONNEL COMPENSATION

During the year ended December 31, 2015, the Company recognized salaries and short term benefit expenses of $479 (2014 - $510) for its key management personnel, including the CEO of the Company, CEO of Marcon, VP of Software Solutions, VP of Operations, and CFO of the Company.

21. GENERAL AND ADMINISTRATIVE

The general and administrative expenses are comprised as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries and short-term benefits (Note 20)	$ 556	$ 582
Professional fees	36	132
Office and general	385	369
Amortization	20	24
Total	$ 997	$ 1,107

22. 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 $51 (2014 – deficiency of $1,024).

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 of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 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, 2015, the Company is not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion 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, 2015 and 2014.

SCHEDULE "C"
MANAGEMENT DISCUSSION AND ANALYSIS

AUGUSTA
INDUSTRIES INC.

Management's Discussion and Analysis
For the Years Ended
December 31, 2017 and 2016

Marcon International Inc.
A wholly owned subsidiary of
Augusta Industries Inc.

FOX TEK
A wholly owned subsidiary of
Augusta Industries Inc.

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Augusta Industries Inc. (the "Company") for the years ended December 31, 2017 and 2016. It should be read in conjunction with the consolidated financial statements for the years ended December 31, 2017 and 2016. Additional information relating to the Company is available on SEDAR at **www.sedar.com**, or on the TSX Venture Exchange website at **www.tmx.com**, and on our website at **www.fox-tek.com**. Information contained in or otherwise accessible through our website doesn't form a part of this MD&A, and is not incorporated into this MD&A by references.

References to "we", "our", "Augusta", or "the Company" means Augusta Industries Inc. and its subsidiaries, unless the context requires otherwise.

BASIS OF PRSENTATION

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Fiber Optic System Technology (Canada) Inc., PinPoint Fox-Tek Inc., Fox-Tek Canada Inc. ("Fox-Tek"), Marcon International Inc. ("Marcon"), Marcon International (USA) Inc. and Marcon International (UK) Ltd. All inter-company accounts and transactions have been eliminated.

All financial information is reported in Canadian dollars and is expressed in thousands except for per share amounts which are expressed in dollars.

The MD&A was approved for issue by the Board of Directors on April 27, 2018.

CHANGES IN ACCOUNTING POLICIES

During the year ended December 31, 2017, the Company adopted International Accounting Standards ("IAS") 7 and IAS 12. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

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, 2018. 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 2017 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.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") was issued in December 2017 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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). All statements other than statements of historical fact are forward-looking statements that reflect the Company's present assumptions regarding future events. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, and/or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's internal projections, expectations, future growth, performance and business prospects and opportunities and are based on information currently available to the Company. Since they relate to the Company's current views with respect to future events, they are subject to certain risks, uncertainties and assumptions. Many factors could cause the

Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking statements, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking statements contained in this MD&A are provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by applicable securities legislation, regulations or policies. All of the forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW OF BUSINESS

Corporate Overview

Augusta Industries Inc. ("Augusta") was incorporated on October 13, 1999 under the laws of the State of Delaware with a registered and head-office located at 2455 Cawthra Road, Unit 75, Mississauga, Ontario L5A 3P1.

Marcon International Inc. ("Marcon") was incorporated under the laws of the Province of Ontario on April 28, 2010. On August 1, 2010, Marcon entered into an asset purchase agreement with Knoxbridge Corp. ("Knoxbridge"), whereby Knoxbridge transferred certain net assets, to Marcon in exchange for shares and debt. As at December 31, 2017, Augusta's significant shareholder is Knoxbridge who owns 30.1% (2015 – 37.7%) of the voting shares of the Company.

The Company has offices in Mississauga, Ontario and Calgary, Alberta; Augusta is traded on the TSXV under the symbol "AAO".

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 loss of $929 for the year ended December 31, 2017 (2016 - $15), has an accumulated deficit of $8,580 (2016 – $7,651) from inception and working capital deficiency of $381 (2016 – working capital of $126).

The challenges of securing requisite funding beyond December 31, 2017 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.

Principal Business

Fox-Tek is engaged in the development, design, manufacture and supply of systems using fiber optic sensors, related monitoring instruments, and software. Clients buy and operate systems and Fox-Tek handles the installation and reporting of information on an outsourcing basis. Fox-Tek provides support engineering services related to planning, training, on-site installation, and data interpretation and reporting. Fox-Tek's target market includes the monitoring, communication, alarming and prediction of safe/unsafe conditions in structures and facilities.

Fox-Tek's main products are patented 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/erosion, strain due to bending/buckling, and process pressure and temperature.

Fox-Tek's FT fiber optic sensor monitoring systems allow cost-effective, 24/7 remote monitoring capabilities to improve scheduled maintenance operations, avoid unnecessary shutdowns, and prevent accidents and leaks. The FT system uses non-intrusive fiber optic sensors to monitor strain due to settling, movement or buckling of a variety of civil structures, such as bending, buckling, elongation or compression of pipelines. Movement of soil or foundation footing can also be monitored. Measurements can be made at multiple locations up to 2,000 meters apart.

FT systems are highly sensitive and easy to operate: portable or dedicated FT monitors make continuous or periodic measurements by interrogating multiple permanently mounted sensors. Digital data facilitates semi-automated analysis and prompt reporting. Remote telemetry, long robust lead cables, and maintenance-free sensors enable early warning, or confirmation of effective mitigation solutions such as rebuilding slopes or grades. The non-electrical sensors are very robust and inherently immune to electromagnetic interference. FT sensors can be field-bonded to steel, concrete, composite / FRP structures located underwater, below grade or imbedded during a pour. They safely and efficiently monitor:

- Steel structure degradation due to corrosion;
- Concrete column compression and swelling due to corrosion;
- Composite girder / deck bending strains;
- Frame stability / buckling;
- Piling & anchor movement caused by ground heaving or seismic activity;
- Foundation settling;
- Dam subsidence;
- Tunnel wall and building fascia buckling;
- Storage tank floor / wall integrity

FT systems can be used in a wide array of engineered structures, and for any root cause of stress or degradation. FT sensor measurements combined with standard structural modeling and finite element analysis provide information to optimize maintenance, or institute prevention measures such as load control.

Fox-Tek's Electric Field Mapping ("EFM") System is a continuous, non-intrusive wall thickness monitoring system for pipelines and process piping with a number of breakthrough features:

1. Welded-on or spring-loaded sensor array
2. Rated for direct burial applications
3. Remote telemetry
4. Immediate reporting of alarms
5. Streamlined, objective data processing

Fox-Tek's Data Management and Analysis Tool ("DMAT") platform which was launched in 2011 is the database management and analysis tool for providing analysis and interpretation of the collected data. Data from all channels of FT Monitors, or EFM Monitors is collected and processed into easily understood tabular or graphical formats. It is anticipated that the DMAT Platform will provide additional value to pipeline operators and other stakeholders by allowing such users to easily manage multiple Fox-Tek systems ("FT").

Fox-Tek has been able to enhance the DMAT Platform user interface to facilitate the consistent presentation of data across multiple sites and improve the tools for location comparison and data reporting. In addition, the DMAT Platform now contains an alarm-on-event capability which the customer can customize according to their specific needs and thresholds.

Fox-Tek's Fiber Bragg Grating ("FBG") sensor system is an advanced fiber optic system consisting of many point strain sensors on one sensor string with high dynamic bandwidth. The FBG sensors measure the average local strain using Fox-Tek's FTG-3500 instrument. The system is suitable for static or low to medium frequency monitoring applications such as continuous in-situ structural health monitoring.

As an all-fiber optic sensor, FBG sensors possess some unique advantages, compared to conventional electrical sensors. They are immune to electromagnetic interference, and being light powered, they are intrinsically safe, making them ideal for deployment in hazardous or flammable environments.

The sensor itself is made from conventional single-mode optical fiber, with a diameter of 250 microns. This small diameter allows the sensor to be embedded inside the structure being monitored with minimal intrusive effect. The sensors are also available in various ruggedized packaged configurations, for easy installations.

Marcon is involved in the industrial supply of equipment and parts procuring for its clients, including the sale and distribution of Electrical, Mechanical and Instrumentation equipment. The equipment is purchased from various suppliers in Canada, the United States and Europe. Its clients are principally clients in the oil and gas industry, United States government agencies such as the Department of Defence, Department of the Interior, Department of Homeland Security and Department of Agriculture and in the Middle East. In addition to departments and agencies of the U.S. Government, Marcon's major clients include Saudi Arabia-Sabic Services (Refining and Petrochemical), Bahrain National Gas Co, Bahrain Petroleum, Qatar Petroleum, Qatar Gas, Qatar Petrochemical, Gulf of Suez Petroleum, Agiba Petroleum and Burullus Gas Co.

BUSINESS DEVELOPMENT

The Company is constantly working to improve its position in terms of intellectual property and what it offers to its customers. In fiscal 2017 the Company continued to focused on continuous improvements to its technology in markets with the highest perceived potential payoff, particularly in the oil and gas sectors.

Notable events include the following:

Blockchain Technology

The Company has created a wholly owned subsidiary, Paragon Blockchain Inc. ("Paragon") to commence the process of implementing Blockchain technology. " Paragon" has entered into a Memorandum Of Understanding with an Undisclosed Blockchain Company (The "UBC") to advise and develop a new set of blockchain applications for Augusta. The UBC will act as technical advisor and initiate the process of developing a new set of blockchain applications that will integrate, amongst other things, artificial intelligence (A.I.) for the purpose of sorting critical procurement opportunities within US government agencies for Marcon and FOX-TEK.

Blockchain technology has the potential to unlock substantial new opportunities capable of impacting the business of Marcon. Specifically, Marcon seeks to create an eco-system in the supply chain management of clients to change the dynamics of the scoping and bidding process by providing vendors and subcontractors with A.I. data mining tools to proactively drive the process.

Blockchain technology is of critical importance to FOX-TEK as well particularly the expansion of its' non-intrusive technology in the oil & gas industry, whose clients include many of the biggest companies in the world. FOX-TEK believes a common system of record connecting data collected for events is of paramount importance to clients. The Company will create a platform that will allow for the analysis of data that incorporates an auditing system built for regulatory and quality assurance oversight. The platform will implement a distributed blockchain ledger using smart contracts. These smart contracts provide customization of blockchain data.

Fox-Tek Segment

Fox-Tek continues to support its independent sales agents and distributors primarily outside of North America with the intent of utilizing their local contacts and established relationships within the oil and gas industry to expedite the distribution of Fox-Tek's products in the local jurisdictions. Fox-Tek has also streamlined its production process to meet the higher demand of our systems. In addition, we have an ongoing goal of significant reductions in overhead expenses, to provide greater potential towards corporate profitability.

The Company will continue to work closely with its existing clients to ensure their needs are met in order to strengthen and preserve the relationship in addition to developing new relationships with new clients.

After a very successful first introductory trip to India, FOX-TEK has provide a number of technical proposals and bids on a number of different projects – based on a number of our technologies. One of the more interested oil companies has requested a bid for 2 large EFM systems to be placed on vessels within a refinery. The client has provided a sample plate for testing purposes that would lead to a custom design for that specific material. The Company is also working on introducing our leak detection technology for long distance applications in India.

The Company has initiated talks Ontario Centres of Excellence (OCE) to supplement a number of high quality personnel (HQP) within the organization. This includes having a Post Doctorate Fellow to come in and provide a full assessment on our data analysis techniques and to look at ways to better manage our large database of

data.
Through OCE, FOX-TEK with the McMaster University's Centre of Opportunity, will be developing an innovative constant current source. This will be used across all of our EFM products, providing our existing and new clients with a better quality of analysis – with the use of a high precision constant current source A full prototype demonstrator has been completed.

The Company has been working to fulfill its obligations toward the Engineering and field services to meet the requirements of the contract announced on July 10th 2017 with one of our largest and long standing clients in North America.

The Company is still working closely with The Trans Africa Pipeline project ("T.A.P.") to provide non-intrusive sensing equipment which will verify the integrity of the pipeline composite at key locations. In addition to the non-intrusive sensing equipment, Fox-Tek will provide optical based sensing technology which would allow T.A.P. to monitor the right of way zones from possible third-party intrusions. The last update was that partial financing is completed and the site survey will be concluded for the Desalination Plant will be underway later in 2018.

The company is continuing to qualify with Petrobras as a supplier of corrosion detection monitoring systems, optical strain/pressure/temperature sensors & leak detection technology.

The Company is working with FiBos on two separate applications to monitor pressure in injectors. These injectors are critical to the plant operations since failures of these could lead to slowdowns or shutdowns of operations, A proof of concept was successfully completed and we are current working Phase 2

Sales of EFM Corrosion Monitoring Systems

Company has successfully completed 3 site surveys for one of our largest and long standing clients in North America and negotiating a contract with the client to convert of the competitor's technology to Fox-Tek's EFM technology. Company is currently awaiting a contract

The Company has been working closely with engineering firms and major oil and gas companies in the Middle East, England, in addition to all the major Canadian companies. There have been increased interest the Company's products from a number of overseas markets including India and the UK. The Company entered into a contract in 2016 with a company in the U.K. for the supply of a custom built EFM system for a laboratory. This system was shipped out in the first quarter of 2017 and installed in the second quarter of 2017. The Company is confident this could lead to future orders for more portable and mobile systems that could be used for periodic monitoring for less critical applications.

The Company is also negotiating a contract for sale of another EFM unit to another of our clients.

DMAT Platform

The Company continues to enhance the DMAT platform (Data Management and Analysis Tool). Response from customers utilizing the DMAT service has been very positive. For DMAT, the revenue stream is guaranteed when a customer acquires the hardware. The Company has successfully negotiated new contracts with several clients, for Engineering services and Data Analysis, for the 2017 fiscal year and beyond.

Leak Detection Technology

Fox-Tek's leak detection technology has the potential of becoming a disrupting technology within the oil and gas sector due to its ability to detect minute amounts of volatile organic compounds present in hydrocarbon leaks. Due to the nature of the technology, it will likely have fewer false alerts unlike a number of competing technologies.

1. The Company has received a contract for a system to detect oil on water in a drainage culvert.
2. The Company has been invited to be part of an onsite technical review for the use of our technology to monitor leaks in a pipe, within a tank farm. A budgetary/technical proposal was provided to the client. The pipe is estimated to be about 500 meters long. A site survey will be conducted end of April followed by contract negotiations
3. FOX-TEK has successfully completed an evaluation of its leak detection technology by a large consortium consisting of a number of oil & gas companies.
4. FOX-TEK is working closely with CANMETon the development of a new sensor technology (RFID corrosion sensor) to be used as a way to determine the damage of time on pipeline coatings. A letter of Interest submitted to a government initiative. We have been selected to phase 2 - LOI Technical review.

The company has an additional 5 bids for a number of applications utilizing a number of our technologies (EFM, FBG, & Leak detection.)

Marcon Segment

Marcon provides procurement and support services to existing and new projects worldwide in the energy sector. Initially Marcon had focused on providing services in the energy sector but moved on to government contracts and government services. Marcon has two subsidiaries, Marcon USA and Marcon UK, to help enhance and support its logistic and sales operations. Over the years it has established a good reputation and has been a consistent performer for its clients in the government as well as the international oil and gas industry.

Marcon International has built an impressive pipeline of quotes in 2017 and witnessing increased bidding activity. Majority of the larger bids and quotes for Marcon International are time consuming both in preparation of the bidding process and with the client and the end users. Marcon has successfully signed numerous deals year to date and will continue to do so and update the public through periodic press releases. Backlog sales in Marcon on December 31, 2017 were $2,515 and 2018 1st quarter sales is expected to exceed $1,600.

SELECTED FINANCIAL AND OPERATING RESULTS

Statement of Financial Position

As at December 31, 2017, the Company has a working capital deficiency of $381 (2016 – working capital of $126). As at December 31, 2017, the Company had total assets of $524 (2016 –$1,168). Total assets decreased by $644 during the year ended December 31, 2017 as trade and other accounts receivable decreased by $563 as revenue went down from $4,596 in the year ended December 31, 2016 to $2,556 in 2017. Inventory went down by $78 due to the write off of impaired inventory.

As at December 31, 2017, the Company had total liabilities of $1,068 (2016 – $1,031), an increase of $37 primarily from an increase in long-term loan of $200, offset by a reduction of accounts payable and accrued liabilities reflecting the decrease in sales activities.

Total equity decreased by $681 to a deficiency of $544 (2016 – equity of $137) during the year ended December 31, 2017 due to losses incurred during the year ended December 31, 2017.

Results of Operations

The following is a summary of the Company's three most recently completed financial years:

	Year ended December 31, 2017	2016	2015
Sales	$ 2,556	$ 4,596	$ 2,118
Cost of sales	(2,013)	(3,570)	(1,576)
Gross Profit	**543**	**1,026**	**542**
Expenses			
Research and development	(148)	(155)	(199)
Selling	(38)	(34)	(48)
General and administrative	(1,023)	(830)	(997)
Total Operating Expenses	(1,209)	(1,019)	(1,244)
(Loss) income before the undernoted	(666)	7	(702)
Finance costs	(20)	(18)	(80)
Stock based compensation	(250)	-	-
Unrealized gain on investment	-	-	90
(Loss) on sale of investment	-	-	(133)
Foreign exchange gain (loss)	14	17	(100)
Net (loss) income before income taxes	(922)	6	(925)
Income tax expenses	(7)	(21)	-
Net (loss) for year after tax	$ (929)	$ (15)	$ (925)
Other comprehensive (loss) income	$ (10)	$ 2	$ 9
Total comprehensive (loss) for the year	$ (939)	$ (13)	$ (916)
Basic and diluted (loss) income per share	(0.00)	(0.00)	(0.00)
Basic and diluted weighted average number of common shares outstanding (000'S)	256,135	254,356	224,151

	Year ended December 31, 2017	2016	2015
Total assets	$ 524	$ 1,168	$ 967
Total liabilities	(1,068)	(1,068)	(916)
Total (deficiency) equity	$ (544)	$ 137	$ 51

Sales and cost of sales were $2,556 and $4,596 respectively for the year ended December 31, 2017 (2016 - $2,013 and $3,570). The sales in the year ended December 31, 2017 were $2,040 lower than 2016. The gross margin was also slightly lower at 21.2% compared to 22.3% in 2016 reflecting the change in the sales mix between Marcon and Fox-Tek. Fox-Tek sales are $317 lower than last year's level while Marcon sales are lower by $1,723.

As noted above, Marcon has successfully signed numerous deals year in 2017. Majority of the larger bids and quotes for Marcon are time consuming both in preparation of the bidding process and with the client and the end users. Backlog sales in Marcon on December 31, 2017 were $2,515 and 2018 1st quarter sales is expected to exceed $1,600.

Total operating expenses for the year ended December 31, 2017 were $1,209 compared to $1,019 in the previous year, an increase of $190. Research and development ("R&D") expenses decreased by $7. Selling expenses saw a slight increase of $4. General and administration ("G&A") expenses increased by $193, primarily from an increase in salary costs from increased vacation pay accrual and professional fees increased by $96 largely due to $37 in interest and legal costs awarded to Collins Barrow, our former auditor and an increase in corporate service charges of $32 primarily because of increased specialized corporate marketing, costing $14. Inventory impairment charges were $77 during 2017.

Finance costs of $20 (2016 - $18) include accrued interest and accretion expense of $5 (2016 - $7) on the debentures, and interest of $13 (2016 - $11) on long term loans, credit cards and advances.

During the year ended December 31, 2017, the Company recognized $24 (2016 - $22) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 the Canada Revenue Agency. Adjustments to the claim, if any, will be accounted for in the year of assessment. Historically, the investment tax credits have been assessed as filed, accordingly the Company has accrued a refundable credit of $20 for year ended December 31, 2017 (2016 - $22). As at December 30, 2017, the Company received $26 against the 2016 receivable.

On January 30, 2017, the Company granted 11,500 stock options to directors, officers and consultants of the Company exercisable at a price of $0.10 per share and expiring on January 30, 2022. The options vest in three equal yearly tranches with the first instalment vesting on January 30, 2017 with the remaining options vesting on the one and two year anniversaries of the initial release. The fair value at date of grant was $0.032 per option granted. The fair value of the options was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years, a risk-free rate of 1.14%, expected dividend yield of 0% and an expected volatility of 134%. The expected volatility is based on the historical volatility of the Company's share price over the life of the options. 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 options are expected to be outstanding based on historical options issued. For the year ended December 31, 2017, included in the consolidated statements of loss and comprehensive loss is stock-based compensation of $250 (2016 – nil) relating to the stock options granted to directors, officers and consultants of the Company.

Summary of Consolidated Quarterly Results

The following is a summary of results for the Company's eight most recently completed interim financial periods:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Sales	$ 1,011	$ 807	$ 1,479	$ 1,299	$ 879	$ 696	$ 650	$ 331
Cost of sales	(550)	(576)	(1,293)	(1,151)	(679)	(452)	(515)	(367)
Grossprofit	$ 461	$ 231	$ 186	$ 148	$ 200	$ 244	$ 135	$ (36)
	45.6%	28.6%	12.6%	11.4%	22.8%	35.1%	20.8%	-10.9%
Expenses								
Research and development	(36)	(38)	(39)	(42)	(37)	(35)	(39)	(37)
Selling	(8)	(12)	(8)	(6)	(7)	(12)	(6)	(13)
General and administrative	(235)	(213)	(208)	(174)	(233)	(224)	(206)	(360)
Total operating expenses	(279)	(263)	(255)	(222)	(277)	(271)	(251)	(410)
Income/(loss) from operations	182	(32)	(69)	(74)	(77)	(27)	(116)	(446)
Finance costs	(4)	(4)	(5)	(5)	(3)	(4)	(4)	(9)
Stock based compensation	-	-	-	-	(101)	(64)	(47)	(38)
Foreign exchange gain(loss)	13	-	-	4	-	10	7	(3)
Net income/(loss) for the period before tax	191	(36)	(74)	(75)	(181)	(85)	(160)	(496)
Income tax expense	(6)	-	-	(15)	-	-	(5)	(2)
Net income/(loss) for the period	185	(36)	(74)	(90)	(181)	(85)	(165)	(498)
Other comprehensive income (loss)	(7)	-	(5)	14	(1)	(6)	(6)	3
Total comprehensive income/(loss) for the period	178	(36)	(79)	(76)	(182)	(91)	(171)	(495)
Basic and diluted income/(loss) per share	$ 0.00	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Basic and diluted weighted average number of common shares outstanding	254,115	254,115	254,115	254,356	256,115	256,115	256,115	256,135

The Fourth Quarter 2017

Sales and cost of sales in the three months ended December 31, 2017 were $331 and $367 respectively (2016 - $1,299 and $1,151). Marcon revenue for the fourth quarter of 2017 was $969 lower than the fourth quarter of 2016. The Marcon margin was a negative 37% due to a bad debt provision recorded for Enerdynamic Hybrid Technologies Corp. ("EHT") of $125. In the second quarter of 2017, Marcon entered into an agreement with EHT to undertake sales and marketing efforts on behalf of the company for a fee of $125 plus applicable taxes to help with the initial cost enlisting the company's products to potential customers and in particular various US government agencies. EHT has failed to follow up on its commitments and have not responded to Marcon's numerous attempts for payment of the fee as agreed.

Fox-Tek recorded sales of $91 in the fourth quarter of 2017 same as in the corresponding period of 2016. The gross margin for Fox-Tek this quarter of 58% was higher than 35% in the fourth quarter of 2016 largely due to the product mix of the sales in the respective quarters.

Total operating expenses for the three months ended December 31, 2017 were $410 and this was $188 higher than the same period of the previous year. This was largely due to inventory impairment of $77, interest and legal costs of $32 awarded to Collins Barrow, our previous auditor; increase in vacation pay accrual by $19 and due to increased specialized corporate marketing costing $14.

The finance costs for the fourth quarter of 2017 of $8 (2016 - $5) include accrued and accretion interest of $1 (2016 – $2) on and interest of $7 (2016 - $3) on long term debts, credit cards and advances.

During the three months ended December 31, 2017, the Company recognized $5 (2016 - $1) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 largely been assessed as filed. As of the date of this MD&A, the 2017 claim has not been received.

Gross profit analysis

For the eight quarters, the gross profit margin for the two cash generating units fluctuated within a range of negative 37% to 79%, which was mainly due to the fluctuation of the sales mix between Fox-Tek and Marcon - Fox-Tek has an average of about 72% gross profit margins and Marcon has an average of 8% gross profit margins. See following tables for gross profit margins in the two divisions.

Gross profit for Marcon

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Sales	$509	$701	$1,394	$1,208	$690	$596	$564	$239
Cost of sales	442	549	1275	1092	634	431	495	328
Gross profit	**$67**	**$152**	**$119**	**$116**	**$56**	**$165**	**$69**	**($89)**
Gross profit %	**13%**	**22%**	**9%**	**10%**	**8%**	**28%**	**12%**	**-37%**

Gross profit for Fox-Tek

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Sales	$502	$106	$85	$91	$189	$101	$86	$91
Cost of sales	108	27	18	59	45	22	20	38
Gross profit	**$394**	**$79**	**$67**	**$32**	**$144**	**$79**	**$66**	**$53**
Gross profit %	**78%**	**75%**	**79%**	**35%**	**76%**	**78%**	**77%**	**58%**

The Company's revenue continues to be difficult to forecast and is likely to fluctuate significantly from period to period. In addition, the Company's operating results do not follow any past trends. The factors affecting the Company's revenue and results of operations include:

- competitive conditions in the industrial sensing industry, including new products, product announcements and special pricing offered by competitors of the Company;
- market acceptance of the Company's products;
- ability to hire, train and retain sufficient sales and professional services staff;
- ability to complete its service obligations related to product sales in a timely manner;
- varying size, timing and contractual terms of product orders, which may delay the recognition of revenue;
- ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the oil and gas industry resulting in a decrease in the overall demand for the products and services offered by the Company or otherwise affecting its customers' capital investment levels in workforce management software;
- changes in the Company's pricing policies and the pricing policies of its competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product license revenue.

Since the Company's revenue will be dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of sales prospects into revenue could cause the Company to plan or budget inaccurately. Such variations could adversely affect the Company's financial results. Delays and reductions in the amount of, or cancellations of, customers' purchases would adversely affect the Company's revenue, results of operations and financial condition.

Historically, the Company's revenues and net results have not been affected by seasons. Seasonal fluctuations will become more significant as the weighting of sales to the oil and gas field increases, since business activity is generally greater in the winter for this sector.

Performance Indicators

In order to evaluate the Company's performance and generate long-term value for its shareholders, the Company has identified the following financial and non-financial performance indicators:

- Distribution, sales, and long-term recurring revenues;
- Products and innovation;
- Short-term financial performance and cash flows;
- Strategic acquisitions and development of new projects.

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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the audited consolidated financial statements for the years ended December 31, 2017 and 2018. The Company carries out its operations through wholly-owned entities. These entities are located in Canada and the United States.

For the year ended December 31, 2017

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Company
Sales	$ 2,089	$ 467	$ -	$ 2,556
Cost of sales	(1,888)	(125)	-	(2,013)
Gross profit	**201**	**342**	-	**543**
Expenses				
Research and development	-	(148)	-	(148)
Selling	-	(38)	-	(38)
General and administrative	(382)	(237)	(404)	(1,023)
Total operating expenses	(382)	(423)	(404)	(1,209)
(Loss) before the undernoted	(181)	(81)	(404)	(666)
Finance costs	(3)	-	(17)	(20)
Stock based compensation	-	-	(250)	(250)
Foreign exchange gain (loss)	18	(4)	-	14
Net (loss) for the year before income tax	(166)	(85)	(671)	(922)
Income tax expense	(7)	-	-	(7)
Net (loss) for the year	(173)	(85)	(671)	(929)
Other comprehensive loss	(10)	-	-	(10)
Total comprehensive (loss) for the year	$ (183)	$ (85)	$ (671)	$ (939)

As of December 31, 2017

Equipment	$ 6	$ 26	$ -	$ 32
Total assets	$ 321	$ 126	$ 77	$ 524

All of the Company's equipment is located in Canada. The Marcon sales revenue of $2,089 excludes intercompany sales of $23 to Fox-Tek for the year ended December 31, 2017. The intercompany sales have been eliminated in the consolidated financial statements.

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

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total
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.

Revenue by Geographic Region

	Year ended December 31,			
		2017		2016
USA	$	2,140	$	3,738
Canada		238		646
Middle East		114		201
Others		64		11
Total	**$**	**2,556**	**$**	**4,596**

LIQUIDITY AND CASH RESOURCES

Net cash used in operating activities was $190 during the year ended December 31, 2017 compared to $370 during 2016. Stock-based compensation of $250, accrued interest expenses totalling $5 and amortization expenses of $10 do not involve cash. Trade and other accounts receivable decreased by $563 due to lower sales during 2017. Prepaid expenses increased by $4 as the Company had to pay advances to vendors for shipments that took place in the 1st quarter of 2018. Accounts payable and accrued liabilities decreased by $148 compared to last year, again due to lower sales volume.

On October 16, 2017, $9 accounts payable owing to arm's length company was converted into 181 common shares of the Company at a price of $0.05 per share. The share issuance costs relating to the conversion of debt were $1.

Cash provided by financing activities was $200 during the year ended December 31, 2017 (2016 – $80) largely as a result of a new loan of $213 from BDC and $13 was paid against long term loan. Also note that there was a non-cash financing activity from share issuances pursuant to promissory note converted to common stock in the amount of $8.

For the year ended December 31, 2017, there was no change in the cash and cash equivalents of $83 (2016 – decrease of $288). As a result, as at December 31, 2017, the Company had cash and cash equivalents balance of $83, the same as at December 31, 2016.

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	
2018		71
2019		24
	$	**95**

Management will continue to work on maintaining an optimal inventory level and the timely collection of accounts receivable to minimize its working capital requirements.

The Company uses its capital to finance marketing expense, research and development activities, administrative charges, working capital and capital assets. Historically, the Company has financed activities through rounds of public and private financing and debt financing. The Company has long term debt of $251 of which $56 are due during 2017 and debentures of $48 have already matured and are now due on demand. The Company has negotiated and agreed with the debenture holder to commence cash payments of the interest on the debentures starting in May 2018.

SHARE CAPITAL, WARRANTS, AND OPTIONS

(a) Share Capital

256,296 shares of voting common stocks were issued and outstanding as at December 31, 2017 and as of the date of this MD&A (256,115 - December 31, 2016).

(i) On 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#1) of the Company at a price of $0.05 per Unit#1. 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#1"). Each Warrant#3 entitles the holder to 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.

(ii) On October 16, 2017, the Company issued 181 common shares for $9 of debt owing to an arm's length company. The share issuance costs were $1 relating to the exchange of shares for debt.

(iii) In November 2017, the TSXV had been advised by the Company that pursuant to a notice of intention to make a normal course issuer bid dated Nov. 14, 2017 (the "2017 NCIB"), it may repurchase for cancellation up to 17,340,061 common shares in its own capital stock. The purchases are to be made through the facilities of the TSXV during the period from Nov. 20, 2017, to Nov. 19, 2018. Purchases pursuant to the 2017 NCIB will be made by TD Securities on behalf of the Company. No shares have been bought back under the 2017 NCIB as at the filing of these consolidated financial statements.

(b) Common Stock Purchase Warrants

As at December 31, 2017 and as on the date of this MD&A, the Company had the following warrants issued and outstanding:

	No. of Warrants		Value		Weighted Average Exercise Price
Balance, December 31, 2015	**33,696**	**$**	**687**	**$**	**0.09**
Warrants expired	(3,556)		(16)		(0.05)
Warrants issued in November 2016	2,000		19		0.10
Balance, December 31, 2016	**32,140**	**$**	**690**	**$**	**0.10**
Warrants expired	(2,000)		(19)		0.10
Balance, December 31, 2017	30,140		671		0.10

Additional information about the Company's share capital can be found in note 12 of the notes to the consolidated financial statements for the years ended December 31, 2017 and 2016.

(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.

As of the date of this MD&A, the Company had 11,500 options outstanding exercisable at $0.10 per share expiring on January 30, 2022.

OFF-BALANCE SHEET ARANGEMENTS

Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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) As at December 31, 2017, $4 (December 31, 2016 - $4) is owing to a law firm in which a director, Jay Vieira, is a former partner.
(b) Included in accounts payable and accrued liabilities as at December 31, 2017 is $21 (December 31, 2016 - $21) owing to the CEO and a company controlled by the CEO.
(c) As at December 31, 2017, $20 (December 31, 2016, $1) is owing to officers of the Company.
(d) Included in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2017 is $165 (2016 - $165) paid to a company controlled by the CEO for services rendered by the CEO.
(e) During the year ended December 31, 2017, the Company granted 5,500 options to directors and officers of the Company at an exercise price of $0.10 per share expiring on January 30, 2022. Included in the statements of loss and comprehensive loss for the year ended December 31, 2017 is stock-based compensation expense of $120 relating to options granted to related parties.

KEY MANAGEMENT PERSONNEL COMPENSATION

During the year ended December 31, 2017, the Company recognized salaries and short term benefit expenses of $479 (2016 - $479) for its key management personnel, including the CEO of the Company, VP of Software Solutions, VP of Operations, and CFO of the Company.

RISKS AND UNCERTAINTIES

High Degree of Product Concentration

Substantially all of the Company's currently anticipated revenues will be derived from a limited number of products and services. Consequently, the Company's performance will depend on establishing market acceptance of these products and services in a single market, as well as enhancing the performance of such products and services to meet the evolving needs of customers. The Company, like other entities involved in a rapidly evolving new industry, faces the risk that the Company's products and services may not prove to be commercially successful or may be rendered obsolete by further scientific and technological developments. There can be no assurances that the Company will establish and maintain a position at the forefront of emerging technological trends. Any reduction in anticipated future demand or anticipated future sales of these products or any increase in competition could have a material adverse effect on the Company's business prospects, operating results or financial condition.

Competition

The Company has experienced, and expects to continue to experience, competition from a number of companies. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Many of the competitors and potential competitors of the Company have significantly greater financial, technical, marketing and/or service resources than does the Company. Many of these companies also have a larger installed base of users, longer operating histories or greater name recognition than the Company. Customers of the Company are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. The Company's smaller size and short operating history may be considered negatively by prospective customers. Even if competitors of the Company provide products with more limited system functionality than those of the Company, these products may incorporate other capabilities of interest to some customers and may be appealing due to a reduction in the number of different types of systems used to operate such customers' businesses. Further, competitors of the Company may be able to respond more quickly than the Company to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

Market Uncertainty

The Company's success depends to a significant degree on its ability to develop the market and gain acceptance for its products and services. There is no assurance that a significant market will develop for the Company's principal products and services. Implementation and adoption of its products have been slow to develop and may continue to be subject to delays. There can be no assurances that the additional commercial applications and markets for the Company's products will develop as currently contemplated.

The market for the Company's products is just beginning to develop and the Company's business plan will continue to require significant marketing efforts and working capital. To manage such development, the Company must continue to expand its existing resources and management information systems and must attract, train, and motivate qualified marketing, management, technical and administrative personnel. There can be no assurance that the Company will be able to achieve these goals.

The Company's success in the Marcon segment depends on and is exposed to the Middle East oil & gas market. The region has gone through some tremendous changes in the last year that have a slight impact on future sales and services in the region, and the United States Government Departments spending patterns in the operating expenditure side of procurement and contracting rather than the CAPEX side of the business and therefore most contracts signed with the Company fall under the maintenance repair and operations ("MRO").

Labour and Key Personnel

The Company depends on the services of its engineers, technical employees, and key management personnel. The loss of one of these people could have a significant unfavorable impact on the Company, its operating results, and its financial position. The success of the Company is largely dependent upon its ability to identify, hire train, motivate, and retain highly skilled management employees, engineers, technical employees, and sales and marketing personnel. Competition for its employees can be intense, and the Company cannot ensure that it will be able to bring in and retain highly skilled technical and management personnel in the future. Its ability to bring in and retain management and technical personnel and the necessary sales and marketing employees could have unfavorable impact on its growth and future profitability. The Company may be obligated to increase the compensation paid to current or new employees, which could substantially increase operating expenses.

Growth Management and Market Development

There is no guarantee that the Company can develop its market significantly, thus affecting its profitability. The Company expected growth might create significant pressure on management, operations, and technical resources. In order to manage its growth, Augusta may need to increase the size of its technical and operational staff and manage its personnel while maintaining many effective relationships with third parties.

Pricing Policies

The competitive market in which Augusta operates could force it to reduce its prices. If its competitors offer large discounts on certain products and services in order to gain market shares or sell products and services, the Company may need to lower its prices and offer other favorable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavorable impact on its operating results. Some of Augusta's competitors could offer products and services that compete with theirs for promotional purposes or as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices Augusta may charge for its products and services. If Augusta cannot offset these price reductions with a corresponding increase in sales volume or decreased expense, the decreased revenues from products and services could unfavorable affect its profit margins and operating results.

Product Failures and Mistakes

Augusta products are complex and therefore may contain failures and mistakes that could be detected at any time in a product's life cycle. Failures and mistakes in its products could have a significant unfavorable impact on its reputation, open it up to significant costs, delay product launch dates, and harm its ability to sell its products in the future. The costs of correcting a failure or mistake in one of these products could be significant and could negatively affect its operating margins. Although Augusta expects to continue to test products to detect failure and mistakes and to work with its customers through its support and maintenance services in order to find and correct failure and mistakes, they could appear in its products in the future. Augusta is exposed to warranty expenses, product recalls and other claims, particularly if the products prove to be defective, which would harm business development and the Company's reputation. Augusta provides one year warranty for its products.

Technological Obsolescence

Competitors and new companies could launch new products. In order to remain on the cutting edge of technology, Augusta may need to launch a new generation of fiber optic sensors and develop its related products and services. Whether it is competition from development companies and /or marketing of fiber optic sensors or a merger or acquisition of existing companies, competition within certain fiber optic sensor industry sectors offering solutions similar to what Augusta offers is vigorous and could increase. Some of Augusta's competitors have significantly greater financial, technical, distribution, and marketing resources than Augusta. Technological progress and product development could make Augusta products obsolete or reduce their value.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments include cash, investments at fair value through profit or loss, trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, advances, long-term debt, and convertible debentures.

The Company doesn't have any other instruments that will be settled by the delivery of non-financial assets.

The fair value of financial instruments

The Company has estimated the fair value of its financial instruments as follows:

- Cash is carried at its stated value;
- The share prices quoted in the market approximates the fair value of the investments;
- The carrying value of trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and advances approximate their fair values due to the short-term nature of these instruments;
- The convertible debentures include liability component, conversion option, and warrants. Both conversion option and warrants meet all the criteria for recognition as equity instruments under IAS 32, financial instruments presentation, and have been recognized as equity components. Management estimated the fair value of a similar liability that doesn't have associated equity components by using a discount rate of 18% at initial recognition and each extension date. The residual amount has been allocated to equity components. Management used the Black-Scholes option pricing model to estimate the fair value of conversion option and warrants, and the residual equity amount is then allocated to based on their relative fair values. At initial recognition date and each extension date, the convertible debentures have been segregated into conversion option, warrants and liability components. The equity components decreased the carry amount of convertible debenture liability and will be accreted into profit and loss using the effective interest method over the each extension terms of convertible debentures, and bring the carry amount of convertible debenture to their face amounts at maturity dates.
- Long term debt is carried at amortized cost. It has a fixed interest rate which is paid monthly.

The classification and measurement base of financial instruments

The classification and measurement base for the Company's financial instruments as follows:

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

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.

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.

Cash

Cash consists of bank balances and petty cash. Credit risk associated with cash and bank is minimized substantially by ensuring that these financial assets are invested in debt instruments of highly rated financial institutions. As at December 31, 2017, the Company held cash of $83 (December 31, 2016 - $83).

Trade and Other Accounts Receivable

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.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of loss in 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 general and administrative expenses in the statement of loss. Historically, trade credit losses have been minimal.

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 has working capital deficiency of $381 (working capital of $126 as at December 31, 2016).

The following items are the contractual maturities of financial liabilities:

December 31, 2017	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Accounts payable and accrued liabilities	$ 721	$ 721	$ 721	$ -
Debentures	48	48	48	-
Income tax payable	3	3	3	-
Non-cash liabilities	45	45	45	-
Long term debt	251	251	56	195
	$ 1,068	**$ 1,068**	**$ 873**	**$ 195**

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	-
Income tax payable	15	15	15	-
Non-cash liabilities	45	45	45	-
Long term debt	51	51	20	31
	$ 1,031	**$ 1,031**	**$ 1,000**	**$ 31**

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

Foreign Exchange

As at December 31, 2017, the Company's US dollar net monetary liabilities totaled $64 (2016 - net monetary assets of $220). Accordingly, a 5% change in the US dollar exchange rate as at December 31, 2017 on this amount would have resulted in an exchange gain or loss and therefore net loss would have increased (decreased) by $3 (2016 - $11).

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' deficiency which amounts to $544 (2016 – equity of $137).

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, 2017, the Company was not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion 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, 2017 and 2016.

Investor Relations

During the year ended December 31, 2017, the Company performed its own investor relations. The Company will continue to perform its own investor relations for the foreseeable future.

Amalgamation Arrangement

On September 27, 2017, the Company entered into an amalgamation agreement (the "Agreement") with Sensor Technologies Inc. ("Sensor"). Pursuant to the Agreement, Sensor had agreed to purchase all of the issued and outstanding securities (the "Spin-Out Transaction") in the capital of Fox-Tek Canada Inc. ("Fox-Tek") for an aggregate purchase price of $25 million (the "Purchase Price"). The Purchase Price would be satisfied through the issuance of an aggregate 50,000 common shares (the "Sensor Shares") to the Company. It is the intention of the Company to distribute the Sensor Shares, on a pro rata basis, to its shareholders. In November 2017, the directors and officers of the Company, holding an aggregate of 83,454,264 common shares of the Company entered into a lock-up agreement where they have agreed to vote the shares in support of the spin-off of FOX-TEK Canada Inc.

Subsequent to December 31, 2017, the Company has decided to suspend the proposed amalgamation to further evaluate the Spin-Out Transaction. The Company continues to work with its financial and legal advisers to ascertain the best course of action for both the Company and its shareholders.

Subsequent Events

1. Subsequent to the year ended December 31, 2017, the Company signed promissory notes secured against the assets of the Company and received $432from a company controlled by a director of the Company. The loans are due between May 6, 2018 and July 4, 2018 and bear interest at 10% per annum. The notes were repaid on April 11, 2018 with interest of $4.

2. Subsequent to December 31, 2017, the Company has created a wholly owned subsidiary, Paragon Blockchain Inc. ("Paragon") to commence the process of implementing Blockchain technology. " Paragon" has entered into a Memorandum Of Understanding with an Undisclosed Blockchain Company (The "UBC") to advise and develop a new set of blockchain applications for Augusta. The UBC will act as technical advisor and initiate the process of developing a new set of blockchain applications that will integrate, amongst other things, artificial intelligence (A.I.) for the purpose of sorting critical procurement opportunities within US government agencies for Marcon and FOX-TEK.

AUGUSTA
INDUSTRIES INC.

Management's Discussion and Analysis
For the Year Ended
December 31, 2016

Marcon International Inc.

A wholly owned subsidiary of
Augusta Industries Inc.

FOX TEK

A wholly owned subsidiary of
Augusta Industries Inc.

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Augusta Industries Inc. (the "Company") for the years ended December 31, 2016 and 2015. It should be read in conjunction with the consolidated financial statements for the years ended December 31, 2016 and 2015. Additional information relating to the Company is available on SEDAR at **www.sedar.com**, or on the TSX Venture Exchange website at **www.tmx.com**, and on our website at **www.fox-tek.com**. Information contained in or otherwise accessible through our website doesn't form a part of this MD&A, and is not incorporated into this MD&A by references.

References to "we", "our", "Augusta", or "the Company" means Augusta Industries Inc. and its subsidiaries, unless the context requires otherwise.

BASIS OF PRSENTATION

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Fiber Optic System Technology (Canada) Inc., PinPoint Fox-Tek Inc., Fox-Tek Canada Inc. ("Fox-Tek"), Marcon International Inc. ("Marcon"), Marcon International (USA) Inc. and Marcon International (UK) Ltd. All inter-company accounts and transactions have been eliminated.

All financial information is reported in Canadian dollars and is expressed in thousands except for per share amounts which are expressed in dollars.

The MD&A was approved for issue by the Board of Directors on April 13, 2017.

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.

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 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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). All statements other than statements of historical fact are forward-looking statements that reflect the Company's present assumptions regarding future events. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, and/or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's internal projections, expectations, future growth, performance and business prospects and opportunities and are based on information currently available to the Company. Since they relate to the Company's current views with respect to future events, they are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking statements, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking statements contained in this MD&A are provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by applicable securities legislation, regulations or policies. All of the forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

OVERVIEW OF BUSINESS

Corporate Overview

Augusta Industries Inc. ("Augusta") was incorporated on October 13, 1999 under the laws of the State of Delaware with a registered and head-office located at 2455 Cawthra Road, Unit 75, Mississauga, Ontario L5A 3P1.

Marcon International Inc. ("Marcon") was incorporated under the laws of the Province of Ontario on April 28, 2010. On August 1, 2010, Marcon entered into an asset purchase agreement with Knoxbridge Corp. ("Knoxbridge"), whereby Knoxbridge transferred certain net assets, to Marcon in exchange for shares and debt. As at December 31, 2016, Augusta's significant shareholder is Knoxbridge who owns 37.4% (2015 – 37.7%) of the voting shares of the Company.

The Company has offices in Mississauga, Ontario and Calgary, Alberta; Augusta is traded on the TSXV under the symbol "AAO".

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 a net loss of $15 for year ended December 31, 2016 (2015 – $925), has an accumulated deficit of $7,651 (2015 – $7,636) from inception and working capital surplus of $126 (2015 – $45).

The challenges of securing requisite funding beyond December 31, 2017 and the cumulative operating losses indicate the existence of a material uncertainty that may 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.

Principal Business

Fox-Tek is engaged in the development, design, manufacture and supply of systems using fiber optic sensors, related monitoring instruments, and software. Clients buy and operate systems and Fox-Tek handles the installation and reporting of information on an outsourcing basis. Fox-Tek provides support engineering services related to planning, training, on-site installation, and data interpretation and reporting. Fox-Tek's target market includes the monitoring, communication, alarming and prediction of safe/unsafe conditions in structures and facilities.

Fox-Tek's main products are patented 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/erosion, strain due to bending/buckling, and process pressure and temperature.

Fox-Tek's FT fiber optic sensor monitoring systems allow cost-effective, 24/7 remote monitoring capabilities to improve scheduled maintenance operations, avoid unnecessary shutdowns, and prevent accidents and leaks. The FT system uses non-intrusive fiber optic sensors to monitor strain due to settling, movement or buckling of a variety of civil structures, such as bending, buckling, elongation or compression of pipelines. Movement of soil or foundation footing can also be monitored. Measurements can be made at multiple locations up to 2,000 meters apart.

FT systems are highly sensitive and easy to operate: portable or dedicated FT monitors make continuous or periodic measurements by interrogating multiple permanently mounted sensors. Digital data facilitates semi-automated analysis and prompt reporting. Remote telemetry, long robust lead cables, and maintenance-free sensors enable early warning, or confirmation of effective mitigation solutions such as rebuilding slopes or grades. The non-electrical sensors are very robust and inherently immune to electromagnetic interference. FT sensors can be field-bonded to steel, concrete, composite / FRP structures located underwater, below grade or imbedded during a pour. They safely and efficiently monitor:

- Steel structure degradation due to corrosion;
- Concrete column compression and swelling due to corrosion;
- Composite girder / deck bending strains;
- Frame stability / buckling;
- Piling & anchor movement caused by ground heaving or seismic activity;

- Foundation settling;
- Dam subsidence;
- Tunnel wall and building fascia buckling;
- Storage tank floor / wall integrity

FT systems can be used in a wide array of engineered structures, and for any root cause of stress or degradation. FT sensor measurements combined with standard structural modeling and finite element analysis provide information to optimize maintenance, or institute prevention measures such as load control.

Fox-Tek's Electric Field Mapping ("EFM") System is a continuous, non-intrusive wall thickness monitoring system for pipelines and process piping with a number of breakthrough features:

1. Welded-on or spring-loaded sensor array
2. Rated for direct burial applications
3. Remote telemetry
4. Immediate reporting of alarms
5. Streamlined, objective data processing

Fox-Tek's Data Management and Analysis Tool ("DMAT") platform which was launched in 2011 is the database management and analysis tool for providing analysis and interpretation of the collected data. Data from all channels of FT Monitors, or EFM Monitors is collected and processed into easily understood tabular or graphical formats. It is anticipated that the DMAT Platform will provide additional value to pipeline operators and other stakeholders by allowing such users to easily manage multiple Fox-Tek systems ("FT").

Fox-Tek has been able to enhance the DMAT Platform user interface to facilitate the consistent presentation of data across multiple sites and improve the tools for location comparison and data reporting. In addition, the DMAT Platform now contains an alarm-on-event capability which the customer can customize according to their specific needs and thresholds.

Fox-Tek's Fiber Bragg Grating ("FBG") sensor system is an advanced fiber optic system consisting of many point strain sensors on one sensor string with high dynamic bandwidth. The FBG sensors measure the average local strain using Fox-Tek's FTG-3500 instrument. The system is suitable for static or low to medium frequency monitoring applications such as continuous in-situ structural health monitoring.

As an all-fiber optic sensor, FBG sensors possess some unique advantages, compared to conventional electrical sensors. They are immune to electromagnetic interference, and being light powered, they are intrinsically safe, making them ideal for deployment in hazardous or flammable environments.

The sensor itself is made from conventional single-mode optical fiber, with a diameter of 250 microns. This small diameter allows the sensor to be embedded inside the structure being monitored with minimal intrusive effect. The sensors are also available in various ruggedized packaged configurations, for easy installations.

Marcon is involved in the industrial supply of equipment and parts procuring for its clients, including the sale and distribution of Electrical, Mechanical and Instrumentation equipment. The equipment is purchased from various suppliers in Canada, the United States and Europe. Its clients are principally clients in the oil and gas industry, United States government agencies such as the Department of Defence, Department of the Interior, Department of Homeland Security and Department of Agriculture and in the Middle East. In addition to departments and agencies of the U.S. Government, Marcon's major clients include Saudi Arabia-Sabic Services (Refining and Petrochemical), Bahrain National Gas Co, Bahrain Petroleum, Qatar Petroleum, Qatar Gas, Qatar Petrochemical, Gulf of Suez Petroleum, Agiba Petroleum and Burullus Gas Co.

BUSINESS DEVELOPMENT

The Company is constantly working to improve its position in terms of intellectual property and what it offers to its customers. In fiscal 2016 the Company has focused on continuous improvements to its technology in markets with the highest perceived potential payoff, particularly in the oil and gas sectors.

Notable events include the following:

Fox-Tek Segment

Fox-Tek continues to support its independent sales agents and distributors primarily outside of North America with the intent of utilizing their local contacts and establish relationships within the oil and gas industry to expedite the distribution of Fox-Tek's products in the local jurisdictions. Fox-Tek has also streamlined its production process to meet the higher demand of our systems. In addition, we have an ongoing goal of significant reductions in overhead expenses, to provide greater potential towards corporate profitability.

The Company will continue to work closely with its existing clients to ensure their needs are met in order to strengthen and preserve the relationship in addition to developing new relationships with new clients.

1) Sales of EFM Corrosion Monitoring Systems

    5 EFM systems were shipped to an oil and gas exploration and production company with assets and operations in North America, Africa, Europe and South America for $420 during 2016. Two of these systems have been installed in the first quarter of 2017 while the remaining are expected to be installed in the second and third quarters of 2017.

    The Company has been working closely with engineering firms and major oil and gas companies in the Middle East, England, in addition to all the major Canadian companies. There have been increased interest the Company's products from a number of overseas markets including India and the UK. The Company entered into a contract in 2016 with a company in the U.K. for the supply of a custom built EFM system. This system was shipped out in the first quarter of 2017 and expected to be installed in the second quarter of 2017.

    In 2015, the Company and Mitsubishi entered into the Agreement in an attempt to better understand how the Company and Mitsubishi can work together to support the efforts of Mitsubishi. In April 2016, the Company and Mitsubishi have identified a specific application for the use of the Company's technology and has commence on the development of a monitoring system to be deployed and used by Mitsubishi in their exclusive markets.

2) DMAT Platform

    The Company continues to enhance the DMAT platform (Data Management and Analysis Tool). Response from customers utilizing the DMAT service has been very positive. For DMAT, the revenue stream is guaranteed when a customer acquires the hardware. Negotiations are underway on re-pricing the DMAT services and it is expected DMAT revenue will exceed $450 in 2017.

3) FBG Systems

The Company has seen increased interests for a number of FBG systems both internationally and in Canada and we are working on a number of bids.

The Company has embarked with a major partner to develop a new optical sensing sensor. Phase one, consisting of the validation of the pre-commercial sensors, should be accomplished by the end of 2017.

4) Leak Detection Technology

The Company is in the process of partnering up with a large European provider of leak detection technology. This technology has the potential of becoming a disrupting technology within the oil and gas sector due to its ability to detect minute amounts of volatile organic compounds present in hydrocarbon leaks. Due to the nature of the technology, it will likely have fewer false alerts unlike a number of competing technologies.

Marcon Segment

Marcon provides procurement and support services to existing and new projects worldwide in the energy sector. Initially Marcon had focused on providing services in the energy sector but moved on to government contracts and government services. Marcon has two subsidiaries, Marcon USA and Marcon UK, to help enhance and support its logistic and sales operations. Over the years it has established a good reputation and has been a consistent performer for its clients in the government as well as the international oil and gas industry.

SELECTED FINANCIAL AND OPERATING RESULTS

Statement of Financial Position

As of December 31, 2016, the Company has a working capital of $126 (2015 – $45). As of December 31, 2016, the Company had total assets of $1,168 (2015 –$967). Total assets increased by $201 during the year ended December 31, 2016 as trade and other accounts receivable increased by $404 as revenue went up from $2,118 in the year ended December 31, 2015 to $4,596 in 2016. Prepaid expenses and other assets also increased by $202 as the Company had to pay advances to some of the vendors against shipments that went out in the 1st quarter of 2017. Inventory went down by $89 and cash and cash equivalents by $288 to finance the increased sales.

As of December 31, 2016, the Company had total liabilities of $1,031 (2015 – $916), an increase of $115 primarily from an increase of accounts payable and accrued liabilities of $131 reflecting the increase in sales and offset by a decrease of long term debt by $19. Income tax payable was $15 as of December 31, 2016.

Total equity increased by $86 to $137 during the year ended December 31, 2016 primarily due to the conversion of debt to shares as discussed in the "Liquidy and Cash Resources" section elsewhere in this MD&A.

Results of Operations

The following is a summary of the Company's three most recently completed financial years:

	Year ended December 31,		
	2016	**2015**	**2014**
Sales	$ 4,596	$ 2,118	$ 2,358
Cost of sales	(3,570)	(1,576)	(1,885)
Gross profit	**1,026**	**542**	**473**
Expenses			
Research and development	(155)	(199)	(207)
Selling	(34)	(48)	(62)
General and administrative	(830)	(997)	(1,107)
Total expenses	(1,019)	(1,244)	(1,376)
Income (loss) before the undernoted	7	(702)	(903)
Finance costs	(18)	(80)	(169)
Goodwill impairment	-	-	(1,013)
Intangible assets impairment	-	-	(163)
(Loss) gain on sale of investments	-	(133)	302
Unrealized gain (loss) on investments	-	90	(270)
Foreign exchange gain (loss)	17	(100)	(30)
Net income (loss) for the year before tax	6	(925)	(2,246)
Current income tax (expense) recovery	(21)	-	27
Deferred income tax recovery	-	-	23
Net (loss) for the year	(15)	(925)	(2,196)
Other comprehensive income	2	9	1
Total comprehensive (loss) for the year	$ (13)	$ (916)	$ (2,195)
(Loss) per common share based on			
Net (loss) for the year			
Basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)
Basic and diluted weighted average number of common shares outstanding	254,356	224,151	204,285

	As At December 31,		
	2016	**2015**	**2014**
Total assets	$ 1,168	$ 967	$ 942
Total liabilities	1031	916	1966
Total equity	$ 137	$ 51	$ (1,024)

Sales and cost of sales were $4,596 and $3,570 respectively for the year ended December 31, 2016 (2015 - $2,118 and $1,576). The sales in the year ended December 31, 2016 were more than twice as 2015 – higher by $2,478 or 117%. The gross margin was however slightly lower at 22.3% compared to 25.6% in 2015 reflecting the change in the sales mix between Marcon and Fox-Tek. Fox-Tek sales are $274 higher than last year's level while Marcon sales are higher by $2,204.

5 units of EFM worth $420 were delivered to the client in 2016. Two of these units were installed in the first quarter of 2017 and the remaining will be installed in second and third quarter of 2017. Additionally we also entered into a contract for another custom built EFM system in 2016 and this was delivered in the first quarter of 2017 and will be installed in the second quarter of 2017. Fox-Tek is also negotiating with all customers to upgrade their modems and a few have already signed the contracts. This will lead to additional revenue from implementing the upgrade and DMAT revenue will also go up significantly. The Company has also entered into multi-year maintenance contract with a customer that will generate revenue starting in 2017.

Marcon also has seen an increase in sales trend continue, first quarter sales in 2017 is expected to be greater than $650 (2016 first quarter - $509) and the sales pipeline as of the date of this MD&A is approximately $472.

The Company is continually making efforts to reduce expenses in order to become cash flow positive over the next year. Total operating expenses for the year ended December 31, 2016 were $1,019 compared to $1,244 in the previous year, a decrease of $225. The research and development ("R&D") expenses decreased by $44 mainly as a result of manpower rationalization. Selling expenses saw a reduction of $14 as the Company reduced the number of trade shows in 2016. General and administration ("G&A") expenses decreased by $167 as salaries decreased by $25 primarily as a result of a change in the Company's policy with regards to accrued vacation days carried forward. The result was that there were less vacation pay accrual in 2016. General office expenses decreased by $167 primarily because of reduced costs in operating rent of $41 following the move of the head office from Oakville to Mississauga and non-recurrence of a consulting fee of $50 paid in 2015. Professional fees increased by $25 primarily because in 2015 we booked credit notes following negotiations with the creditors. Finance costs of $18 (2015 - $80) include accrued interest and accretion expense of $3 (2015 - $6) for convertible debentures, and interest of $14 (2015 - $74) on bank indebtedness, long term loans and advances.

During the year ended December 31, 2016, the Company recognized $22 (2015 - $36) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 largely been assessed as filed. The Company has not received the 2016 claim as yet.

Summary of Consolidated Quarterly Results

The following is a summary of results for the Company's eight most recently completed interim financial periods:

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sales	$ 526	$ 492	$ 675	$ 425	$ 1,011	$ 807	$ 1,479	$ 1,299
Cost of sales	(342)	(371)	(547)	(316)	(550)	(576)	(1,293)	(1,151)
Grossprofit	$ 184	$ 121	$ 128	$ 109	$ 461	$ 231	$ 186	$ 148
	35.0%	24.6%	19.0%	25.6%	45.6%	28.6%	12.6%	11.4%
Expenses								
Research and development	(42)	(64)	(49)	(44)	(36)	(38)	(39)	(42)
Selling	(21)	(1)	(10)	(16)	(8)	(12)	(8)	(6)
General and administrative	(235)	(253)	(261)	(248)	(235)	(213)	(208)	(174)
Total operating expenses	(298)	(318)	(320)	(308)	(279)	(263)	(255)	(222)
Income/(loss) from operations	(114)	(197)	(192)	(199)	182	(32)	(69)	(74)
Finance costs	(19)	(41)	(12)	(8)	(4)	(4)	(5)	(5)
Gain(loss) on sale of investment	(43)	-	-	(90)	-	-	-	-
Unrealized (loss)gain on iinvestment	-	-	-	90	-	-	-	-
Foreign exchange gain(loss)	(29)	(35)	(23)	(13)	12	-	-	5
Net income/(loss) for the period before tax	(205)	(273)	(227)	(220)	190	(36)	(74)	(74)
Income tax expense	-	-	-	-	(6)	-	-	(15)
Net income/(loss) for the period	(205)	(273)	(227)	(220)	184	(36)	(74)	(89)
Other comprehensive income (loss)	5	(4)	(6)	14	-	-	(5)	7
Total comprehensive income/(loss) for the period	(200)	(277)	(233)	(206)	184	(36)	(79)	(82)
Basic and diluted income/(loss) per share	$ (0.001)	$ (0.001)	$ (0.001)	$ (0.001)	$ 0.001	$ (0.000)	$ (0.000)	$ (0.000)
Basic and diluted weighted average number of common shares outstanding	214,035	214,035	231,161	237,058	254,115	254,115	254,115	256,115

The Fourth Quarter 2016

Sales and cost of sales in the three months ended December 31, 2016 were $1,299 and $1,151 respectively (2015 - $425 and $316). Marcon revenue for the fourth quarter of 2016 was almost 4 times higher than the corresponding quarter of 2015 by $879 but the margin of 10% was lower than 15% in the fourth quarter of 2015. Fox-Tek recorded sales of $91 in the fourth quarter of 2016 similar to $96 in the corresponding period of 2015. The gross margin for Fox-Tek this quarter of 35% was lower than 61% in the fourth quarter of 2015 largely due to the product mix of the sales in the respective quarters.

Total operating expenses for the three months ended December 31, 2016 were $222 and this was $86 lower than the same period of the previous year. The research and development ("R&D") expenses of $42 were around the same level as the fourth quarter of 2015. Selling expenses went down by $10 because of less trade shows and travelling. General and administration ("G&A") expenses decreased by $74 largely as rent went down by $42 following move of the head office from Oakville to Mississauga compared to the fourth quarter of 2015 and there was no recurrence of $50 consulting fee that we booked in the fourth quarter of 2015.

The finance costs for the fourth quarter of 2016 of $5 (2015 - $8) include accrued and accretion interest of $2 (2015 – $2) and interest of $3 (2015 - $6) on bank indebtedness, long term debts and advances.

During the three months ended December 31, 2016, the Company recognized $1 (2015 - $9) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 largely been assessed as filed. We have not received the 2016 claim as yet.

Gross profit analysis

For the eight quarters, the gross profit margin for the two cash generating units fluctuated within a range of 9% to 79%, which was mainly due to the fluctuation of the sales mix between Fox-Tek and Marcon - Fox-Tek has an average of about 67% gross profit margins and Marcon has an average of 14% gross profit margins. See following tables for gross profit margins in the two divisions.

Gross profit for Marcon

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sales	$310	$372	$597	$329	$509	$701	$1,394	$1,208
Cost of sales	260	325	524	279	442	549	1275	1092
Gross profit	**$50**	**$47**	**$73**	**$50**	**$67**	**$152**	**$119**	**$116**
Gross profit %	**16%**	**13%**	**12%**	**15%**	**13%**	**22%**	**9%**	**10%**

Gross profit for Fox-Tek

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sales	$216	$120	$78	$96	$502	$106	$85	$91
Cost of sales	82	46	23	37	108	27	18	59
Gross profit	**$134**	**$74**	**$55**	**$59**	**$394**	**$79**	**$67**	**$32**
Gross profit %	**62%**	**62%**	**71%**	**61%**	**78%**	**75%**	**79%**	**35%**

The Company's revenue continues to be difficult to forecast and is likely to fluctuate significantly from period to period. In addition, the Company's operating results do not follow any past trends. The factors affecting the Company's revenue and results of operations include:

- competitive conditions in the industrial sensing industry, including new products, product announcements and special pricing offered by competitors of the Company;
- market acceptance of the Company's products;
- ability to hire, train and retain sufficient sales and professional services staff;
- ability to complete its service obligations related to product sales in a timely manner;
- varying size, timing and contractual terms of product orders, which may delay the recognition of revenue;
- ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the oil and gas industry resulting in a decrease in the overall demand for the products and services offered by the Company or otherwise affecting its customers' capital investment levels in workforce management software;
- changes in the Company's pricing policies and the pricing policies of its competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product license revenue.

Since the Company's revenue will be dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of sales prospects into revenue could cause the Company to plan or budget inaccurately. Such variations could adversely affect the Company's financial results. Delays and reductions in the amount of, or cancellations of, customers' purchases would adversely affect the Company's revenue, results of operations and financial condition.

Historically, the Company's revenues and net results have not been affected by seasons. Seasonal fluctuations will become more significant as the weighting of sales to the oil and gas field increases, since business activity is generally greater in the winter for this sector.

Performance Indicators

In order to evaluate the Company's performance and generate long-term value for its shareholders, the Company has identified the following financial and non-financial performance indicators:

- Distribution, sales, and long-term recurring revenues;
- Products and innovation;
- Short-term financial performance and cash flows;
- Strategic acquisitions and development of new projects.

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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the audited consolidated financial statements for the years ended December 31, 2016 and 2015. The Company carries out its operations through wholly-owned entities. These entities are located in Canada and the United States.

FOR THE YEAR ENDED 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	234	(436)	6
Income tax expense	(21)	-	-	(21)
Net income (loss)	188	234	(436)	(15)
Other comprehensive income	-	-	2	2
Total comprehensive income (loss)	$ 188	$ 234	$ (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.

FOR THE YEAR ENDED DECEMBER 31, 2015

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total 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.

Revenue by Geographic Region

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

LIQUIDITY AND CASH RESOURCES

Net cash used in operating activities was $370 during the year ended December 31, 2016 compared to $861 during 2015. Accrued interest and accretion expenses totalling $7 and amortization expenses of $14 do not involve cash. Trade and other accounts receivable increased by $404 with higher sales and so did prepaid expenses by $202 as the Company had to pay advances to vendors for shipments that took place in Q1 2017. Accounts payable and accrued liabilities increased by $131 compared to last year, again due to higher sales volume.

In November 2016, an arm's length company advanced $100 to the Company and subsequently converted the loan into 2,000 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. Each warrant entitles the holder to purchase one common share at a price of $0.10 per share for a period of one year. The share issuance costs were $1.

Cash provided by financing activities was $80 during the year ended December 31, 2016 (2015 – $1,067). As noted above, net proceeds from share issuances pursuant to promissory note converted to common stock were $99. Long term debt was repaid by $19. The remaining balance of cash provided by financing activities was used in operating activities.

For the year ended December 31, 2016, the Company had a net decrease in cash and cash equivalents of $288 (2015 – increase of $215). As a result, as at December 31, 2016, the Company had cash and cash equivalents balance of $83 as compared to $371 as at December 31, 2015.

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

Management will continue to work on maintaining an optimal inventory level and the timely collection of accounts receivable to minimize its working capital requirements.

The Company uses its capital to finance marketing expense, research and development activities, administrative charges, working capital and capital assets. Historically, the Company has financed activities through rounds of public and private financing and debt financing. The Company has long term debt of $51 of which $20 are due during 2017 and debentures of $43 that have already matured and are now due on demand.

SHARE CAPITAL, WARRANTS, AND OPTIONS

(a) Share Capital

256,115 shares of voting common stocks were issued and outstanding as at December 31, 2016 and as of the date of this MD&A (254,115 - December 31, 2015).

	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 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 over the life of the warrants at the Company's share price. 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 $0.04 per Unit #2. Each Unit #2 consisted of one common share and one half common share purchase warrant ("Warrant #2"). Each Warrant #2 entitles the holder to purchase one common share at a price of $0.10 per share for a period until December 18, 2016 and then is exercisable at $0.15 per warrant until December 18, 2018. The share issuance costs were $4.

The value of the warrants issued as part of this financing was $262 net of costs of issuance of $1. 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 over the life of the warrants at the Company's share price. 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 matured 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 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

As at December 31, 2016 and as on April 13, 2017, the Company had the following warrants issued and outstanding:

	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	20,200	409	0.07
Warrants issued in December 2015	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	2,000	19	0.10
Balance, December 31, 2016	**32,140**	**$ 690**	**$ 0.10**

Additional information about the Company's share capital can be found in note 13 of the notes to the consolidated financial statements for the years ended December 31, 2016 and 2015.

(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.

As of the date of this MD&A, the Company had 11,500 options outstanding exercisable at $0.10 per share expiring on January 30, 2022.

OFF-BALANCE SHEET ARANGEMENTS

Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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.
(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.

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.

RISKS AND UNCERTAINTIES

High Degree of Product Concentration

Substantially all of the Company's currently anticipated revenues will be derived from a limited number of products and services. Consequently, the Company's performance will depend on establishing market acceptance of these products and services in a single market, as well as enhancing the performance of such products and services to meet the evolving needs of customers. The Company, like other entities involved in a rapidly evolving new industry, faces the risk that the Company's products and services may not prove to be commercially successful or may be rendered obsolete by further scientific and technological developments. There can be no assurances that the Company will establish and maintain a position at the forefront of emerging technological trends. Any reduction in anticipated future demand or anticipated future sales of these products or any increase in competition could have a material adverse effect on the Company's business prospects, operating results or financial condition.

Competition

The Company has experienced, and expects to continue to experience, competition from a number of companies. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Many of the competitors and potential competitors of the Company have significantly greater financial, technical, marketing and/or service resources than does the Company. Many of these companies also have a larger installed base of users, longer operating histories or greater name recognition than the Company. Customers of the Company are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. The Company's smaller size and short operating history may be considered negatively by prospective customers. Even if competitors of the Company provide products with more limited system functionality than those of the Company, these products may incorporate other capabilities of interest to some customers and may be appealing due to a reduction in the number of different types of systems used to operate such customers' businesses. Further, competitors of the Company may be able to respond more quickly than the Company to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

Market Uncertainty

The Company's success depends to a significant degree on its ability to develop the market and gain acceptance for its products and services. There is no assurance that a significant market will develop for the Company's principal products and services. Implementation and adoption of its products have been slow to develop and may continue to be subject to delays. There can be no assurances that the additional commercial applications and markets for the Company's products will develop as currently contemplated.

The market for the Company's products is just beginning to develop and the Company's business plan will continue to require significant marketing efforts and working capital. To manage such development, the Company must continue to expand its existing resources and management information systems and must attract, train, and motivate qualified marketing, management, technical and administrative personnel. There can be no assurance that the Company will be able to achieve these goals.

The Company's success in the Marcon segment depends on and is exposed to the Middle East oil & gas market. The region has gone through some tremendous changes in the last year that have a slight impact on future sales and services in the region, and the United States Government Departments spending patterns in the operating expenditure side of procurement and contracting rather than the CAPEX side of the business and therefore most contracts signed with the Company fall under the maintenance repair and operations ("MRO").

Labour and Key Personnel

The Company depends on the services of its engineers, technical employees, and key management personnel. The loss of one of these people could have a significant unfavorable impact on the Company, its operating results, and its financial position. The success of the Company is largely dependent upon its ability to identify, hire train, motivate, and retain highly skilled management employees, engineers, technical employees, and sales and marketing personnel. Competition for its employees can be intense, and the Company cannot ensure that it will be able to bring in and retain highly skilled technical and management personnel in the future. Its ability to bring in and retain management and technical personnel and the necessary sales and marketing employees could have unfavorable impact on its growth and future profitability. The Company may be obligated to increase the compensation paid to current or new employees, which could substantially increase operating expenses.

Growth Management and Market Development

There is no guarantee that the Company can develop its market significantly, thus affecting its profitability. The Company expected growth might create significant pressure on management, operations, and technical resources. In order to manage its growth, Augusta may need to increase the size of its technical and operational staff and manage its personnel while maintaining many effective relationships with third parties.

Pricing Policies

The competitive market in which Augusta operates could force it to reduce its prices. If its competitors offer large discounts on certain products and services in order to gain market shares or sell products and services, the Company may need to lower its prices and offer other favorable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavorable impact on its operating results. Some of Augusta's competitors could offer products and services that compete with theirs for promotional purposes or as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices Augusta may charge for its products and services. If Augusta cannot offset these price reductions with a corresponding increase in sales volume or decreased expense, the decreased revenues from products and services could unfavorable affect its profit margins and operating results.

Product Failures and Mistakes

Augusta products are complex and therefore may contain failures and mistakes that could be detected at any time in a product's life cycle. Failures and mistakes in its products could have a significant unfavorable impact on its reputation, open it up to significant costs, delay product launch dates, and harm its ability to sell its products in the future. The costs of correcting a failure or mistake in one of these products could be significant and could negatively affect its operating margins. Although Augusta expects to continue to test products to detect failure and mistakes and to work with its customers through its support and maintenance services in order to find and correct failure and mistakes, they could appear in its products in the future. Augusta is exposed to warranty expenses, product recalls and other claims, particularly if the products prove to be defective, which would harm business development and the Company's reputation. Augusta provides one year warranty for its products.

Technological Obsolescence

Competitors and new companies could launch new products. In order to remain on the cutting edge of technology, Augusta may need to launch a new generation of fiber optic sensors and develop its related products and services. Whether it is competition from development companies and /or marketing of fiber optic sensors or a merger or acquisition of existing companies, competition within certain fiber optic sensor industry sectors offering solutions similar to what Augusta offers is vigorous and could increase. Some of Augusta's competitors have significantly greater financial, technical, distribution, and marketing resources than Augusta. Technological progress and product development could make Augusta products obsolete or reduce their value.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments include cash, investments at fair value through profit or loss, trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, advances, long-term debt, and convertible debentures.

The Company doesn't have any other instruments that will be settled by the delivery of non-financial assets.

The fair value of financial instruments

The Company has estimated the fair value of its financial instruments as follows:

- Cash is carried at its stated value;
- The share prices quoted in the market approximates the fair value of the investments;
- The carrying value of trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and advances approximate their fair values due to the short-term nature of these instruments;
- The convertible debentures include liability component, conversion option, and warrants. Both conversion option and warrants meet all the criteria for recognition as equity instruments under IAS 32, financial instruments presentation, and have been recognized as equity components. Management estimated the fair value of a similar liability that doesn't have associated equity components by using a discount rate of 18% at initial recognition and each extension date. The residual amount has been allocated to equity components. Management used the Black-Scholes option pricing model to estimate the fair value of conversion option and warrants, and the residual equity amount is then allocated to based on their relative fair values. At initial recognition date and each extension date, the convertible debentures have been segregated into conversion option, warrants and liability components. The equity components decreased the carry amount of convertible debenture liability and will be accreted into profit and loss using the effective interest method over the each extension terms of convertible debentures, and bring the carry amount of convertible debenture to their face amounts at maturity dates.
- Long term debt is carried at amortized cost. It has a fixed interest rate which is paid monthly.

The classification and measurement base of financial instruments

The classification and measurement base for the Company's financial instruments as follows:

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

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.

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.

Cash

Cash consists of bank balances and petty cash. Credit risk associated with cash and bank 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 held cash of $83 (December 31, 2015 - $371).

Trade and Other Accounts Receivable

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.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of loss in 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 general and administrative expenses in the statement of loss. Historically, trade credit losses have been minimal.

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 has working capital of $126 ($45 as at December 31, 2015) and the Company reports $nil advances from related and other parties that are due on demand ($nil as at December 31, 2015).

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**

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

Foreign Exchange

The Company operates primarily in Canada and the United States. The presentation currency is Canadian dollar and the functional currency of the parent company is the Canadian dollars. As at December 31, 2016, the Company's US dollar net monetary assets totaled $220. 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.

Interest Rate

The Company has cash and cash equivalents which are exposed to interest rate fluctuations. The interest rate on convertible debentures and long-term debt is fixed. As at December 31, 2016, cash net of, convertible debentures and long-term debt totals $7. An increase of 100 basis points in the market interest rate would have on average, increased net by approximately $1, (a 100 basis point decrease would have had the equal but opposite effect) for the year ended December 31, 2016.

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 of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

The Company has no commitments, other than options 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 year ended December 31, 2016.

Investor Relations

During the year ended December 31, 2016, the Company performed its own investor relations. The Company will continue to perform its own investor relations for the foreseeable future.

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.

AUGUSTA
INDUSTRIES INC.

Management's Discussion and Analysis
For the Year Ended
December 31, 2015

Marcon
International Inc.
A wholly owned subsidiary of
Augusta Industries Inc.

FOX TEK
A wholly owned subsidiary of
Augusta Industries Inc.

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Augusta Industries Inc. for the year ended December 31, 2015 and 2014. It should be read in conjunction with the consolidated financial statements for the years ended December 31, 2015 and 2014. Additional information relating to the Company is available on SEDAR at **www.sedar.com**, or on TSX Venture Exchange website at **www.tmx.com**, and on our website at **www.fox-tek.com**. Information contained in or otherwise accessible through our website doesn't form a part of this MD&A, and is not incorporated into this MD&A by references.

References to "we", "our", "Augusta", or "the Company" means Augusta Industries Inc. and its subsidiaries, unless the context requires otherwise.

BASIS OF PRSENTATION

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Fiber Optic System Technology (Canada) Inc., PinPoint Fox-Tek Inc., Fox-Tek Canada Inc. ("Fox-Tek"), Marcon International Inc. ("Marcon"), Marcon International (USA) Inc. and Marcon International (UK) Ltd. All inter-company accounts and transactions have been eliminated.

All financial information is reported in Canadian dollars and is expressed in thousands except for per share amounts which are expressed in dollars.

The MD&A was approved for issue by the Board of Directors on April 27, 2016.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements, except for historical information, and reflect the Company's present assumptions regarding future events. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, and/or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's internal projections, expectations, future growth, performance and business prospects and opportunities and are based on information currently available to the Company. Since they relate to the Company's current views with respect to future events, they are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments except as required by applicable securities legislation, regulations or policies.

OVERVIEW OF BUSINESS

Corporate Overview

Augusta Industries Inc. ("Augusta") was incorporated on October 13, 1999 under the laws of the State of Delaware.

Marcon International Inc. ("Marcon") was incorporated under the laws of the Province of Ontario on April 28, 2010. On August 1, 2010, Marcon entered into an asset purchase agreement with Knoxbridge Corp. ("Knoxbridge"), whereby Knoxbridge transferred certain net assets, to Marcon in exchange for shares and debt. Augusta's significant shareholder is Knoxbridge who owns 37.7% (2014 – 45.5%) of the voting shares of the Company.

The Company has offices in Mississauga, Ontario and Calgary, Alberta; Augusta is traded on the TSX Venture Exchange under the symbol "AAO".

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 incurred a net loss of $925 for year ended December 31, 2015 (2014 – $2,196), has an accumulated deficit of $7,636 (2014 – $6,711) from inception and working capital surplus of $81 (2014 – deficit $1,000).

In July 2015, the Company raised gross proceeds of $1,010 through a non-brokered private placement of up to 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 will entitle the holder to purchase one common share at a price of $0.07 per share for a period of three years from the date of issuance. In December 2015, the Company raised gross proceeds of $994 through a non-brokered private placement of 19,880 units of the Company at a price of $0.04 per Unit. Each Unit consisted of one common share and one half common share purchase warrant. Each Warrant will entitle the holder to purchase one common share at a price of $0.10 per share until December 18, 2016 and then is exercisable at $0.15 until December 18, 2018.

Management estimates that the funds available as at December 31, 2015 along with an increase in sales in Fox-Tek and the upturn in Marcon's sales pipeline in the first quarter of 2016, the Company will be able to meet its expenditures through December 31, 2016. The 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.

Principal Business

Fox-Tek is engaged in the development, design, manufacture and supply of systems using fiber optic sensors, related monitoring instruments, and software. Clients buy and operate systems and Fox-Tek handles the installation and reporting of information on an outsourcing basis. Fox-Tek provides support engineering services related to planning, training, on-site installation, and data interpretation and reporting. Fox-Tek's target market includes the monitoring, communication, alarming and prediction of safe/unsafe conditions in structures and facilities.

Fox-Tek's main products are patented 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/erosion, strain due to bending/buckling, and process pressure and temperature.

Fox-Tek's FT fiber optic sensor monitoring systems allow cost-effective, 24/7 remote monitoring capabilities to improve scheduled maintenance operations, avoid unnecessary shutdowns, and prevent accidents and leaks. The FT system uses non-intrusive fiber optic sensors to monitor strain due to settling, movement or buckling of a variety of civil structures, such as bending, buckling, elongation or compression of pipelines. Movement of soil or foundation footing can also be monitored. Measurements can be made at multiple locations up to 2,000 meters apart.

FT systems are highly sensitive and easy to operate: portable or dedicated FT monitors make continuous or periodic measurements by interrogating multiple permanently mounted sensors. Digital data facilitates semi-automated analysis and prompt reporting. Remote telemetry, long robust lead cables, and maintenance-free sensors enable early warning, or confirmation of effective mitigation solutions such as rebuilding slopes or grades. The non-electrical sensors are very robust and inherently immune to electromagnetic interference. FT sensors can be field-bonded to steel, concrete, composite / FRP structures located underwater, below grade or imbedded during a pour. They safely and efficiently monitor:

- Steel structure degradation due to corrosion;
- Concrete column compression and swelling due to corrosion;
- Composite girder / deck bending strains;
- Frame stability / buckling;
- Piling & anchor movement caused by ground heaving or seismic activity;
- Foundation settling;
- Dam subsidence;
- Tunnel wall and building fascia buckling;
- Storage tank floor / wall integrity

FT systems can be used in a wide array of engineered structures, and for any root cause of stress or degradation. FT sensor measurements combined with standard structural modeling and finite element analysis provide information to optimize maintenance, or institute prevention measures such as load control.

Fox-Tek's Electric Field Mapping ("EFM") System is a continuous, non-intrusive wall thickness monitoring system for pipelines and process piping with a number of breakthrough features:

1. Welded-on or spring-loaded sensor array
2. Rated for direct burial applications
3. Remote telemetry
4. Immediate reporting of alarms

5. Streamlined, objective data processing

Fox-Tek's Data Management and Analysis Tool ("DMAT") platform which was launched in 2011 is the database management and analysis tool for providing analysis and interpretation of the collected data. Data from all channels of FT Monitors, or EFM Monitors is collected and processed into easily understood tabular or graphical formats. It is anticipated that the DMAT Platform will provide additional value to pipeline operators and other stakeholders by allowing such users to easily manage multiple Fox-Tek ("FT") systems.

Fox-Tek has been able to enhance the DMAT Platform user interface to facilitate the consistent presentation of data across multiple sites and improve the tools for location comparison and data reporting. In addition, the DMAT Platform now contains an alarm-on-event capability which the customer can customize according to their specific needs and thresholds.

Fox-Tek's Fiber Bragg Grating ("FBG") sensor system is an advanced fiber optic system consisting of many point strain sensors on one sensor string with high dynamic bandwidth. The FBG sensors measure the average local strain using Fox-Tek's FTG-3500 instrument. The system is suitable for static or low to medium frequency monitoring applications such as continuous in-situ structural health monitoring.

As an all-fiber optic sensor, FBG sensors possess some unique advantages, compared to conventional electrical sensors. They are immune to electromagnetic interference, and being light powered, they are intrinsically safe, making them ideal for deployment in hazardous or flammable environments.

The sensor itself is made from conventional single-mode optical fiber, with a diameter of 250 microns. This small diameter allows the sensor to be embedded inside the structure being monitored with minimal intrusive effect. The sensors are also available in various ruggedized packaged configurations, for easy installations.

Marcon is involved in the industrial supply of equipment and parts procuring for its clients, including the sale and distribution of Electrical, Mechanical and Instrumentation equipment. The equipment is purchased from various suppliers in Canada, the United States and Europe. Its clients are principally clients in the oil and gas industry, United States government agencies such as the Department of Defence, Department of the Interior, Department of Homeland Security and Department of Agriculture and in the Middle East. In addition to departments and agencies of the U.S. Government, Marcon's major clients include Saudi Arabia-Sabic Services (Refining and Petrochemical), Bahrain National Gas Co, Bahrain Petroleum, Qatar Petroleum, Qatar Gas, Qatar Petrochemical, Gulf of Suez Petroleum, Agiba Petroleum and Burullus Gas Co.

BUSINESS DEVELOPMENT

The Company is constantly working to improve its position in terms of intellectual property and what it offers to its customers. In fiscal 2015 the Company has focused on continuous improvements to its technology in markets with the highest perceived potential payoff, particularly oil and gas sectors.

Notable events include the following:

Fox-Tek Segment

Fox-Tek continues to support its independent sales agents and distributors primarily outside of North America with the intent of utilizing their local contacts and established relationships within the oil and gas industry to expedite the distribution of Fox-Tek's products in the local jurisdictions. Fox-Tek has also streamlined its production process to meet the higher demand of our systems. In addition, we have an ongoing goal of significant reductions in overhead expenses, to provide greater potential towards corporate profitability.

The Company will continue to work closely with its existing clients to ensure their needs are met in order to strengthen and preserve the relationship in addition to developing new relationships with new clients.

1) Sales of EFM Corrosion Monitoring Systems

   5 EFM systems shipped to an oil and gas exploration and production company with assets and operations in North America, Africa, Europe and South America for $420 were in transit at the end of 2015. These systems have now been delivered to the client and the revenue will be recognized in 2016. When installed, the data management and monitoring on these units will add $16 annually to revenue.

   The Company has been working closely with engineering firms and major oil and gas companies in England, Europe and South America in addition to all the major Canadian companies. There has been increased interest the Company's products both in Canada and overseas.

   During 2015, Fox-Tek's Vice President of Operations spent time in various parts of the Middle East including, Saudi Arabia, Oman, and the UAE in addition to Scotland, Europe and western Canada building strategic partnerships and relationships with large multinational companies identified as having a need for the Company's sensing systems.

   The Company has been working on a large project in India since 2015 and have made strategic alliance with a local engineering firm.

2) DMAT Platform

   Fox-Tek continues to enhance the DMAT platform (Data Management and Analysis Tool). Response from customers utilizing the DMAT service has been very good. For DMAT, the revenue stream is guaranteed when a customer acquires the hardware. Revenue from these services is expected to exceed $350 in 2016.

3) FBG Systems

Fox-Tek has seen increased interests for number of FBG systems both internationally and in Canada and we are working on a number of bids.

Marcon Segment

Marcon provides procurement and support services to existing and new projects worldwide in the energy sector. Initially Marcon had focused on providing services in the energy sector but moved on to government contracts and government services. Marcon has two subsidiaries, Marcon USA and Marcon UK, to help enhance and support its logistic and sales operations. Over the years it has established a good reputation and has been a consistent performer for its clients in the government as well as the international oil and gas industry.

SELECTED FINANCIAL AND OPERATING RESULTS

Statement of Financial Position

As of December 31, 2015, the Company has a working capital of $81 (December 31, 2014 – deficit of $1,000). As of December 31, 2015, the Company had total assets of $967 (2014 –$942). Total assets increased by $25 during the year ended December 31, 2015 as cash and cash equivalents increased by $215 following the receipt of $2,004 in gross proceeds from non-brokered private placements of 40,080 units of the Company and the sale of investments during the year ended December 31, 2015 for total proceeds of $111. The proceeds from the sale of investments and the proceeds from shares issued were used in part to repay bank indebtedness by $400 and advances of $401 and fund general working capital. See "Liquidity and Cash Resources" section elsewhere in this MD&A.

As of December 31, 2015, the Company had total liabilities of $916 (2014 – $1,966), a decrease of $1,050 during the year ended December 31, 2015. As previously discussed the proceeds from non-brokered private placements and sale of investments were used in part to pay off the bank loan of $400 and advances of $401. Accounts payable was also reduced by $221 and long term debts by $20.

Shareholders' equity increased by $1,075 to $51 during the year ended December 31, 2015.

Results of Operations

	Year Ended December 31, 2015	YearEnded December 31, 2014	Year Ended December 31, 2013
Sales	$ 2,118	$ 2,358	$ 3,138
Cost of sales	(1,576)	(1,885)	(2,404)
Gross Profit	**542**	**473**	**734**
Expenses			
Research and development	(199)	(207)	(100)
Selling	(48)	(62)	(81)
General and administrative	(997)	(1,107)	(1,260)
Total Operating Expenses	(1,244)	(1,376)	(1,441)
Loss from Operations	(702)	(903)	(707)
Finance costs	(80)	(169)	(131)
Goodwill impairment	-	(1,013)	(550)
Inventory impairment	-	(163)	-
Unrealized gain on investment	90	(270)	180
Gain(loss) on sale of investment	(133)	302	(506)
Foreign exchange loss	(100)	(30)	(39)
Loss before income taxes	(925)	(2,246)	(1,753)
Current income tax recovery	-	27	(27)
Deferred tax	-	23	4
Net loss	$ (925)	$ (2,196)	$ (1,776)
Other comprehensive income	$ 9	$ 1	$ (5)
Total Comprehensive loss	$ (916)	$ (2,195)	$ (1,781)
Basic and diluted (loss)income per share	(0.003)	(0.01)	(0.010)
Basic and diluted weighted average number of common shares outstanding (000'S)	224,151	204,285	184,128

Sales and cost of sales were $2,118 and $1,576 respectively for the year ended December 31, 2015 (2014 - $2,358 and $1,885). The sales in the year ended December 31, 2015 were $240 lower than 2014. The gross margin was however much higher, 25.6% in 2015 compared to 20.0% in 2014. Fox-Tek sales are $30 higher than last year's level while Marcon sales are lower by $270. The mix of sales between Fox-Tek and Marcon during the year ended December 31, 2015 is reflected in the higher gross margin in 2015.

5 units of EFM worth $420 that were in transit in end of December, 2015 were delivered to the client and the revenue will be recognised in 2016. Additionally we have seen increased interest for EFM corrosion monitoring systems and FBG systems and our bidding activity has gone up significantly in recent months. If some of these translate into orders, Fox-Tek will see a huge growth in revenue in 2016. Marcon also has seen a very significant jump in its volume of orders to date – the sales pipeline as on April 27, 2015 is $1,338.

The Company is continually making efforts to reduce expenses in order to become cash flow positive over the next year. Total operating expenses for the year ended December 31, 2015 were $1,244 compared to $1,376 in the previous year - a decrease of $132. The research and development ("R&D") expenses were about the same as last year. Selling expenses saw a reduction of $14 as the Company reduced the number of trade shows in 2015. General and administration ("G&A") expenses decreased by $110 as professional expenses came down by $96 partly due to credit notes that were booked as we re-negotiated some of the invoices. Salaries and short term benefits came down by $26 as we had one engineer less for part of the year. General office expenses were also more or less in line with last year's expenditure. Finance costs of $80 (2014 - $169) include accrued interest and accretion expense of $6 (2014 - $62) for convertible debentures, and interest of $74 (2014 - $107) on bank indebtedness, long term loans and advances.

During the year ended December 31, 2015, the Company recognized $36 (2014 - $37) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 largely been assessed as filed. The Company has not received the 2015 claim as yet.

During the year ended December 31, 2015, the Company sold the remaining investments (at fair value) for $111 resulting in a net loss of $43 on sale of investment which is included in the consolidated statement of loss.

Summary of Consolidated Quarterly Results

The following is a summary of results on a quarterly basis.

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Sales	$ 449	$ 454	$ 867	$ 588	$ 526	$ 492	$ 675	$ 425
Cost of Sales	(337)	(397)	(673)	(477)	(342)	(371)	(547)	(316)
Gross Profit	$ 112	$ 57	$ 194	$ 111	$ 184	$ 121	$ 128	$ 109
	24.9%	12.6%	22.3%	18.9%	35.0%	24.6%	19.0%	25.6%
Expenses								
Research and development	(31)	(25)	(34)	(117)	(42)	(64)	(49)	(44)
Selling	(24)	(18)	(10)	(10)	(21)	(1)	(10)	(16)
General and administrative	(257)	(259)	(260)	(332)	(235)	(253)	(261)	(248)
Total Operating Expenses	(312)	(302)	(303)	(459)	(298)	(318)	(320)	(308)
Profit/(Loss) from Operations	(201)	(245)	(109)	(348)	(114)	(197)	(192)	(199)
Finance costs	(42)	(43)	(57)	(27)	(19)	(41)	(12)	(8)
Goodwill impairment	-	-	-	(1,013)	-	-	-	-
Intangible asset impairment	-	-	-	(163)	-	-	-	-
Unrealized (loss)gain on iinvestment	374	71	(608)	(108)	-	-	-	90
Gain(loss) on sale of investment	162	13	169	(42)	(43)	-	-	(90)
Foreign exchange gain(loss)	(15)	4	(11)	(8)	(29)	(35)	(23)	(13)
Profit/(Loss) before income tax	278	(199)	(616)	(1,708)	(205)	(273)	(227)	(220)
Current income tax	-	-	-	27	-	-	-	-
Deferred tax	2	2	2	17	-	-	-	-
Net (loss)/income	280	(198)	(614)	(1,663)	(205)	(273)	(227)	(220)
Other comprehensive income (loss)	1	6	-	(1)	5	(4)	(6)	14
Total comprehensive profit/(loss)	281	(192)	(614)	(1,664)	(200)	(277)	(233)	(206)
Basic and diluted profit/(loss) per share	$ 0.001	$ 0.001	$ (0.001)	$ (0.001)	$ (0.001)	$ (0.001)	$ (0.001)	$ (0.001)
Basic weighted average number common shares outstanding	202,928	202,928	202,928	204,285	214,035	214,035	231,161	237,058

The Fourth Quarter 2015

Sales and cost of sales in the three months ended December 31, 2015 were $425 and $316 respectively (2014 - $588 and $477). Marcon revenue for the fourth quarter of 2015 was lower than the corresponding quarter of 2015 by $86 but the margin of 15.2% was much better than 12.0% in the fourth quarter of 2014. Fox-Tek recorded sales of $96 in the fourth quarter of 2015 compared to $172 in the corresponding period of 2014. The gross margin for Fox-Tek this quarter 61.5% was much higher than 33.7% in the fourth quarter of 2014 largely due to the product mix of the sales in the respective quarters.

Total operating expenses for the three months ended December 31, 2015 were $151 lower than the same period of the previous year at $308. The research and development ("R&D") expenses have gone down by $73 largely because in the 4th quarter of 2014, the internally generated intangibles for the whole year were expensed. Selling expenses went up by $6. General and administration ("G&A") expenses decreased by $84 largely as professional fees went down by $77 compared to 4th quarter of 2014 as we booked credit notes following negotiations with the creditors.

The finance costs for the 4th quarter of 2015 of $8 (2014 - $27) include accrued and accretion interest of $2 (2014 – write back of $5) and interest of $6 (2014 - $33) on bank indebtedness, long term debts and advances.

During the three months ended December 31, 2015, the Company recognized $9 (2013 - $11) Ontario Investment Tax Credit, which has been deducted from research and development expenses. 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 largely been assessed as filed. We have not received the 2015 claim as yet.

Gross profit analysis

For the eight quarters, the gross profit margin for the two cash generating units fluctuated within a range of 9.81% to 70.51%, which was mainly due to the fluctuation of the sales mix between Fox-Tek and Marcon - Fox-Tek has an average of about 58% gross profit margins and Marcon has an average of 13% gross profit margins. See following tables for gross profit margins in the two divisions.

Gross profit for Marcon

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Sales	$342	$418	$703	$415	$310	$372	$597	$329
Cost of sales	302	377	615	365	260	325	524	279
Gross profit	**$40**	**$41**	**$88**	**$50**	**$50**	**$47**	**$73**	**$50**
Gross profit %	**11.70%**	**9.81%**	**12.52%**	**12.05%**	**16.13%**	**12.63%**	**12.23%**	**15.20%**

Gross profit for Fox-Tek

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Sales	$107	$36	$164	$172	$216	$120	$78	$96
Cost of sales	35	20	58	114	82	46	23	37
Gross profit	**$72**	**$16**	**$106**	**$58**	**$134**	**$74**	**$55**	**$59**
Gross profit %	**67.29%**	**44.44%**	**64.63%**	**33.72%**	**62.04%**	**61.67%**	**70.51%**	**61.46%**

Marcon revenue for the fourth quarter of 2015 was the lower than the corresponding quarter of 2015 by $86 but the margin of 15.2% was much better than 12.0% in the fourth quarter of 2014.

Fox-Tek recorded sales of $96 in the fourth quarter of 2015 compared to $172 in the corresponding period of 2014. The gross margin for Fox-Tek this quarter of 61.5% was much higher than 33.7% in the fourth quarter of 2014 largely due to the product mix of the sales in the respective quarters.

The Company's revenue continues to be difficult to forecast and is likely to fluctuate significantly from period to period. In addition, the Company's operating results do not follow any past trends. The factors affecting the Company's revenue and results of operations include:

- competitive conditions in the industrial sensing industry, including new products, product announcements and special pricing offered by competitors of the Company;
- market acceptance of the Company's products;
- ability to hire, train and retain sufficient sales and professional services staff;
- ability to complete its service obligations related to product sales in a timely manner;
- varying size, timing and contractual terms of product orders, which may delay the recognition of revenue;
- ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the oil and gas industry resulting in a decrease in the overall demand for the products and services offered by the Company or otherwise affecting its customers' capital investment levels in workforce management software;
- changes in the Company's pricing policies and the pricing policies of its competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product license revenue.

Since the Company's revenue will be dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of sales prospects into revenue could cause the Company to plan or budget inaccurately. Such variations could adversely affect the Company's financial results. Delays and reductions in the amount of, or cancellations of, customers' purchases would adversely affect the Company's revenue, results of operations and financial condition.

Historically, the Company's revenues and net results have not been affected by seasons. Seasonal fluctuations will become more significant as the weighting of sales to the oil and gas field increases, since business activity is generally greater in the winter for this sector.

Performance Indicators

In order to evaluate the Company's performance and generate long-term value for its shareholders, the Company has identified the following financial and non-financial performance indicators:

- Distribution, sales, and long-term recurring revenues;
- Products and innovation;
- Short-term financial performance and cash flows;
- Strategic acquisitions and development of new projects.

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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in the audited consolidated financial statements for the years ended December 31, 2015 and 2014. The Company carries out its operations through wholly-owned entities. These entities are located in Canada and the United States.

FOR THE YEAR ENDED DECEMBER 31, 2015

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total 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.

FOR THE YEAR ENDED DECEMBER 31, 2014

	Marcon Operations	Fox-Tek Operations	Corporate Operations	Total Company
Sales	$ 1,878	$ 480	$ -	$ 2,358
Cost of Sales	(1,660)	(226)	-	(1,885)
Gross Profit	**219**	**254**	**-**	**473**
Expenses				
Research and development	-	(207)	-	(207)
Selling	-	(62)	-	(62)
General and administrative	(297)	(225)	(585)	(1,107)
Total Operating Expenses	(297)	(494)	(585)	(1,376)
Loss from Operations	(78)	(240)	(585)	(903)
Finance costs	(2)	-	(167)	(169)
Goodwill impairment	-	(1,013)	-	(1,013)
Intangible asset inpairment	-	(163)	-	(163)
Unrealized loss ininvestment	-	-	(270)	(270)
Gain on disposal of investment	-	-	302	302
Foreign exchange (loss)gain	(56)	29	(3)	(30)
Loss before income tax	(136)	(1,387)	(723)	(2,246)
Current income tax	27	-	-	27
Deferred income tax	-	-	23	23
Segment (loss)	(109)	(1,387)	(700)	(2,196)
Other comprehensive income	1	-	-	1
Comprehensive loss	$ (108)	$ (1,387)	$ (700)	$ (2,195)
As of December 31, 2014				
Total assets	$ 178	$ 764	$ -	$ 942
Capital and intangible assets	$ 14	$ 62	$ -	$ 76

All of the Company's equipment is located in Canada. The Marcon sales revenue of $1,878 excludes intercompany sales of $59 to Fox-Tek for the year ended December 31, 2014. The intercompany sales have been eliminated in the consolidated financial statements.

Revenue by Geographic Region

	Year ended December 31, 2015	Year ended December 31, 2014
USA	$ 1,538	$ 1,708
Canada	266	342
Middle East	278	223
Others	36	85
Total	$ 2,118	$ 2,358

LIQUIDITY AND CASH RESOURCES

Net cash used in operating activities was $1,075 during the year ended December 31, 2015 compared to $585 during 2014. Accrued interest and accretion expenses totalling $6 and net gain on sale of investment of $43 do not involve cash – therefore, adding these and other items not involving cash resulted in a net cash loss of $856 (2014 - $895). Accounts payable and accrued liabilities went down by $221 and deferred revenue by $14. Prepaid expenses went down by $18 using up cash while trade and other accounts receivable and inventory more or less remained at last year's levels.

Cash provided by financing activities was $1,281 during the year ended December 31, 2015 (2014 – $602). The net proceeds from share issuances pursuant to private placements of $1,991 and sale of investments of $111 were used to pay down bank indebtedness by $400, advances by $401 and long term debt by $20. The remaining balance of cash provided by financing activities was used in operating activities.

As previously discussed, in July, 2015, the Company raised gross proceeds of $1,010 through a non-brokered private placement 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.

In December 2015, the Company raised another gross proceeds of $994 through a non-brokered private placement of 19,880 units of the Company at a price of $0.04 per Unit. Each Unit consisted of one common share and one half common share purchase warrant. Each Warrant entitles the holder to purchase one common share at a price of $0.10 per share for a period until December 18, 2016 and then is exercisable at $0.15 per warrant until December 18, 2018.

For the year ended December 31, 2015, the Company had a net increase in cash and cash equivalents of $215 (2014 - $4). As a result, as at December 31, 2015, the Company had a cash and cash equivalents balance of $371 as compared to $156 as at December 31, 2014.

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	
2016	$	78
2017		62
2018		62
2019		26
	$	**228**

Management will continue to work on maintaining an optimal inventory level and the timely collection of accounts receivable to minimize its working capital requirements.

The Company uses its capital to finance marketing expense, research and development activities, administrative charges, working capital and capital assets. Historically, the Company has financed activities through rounds of public and private financing and debt financing. The Company has long term debt of $70 and convertible debentures of $36 with maturity in 1 year.

INVESTMENTS AT FAIR VALUE

On December 23, 2013, the Company had completed the purchase of 3,000 common shares of Pinetree Capital Ltd. ("Pinetree"), a publicly-traded investment company (TSX: "PNP"). The Company had issued an aggregate of 18,000 common shares to Pinetree in exchange for the Pinetree shares. The Company had valued the Pinetree shares based on the market price of the Pinetree shares on December 23, 2013 for a total value of $688. During the year ended December 31, 2014, the Company sold 1,940 Pinetree shares which resulted in a gain of $302 on disposal of investment which was included in the consolidated statement of loss for the year ended December 31, 2014. The fair value of the remaining 1,060 Pinetree shares at December 31, 2014 was $154. During the year ended December 31, 2015, the Company sold the remaining 1,060 shares for $111 resulting in a net investment loss of $43 on disposal of investment which is included in the consolidated statement of loss for the year ended December 31, 2015.

SHARE CAPITAL, WARRANTS, AND OPTIONS

(a) Share Capital

254,115 shares of voting common stocks were issued and outstanding as at December 31, 2015 and as on April 27, 2016 (214,035 - December 31, 2014).

	No. of shares ('000)		Amount
Balance, December 31, 2013	**202,928**	**$**	**3,603**
Shares issued on conversion of debenture	10,607		497
Shares issued on exercise of warrants	500		27
Balance, December 31, 2014	**214,035**	**$**	**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

(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 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 over the life of the warrants at the Company's share price. 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 $0.04 per Unit #2. Each Unit #2 consisted of one common share and one half common share purchase warrant ("Warrant #2"). Each Warrant #2 entitles the holder to purchase one common share at a price of $0.10 per share for a period until December 18, 2016 and then is exercisable at $0.15 per warrant until December 18, 2018. The share issuance costs were $4.

The value of the warrants issued as part of this financing was $262 net of costs of issuance of $1. 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 over the life of the warrants at the Company's share price. 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

As at December 31, 2015 and as on April 27, 2016, the Company had the following warrants issued and outstanding:

	No. of Warrants ('000)	Value $	Weighted Average Exercise Price
Balance, December 31, 2013	10,723	$ **164**	$ 0.05
Warrants excercised (i)	(500)	(2)	0.05
Balance, December 31, 2014	**10,223**	$ **162**	$ **0.05**
Warrants expired	(6,667)	(146)	0.10
Warrants issued in June 2015 (Note 16(a)(i))	20,200	409	0.07
Warrants issued in December 2015 (Note 16(a)(ii))	9,940	262	0.13
Balance, December 31, 2015	**33,696**	$ **687**	$ **0.09**

Additional information about the Company's share capital can be found in note 16 of the notes to the consolidated financial statements for the years ended December 31, 2015 and 2014.

OFF-BALANCE SHEET ARANGEMENTS

Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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. The transactions with related parties were in the normal course of operations and were measured at fair value. Related party transactions are as follows:

Amount owing to the CEO of the Company and to a Company controlled by him – see note 12:

	December 31, 2015	December 31, 2014
Loan payable - 12% per annum, due on demand, owing to the CEO of the Company, secured against a first charge on equity of Marcon International (USA) Inc.	$ -	$ 135
Loan payable - 15% per annum, due on demand, owing to the CEO of the Company and to a Company controlled by the CEO, secured against a first charge on equity of Marcon International (USA) Inc.	-	4
Promisory note payable - 12% per annum, due on demand, owing to a Company controlled by the CEO of the Company	-	-
	$ -	**$ 139**

(a) During the year ended December 31, 2015, interest expense of $49 (2014 - $27) was recognized in relation to the loans that were owed to the CEO of the Company.
(b) Included in professional fees for the year ended December 31, 2015 is $nil (2014 - $57) for legal fees and disbursements owing to a law firm in which a director, Jay Vieira, was a former partner. Included in accounts payable and accrued liabilities as at December 31, 2015 is $15 (2014 - $43) owing to this law firm.
(c) Included in professional fees for the year ended December 31, 2015 is $6 (2014 - $nil) for legal fees and disbursements owing to a law firm in which a director, Jay Vieira, was a partner. As at December 31, 2015, $3 (2014 - $nil) is owing to this law firm.
(d) 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 7.
(e) Officers and directors participated in the convertible debenture issuance during the year ended December 31, 2013 in the amount of $239 and converted their debentures into shares of the Company during the year ended December 31, 2014 in exchange for 5,371 common shares of the Company.
(f) Included in accounts payable and accrued liabilities is $43 (2014 - $175) owing to the CEO and a company controlled by the CEO.
(g) A director subscribed for 1,000 units for gross proceeds of $50 pursuant to the private placement of July 2015.
(h) Included in the consolidated statement of loss is $165 (2014 - $165) paid to a company controlled by the CEO for services rendered by the CEO in lieu of his salaries.
(i) The line of credit of the Company was secured by a general security agreement covering all assets of Marcon and guaranteed by Allen Lone, the Chief Executive Officer ("CEO")/director and shareholder of the Company. The line of credit was repaid in full in October 2015.
(j) As at December 31, 2015, $12 (2014 - $nil) is owing to officers of the Company.
(k) During the year, several officers loaned the Company $129 interest free. All loans were repaid at December 31, 2015.

KEY MANAGEMENT PERSONNEL COMPENSATION

During the year ended December 31, 2014, the Company recognized salaries and short term benefit expenses of $479 (2014 - $510) for its key management personnel, including the CEO of the Company, CEO of Marcon, VP of Software Solutions, VP of Operations, and CFO of the Company.

RISKS AND UNCERTAINTIES

High Degree of Product Concentration

Substantially all of the Company's currently anticipated revenues will be derived from a limited number of products and services. Consequently, the Company's performance will depend on establishing market acceptance of these products and services in a single market, as well as enhancing the performance of such products and services to meet the evolving needs of customers. The Company, like other entities involved in a rapidly evolving new industry, faces the risk that the Company's products and services may not prove to be commercially successful or may be rendered obsolete by further scientific and technological developments. There can be no assurances that the Company will establish and maintain a position at the forefront of emerging technological trends. Any reduction in anticipated future demand or anticipated future sales of these products or any increase in competition could have a material adverse effect on the Company's business prospects, operating results or financial condition.

Competition

The Company has experienced, and expects to continue to experience, competition from a number of companies. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Many of the competitors and potential competitors of the Company have significantly greater financial, technical, marketing and/or service resources than does the Company. Many of these companies also have a larger installed base of users, longer operating histories or greater name recognition than the Company. Customers of the Company are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. The Company's smaller size and short operating history may be considered negatively by prospective customers. Even if competitors of the Company provide products with more limited system functionality than those of the Company, these products may incorporate other capabilities of interest to some customers and may be appealing due to a reduction in the number of different types of systems used to operate such customers' businesses. Further, competitors of the Company may be able to respond more quickly than the Company to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

Market Uncertainty

The Company's success depends to a significant degree on its ability to develop the market and gain acceptance for its products and services. There is no assurance that a significant market will develop for the Company's principal products and services. Implementation and adoption of its products have been slow to develop and may continue to be subject to delays. There can be no assurances that the additional commercial applications and markets for the Company's products will develop as currently contemplated.

The market for the Company's products is just beginning to develop and the Company's business plan will continue to require significant marketing efforts and working capital. To manage such development, the Company must continue to expand its existing resources and management information systems and must attract, train, and motivate qualified marketing, management, technical and administrative personnel. There can be no assurance that the Company will be able to achieve these goals.

The Company's success in the Marcon segment depends on and is exposed to the Middle East oil & gas market. The region has gone through some tremendous changes in the last year that have a slight impact on future sales and services in the region, and the United States Government Departments spending patterns in the operating expenditure side of procurement and contracting rather than the CAPEX side of the business and therefore most contracts signed with the Company fall under the maintenance repair and operations ("MRO").

Labour and Key Personnel

The Company depends on the services of its engineers, technical employees, and key management personnel. The loss of one of these people could have a significant unfavorable impact on the Company, its operating results, and its financial position. The success of the Company is largely dependent upon its ability to identify, hire train, motivate, and retain highly skilled management employees, engineers, technical employees, and sales and marketing personnel. Competition for its employees can be intense, and the Company cannot ensure that it will be able to bring in and retain highly skilled technical and management personnel in the future. Its ability to bring in and retain management and technical personnel and the necessary sales and marketing employees could have unfavorable impact on its growth and future profitability. The Company may be obligated to increase the compensation paid to current or new employees, which could substantially increase operating expenses.

Growth Management and Market Development

There is no guarantee that the Company can develop its market significantly, thus affecting its profitability. The Company expected growth might create significant pressure on management, operations, and technical resources. In order to manage its growth, Augusta may need to increase the size of its technical and operational staff and manage its personnel while maintaining many effective relationships with third parties.

Pricing Policies

The competitive market in which Augusta operates could force it to reduce its prices. If its competitors offer large discounts on certain products and services in order to gain market shares or sell products and services, the Company may need to lower its prices and offer other favorable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavorable impact on its operating results. Some of Augusta's competitors could offer products and services that compete with theirs for promotional purposes or as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices Augusta may charge for its products and services. If Augusta cannot offset these price reductions with a corresponding increase in sales volume or decreased expense, the decreased revenues from products and services could unfavorable affect its profit margins and operating results.

Product Failures and Mistakes

Augusta products are complex and therefore may contain failures and mistakes that could be detected at any time in a product's life cycle. Failures and mistakes in its products could have a significant unfavorable impact on its reputation, open it up to significant costs, delay product launch dates, and harm its ability to sell its products in the future. The costs of correcting a failure or mistake in one of these products could be significant and could negatively affect its operating margins. Although Augusta expects to continue to test products to detect failure and mistakes and to work with its customers through its support and maintenance services in order to find and correct failure and mistakes, they could appear in its products in the future. Augusta is exposed to warranty expenses, product recalls and other claims, particularly if the products prove to be defective, which would harm business development and the Company's reputation. Augusta provides one year warranty for its products.

Technological Obsolescence

Competitors and new companies could launch new products. In order to remain on the cutting edge of technology, Augusta may need to launch a new generation of fiber optic sensors and develop its related products and services. Whether it is competition from development companies and /or marketing of fiber optic sensors or a merger or acquisition of existing companies, competition within certain fiber optic sensor industry sectors offering solutions similar to what Augusta offers is vigorous and could increase. Some of Augusta's competitors have significantly greater financial, technical, distribution, and marketing resources than Augusta. Technological progress and product development could make Augusta products obsolete or reduce their value.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments include cash, investments at fair value through profit or loss, trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, advances, long-term debt, and convertible debentures.

The Company doesn't have any other instruments that will be settled by the delivery of non-financial assets.

The fair value of financial instruments

The Company has estimated the fair value of its financial instruments as follows:

- Cash is carried at its stated value;
- The share prices quoted in the market approximates the fair value of the investments;
- The carrying value of trade and other accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and advances approximate their fair values due to the short-term nature of these instruments;
- The convertible debentures include liability component, conversion option, and warrants. Both conversion option and warrants meet all the criteria for recognition as equity instruments under IAS 32, financial instruments presentation, and have been recognized as equity components. Management estimated the fair value of a similar liability that doesn't have associated equity components by using a discount rate of 18% at initial recognition and each extension date. The residual amount has been allocated to equity components. Management used the Black-Scholes option pricing model to estimate the fair value of conversion option and warrants, and the residual equity amount is then allocated to based on their relative fair values. At initial recognition date and each extension date, the convertible debentures have been segregated into conversion option, warrants and liability components. The equity components decreased the carry amount of convertible debenture liability and will be accreted into profit and loss using the effective interest method over the each extension terms of convertible debentures, and bring the carry amount of convertible debenture to their face amounts at maturity dates.
- Long term debt is carried at amortized cost. It has a fixed interest rate which is paid monthly.

The classification and measurement base of financial instruments

The classification and measurement base for the Company's financial instruments as follows:

Financial Instrument	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Cash equivalents	Loans and receivables	Amortized cost
Trade and other accounts receivable	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Advances	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

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.

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.

Cash

Cash consists of bank balances and petty cash. Credit risk associated with cash and bank is minimized substantially by ensuring that these financial assets are invested in debt instruments of highly rated financial institutions. As at December 31, 2015, the Company held cash and cash equivalents of $371 (December 31, 2014 - $156).

Trade and Other Accounts Receivable

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.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of loss in 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 general and administrative expenses in the statement of loss. Historically, trade credit losses have been minimal.

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 has working capital of $81 ($1,000 deficit as at December 31, 2014) and the Company reports $nil advances from related and other parties that are due on demand ($401 as at December 31, 2014).

The following items are the contractual maturities of financial liabilities:

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

December 31, 2014	Carrying amount	Contractual cash flows	0 to 12 months	After 12 months
Bank indebtedness	$ 400	$ 400	$ 400	$ -
Accounts payable and accrued liabilities	967	967	967	-
Advances	401	401	401	-
Convertible debentures	30	35	-	35
Long term debt	90	90	20	70
	$ 1,888	**$ 1,893**	**$ 1,788**	**$ 105**

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

Foreign Exchange

The Company operates primarily in Canada and the United States. The presentation currency is Canadian dollar and the functional currency of the parent company is the Canadian dollars. As at December 31, 2015, the Company's US dollar net monetary liabilities totaled $89. Accordingly, a 5% change in the US dollar exchange rate as at December 31, 2015 on this amount would have resulted in an exchange gain or loss and therefore net loss would have increased (decreased) by $5.

Interest Rate

The Company has cash and bank indebtedness balances which are exposed to interest rate fluctuations. The interest rate on convertible debentures and long-term debt is fixed. As at December 31, 2015, cash net of bank indebtedness, convertible debentures and long-term debt totals $265. An increase of 100 basis points in the market interest rate would have on average, increased net by approximately $3, (a 100 basis point decrease would have had the equal but opposite effect) for the year ended December 31, 2015.

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 $51 (2014 – deficiency of $1,024).

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 of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 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, 2015, the Company is not compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

The Company has no commitments, other than options 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 year ended December 31, 2015.

Investor Relations

During the year ended December 31, 2015 and since inception the Company performed its own investor relations. The Company will continue to perform its own investor relations for the foreseeable future.