eurocontrol
TECHNICS GROUP

Management's Discussion and Analysis

For the three month period ended March 31, 2014

(in Canadian dollars unless otherwise noted)

Management's discussion and analysis ("MD&A") is current to May 28, 2014 and is management's assessment of the operations and the financial results together with future prospects of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company"). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013 and notes thereto and the Company's audited consolidated financial statements for the years ended December 31, 2013 and 2012 and notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise. Additional information relevant to Eurocontrol's activities, including Eurocontrol's press releases can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

BUSINESS OVERVIEW AND STRATEGY

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "EUO". The Company participates in the energy security and authentication, verification and certification markets globally. Eurocontrol has three wholly owned subsidiaries: Global Fluids International S.A. ("GFI"), Xenemetrix Ltd. ("Xenemetrix") and XwinSys Ltd. ("XwinSys"). GFI and Xenemetrix are global pioneers in developing and implementing innovative molecular marking systems for the oil industry. Through its proprietary Petromark™ integral system and coupled with Xenemetrix's Energy-Dispersive X-ray Fluorescence ("EDXRF") technology, GFI has developed a four-part solution consisting of a molecular marker, injection, monitoring and control components to combat fuel adulteration and theft and increase fuel tax revenues. Oil industry cost realities along with GFI's 10-year research and development ("R&D") efforts is facilitating the pursuit of numerous oil marking opportunities worldwide. XwinSys is currently developing technology and intellectual property that will combine 2D and 3D image processing technology, from Brossh Inspection Systems Ltd. of Israel combined with Xenemetrix's EDXRF for particular use in the semi-conductor industry.

The majority of Eurocontrol's revenues are denominated in US dollars while a significant amount of the Company's marketing and administration costs are denominated in currencies other than the US dollar; primarily the Canadian dollar and the Israeli shekel. To the extent that the exchange rates between the

US dollar and the Canadian dollar and Israeli Shekel fluctuate, the Company will experience an impact on its earnings.

As Eurocontrol's business expands internationally, the Company will be exposed to additional risk relating to International operations. Eurocontrol intends to grow its international business operations. Eurocontrol's international operations expose the Company to additional risk unique to such international markets, including but not limited to the following:

- Increased credit management risks and greater difficulties in collecting receivables;
- Unexpected changes in regulatory requirements, exchange rates, trading policies and other barriers;
- Uncertainties of International laws and enforcement relating to the protection of intellectual property;
- Economic or political instability;
- Potential adverse tax consequences; and
- Difficulty in managing a worldwide workforce in compliance with business practices and local law, that vary from country to country.

The growth of Eurocontrol through acquisitions and integration of complementary businesses is an important component of the Company's business strategy. Eurocontrol continues to seek opportunities to acquire or invest in businesses, products or technologies to expand, complement or otherwise that relate to the Company's business.

LEADERSHIP TEAM

W. Bruce Rowlands - Chairman, President and Chief Executive Officer
James Fairbairn – Director (1*)(2)
Gadi Gonen – Director and Chief Operating Officer
Charlotte May – Corporate Secretary
General (Retired) Sir Michael Rose - Director
Andres Tinajero – Chief Financial Officer
Kenneth Wawrew – Director (1)(2*)
Paul Wood – Director (1)(2)
Dr. Eli Zahavi - Director

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

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

RECENT DEVELOPMENTS AND OUTLOOK

The Company increased its quarterly revenue to $1,419,480 (2013 - $1,346,279), a 5% increase. Included below is a description of the recent developments and outlook for each of the Company's subsidiaries. The Company is projecting base revenue of $7,500,000 for fiscal 2014, a 16% increase from 2013. This estimate is based on existing fuel marking projects with GFI contributing approximately 70% of overall revenue and this revenue estimate does not take into account possible new fuel marking contract wins that may occur in 2014. Additionally, the Company continues to evaluate acquisition opportunities that are synergic to the authentication, verification and certification markets.

During 2014, Eurocontrol expects year-over-year revenue and earnings growth. The Company expects its gross margin to increase slightly from the fourth quarter of 2013 due to a change in the Technology Rights amortization's estimate. Eurocontrol believes that the market for its Petromark™ technology has strong long term growth prospects.

GFI

GFI accounts for $1,026,507 (2013 - $1,088,767) of the revenue generated for the three month period ended March 31, 2014, representing 72% (2013 – 81%) of overall revenue. GFI is projecting 2014 revenue of US$5,200,000, a 21% increase over results for 2013 based on existing on-going projects.

Over the past year, GFI has expanded its Petromark™ technology into Albania and has renewed its contracts with Uganda and Tanzania. Albania has taken the lead in the Balkan area against corruption in the fuel market and the implementation of a national fuel marking and tracing contract will improve fuel quality and the environment, and increase fuel tax collections. The Albanian contract was signed in June and commenced in September 2013. In October 2012, GFI signed a five year contract extension with the Ministry of Energy and Mineral Development, Government of the Republic of Uganda for the continued deployment of Petromark™ technology, and services were expanded to include all local logistics in country. GFI is pursuing a number of additional opportunities some of which are currently in the tender process and others that are undergoing pilot projects. GFI continues to expand its global network and presence and to source marketing and distribution partnerships with new and well established distributors in all parts of the world. GFI has numerous opportunities developing in Africa, Europe and Asia where it anticipates being the technology provider to new hydrocarbon marking programs in these regions.

GFI holds Process Patents in the countries of China, India and Russia, Israel and the US. Additional process patent applications have been submitted in other countries and GFI continues to invest in R&D to expand the marking scope of its Petromark™ technology. GFI is the only company involved in fuel marking technology that is ISO 17025 accredited.

Xenemetrix

Xenemetrix accounts for $392,972 (2013 - $257,512) of the revenue generated for the three month period ended March 31, 2014, representing 28% (2013 – 19%) of overall revenue. Xenemetrix revenue from sales of EDXRF systems increased by 23% during the three month period ended March 31, 2014. Xenemetrix is projecting 2014 revenue of US$2,300,000.

In 2013, Xenemetrix expanded the use of EDXRF to both the marine and extractive industries with the development of Petro-Marine XRF ™ in February and a Geological Mapping Solution ("GMS") in May.

Petro-Marine XRF™ is an onboard monitoring solution that facilitates regular and timely compliance of marine vessels with new and existing international regulations, and enhances the preventive maintenance process – leading to significant operational cost savings. The target market for the Petro-Marine XRF™ system is merchant ships of which there are approximately 55,000 currently in service worldwide providing the Company with an available market approximating US$1.6 billion.

GMS is a mobile EDXRF system that provides an onsite laboratory level solution to rapidly analyze almost all sample types and shapes (solids, liquids, powders and thin films) and the GMS technology utilizing EDXRF enables location based geological data to be transferred immediately to the user's server for reporting and monitoring significantly improving the user's ability to analyze data in real time from exploration locations. The target markets for GMS include geological survey companies, geological and mineral exploration companies amongst others.

Xenemetrix remains focused on the development of new applications for its EDXRF and establishing new marketing and distribution agreements in various regions.

XwinSys

XwinSys is a research and development stage company that does not currently generate revenue. XwinSys has been focused on the development of synergistic combinations of EDXRF technology and automated 2D and 3D image processing technologies for the Semiconductor and related microelectronics

industries. XwinSys continues to perform advanced demo applications for its prospective Semi-conductor customers with several of the largest global companies. Demonstrations are performed on the XwinSys 100 beta system which was the major milestone accomplishment of development efforts in 2012. In November 2012, XwinSys announced that it received a grant of US$220,000 from The Office of the Chief Scientist of Israel for its “Wafer bumps inspection and measurement system” and based on the milestones achieved in 2012, XwinSys was granted a second year grant of US$250,000 in 2013. These grants have represented 50% of the R&D budget. In 2013, XwinSys continued working towards commercialization of its wafer bumps inspection and measurement system. There exists a significant demand for this technology in the Semi-conductor and related micro-electronics industries.

SUMMARIZED FINANCIAL RESULTS

	Three Months Ended March 31,	
	2014	2013
	$	$
Revenue	1,419,480	1,346,279
Cost of sales:		
Cost of sales - direct production costs	(626,492)	(474,446)
Cost of sales - amortization and other non cash items	(113,301)	(316,036)
Gross profit	679,687	555,797
Expenses	608,099	995,757
Other expense (income)	(9)	(16,703)
Income tax expense	12,668	439
Net income (loss)	58,929	(423,696)
Basic and fully dilited loss per share	0.00	(0.00)
EBITDA	232,243	(68,773)
EBIT	97,639	(399,979)

Revenues for the three months ended March 31, 2014 amounted to $1,419,480 compared to $1,347,279 for the three months ended March 31, 2013. These figures represent an increase of 5% from the fourth quarter 2013.

For the quarter ended March 31, 2014 the Company had a gross margin of $679,687 (2013 – $555,797). These amounts include non cash cost of sales items; consisting of amortization of technology rights, patents and deferred development costs amounting to $113,301 in 2014 (2013 - $316,036). These non cash cost of sales items are recurring costs based on the original development of the technology that the Company does not have any cost control over. Gross margin excluding of these non cash cost of sales items is 56% for 2014 (2013 – $65%), the variance is due to a change in product mix in the current quarter in comparison with prior period.

EBITDA improved by $301,016 to $232,243 in 2014 compared to $(68,773) in 2013.

The Company recorded a net income of $58,929 for the three months ended March 31, 2014 compared to a net loss of $423,696 for the comparable three months ended March 31, 2013.

Cost of sales decreased in the current quarter due to a decrease in amortization of technology rights and deferred development costs due to a change in estimate as described in notes 10 and 11 of the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013, offset by an increase in other components of cost of sales in relation with increased sales activity during the first quarter 2014.

Expenses of $608,099 for the first quarter of 2014 decreased in comparison with the expenses of $995,757 for the first quarter of 2013. The decrease for the period is primarily due to share-based compensation expense in the amount of $151,000 recognized on the granting of 5,112,500 stock options during the first quarter of 2013 (no stock options granted during the first quarter ended 2014) and a decrease in R&D which decreased due to grants in the amount of $148,132 received in the period. The remainder of the expenses remained fairly consistent as revenue for the comparable periods were comparable.

The Company also incurred a foreign exchange translation gain of $26,328 for the three months ended March 31, 2014 compared to a gain of $38,333 for the three months ended March 31, 2013. The Company has shareholder loans denominated in US dollars and Euros. The Company's revenue is earned in US dollars. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

Interest expense amounted to $26,042 for the three months ended March 31, 2014, compared to $23,278 for the three months ended March 31, 2013, mainly related to GFI's shareholder loans, payable to the former shareholders of GFI. As the balance of these loans decreases, the amount of interest expense is expected to decrease.

SELECTED ANNUAL INFORMATION

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

	Three Months Ended March 31, 2014	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**
	$	$	$
Total revenue	1,419,480	6,448,834	5,008,040
Income (loss)	58,929	(442,221)	(1,367,732)
Income (loss) per share	0.00	(0.00)	(0.02)
Total assets	7,685,769	7,230,829	8,247,321

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SUMMARY OF QUARTERLY RESULTS

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

	Q1 2014 $	Q4 2013 $	Q3 2013 $	Q2 2013 $
Revenue	1,419,480	1,755,631	1,530,889	1,816,035
Cost of sales*	(739,793)	(1,022,546)	(397,700)	(427,182)
Gross profit	679,687	733,085	1,133,189	1,388,853
Expenses	608,099	617,447	1,317,563	1,349,610
Other expense (income)	277	(7)	918	1,298
Interest expense	26,042	24,987	25,191	23,915
Foreign exchange loss (gain)	(26,328)	(75,124)	69,591	(102,152)
Income taxes expense (recovery)	12,668	6,931	5,145	8,339
	620,758	574,234	1,418,408	1,281,010
Net income (loss)	58,929	158,851	(285,219)	107,843
Basic and fully diluted loss per share	$ 0.00	$ 0.00	$ (0.00)	$ 0.00
Total assets	7,685,769	7,230,829	7,328,927	9,184,103

	Q1 2013 $	Q4 2012 $	Q3 2012 $	Q2 2012 $
Revenue	1,346,279	1,625,040	1,142,059	1,146,960
Cost of sales*	(790,482)	(965,871)	(127,155)	(487,857)
Gross profit	555,797	659,169	1,014,904	679,103
Expenses	995,757	625,039	1,215,099	1,169,193
Other expense (income)	(1,648)	(8)	(6)	(14)
Provision for HST recoverable	-	300,000	-	-
Interest expense	23,278	23,168	23,694	24,492
Foreign exchange loss (gain)	(38,333)	82,814	(127,258)	(103,476)
Income taxes expense (recovery)	439	7,736	10,732	4,153
	979,493	1,891,459	1,122,261	1,094,348
Net income (loss)	(423,696)	(379,580)	(107,357)	(415,245)
Basic and fully diluted loss per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.00)
Total assets	7,910,139	8,247,321	8,050,359	8,263,751

**Cost of sales: Q1, 2014 and 2013, and Q4, 2013 and 2012 cost of sales amounts have been reclassified to conform with change in presentation of costs of operations.*

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Disclosure of Outstanding Share Data as of May 26, 2014

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	89,160,738 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 6,812,500 common shares b) Nil Warrants exercisable to acquire common shares of the Company

See note 14, 15 and 16 to the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2012 for more detailed disclosure of outstanding shares data.

Off-Balance Sheet Arrangements
The Company has no off-balance sheet arrangements.

Financial Instruments and Other Instruments
The Company's financial instruments consist of cash, amounts receivables, loan receivable, accounts payable and accrued liabilities, shareholder loans and loan payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair values of these financial instruments approximate their carrying values.

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

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

Estimate of Stock Based Compensation and Associated Assumptions
The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of stock options issued. This valuation required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See note 16 of the unaudited interim consolidated financial statements for the three month periods ended March 31, 2014 and 2013 for full disclosure.

Assessment of Recoverability of Receivables
The carrying amount of amounts receivable, are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

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CARRYING VALUE OF BALANCE SHEET ITEMS

Deferred development costs of $328,016 as at March 31, 2014 (December 31, 2013 - $337,388) represent fuel marker and analyzing equipment technology development costs that have been deferred and are being amortized over 10 years (life of the technology rights) and three years (life of the equipment), respectively. As of March 31, 2014, the equipment has been fully amortized.

Technology rights that were purchased in connection with the acquisitions of GFI and Xenemetrix have attributed values of $7,844,267 and $892,184, respectively. Technology rights assets relating to markers and detectors and XRF Systems are being amortized over their estimated useful lives on a straight-line basis of 10 years (ending in fiscal 2016) and seven years (ending in fiscal 2018), respectively. During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

As at March 31, 2014, the carrying value of the technology rights is $2,563,274 (December 31, 2013 - $2,654,718).

Intellectual property that was purchased as part of the 100% acquisition of XwinSys has an attributed value of $349,568. As at March 31, 2014, the carrying value of the intellectual property is $337,084 (December 31, 2013 - $349,568).

Total accounts payable, accrued liabilities, and shareholder loans amounted to $2,627,355 as at March 31, 2014 (December 31, 2013 - $2,327,309). The shareholder loans amounted to $1,464,088 (December 31, 2013 - $1,491,322) and are due to the former shareholders of GFI who advanced funds to GFI prior to its acquisition by the Company. The shareholder loans consist of two amounts:

- Principal of €500,000 ($759,975) (December 31, 2013 - €500,000 ($731,420)) and accrued interest of €396,159 ($602,142) (December 31, 2013 - €380,567 ($556,708) loaned by the former shareholders of GFI in order to post the bid bond in a tender, managed by EMRA (Energy Market Regulatory Authority, a statutory regulatory entity of the Turkish Government). This portion of the shareholder loans is reimbursed by first priority from the earlier of: (i) the results of the legal proceedings with EMRA, and/or (ii) the first income generated by GFI. This portion of the loans payable bears an annual interest rate of 7.2%.

- Principal of US$850,000 ($939,675) (December 31, 2013 - US$850,000 ($904,060) and accrued interest of US$377,801 ($417,659) (December 31, 2013 - US$376,607 ($400,559).

As at March 31, 2014, the Company repaid US$1,135,561 ($1,255,363) (December 31, 2013 - US$1,035,563 ($1,101,425). This portion of the loans payable bears an annual interest rate of 5.0%.

LIQUIDITY AND CASH FLOWS

The Company ended the first quarter of fiscal 2014 with cash of $2,160,316, compared to $2,185,662 as at December 31, 2013. The Company had working capital of $1,270,816 as at March 31, 2014 compared to working capital of $1,015,751 as at December 31, 2013.

Cash provided from operating activities was $4,299 during the three month period ended March 31, 2014 compared to cash provided of $111,065 during the three month period ended March 31, 2013. Changes to cash flows from operating activities primarily relate to higher sales revenues during the period offset by an increase in accounts receivable.

Cash provided from investing activities was $2,358 during the three month period ended March 31, 2014 compared to $nil during the three month period ended March 31, 2013. Investing activities mainly relate to equipment and intangible asset acquisitions and disposals and loans.

Cash used in financing activities was $110,347 during the three month period ended March 31, 2014 compared to cash used in financing activities of $100,000 during the three month period ended March 31, 2013. Financing activities mainly relate to the repayment of the shareholder loans and financings through private placements. The increase is due to repayments of shareholder loans made during the three month period ended March 31, 2014 of $110,347 compared to repayments made during the three month period ended March 31, 2013 of $100,000.

The Company's continuance as a going concern is dependent upon its ability to maintain profitable levels of operation. It is not possible to predict if the Company will maintain profitable levels of operations as the Company has posted net losses for several annual financial periods. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, will be adequate to meet its short-term working capital requirements during the next 12 months,

TRANSACTIONS WITH RELATED PARTIES

Shareholder loans
For the three month period ended March 31, 2014 $26,042 (2013 - $23,278) in interest was charged on the shareholder loans as described in note 13 of the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013.

Compensation of key management personnel of the Company
The remuneration of directors and other members of key management personnel during the three month periods ended March 31, 2014 and 2013 were as follows:

For the three month periods ended March 31,	2014	2013
Short-term compensation and benefits	$ 147,750	$ 148,250
Share-based payments	-	126,000
	$ 147,750	$ 274,250

As at March 31, 2014, an amount of $104,138 (December 31, 2013 - $101,762) due to members of key management personnel, was included in accounts payable and accrued liabilities. This amount is unsecured, non-interest bearing and without fixed terms of repayment.

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

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

ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may differ from those estimates. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- ***Assets’ carrying values and impairment charges*** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual

assumptions require that management make a decision based on the best available information at each reporting period.

- ***Impairment of technology rights, deferred development and intellectual property assets*** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property asset, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, the economic and legal environment in which the Company operates that are not within its control and which may affect the recoverability of such assets. Internal sources of information include the manner in which technology rights and deferred development assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's technology rights, deferred development and intellectual property assets, costs to sell the assets and the appropriate discount rate.

- ***Share-Based Payments*** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- ***Income taxes*** - The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.

- ***Functional currency determination*** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21 The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

RISKS AND UNCERTAINTIES

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

Board of Directors to manage the Company's risks which include the risks described elsewhere in this MD&A and below.

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

COMMITMENTS AND CONTINGENCIES

In January 2012, a lawsuit for approximately US$100,000 was filed against the Company by a supplier for services it alleges were received by the Company but not paid for. In the opinion of management, this lawsuit has no merit and the ultimate disposition of this lawsuit will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows. As a result, this amount has not been reflected in the consolidated financial statements.

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to $148,132 during the three month period ended March 31, 2014. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full. As of March 31, 2014, the balance of the grants received to date to be repaid is approximately $438,000.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, amounts receivables, loan receivable, accounts payable and accrued liabilities, shareholder loans and loan payable. In the opinion of management of the Company, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values. As at March 31, 2014, there were no significant concentrations of credit risk for loans as the Company currently transacts with highly rated counterparties. The carrying amount reflected above represents the Company's exposure to credit risk for such loans and receivables. In the opinion of management of the Company, as at March 31, 2014, the Company did not hold financial instruments recorded at fair value that would require classification within the fair value hierarchy.

The carrying value of cash, amounts receivable, loan receivable, accounts payable, accrued liabilities and loans classified as long term approximate fair value because of the limited terms of these instruments. It is not possible to determine if the shareholder loans are at fair value as there is no comparable market value for such loans.

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

Credit risk
The Company's credit risk is primarily attributable to cash and amounts receivable. Financial instruments included in amounts receivable consist primarily of receivables due from customers. The Company currently transacts with highly rated counterparties for the sale of its marking systems. Management believes that the credit risk concentration with respect to these financial instruments is minimal.

Liquidity risk
Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2014, the Company had a cash balance of $2,160,316 (December 31, 2013 - $2,185,662) to settle current liabilities of $2,627,355 (December 31, 2013 - $2,327,309). This amount includes $1,464,088 (December 31, 2013 - $1,491,322) in shareholder loans (note 13 of the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. The Company currently has sufficient cash flow to meet its operating obligations however current cash levels would require the Company to seek alternative capital in the event the shareholder loans become due.

Market risk
(a) Interest rate risk
The Company carries shareholder loans with interest and repayment terms as described in note 13 of the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013. Management believes that interest rate risk is remote as the Company currently does not carry interest-bearing debt at floating rates.

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

The exposure of the Company's financial assets and liabilities to foreign currency risk as at March 31, 2014 is as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
Financial assets				
Cash	$ 67,982	$ 2,092,334	$ -	$ 2,160,316
Amounts receivable	-	$ 1,035,502	-	1,035,502
Loan receivable	-	$ 294,620	-	294,620
	$ 67,982	$ 3,422,456	$ -	$ 3,490,438
Financial liabilities				
Accounts payable and accrued liabilities	$ 26,595	$ 1,136,672	$ -	$ 1,163,267
Shareholder loans	-	101,971	1,362,117	1,464,088
Loan	-	23,131	-	23,131
	$ 26,595	$ 1,261,774	$ 1,362,117	$ 2,650,486

A 10% change in foreign exchange rates between the Canadian dollar and these foreign currencies over the next year would affect net loss by approximately $160,000 (2013 - $34,000) based on the foreign currency balances at March 31, 2014.

(c) Price risk
The Company is engaged in the development and implementation of marking systems for various types of oil. As a result, the Company is exposed to price risk with respect to commodity prices, specifically oil. The Company closely monitors commodity prices to determine the appropriate course of action to be

taken by the Company. The Company's future operations would be negatively affected by a significant decrease in the market prices for oil. Oil prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for oil, the level of interest rates, the rate of inflation, investment decisions by large holders of oil, and stability of exchange rates can all cause significant fluctuations in oil prices. Such external economic factors are in turn influenced by changes in international investment patterns, and monetary systems and political developments.

(d) Political risk

The Company operates mainly in Israel and Africa, and such operations are exposed to various levels of political, economic, and other risk and uncertainties. These risks and uncertainties include, but are not limited to: terrorism, hostage taking, fluctuation in currency exchange rates, high rates of inflation, labour unrest, the risks of civil unrest, renegotiation or nullification of existing agreements, licenses, permits and contracts, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls, and government regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Fair value

The Company has designated cash and amounts receivable classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and shareholder loans are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash, amounts receivable, and accounts payable and accrued liabilities approximates fair value because of the limited term of these instruments.

It is not possible to determine if the shareholder loans are at fair value as there is no comparable market value for such loans.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 32, *Financial Instruments, Presentation* – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The adoption of this standard did not result in any changes to the Company's financial statements.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company's financial statements.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted. The adoption of this standard did not result in any changes to the Company's financial statements.

IFRIC 21 – Levies ("IFRIC 21") was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. Earlier adoption is permitted. The adoption of this standard did not result in any changes to the Company's financial statements.

Accounting Standards issued but not yet applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 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.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's financial statements are the responsibility of the Company's management, and have been approved by the Board of Directors. The financial statements were prepared by the Company's management in accordance with IFRS. The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

The Company has designed appropriate internal controls over financial reporting ("ICFR") for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's ICFR are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable IFRS. ICFR should include those policies and procedures that establish the following inter-related, non-discrete results:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There have been no changes in ICFR during the three month period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") and the design of ICFR to provide reasonable assurance that material information related to the Corporation is made known to the Corporation's certifying officers. The Corporation's controls are based on the Committee of Sponsoring Organizations 1992 framework. The Corporation's CEO and the CFO have evaluated the design and effectiveness of the Corporation's DC&P as of March 31, 2014 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Corporation is made known to them by others within the Corporation. The CEO and CFO have also evaluated the design and effectiveness of the Corporation's ICFR as of March 31, 2014 and concluded that these controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

During the current period there have been no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

The Company is in the process of reviewing its controls to be compliant with the 2013 framework by December 31, 2014.

MANAGEMENT'S RESPONSIBILITY

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

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

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

May 28, 2014

W. Bruce Rowlands
Chairman, President and CEO