



# EUROCONTROL TECHNICS GROUP INC.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2012 and 2011

(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, 2012	December 31, 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,886,974	\$ 1,940,872
Amounts receivable	8	679,495	924,695
Inventories	9	435,378	456,669
Prepaid expenses		26,418	30,789
Total current assets		3,028,265	3,353,025
<b>Non-current assets</b>			
Equipment	10	199,151	230,461
Deferred development costs	11	776,572	861,570
Technology rights	12	4,275,050	4,503,021
<b>TOTAL ASSETS</b>		<b>\$ 8,279,038</b>	<b>\$ 8,948,077</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	13	\$ 970,807	\$ 1,073,625
Shareholder loans	14	1,596,483	1,669,182
Deferred income		-	24,505
Total current liabilities		2,567,290	2,767,312
<b>Non-current liabilities</b>			
Loan		48,487	51,954
Total liabilities		2,615,777	2,819,266
<b>Shareholders' equity</b>			
Issued capital	15	13,912,428	13,912,428
Warrants reserve	16	989,895	989,895
Commitment to issue shares	17	430,000	430,000
Share-based payment reserve	18	640,100	640,100
Deficit		(10,309,162)	(9,843,612)
Total shareholders' equity		5,663,261	6,128,811
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 8,279,038</b>	<b>\$ 8,948,077</b>

Basis of Presentation and Going Concern (note 2)  
Commitment and contingencies (note 23)

## APPROVED ON BEHALF OF THE BOARD:

Signed "STAN BHARTI"\_\_\_\_\_, Director

Signed "PIERRE PETTIGREW"\_\_\_\_\_, Director

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

# EUROCONTROLS TECHNICS GROUP INC.

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

		Three months ended March 31,	
	Notes	2012	2011
<b>Revenue</b>		\$ 1,093,981	\$ 1,204,075
Costs of sales		(297,701)	(197,693)
Direct depreciation and amortization	11	(84,998)	(84,998)
<b>Gross Profit</b>		<b>711,282</b>	<b>921,384</b>
<b>Expenses</b>			
Consulting and management services		421,742	469,190
Depreciation and amortization		241,622	239,306
Administration		152,771	114,114
Sales and marketing expenses		143,617	248,197
Research and development		134,275	86,882
Public company costs		30,162	28,049
Share-based expense		-	462,240
		<b>1,124,189</b>	<b>1,647,978</b>
<b>Loss from operations</b>		<b>(412,907)</b>	<b>(726,594)</b>
<b>Other income and expense</b>			
Finance income		39	121
Foreign exchange loss		(25,228)	(71,580)
Finance expense	14	(25,438)	(30,670)
		<b>(50,627)</b>	<b>(102,129)</b>
Loss before income taxes		(463,534)	(828,723)
Income tax expense		(2,016)	(12,095)
<b>Loss and Comprehensive loss for the period</b>		<b>(465,550)</b>	<b>(840,818)</b>
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)
Weighted average common shares outstanding - Basic and diluted		84,160,738	70,320,738

*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, 2010	69,320,738	\$ 12,483,730	\$ 1,245,273	\$ 430,000	\$ 984,960	\$ (8,513,120)	\$ 6,630,843
Share issue costs	-	(1,949)	-	-	-	-	(1,949)
Private placement:							
Shares issued	14,840,000	1,484,000	-	-	-	-	1,484,000
Value of finder's warrants issued	-	(16,700)	16,700	-	-	-	-
Share issue costs	-	(36,653)	-	-	-	-	(36,653)
Share-based expense	-	-	-	-	462,240	-	462,240
Expiry of stock options	-	-	-	-	(807,100)	807,100	-
Expiry of warrants	-	-	(272,078)	-	-	272,078	-
Loss for the year	-	-	-	-	-	(2,409,670)	(2,409,670)
<b>Balance as at December 31, 2011</b>	<b>84,160,738</b>	<b>\$ 13,912,428</b>	<b>\$ 989,895</b>	<b>\$ 430,000</b>	<b>\$ 640,100</b>	<b>\$ (9,843,612)</b>	<b>\$ 6,128,811</b>
Loss for the period	-	-	-	-	-	(465,550)	(465,550)
<b>Balance as at March 31, 2012</b>	<b>84,160,738</b>	<b>\$ 13,912,428</b>	<b>\$ 989,895</b>	<b>\$ 430,000</b>	<b>\$ 640,100</b>	<b>\$ (10,309,162)</b>	<b>\$ 5,663,261</b>

*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)

	Three months ended March 31,	
	2012	2011
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Loss for the period	\$ (465,550)	\$ (840,818)
Items not involving cash:		
Amortization of equipment	13,652	11,335
Amortization of deferred development costs	84,998	84,998
Amortization of technology right	227,971	227,971
Loss on disposal of equipment	19,317	-
Share-based expense	-	462,240
Foreign exchange loss	24,111	15,990
Foreign exchange loss (gain) on shareholder loans	(11,474)	15,441
Accrued interest on shareholder loans	25,199	29,900
Working capital adjustments		
Change in amounts receivable	245,200	63,402
Change in inventories	21,291	(175,409)
Change in prepaid expenses	4,371	(34,261)
Change in accounts payables and accrued liabilities	(102,818)	(120,181)
Change in deferred income	(24,505)	(277,134)
	61,763	(536,526)
<b>Investing activities</b>		
Equipment expenditures	(1,659)	(6,008)
	(1,659)	(6,008)
<b>Financing activities</b>		
Decrease in loans	(3,467)	(1,409)
Repayment of shareholder loans	(86,424)	(96,078)
	(89,891)	(97,487)
<b>Effect of exchange rate changes on cash</b>	(24,111)	(15,990)
<b>Decrease in cash</b>	(53,898)	(656,011)
<b>Cash, beginning of the period</b>	1,940,872	1,779,973
<b>Cash, end of the period</b>	\$ 1,886,974	\$ 1,123,962

*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)

March 31, 2012 and 2011

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### 1. NATURE OF OPERATIONS

Eurocontrol Technics Group Inc. (the “Company”) is a publicly listed limited liability company incorporated in Canada registered 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 are located at 65 Queen Street West, Suite 825 Toronto, Ontario M5H 2M5.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 29, 2012.

### 2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated interim financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB.

These financial statements were prepared on a going concern basis, under the historical cost convention. 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.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

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 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.

IFRS 10 *Consolidated Financial Statements* (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of IFRS 10 on its financial statements.

## EUROCONTROL TECHNICS GROUP INC.

### Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

March 31, 2012 and 2011

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#### 3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of IFRS 11 on its financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of IFRS 13 on its financial statements.

IAS 1, *Presentation of Financial Statements* ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

#### 4. PRINCIPLES OF CONSOLIDATION

These condensed consolidated interim 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:

Name	Relationship	Economic interest	Basis of Accounting
Global Fluids International S.A.	Subsidiary	100%	Full consolidation
Xenemetrix Ltd.	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 control ceases.



## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**

**March 31, 2012 and 2011**

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#### **4. PRINCIPLES OF CONSOLIDATION (continued)**

##### *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 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.

#### **5. 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.

## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**

**March 31, 2012 and 2011**

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#### **5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

- Impairment of technology rights and deferred development assets - While assessing whether any indications of impairment exist for technology rights and deferred development costs, 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 and deferred development 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.
- Contingencies – refer to note 23.

#### **6. ACQUISITION**

In March 2012, the Company announced that it has agreed to acquire all of the issued and outstanding common and preferred shares of XwinSys Ltd. ("XwinSys") for consideration of 5,000,000 common shares of the Company. XwinSys is a private company located in Israel that develops, manufactures and sells inspection systems for the semiconductor industry. This acquisition closed in May 2012.

#### **7. OPERATING SEGMENT**

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.

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****March 31, 2012 and 2011****7. OPERATING SEGMENT (continued)***Geographical information*

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

	Revenue from external customers	
	Three months ended March 31, 2012	2011
Africa	\$ 829,641	\$ 1,002,145
North America	120,628	28,425
Asia	57,392	105,722
Europe	44,594	34,180
South America	41,726	33,603
	<b>\$ 1,093,981</b>	<b>\$ 1,204,075</b>

## As at March 31, 2012

	South America	North America	Asia	Total
Equipment	\$ -	\$ 483	\$ 198,668	\$ 199,151
Deferred development costs	776,572	-	-	776,572
Technology rights	3,542,185	-	732,865	4,275,050

## As at December 31, 2011

	South America	North America	Asia	Total
Equipment	\$ -	\$ 483	\$ 229,978	\$ 230,461
Deferred development costs	861,570	-	-	861,570
Technology rights	3,738,292	-	764,729	4,503,021

**8. AMOUNTS RECEIVABLE**

	March 31, 2012	December 31, 2011
Trade receivables	\$ 517,353	\$ 767,151
Tax receivables	122,587	144,106
Other	39,555	13,438
	<b>\$ 679,495</b>	<b>\$ 924,695</b>

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****March 31, 2012 and 2011****9. INVENTORIES**

	March 31, 2012	December 31, 2011
Materials	\$ 134,456	\$ 172,357
Work in process	87,509	11,952
Finished goods	213,413	272,360
	<u>\$ 435,378</u>	<u>\$ 456,669</u>

Inventory is carried at the lower of cost and net realizable value. Materials, work in process and finished goods are recorded at cost as at March 31, 2012 and December 31, 2011. For the three months ended March 31, 2012 and 2011, the cost of inventories recognized as an expense and included in cost of sales was \$150,000 and \$87,348, respectively.

**10. EQUIPMENT**

	Office furniture, computers and equipment	Vehicles	Total
<b>Cost</b>			
Balance as at January 1, 2011	\$ 203,492	\$ 12,877	\$ 216,369
Additions	72,889	52,842	125,731
Balance as at December 31, 2011	276,381	65,719	342,100
Additions	1,659	-	1,659
Disposals	(8,309)	(12,876)	(21,185)
Balance as at March 31, 2012	<u>\$ 269,731</u>	<u>52,843</u>	<u>322,574</u>
<b>Accumulated depreciation</b>			
Balance as at January 1, 2011	\$ 54,060	\$ 1,170	\$ 55,230
Depreciation	48,265	8,144	56,409
Balance as at December 31, 2011	102,325	9,314	111,639
Depreciation	10,535	3,117	13,652
Disposals	-	(1,868)	(1,868)
Balance as at March 31, 2012	<u>\$ 112,860</u>	<u>\$ 10,563</u>	<u>\$ 123,423</u>
<b>Carrying amounts</b>			
As at January 1, 2011	\$ 149,432	\$ 11,707	\$ 161,139
As at December 31, 2011	\$ 174,056	\$ 56,405	\$ 230,461
As at March 31, 2012	<u>\$ 156,871</u>	<u>\$ 42,280</u>	<u>\$ 199,151</u>

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**

March 31, 2012 and 2011

**11. DEFERRED DEVELOPMENT COSTS**

<b>Cost</b>	<u>Marker</u>	<u>Equipment</u>	<u>Total</u>
Balance as at January 1, 2011	\$ 920,137	\$ 651,922	\$ 1,572,059
Additions	-	-	-
Balance as at December 31, 2011	920,137	651,922	1,572,059
Additions	-	-	-
Balance as at March 31, 2012	920,137	651,922	1,572,059
<b>Accumulated amortization</b>			
Balance as at January 1, 2011	\$ 214,697	\$ 155,801	\$ 370,498
Amortization expense	122,684	217,307	339,991
Balance as at December 31, 2011	337,381	373,108	710,489
Amortization expense	30,671	54,327	84,998
Balance as at March 31, 2012	\$ 368,052	\$ 427,435	\$ 795,487
<b>Carrying amounts</b>			
As at January 1, 2011	\$ 705,440	\$ 496,121	\$ 1,201,561
As at December 31, 2011	\$ 582,756	\$ 278,814	\$ 861,570
As at March 31, 2012	\$ 552,085	\$ 224,487	\$ 776,572

**12. TECHNOLOGY RIGHTS**

The Company, through its wholly owned subsidiaries GFI and Xenometrix, holds a licence to produce and sell fuel markers, detectors and XRF systems. The fuel markers and detectors are licensed under a 20 year license agreement from the holder of the patents. The patents are pending examination and issuance as at March 31, 2012 and because of this, their scope in each country remains to be determined. 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 7 years (ending in fiscal 2018), respectively.

<b>Cost</b>	<u>Markers and Detectors</u>	<u>XRF Systems</u>	<u>Total</u>
Balance as at January 1, 2011	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Additions	-	-	-
Balance as at December 31, 2011	7,844,267	892,184	8,736,451
Additions	-	-	-
Balance as at March 31, 2012	7,844,267	892,184	8,736,451
<b>Accumulated amortization</b>			
Balance as at January 1, 2011	\$ 3,333,817	\$ -	\$ 3,333,817
Amortization expense	772,158	127,455	899,613
Balance as at December 31, 2011	4,105,975	127,455	4,233,430
Amortization expense	196,107	31,864	227,971
Balance as at March 31, 2012	\$ 4,302,082	\$ 159,319	\$ 4,461,401
<b>Carrying amounts</b>			
As at January 1, 2011	\$ 4,510,450	\$ 892,184	\$ 5,402,634
As at December 31, 2011	\$ 3,738,292	\$ 764,729	\$ 4,503,021
As at March 31, 2012	\$ 3,542,185	\$ 732,865	\$ 4,275,050

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****March 31, 2012 and 2011****13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2012	December 31, 2011
Accounts payable	\$ 236,991	\$ 694,586
Accrued liabilities	733,816	379,039
	<u>\$ 970,807</u>	<u>\$ 1,073,625</u>

**14. SHAREHOLDER LOANS**

		March 31, 2012	December 31, 2011
<b>Euro loan</b>			
Principal	€ 500,000	\$ 666,100	\$ 659,626
Interest	€ 277,380	369,525	347,861
<b>US dollar loan</b>			
Principal	\$ 850,000	\$ 849,235	864,450
Interest	\$ 346,588	346,276	345,474
		<u>\$ 2,231,136</u>	<u>\$ 2,217,411</u>
Repayments		(634,653)	(548,229)
		<u>\$ 1,596,483</u>	<u>\$ 1,669,182</u>

The total payable includes the principal amount of €500,000 (\$666,100) (December 31, 2011 - €500,000 (\$659,626)) and accrued interest of €277,380 (\$369,525) (December 31, 2011 - €263,671 (\$347,861)) loaned by the former shareholders of GFI in order to post the bid bond in the tender. These loans payable bears an annual interest rate of 7.2%.

The remainder of the shareholder loans balance relates to the principal amount of US\$850,000 (\$849,235) (December 31, 2011 - US\$850,000 (\$864,450)) and accrued interest of US\$346,588 (\$346,276) (December 31, 2011 - US\$339,699 (\$345,474)) 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, 2012, the Company repaid US\$635,225 (\$634,653) (December 31, 2011 - US\$539,065 (\$548,229)). 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.

**15. ISSUED CAPITAL****Authorized**

100,000,000 common shares without par value

**Issued capital comprises:**

	March 31, 2012	December 31, 2011
	<u>\$ 13,912,428</u>	<u>\$ 13,912,428</u>
Fully paid common shares	<u>84,160,738</u>	<u>84,160,738</u>

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****March 31, 2012 and 2011****15. ISSUED CAPITAL (continued)****Commons shares issued:**

	Number of Shares		
Balance as at January 1, 2011	69,320,738	\$	12,483,730
Private placement before issue costs	14,840,000		1,484,000
Private placement – warrant valuation	-		(16,700)
Share issue costs	-		(38,602)
Balance as at December 31, 2011	84,160,738	\$	13,912,428
	-		-
Balance as at March 31, 2012	84,160,738	\$	13,912,428

**16. WARRANTS RESERVE**

The following table summarizes information about warrants:

	Number of Warrants		
Balance as at January 1, 2011	20,670,080	\$	1,245,273
Warrants issued from private placement	417,500		16,700
Warrants expired	(3,375,682)		(272,078)
Balance as at December 31, 2011	17,711,898	\$	989,895
Balance as at March 31, 2012	17,711,898	\$	989,895

Number of warrants	Grant date fair value of warrants	Exercise Price	Expiry Date
417,500	16,700	0.10	September 27, 2012
12,036,332	654,358	0.20	September 27, 2012
546,000 (i)	55,692	0.15	September 27, 2012
1,533,333	108,867	0.50	September 28, 2012
3,118,333	149,021	0.20	December 10, 2012
60,400 (ii)	5,257	0.15	December 10, 2012
<u>17,711,898</u>	<u>\$ 989,895</u>		

- (i) These are exercisable into units consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.20 until September 27, 2012.
- (ii) These are exercisable into units consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.20 until December 10, 2012.

**EUROCONTROL TECHNICS GROUP INC.****Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****March 31, 2012 and 2011****17. COMMITMENT TO ISSUE SHARES**

	Number of Shares		
Shares to be issued – warrants exercised	1,000,000	\$	260,000
Shares to be issued – warrant valuation	-		170,000
<hr/>			
As at January 1, 2011, December 31, 2011 and March 31, 2012	1,000,000	\$	430,000

**18. 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, 2010	\$	984,960
Share-based payments		462,240
Expiry of stock options		(807,100)
<hr/>		
Balance as at December 31, 2011	\$	640,100
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Balance as at March 31, 2012	\$	640,100

The following share-based payment arrangements were in existence as at March 31, 2012:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
600,000	600,000	December 10, 2007	December 10, 2012	\$ 0.30	132,480
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
3,060,000	3,060,000	February 23, 2011	February 23, 2016	\$ 0.16	440,740
100,000	100,000	February 23, 2011	February 23, 2016	\$ 0.16	15,000
50,000	50,000	March 30, 2011	March 30, 2016	\$ 0.18	6,500
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4,110,000	4,110,000				\$ 640,100



## EUROCONTROL TECHNICS GROUP INC.

### Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

March 31, 2012 and 2011

#### 18. SHARE-BASED PAYMENT RESERVE (continued)

The share options outstanding as at March 31, 2012 had a weighted exercise price of \$0.19 (December 31, 2011: \$0.19), and a weighted average remaining contractual life of 2.5 years (December 31, 2011: 2.8 years).

All options vested on their date of issue and expire within 5 years of their issue, or 30 days after the resignation of the director, officer, employee or consultant.

#### *Fair value of share options granted in the period*

During the three months ended March 31, 2012, no share options (3,210,000 options granted for the three months ended March 31, 2011) were granted.

#### *Movements in shares options during the period:*

The following reconciles the share options outstanding during the period.

	Number of options	Weighted average exercise price
Balance as at December 31, 2010	3,700,000	\$ 0.44
Granted	3,210,000	\$ 0.16
Expired	(2,800,000)	\$ 0.47
Balance as at December 31, 2011	4,110,000	\$ 0.19
Balance as at March 31, 2012	4,110,000	\$ 0.19

#### 19. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at March 31, 2012 and December 31, 2011 were as follows:

	Loans and receivables	Other financial liabilities	Total
<b>As at March 31, 2012</b>			
Cash	\$ 1,886,974		\$ 1,886,974
Amounts receivable	517,353		517,353
Accounts payable and accrued liabilities		970,807	970,807
Shareholder loans		1,596,483	1,596,483
Loans		48,487	48,487
<b>As at December 31, 2011</b>			
Cash	\$ 1,940,872	-	\$ 1,940,872
Amounts receivable	767,151	-	767,151
Accounts payable and accrued liabilities		1,073,625	1,073,625
Shareholder loans		1,669,182	1,669,182
Loans		51,954	51,954

## EUROCONTROL TECHNICS GROUP INC.

### Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

March 31, 2012 and 2011

#### 19. FINANCIAL INSTRUMENTS (continued)

As at March 31, 2012, 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, 2012, 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, accounts payable and accrued liabilities and loans 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.

#### 20. RELATED PARTY DISCLOSURES

These consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	As at March 31, 2012	
	Country of incorporation	% equity interest
Global Fluids International S.A	Nevis	100
Xenemetrix Ltd.	Israel	100

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

- For the three months ended March 31, 2012, the Company was charged \$22,500 (three months ended March 31, 2011 - \$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.
- The Company shares its premises with other corporations that have common directors and officers. The Company reimburses the related corporations for its proportional share of the expenses. At as March 31, 2012, an amount of \$nil (December 31, 2011 - \$25,425) was included in accounts payable and accrued liabilities. These amounts are non-interest bearing, unsecured with no fixed terms of repayment.
- For the three months ended March 31, 2012, \$25,152 (three months ended March 31, 2011 - \$30,670) in interest was charged on the shareholder loans described in note 14.

#### *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:

	Three months ended March 31,	
	2012	2011
Short-term compensation and benefits	\$ 155,325	\$ 172,521

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.

## **EUROCONTROL TECHNICS GROUP INC.**

### **Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**

**March 31, 2012 and 2011**

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#### **21. 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 ended March 31, 2012 and in the year ended December 31, 2011. The Company and its subsidiaries are not subject to externally imposed capital requirements.

#### **22. FINANCIAL RISK FACTORS**

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

##### ***Credit risk:***

The Company's credit risk is primarily attributable to cash and 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:***

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2012, the Company had a cash balance of \$1,886,974 (December 31, 2011 - \$1,940,872) to settle current liabilities of \$2,567,290 (December 31, 2011 - \$2,767,312). This amount includes \$1,596,483 (December 31, 2011 - \$1,669,182) in shareholder loans (note 14).

##### ***Market risk:***

###### **(a) Interest rate risk**

The Company carries shareholder loans with interest and repayment terms as described in note 14. 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.

## EUROCONTROL TECHNICS GROUP INC.

### Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

March 31, 2012 and 2011

#### 22. FINANCIAL RISK FACTORS (continued)

The exposure of the Company's financial assets and liabilities to foreign currency risk as at March 31, 2012 are as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
<b>Financial assets</b>				
Cash	\$ 523,059	\$ 1,363,915	\$ -	\$ 1,886,974
Amounts receivable	60,996	618,499	-	679,495
	<u>\$ 584,055</u>	<u>\$ 1,982,414</u>	<u>\$ -</u>	<u>\$ 2,566,469</u>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 214,238	\$ 756,569	\$ -	\$ 970,807
Shareholder loans	-	560,858	1,035,625	1,596,483
Loan	-	48,487	-	48,487
	<u>\$ 214,238</u>	<u>\$ 1,365,914</u>	<u>\$ 1,035,625</u>	<u>\$ 2,615,777</u>

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 \$40,000 (December 31, 2011 - \$70,000) based on the foreign currency balances at March 31, 2012.

#### (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.

#### 23. COMMITMENT AND CONTINGENCIES

- The Company is party to certain management contracts. These contracts contain clauses requiring that additional payments of approximately \$218,000 be made upon the occurrence of certain events. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum payments required under these contracts approximate US\$82,000 (\$83,000) all due within one year.
- 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. The Company claims in its statement of defense that it can prove that the supplier did not meet its contractual obligations. 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.

## **EUROCONTROL TECHNICS GROUP INC.**

**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)**

**March 31, 2012 and 2011**

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### **24. SUBSEQUENT EVENT**

In March 2012, the Company announced that it has agreed to acquire all of the issued and outstanding common and preferred shares of XwinSys for consideration of 5,000,000 common shares of the Company. This acquisition closed subsequent to the quarter in May 2012.