



EUROCONTROL TECHNICS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 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	June 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash		\$ 1,775,731	\$ 1,940,872
Amounts receivable	8	821,632	924,695
Inventories	9	362,412	456,669
Prepaid expenses		10,686	30,789
Total current assets		2,970,461	3,353,025
Non-current assets			
Equipment	10	205,067	230,461
Deferred development costs	11	691,574	861,570
Technology rights	12	4,047,081	4,503,021
Intellectual property	6	349,568	-
TOTAL ASSETS		\$ 8,263,751	\$ 8,948,077
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 992,115	\$ 1,073,625
Shareholder loans	14	1,497,294	1,669,182
Deferred income		118,692	24,505
Total current liabilities		2,608,101	2,767,312
Non-current liabilities			
Loan		57,634	51,954
Total liabilities		2,665,735	2,819,266
Shareholders' equity			
Issued capital	15	14,262,428	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		(10,724,407)	(9,843,612)
Total shareholders' equity		5,598,016	6,128,811
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 8,263,751	\$ 8,948,077

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

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

EUROCONTROLS TECHNICS GROUP INC.

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Revenue		\$ 1,146,960	\$ 1,065,194	\$ 2,240,941	\$ 2,269,269
Costs of sales		(382,859)	(561,325)	(680,560)	(759,018)
Direct amortization	11	(84,998)	(84,998)	(169,996)	(169,996)
Gross Profit		679,103	418,871	1,390,385	1,340,255
Expenses					
Consulting and management		482,763	399,396	904,505	868,586
Depreciation and amortization		240,938	237,488	482,560	476,794
Administration		163,370	152,823	316,141	266,937
Sales and marketing expenses		128,327	255,207	271,944	503,404
Research and development		129,886	64,911	264,161	151,793
Public company costs		23,909	28,356	54,071	56,405
Share-based expense		-	-	-	519,000
		1,169,193	1,138,181	2,293,382	2,842,919
Loss from operations		(490,090)	(719,310)	(902,997)	(1,502,664)
Other income and expense					
Finance income		14	(129)	53	(8)
Foreign exchange gain (loss)		103,476	(72,621)	78,248	(144,201)
Finance expense	14	(24,492)	(32,758)	(49,930)	(63,428)
		78,998	(105,508)	28,371	(207,637)
Loss before income taxes		(411,092)	(824,818)	(874,626)	(1,710,301)
Income tax expense		(4,153)	(12,034)	(6,169)	(24,129)
Loss and Comprehensive loss for the period		(415,245)	(836,852)	(880,795)	(1,734,430)
Basic and diluted loss per share		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average common shares outstanding - Basic and diluted		86,864,035	70,320,738	88,512,386	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)
Share-based expense	-	-	-	-	519,000	-	519,000
Expiry of stock options	-	-	-	-	(259,000)	259,000	-
Loss for the period	-	-	-	-	-	(1,734,430)	(1,734,430)
Balance as at June 30, 2011	69,320,738	12,481,781	1,245,273	430,000	1,244,960	(9,988,550)	5,413,464
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	-	-	-	-	(56,760)	-	(56,760)
Expiry of stock options	-	-	-	-	(548,100)	548,100	-
Expiry of warrants	-	-	(272,078)	-	-	272,078	-
Loss for the period	-	-	-	-	-	(675,240)	(675,240)
Balance as at December 31, 2011	84,160,738	\$ 13,912,428	\$ 989,895	\$ 430,000	\$ 640,100	\$ (9,843,612)	\$ 6,128,811
Acquisition of XwinSys (note 6)	5,000,000	350,000	-	-	-	-	350,000
Loss for the period	-	-	-	-	-	(880,795)	(880,795)
Balance as at June 30, 2012	89,160,738	\$ 14,262,428	\$ 989,895	\$ 430,000	\$ 640,100	\$ (10,724,407)	\$ 5,598,016

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)

	Six months ended June 30,	
	2012	2011
Cash provided by (used in):		
Operating activities		
Loss for the period	\$ (880,795)	\$ (1,734,430)
Items not involving cash:		
Amortization of equipment	26,602	20,853
Amortization of deferred development costs	169,996	169,996
Amortization of technology right	455,940	455,941
Share-based expense	-	519,000
Foreign exchange loss (gain)	(7,858)	24,289
Foreign exchange loss (gain) on shareholder loans	(19,491)	13,924
Accrued interest on shareholder loans	48,656	60,187
Working capital adjustments		
Change in amounts receivable	108,190	134,853
Change in inventories	94,257	(82,670)
Change in prepaid expenses	20,103	(48,411)
Change in accounts payables and accrued liabilities	(86,205)	36,803
Change in deferred income	94,187	(315,682)
	23,582	(745,347)
Investing activities		
Equipment expenditures	(20,563)	(64,501)
Disposal of equipment	19,355	-
	(1,208)	(64,501)
Financing activities		
Decrease in loans	5,680	(2,606)
Share issue costs	-	(1,949)
Repayment of shareholder loans	(201,053)	(132,586)
	(195,373)	(137,141)
Effect of exchange rate changes on cash	7,858	(24,289)
Decrease in cash	(165,141)	(971,278)
Cash, beginning of the period	1,940,872	1,779,973
Cash, end of the period	\$ 1,775,731	\$ 808,695

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)

June 30, 2012 and 2011

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 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 17, 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 7 *Financial instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

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)

June 30, 2012 and 2011

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.

IAS 12 *Income Taxes* ("IFRS 12") provides amendments to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. IAS 12 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 IAS 12 on its financial statements.

IFRS 12 *Disclosure of Interest in Other Entities* ("IFRS 12") sets out disclosure requirements for all forms of interests in other entities, including joint arrangement, associates, special purpose vehicles and other off statements of financial position vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IFRS 12 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.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. The Company has not yet determined the impact of these amendments 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.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

June 30, 2012 and 2011

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:

<u>Name</u>	<u>Relationship</u>	<u>Economic interest</u>	<u>Basis of Accounting</u>
Global Fluids International S.A.	Subsidiary	100%	Full consolidation
Xenemetrix Ltd.	Subsidiary	100%	Full consolidation
XwinSys Technology Development 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.

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.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

June 30, 2012 and 2011

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.
- **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, 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 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.
- **Contingencies** – refer to note 23.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

June 30, 2012 and 2011

6. 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.

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:

Shares of the Company	\$ 350,000
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The net assets acquired and liabilities assumed consisted of the following:

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

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.

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 June 30,		Revenue from external customers Six months ended June 30,	
	2012	2011	2012	2011
Africa	\$ 807,494	\$ 577,926	\$ 1,637,135	\$ 1,580,071
North America	23,232	487,268	143,860	689,198
Asia	143,446	-	200,838	-
Europe	172,602	-	217,196	-
South America	186	-	41,912	-
	<u>\$ 1,146,960</u>	<u>\$ 1,065,194</u>	<u>\$ 2,240,941</u>	<u>\$ 2,269,269</u>

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****June 30, 2012 and 2011****7. OPERATING SEGMENT (continued)**

As at June 30, 2012

	South America	North America	Asia	Total
Equipment		\$ 483	\$ 204,584	\$ 205,067
Deferred development costs	691,574	-	-	691,574
Technology rights	4,047,081	-	-	4,047,081
Intellectual property	-	-	349,568	349,568

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

	June 30, 2012	December 31, 2011
Trade receivables	\$ 636,362	\$ 767,151
Tax receivables	175,873	144,106
Other	9,397	13,438
	<u>\$ 821,632</u>	<u>\$ 924,695</u>

9. INVENTORIES

	June 30, 2012	December 31, 2011
Materials	\$ 164,282	\$ 172,357
Work in process	57,095	11,952
Finished goods	141,035	272,360
	<u>\$ 362,412</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 June 30, 2012 and December 31, 2011. For the three months June 30, 2012 and 2011, the cost of inventories recognized as an expense and included in cost of sales was \$309,893 and \$468,586, respectively. For the six ended June 30, 2012 and 2011, the cost of inventories recognized as an expense and included in cost of sales was \$586,303 and \$841,688, respectively.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

June 30, 2012 and 2011

10. EQUIPMENT

	Office furniture, computers and equipment		Vehicles		Total	
Cost						
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		20,563		-		20,563
Disposals		(8,347)		(12,876)		(21,223)
Balance as at June 30, 2012	\$	288,597		52,843		341,440
Accumulated depreciation						
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		20,674		5,928		26,602
Disposals		-		(1,868)		(1,868)
Balance as at June 30, 2012	\$	122,999	\$	13,374	\$	136,373
Carrying amounts						
As at January 1, 2011	\$	149,432	\$	11,707	\$	161,139
As at December 31, 2011	\$	174,056	\$	56,405	\$	230,461
As at June 30, 2012	\$	165,598	\$	39,469	\$	205,067

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

June 30, 2012 and 2011

11. DEFERRED DEVELOPMENT COSTS

Cost	<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 June 30, 2012	920,137	651,922	1,572,059
Accumulated amortization			
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	61,342	108,654	169,996
Balance as at June 30, 2012	\$ 398,723	\$ 481,762	\$ 880,485
Carrying amounts			
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 June 30, 2012	\$ 521,414	\$ 170,160	\$ 691,574

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 June 30, 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.

Cost	<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 June 30, 2012	7,844,267	892,184	8,736,451
Accumulated amortization			
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	392,213	63,727	455,940
Balance as at June 30, 2012	\$ 4,498,188	\$ 191,182	\$ 4,689,370
Carrying amounts			
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 June 30, 2012	\$ 3,346,079	\$ 701,002	\$ 4,047,081

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

June 30, 2012 and 2011

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012	December 31, 2011
Accounts payable	\$ 561,181	\$ 694,586
Accrued liabilities	430,934	379,039
	<u>\$ 992,115</u>	<u>\$ 1,073,625</u>

14. SHAREHOLDER LOANS

		June 30, 2012	December 31, 2011
Euro loan			
Principal	€ 500,000	\$ 645,500	\$ 659,626
Interest	€ 291,088	375,795	347,861
US dollar loan			
Principal	\$ 850,000	866,235	864,450
Interest	\$ 352,317	359,046	345,474
		<u>\$ 2,246,576</u>	<u>\$ 2,217,411</u>
Repayments		(749,282)	(548,229)
		<u>\$ 1,497,294</u>	<u>\$ 1,669,182</u>

The total payable includes the principal amount of €500,000 (\$645,500) (December 31, 2011 - €500,000 (\$659,626)) and accrued interest of €291,088 (\$375,795) (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 (\$866,235) (December 31, 2011 - US\$850,000 (\$864,450)) and accrued interest of US\$352,317 (\$359,046) (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 June 30, 2012, the Company repaid US\$735,239 (\$749,282) (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:

	June 30, 2012	December 31, 2011
	<u>\$ 14,262,428</u>	<u>\$ 13,912,428</u>
Fully paid common shares	<u>89,160,738</u>	<u>84,160,738</u>

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

June 30, 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
Share issued on acquisition of XwinSys (note 6)	5,000,000		350,000
Balance as at June 30, 2012	89,160,738	\$	14,262,428

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 June 30, 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
17,711,898	\$ 989,895		

- (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)****June 30, 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 June 30, 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 June 30, 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)

June 30, 2012 and 2011

18. SHARE-BASED PAYMENT RESERVE (continued)

The share options outstanding as at June 30, 2012 had a weighted exercise price of \$0.19 (December 31, 2011: \$0.19), and a weighted average remaining contractual life of 1.4 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 and six months ended June 30, 2012, no share options (no share options for the three months ended June 30, 2011 and 3,210,000 options granted for the six months ended June 30, 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 June 30, 2012	4,110,000	\$ 0.19

19. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at June 30, 2012 and December 31, 2011 were as follows:

	Loans and receivables	Other financial liabilities	Total
As at June 30, 2012			
Cash	\$ 1,775,731		\$ 1,775,731
Amounts receivable	636,362		636,362
Accounts payable and accrued liabilities		992,115	992,115
Shareholder loans		1,497,294	1,497,294
Loans		57,634	57,634
	Loans and receivables	Other financial liabilities	Total
As at December 31, 2011			
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)

June 30, 2012 and 2011

19. FINANCIAL INSTRUMENTS (continued)

As at June 30, 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 June 30, 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 June 30, 2012
	Country of incorporation	% equity interest
Global Fluids International S.A	Nevis	100
Xenemetrix Ltd.	Israel	100
XwinSys Technology Development Ltd.	Israel	100

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

- For the three months ended June 30, 2012 and 2011, the Company was charged \$15,000 and \$22,500 respectively (six months ended June 30, 2012 and 2011 - \$7,500 and \$15,000 respectively) 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 June 30, 2012, an amount of \$21,338 (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 June 30, 2012 and 2011, \$23,665 and \$25,651 respectively (six months ended June 30, 2012 and 2011 - \$48,847 and \$51,833, respectively) 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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Short-term compensation and benefits	\$ 124,941	\$ 139,661	\$ 174,714	\$ 312,182
Share-based payments	-	307,500	-	307,500
	\$ 124,941	\$ 447,161	\$ 174,714	\$ 619,682

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)

June 30, 2012 and 2011

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 and six month ended June 30, 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 June 30, 2012, the Company had a cash balance of \$1,775,731 (December 31, 2011 - \$1,940,872) to settle current liabilities of \$2,608,101 (December 31, 2011 - \$2,767,312). This amount includes \$1,497,292 (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)

June 30, 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)
Financial assets				
Cash	\$ 256,963	\$ 1,518,768	\$ -	\$ 1,775,731
Amounts receivable	98,945	722,687	-	821,632
	<u>\$ 355,908</u>	<u>\$ 2,241,455</u>	<u>\$ -</u>	<u>\$ 2,597,363</u>
Financial liabilities				
Accounts payable and accrued liabilities	\$ 206,931	\$ 785,184	\$ -	\$ 992,115
Shareholder loans	-	475,999	1,021,295	1,497,294
Loan	-	57,634	-	57,634
	<u>\$ 206,931</u>	<u>\$ 1,318,817</u>	<u>\$ 1,021,295</u>	<u>\$ 2,547,043</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 \$5,000 (December 31, 2011 - \$70,000) based on the foreign currency balances at June 30, 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\$116,000 (\$118,000) 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.