



# EUROCONTROL TECHNICS GROUP INC.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2013 and 2012

(In Canadian dollars)

(UNAUDITED)

# **EUROCONTROL TECHNICS GROUP INC.**

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

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

# EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(Expressed in Canadian dollars)

As at,	Notes	March 31, 2013	December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,624,143	\$ 1,582,030
Amounts receivable	7	1,028,286	995,889
Inventories	8	586,463	626,955
Prepaid expenses		42,259	89,325
Loan receivable	22	320,755	314,094
Total current assets		3,601,906	3,608,293
<b>Non-current assets</b>			
Equipment	9	174,255	189,014
Deferred development costs	10	436,580	521,578
Technology rights	11	3,347,830	3,578,868
Intellectual property	5	349,568	349,568
<b>TOTAL ASSETS</b>		<b>\$ 7,910,139</b>	<b>\$ 8,247,321</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	\$ 1,504,333	\$ 1,489,013
Shareholder loans	13	1,474,395	1,552,189
Deferred income		-	-
Total current liabilities		2,978,728	3,041,202
<b>Non-current liabilities</b>			
Loan		32,115	34,127
Total liabilities		3,010,843	3,075,329
<b>Shareholders' equity</b>			
Issued capital	14	14,260,341	14,260,341
Warrants reserve	15	866,379	866,379
Commitment to issue shares	16	430,000	430,000
Share-based payment reserve	17	447,736	296,736
Deficit		(11,105,160)	(10,681,464)
Total shareholders' equity		4,899,296	5,171,992
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 7,910,139</b>	<b>\$ 8,247,321</b>

Nature of operations and going concern (note 1)

Contingencies (note 25)

## APPROVED ON BEHALF OF THE BOARD:

Signed "W. BRUCE ROWLANDS" \_\_\_\_\_, Director

Signed "GADI GONEN" \_\_\_\_\_, Director

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

# EUROCONTROL TECHNICS GROUP INC.

## Condensed Consolidated Interim Statements of Operations and (Expressed in Canadian dollars)

For the three month periods ended March 31,		2013	2012
<b>Revenue</b>	6	\$ 1,346,279	\$ 1,093,981
Costs of sales		(227,200)	(297,701)
Direct amortization	10	(84,998)	(84,998)
<b>Gross profit</b>		<b>1,034,081</b>	<b>711,282</b>
<b>Expenses</b>			
Consulting and management	19	360,180	421,742
Depreciation and amortization	9, 11	246,208	241,622
Administration		252,826	152,771
Sales and marketing expenses		214,347	143,617
Research and development		215,587	134,275
Public company costs		33,893	30,162
Share-based expense	17	151,000	-
<b>Total expenses</b>		<b>1,474,041</b>	<b>1,124,189</b>
<b>Loss before the undernoted</b>		<b>(439,960)</b>	<b>(412,907)</b>
<b>Other income and expense</b>			
Finance income		1,648	39
Foreign exchange gain (loss)		38,333	(25,228)
Finance expense	19	(23,278)	(25,438)
		16,703	(50,627)
Loss before income taxes		(423,257)	(463,534)
Income tax expense		(439)	(2,016)
<b>Loss and comprehensive loss for the period</b>		<b>(423,696)</b>	<b>(465,550)</b>
Basic and diluted loss per share		\$ (0.00)	\$ (0.01)
Weighted average common shares outstanding - Basic and diluted		89,160,738	84,160,738

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

## EUROCONTROL TECHNICS GROUP INC.

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

(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 15)	Warrants Reserve (Note 16)	Commitment to Issue Shares (Note 17)	Share-based Payment Reserve (Note 18)	Deficit	Total
Balance as at December 31, 2011	84,160,738	\$ 13,912,428	\$ 989,895	\$ 430,000	\$ 640,100	\$ (9,843,612)	\$ 6,128,811
Loss for the year	-	-	-	-	-	(465,550)	(465,550)
Balance as at March 31, 2012	84,160,738	\$ 13,912,428	\$ 989,895	\$ 430,000	\$ 640,100	\$ (10,309,162)	\$ 5,663,261
Acquisition of XwinSys (note 5)	5,000,000	350,000	-	-	-	-	350,000
Share issue costs	-	(2,087)	-	-	-	-	(2,087)
Expiry of stock options	-	-	-	-	(343,364)	343,364	-
Expiry of warrants	-	-	(186,516)	-	-	186,516	-
Modification of warrants	-	-	63,000	-	-	-	63,000
Loss for the year	-	-	-	-	-	(902,182)	(902,182)
Balance as at December 31, 2012	89,160,738	\$ 14,260,341	\$ 866,379	\$ 430,000	\$ 296,736	\$ (10,681,464)	\$ 5,171,992
Share based payments	-	-	-	-	151,000	-	151,000
Loss for the year	-	-	-	-	-	(423,696)	(423,696)
Balance as at March 31, 2013	89,160,738	\$ 14,260,341	\$ 866,379	\$ 430,000	\$ 447,736	\$ (11,105,160)	\$ 4,899,296

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

# EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(Expressed in Canadian dollars)

For the three month periods ended March 31,	Notes	2013	2012
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Loss for the period		\$ (423,696)	\$ (465,550)
Items not involving cash:			
Amortization of equipment	9	14,759	13,652
Amortization of deferred development costs	10	84,998	84,998
Amortization of technology right	11	231,038	227,971
Loss on disposal of equipment		-	19,317
Share-based expense		151,000	-
Foreign exchange loss (gain)		(39,721)	24,111
Foreign exchange gain on shareholder loans		(1,072)	(11,474)
Accrued interest on shareholder loans		23,278	25,199
Working capital adjustments			
Change in amounts receivable		(32,397)	245,200
Change in inventories		40,492	21,291
Change in prepaid expenses		47,066	4,371
Change in accounts payables and accrued liabilities		15,320	(102,818)
Change in deferred income		-	(24,505)
<b>Cash flows from operating activities</b>		<b>111,065</b>	<b>61,763</b>
<b>Investing activities</b>			
Equipment expenditures, net		-	(1,659)
<b>Cash flows from investing activities</b>		<b>-</b>	<b>(1,659)</b>
<b>Financing activities</b>			
Decrease in loan		-	(3,467)
Repayment of shareholder loans		(100,000)	(86,424)
<b>Cash flows from financing activities</b>		<b>(100,000)</b>	<b>(89,891)</b>
<b>Effect of exchange rate changes on cash</b>		<b>31,048</b>	<b>(24,111)</b>
<b>Increase (Decrease) in cash</b>		<b>42,113</b>	<b>(53,898)</b>
<b>Cash, beginning of the period</b>		<b>1,582,030</b>	<b>1,940,872</b>
<b>Cash, end of the period</b>		<b>\$ 1,624,143</b>	<b>\$ 1,886,974</b>
<b>Supplementary cash flow information</b>			
Interest paid		\$ 23,278	\$ 25,438

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

# **EUROCONTROL TECHNICS GROUP INC.**

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

**For the three month periods ended March 31, 2013 and 2012**

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Eurocontrol Technics Group Inc. (the “Company”) is a publicly listed limited liability company incorporated in British Columbia and Continued in the Province of Ontario. The Company participates in the energy security and authentication, verification and certification markets globally.

The Company’s shares are listed on the TSX Venture Exchange under the symbol “EUO”. The head office, principal and registered address and records office of the Company is located at 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5.

The Company has a need for financing for working capital requirements. Because of continuing operating losses and a working capital deficiency, the Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s abilities to continue as a going concern.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 29, 2013.

### **2. BASIS OF PRESENTATION**

#### **Statement of compliance**

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

#### **Basis of measurement**

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2012 annual financial statements.

#### **Adoption of new and revised standards and interpretations**

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

IFRS 9 *Financial Instruments* (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet determined the impact of IFRS 9 on its financial statements.

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.

**EUROCONTROL TECHNICS GROUP INC.**  
**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**  
**(Expressed in Canadian dollars)**  
**For the three month periods ended March 31, 2013 and 2012**

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**3. PRINCIPLES OF CONSOLIDATION**

These consolidated financial statements include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Relationship</b>	<b>Economic interest</b>	<b>Basis of Accounting</b>
Global Fluids International S.A. ("GFI")	Nevis	Subsidiary	100%	Full consolidation
Xenemetrix Ltd. ("Xenemetrix")	Israel	Subsidiary	100%	Full consolidation
XwinSys Technology Development Ltd. ("XwinSys")	Israel	Subsidiary	100%	Full consolidation

*Subsidiaries*

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

*Business Combinations and Goodwill*

On the acquisition of a subsidiary that meets the definition of a business, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values as at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the statement of operations.

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



## EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three month periods ended March 31, 2013 and 2012

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### 4. SIGNIFICANT 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 costs and intellectual property** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable 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 costs and intellectual property, 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.
- **Contingencies** – refer to note 23.

## EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three month periods ended March 31, 2013 and 2012

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### 5. ACQUISITION OF XWINSYS TECHNOLOGY DEVELOPMENT LTD.

On May 1, 2012, the Company acquired all of the issued and outstanding common and preferred shares of XwinSys Technology Development Ltd. ("XwinSys"). XwinSys is a private company located in Israel that develops, manufactures and sells inspection systems for the semiconductor industry. The acquisition is classified as an asset acquisition as XwinSys did not meet the definition of a business under IFRS.

In connection with the acquisition, the Company issued an aggregate of 5,000,000 common shares of the Company. The purchase price of 100% of the outstanding shares of XwinSys was determined to be \$350,000 based on the fair value of the identifiable assets and liabilities acquired.

**The purchase price consisted of the following:**

5,000,000 shares of the Company	<u>\$ 350,000</u>
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**The net assets acquired and liabilities assumed consisted of the following:**

Intellectual property	\$ 349,568
Working capital	<u>432</u>
	<u>\$ 350,000</u>

### 6. OPERATING SEGMENTS

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

The Company conducts its business as a single operating segment.

*Geographical information*

The Company's revenue from external customers and information about its non-current assets by geographical location are detailed below.

	<b>Revenue from external customers</b>	
<b>For the three month periods ended March 31,</b>	2013	2012
Africa	\$ 1,088,787	\$ 829,641
North America	-	120,628
Asia	257,492	57,392
Europe	-	44,594
South America	-	41,726
	<u>\$ 1,346,279</u>	<u>\$ 1,093,981</u>

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three month periods ended March 31, 2013 and 2012****6. OPERATING SEGMENTS (continued)**

	As at March 31, 2013			
	South America	North America	Asia	Total
Equipment		\$ -	\$ 174,255	\$ 174,255
Deferred development costs	436,580	-	-	436,580
Technology rights	2,742,420	-	605,410	3,347,830
Intellectual property	-	-	349,568	349,568

	As at December 31, 2012			
	South America	North America	Asia	Total
Equipment	\$ -	\$ 483	\$ 188,531	\$ 189,014
Deferred development costs	521,578	-	-	521,578
Technology rights	2,941,594	-	637,274	3,578,868
Intellectual property	-	-	349,568	349,568

**7. AMOUNTS RECEIVABLE**

<b>As at,</b>	March 31, 2013	December 31, 2012
Trade receivables	\$ 949,861	\$ 924,304
Tax receivables	1,044	1,023
Other	77,381	70,562
	<b>\$ 1,028,286</b>	<b>\$ 995,889</b>

**8. INVENTORIES**

<b>As at,</b>	March 31, 2013	December 31, 2012
Materials	\$ 132,412	\$ 141,619
Work in process	71,087	78,232
Finished goods	382,964	407,104
	<b>\$ 586,463</b>	<b>\$ 626,955</b>

Inventories are carried at the lower of cost and net realizable value. Materials, work in process, and finished goods are recorded at cost. For the three month periods ended March 31, 2013 and 2012, the cost of inventories recognized as an expense and included in cost of sales was \$227,200 and \$150,000 respectively.

**EUROCONTROL TECHNICS GROUP INC.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three month periods ended March 31, 2013 and 2012

**9. EQUIPMENT**

		Office furniture, computers and equipment	Vehicles	Total
<b>Cost</b>				
Balance as at December 31, 2011	\$	276,381	65,719	342,100
Additions		26,859	-	26,859
Disposals		(71,558)	(1,428)	(72,986)
Balance as at December 31, 2012		231,682	64,291	295,973
Additions		-	-	-
Disposals		-	-	-
Balance as at March 31, 2013	\$	231,682	64,291	295,973
<b>Accumulated depreciation</b>				
Balance as at December 31, 2011	\$	102,325	9,314	111,639
Depreciation		43,609	12,388	55,997
Disposals		(60,475)	(202)	(60,677)
Balance as at December 31, 2012		85,459	\$ 21,500	\$ 106,959
Depreciation		11,563	3,195	14,759
Disposals		-	-	-
Balance as at March 31, 2013	\$	97,023	\$ 24,695	\$ 121,718
<b>Carrying amounts</b>				
Balance as at December 31, 2012	\$	146,223	\$ 42,791	\$ 189,014
Balance as at March 31, 2013	\$	134,660	\$ 39,596	\$ 174,255

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three month periods ended March 31, 2013 and 2012****10. DEFERRED DEVELOPMENT COSTS**

	<u>Marker</u>	<u>Equipment</u>	<u>Total</u>
<b>Cost</b>			
Balance as at December 31, 2011	\$ 920,137	\$ 651,922	\$ 1,572,059
Additions	-	-	-
Balance as at December 31, 2012	920,137	651,922	1,572,059
Additions	-	-	-
Balance as at March 31, 2013	\$ 920,137	\$ 651,922	\$ 1,572,059
<b>Accumulated amortization</b>			
Balance as at December 31, 2011	\$ 337,381	373,108	710,489
Amortization expense	122,684	217,308	339,992
Balance as at December 31, 2012	460,065	590,416	1,050,481
Amortization expense	30,671	54,327	84,998
Balance as at March 31, 2013	\$ 490,736	\$ 644,743	\$ 1,135,479
<b>Carrying amounts</b>			
Balance as at December 31, 2012	\$ 460,072	\$ 61,506	\$ 521,578
Balance as at March 31, 2013	\$ 429,401	\$ 7,179	\$ 436,580

**11. TECHNOLOGY RIGHTS**

The Company, through its wholly owned subsidiaries GFI and Xenemetrix, holds a licence to produce and sell fuel markers, detectors and XRF systems. The fuel markers and detectors are licensed under a 20 year licence agreement from the holder of the patents. The XRF systems are licensed until February 2018. 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.

	<u>Markers and Detectors</u>	<u>XRF Systems</u>	<u>Total</u>
<b>Cost</b>			
Balance as at December 31, 2011	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Additions	-	-	-
Balance as at December 31, 2012	7,844,267	892,184	8,736,451
Additions	-	-	-
Balance as at March 31, 2013	\$ 7,844,267	\$ 892,184	\$ 8,736,451
<b>Accumulated amortization</b>			
Balance as at December 31, 2011	\$ 4,105,975	127,455	4,233,430
Amortization expense	796,698	127,455	924,153
Balance as at December 31, 2012	4,902,673	254,910	5,157,583
Amortization expense	199,175	31,864	231,038
Balance as at March 31, 2013	\$ 5,101,848	\$ 286,774	\$ 5,388,621
<b>Carrying amounts</b>			
Balance as at December 31, 2012	\$ 2,941,594	\$ 637,274	\$ 3,578,868
Balance as at March 31, 2013	\$ 2,742,420	\$ 605,410	\$ 3,347,830

**EUROCONTROL TECHNICS GROUP INC.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three month periods ended March 31, 2013 and 2012

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

<b>As at,</b>	March 31, 2013	December 31, 2012
Accounts payable	\$ 513,817	\$ 450,727
Accrued liabilities	990,516	1,038,286
	<u>\$ 1,504,333</u>	<u>\$ 1,489,013</u>

**13. SHAREHOLDER LOANS**

		March 31, 2013	December 31, 2012
<b>Euro loan</b>			
Principal	€ 500,000	\$ 651,053	\$ 655,900
Interest	€ 334,456	435,497	419,853
<b>US dollar loan</b>			
Principal	\$ 850,000	862,316	845,665
Interest	\$ 368,767	374,110	362,261
		<u>\$ 2,322,975</u>	<u>\$ 2,283,679</u>
Repayments		(848,580)	(731,490)
		<u>\$ 1,474,395</u>	<u>\$ 1,552,189</u>

The total payable includes the principal amount of €500,000 (\$651,053) (December 31, 2012 - €500,000 (\$655,900)) and accrued interest of €334,456 (\$435,497) (December 31, 2012 - €320,059 (\$419,853)) loaned by the former shareholders of GFI. These loans payable bear an annual interest rate of 7.2%. A recently appointed director of the Company is among recipients of such loans.

The remainder of the shareholder loans balance relates to the principal amount of US\$850,000 (\$863,600) (December 31, 2012 - US\$850,000 (\$862,316)) and accrued interest of US\$368,767 (\$374,110) (December 31, 2012 - US\$364,118 (\$362,261)) in loans payable to the former shareholders of GFI. The shareholder loans will be repaid through 25% of the income generated by contracts of GFI.

As at March 31, 2013, the Company repaid US\$835,216 (\$848,580), (December 31, 2012 - US\$735,239 (\$731,490)). This portion of the loans payable bears an annual interest rate of 5.0%.

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

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**14. ISSUED CAPITAL****Authorized:** 100,000,000 common shares without par value

	March 31, 2013	December 31, 2012
Issued capital	\$ 14,260,341	\$ 14,260,341
Fully paid common shares	89,160,738	89,160,738

**Commons shares issued:**

	Number of Shares	Value of shares
Balance as at December 31, 2011	84,160,738	\$ 13,912,428
Shares issued on acquisition of XwinSys (note 5)	5,000,000	350,000
Share issue costs	-	(2,087)
Balance as at December 31, 2012 and March 31, 2013	89,160,738	\$ 14,260,341

**15. WARRANTS RESERVE**

The following table summarizes information about warrants:

	Number of Warrants	Value
Balance as at December 31, 2011	17,711,898	\$ 989,895
Warrants expired	(2,557,233)	(186,516)
Modification of warrants	-	63,000
Balance as at December 31, 2012 and March 31, 2013	15,154,665	\$ 866,379

The following warrants were outstanding as of March 31, 2013:

Number of warrants	Grant date fair value of warrants	Exercise Price	Expiry Date
12,036,332	\$ 702,358	\$ 0.15	September 27, 2013
3,118,333	164,021	0.15	December 10, 2013
15,154,665	\$ 866,379	\$ 0.15	

**16. COMMITMENT TO ISSUE SHARES**

	Number of Shares	Value of shares
Shares to be issued – warrants exercised	1,000,000	\$ 260,000
Shares to be issued – warrant valuation	-	170,000
Balance as at December 31, 2011, December 31, 2012 and March 31, 2013	1,000,000	\$ 430,000

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### 17. SHARE-BASED PAYMENT RESERVE

#### *Employee share option plan*

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

The terms of any options granted under the Plan are fixed by the Board of Directors and may not exceed a term of five years. The exercise price of the options granted under the Plan is determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

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

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

Balance as at December 31, 2011	\$	640,100
Expiry of stock options		(343,364)
Balance as at December 31, 2012	\$	296,736
Share based payments		151,000
Balance as at March 31, 2013	\$	447,736

The following share-based payment arrangements were in existence as at March 31, 2013:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
200,000	200,000	May 12, 2008	May 12, 2013	\$ 0.30	\$ 35,960
100,000	100,000	September 15, 2008	September 15, 2013	\$ 0.30	9,420
1,700,000	1,700,000	February 23, 2011	February 23, 2016	\$ 0.16	244,856
50,000	50,000	March 30, 2011	March 30, 2016	\$ 0.18	6,500
5,112,500	5,112,500	March 11, 2013	March 11, 2018	\$ 0.10	151,000
7,162,500	7,162,500				\$ 447,736

The share options outstanding as at March 31, 2013 had a weighted exercise price of \$0.12 (December 31, 2012: \$0.18) and a weighted average remaining contractual life of 4.2 years (December 31, 2012: 3.0 years).

All options vested on their date of issue and expire within five years of their issue, or 30 days after the resignation of the director, officer, employee or consultant.



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**17. SHARE-BASED PAYMENT RESERVE (continued)**

*Fair value of share options granted in the three months ended March 31, 2013*

On March 11, 2013, 5,112,500 share options were granted to directors, officers and consultants of the Company to acquire the Company's shares at an exercise price of \$0.10 until March 11, 2018. These share options had an estimated fair value of \$151,000 at grant date.

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

	<b>Number of Options Granted</b>	
	5,112,500	
Grant date share price	\$	0.04
Exercise price	\$	0.10
Expected volatility		123%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		1.39%

*Fair value of share options granted in the year ended December 31, 2012*

During the year ended December 31, 2012, no share options were granted.

*Movements in shares options during the period:*

The following reconciles the share options outstanding during the three month periods ended March 31, 2013 and year ended December 31, 2012:

	Number of options	Weighted average exercise price
Balance as at December 31, 2011	4,110,000	\$ 0.19
Expired	(2,060,000)	\$ 0.20
Balance as at December 31, 2012	2,050,000	\$ 0.18
Granted	5,112,500	\$ 0.10
Balance as at March 31, 2013	7,162,500	\$ 0.12

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#### 18. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at March 31, 2013 and December 31, 2012 were as follows:

	Loans and receivables	Other financial liabilities	Total
<b>As at March 31, 2013</b>			
Cash	\$ 1,624,143	-	\$ 1,624,143
Amounts receivable	949,861	-	949,861
Loans receivable	320,755	-	320,755
Accounts payable and accrued liabilities	-	1,504,333	1,504,333
Shareholder loans	-	1,474,395	1,474,395
Loans	-	32,115	32,115

	Loans and receivables	Other financial liabilities	Total
<b>As at December 31, 2012</b>			
Cash	\$ 1,582,030	-	\$ 1,582,030
Amounts receivable	924,304	-	924,304
Loans receivable	314,094	-	314,094
Accounts payable and accrued liabilities	-	1,489,013	1,489,013
Shareholder loans	-	1,552,189	1,552,189
Loans	-	34,127	34,127

As at March 31, 2013, there are 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 maximum exposure to credit risk for such loans and receivables. As at March 31, 2013, 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.

#### 19. RELATED PARTY DISCLOSURES

The Company entered into the following transactions in the ordinary course of business with related parties:

- For the three months ended March 31, 2013, the Company was charged \$nil (2012 - \$22,500) by a corporation for which a director of the Company is the Executive Chairman. This company provides administrative and promotional services, which were recorded in consulting and management services.
- For the three months ended March 31, 2013 \$23,278 (2012 - \$25,438) in interest was charged on the shareholder loans as described in note 13.

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**19. RELATED PARTY DISCLOSURES (continued)**

*Compensation of key management personnel of the Company*

The remuneration of directors and other members of key management personnel during the year were as follows:

<b>For the three month periods ended March 31,</b>	<b>2013</b>	<b>2012</b>
Short-term compensation and benefits	\$ 142,250	\$ 155,325
Share-based payments	126,000	-
	<b>\$ 268,250</b>	<b>\$ 155,325</b>

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.

**20. CAPITAL MANAGEMENT**

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management in the three month period ended March 31, 2013. The Company and its subsidiaries are not subject to externally imposed capital requirements.

**21. FINANCIAL RISK FACTORS**

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

***Credit risk:***

The Company's credit risk is primarily attributable to cash, amounts receivable and loan 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, 2013, the Company had a cash balance of \$1,624,143 (December 31, 2012 - \$1,582,030) to settle current liabilities of \$2,978,728 (December 31, 2012 - \$3,041,202). This amount includes \$1,474,395 (December 31, 2012 - \$1,552,189) in shareholder loans (note 13).

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**21. FINANCIAL RISK FACTORS (continued)**

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. The Company cannot ensure there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holding cash. The Company is currently seeking sources of funding to meet short term liabilities, and short term cash requirements.

**Market risk:**

(a) Interest rate risk

The Company carries shareholder loans with interest and repayment terms as described in note 13. 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 and its subsidiaries 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, 2013 is as follows:

	<b>CDN Dollar</b>	<b>US Dollar</b>	<b>Euro</b>	<b>Total (in CDN dollars)</b>
<b>Financial assets</b>				
Cash	\$ 9,085	\$ 1,615,058	\$ -	\$ 1,624,143
Amounts receivable	-	\$ 1,028,286	-	1,028,286
Loan receivable	-	\$ 320,755	-	320,755
	<b>\$ 9,085</b>	<b>\$ 2,964,099</b>	<b>\$ -</b>	<b>\$ 2,973,184</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 312,502	\$ 1,191,831	\$ -	\$ 1,504,333
Shareholder loans	-	387,845	1,086,550	1,474,395
Loan	-	32,115	-	32,115
	<b>\$ 312,502</b>	<b>\$ 1,611,791</b>	<b>\$ 1,086,550</b>	<b>\$ 3,010,843</b>

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 \$34,000 (2012 - \$40,000) based on the foreign currency balances at March 31, 2013.

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

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### **22. LOAN RECEIVABLE**

On September 20, 2012, the Company, through its wholly owned subsidiary Global Fluids International S.A., loaned US\$200,000 and paid for various expenses amounting to US\$120,755 on behalf of GFI U Ltd., a non-related company, pursuant to a five year contract extension with the Ministry of Energy and Mineral Development, Government of the Republic of Uganda for the continued deployment of the Company's Petromark™ technology in the territory. The loan carries an interest rate of 10% and is without fixed terms of repayment. As management expects the loan to be repaid within one year it is classified as a current asset. As at March 31, 2013, the balance of principal and interest outstanding amounts to \$320,755 (December 31, 2012 –\$314,094).

### **23. COMMITMENT AND CONTINGENCIES**

- a) 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 these consolidated financial statements.
- b) The Company is party to certain management contracts. These contracts require that payments of up to approximately \$162,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contractual commitments remaining under these contracts approximate \$253,000 due within one year.