

# Management's Discussion and Analysis

For the three and six months ended June 30, 2012

*(in Canadian dollars unless otherwise noted)*

The following Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the operations, results, and financial condition of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company") for the three and six months ended June 30, 2012. This discussion, dated August 17, 2012, should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2012 and the audited financial statements for the year ended December 31, 2011, together with notes thereto. Further information about the Company and its operations is available online under the Company's profile at [www.sedar.com](http://www.sedar.com).

## **BUSINESS OVERVIEW AND STRATEGY**

Eurocontrol is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "EUO". The Company participates in the energy security and authentication, verification and certification markets globally. Eurocontrol has three wholly owned subsidiaries Global Fluids International S.A. ("GFI"), Xenemetrix Ltd. ("Xenemetrix") and XwinSys Technology Development Ltd ("XwinSys"). GFI and Xenemetrix are global pioneers in developing and implementing innovative molecular marking systems for the oil industry. Through its proprietary Petromark™ integral system, GFI has developed a four-part solution consisting of a molecular marker, injection, monitoring and control components. Such oil industry cost realities along with GFI's five-year R&D efforts to create its industry-leading marking solutions, along with access to capital provided by Eurocontrol allows management to pursue numerous anticipated oil marking opportunities in 2012 and in years to come. XwinSys Ltd. is currently developing intellectual property that will combine 2D and 3D image processing technology, from Brossh Inspection Systems Ltd. of Israel, with Xenemetrix's Energy-Dispersive X-ray Fluorescence ("EDXRF") technology.

## **LEADERSHIP TEAM**

In the press release of the Company dated June 27, 2012, the Company announced several board changes. Following the Company's last annual and special meeting of shareholders, Bruce Rowlands, General (Retired) Sir Michael Rose, and Gadi Gonen continue as directors of the Company. Mr. Rowlands has been appointed as Chairman of the Board of Directors. The Company wishes to thank the departing Chairman, Hon. Pierre Pettigrew, and departing directors Major General (Retired) Lewis MacKenzie and Mr. Stan Bharti, for their contribution to the growth of the Company during their tenure as directors. The Company is seeking to recruit and elect suitable new director candidates in the coming months. In addition, the Company announced that it has left the Forbes & Manhattan Group of Companies and has relocated its head office, principal address and records office of the Company at 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5.

Full biographies for the board and management are available at [www.eurocontrol.ca](http://www.eurocontrol.ca)

## **RECENT DEVELOPMENTS AND OUTLOOK**

The Company continues to expand its global network and presence and to source marketing and distribution partnerships with new and well established distributors in all parts of the world. Xenemetrix remains focused on establishing new marketing and distribution agreements in a wide variety of regions. GFI increases its marketing efforts for Petromark™, Eurocontrol's advanced fuel authentication technology for ensuring high fuel quality.

The Company is also focused on the acquisition, development and commercialization of innovative energy security, authentication, verification, and certification technologies. Specifically, as announced on May 1, 2012, the Company closed the acquisition of all of the issued and outstanding common and

preferred shares of 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. XwinSys is currently developing intellectual property that will combine 2D and 3D image processing technology, from Brossh Inspection Systems Ltd. of Israel, with Xenometrix's Energy-Dispersive X-ray Fluorescence ("EDXRF") technology. The 2D and 3D imaging will be used for surface scanning of wafers and electronic boards used in semiconductors, while the EDXRF technology will be used for elemental analysis of the materials that comprise the wafers and electronic boards. Combining technologies as well as identifying new applications for existing technologies will expose the Company, through XwinSys, to the semiconductor industry and should further diversify the Company's platform of authentication, verification and certification technologies.

Also, as announced on May 15, 2012, the Company has been granted a patent by the United States Patent Office entitled "Method and System for Marking and Determining the Authenticity of Liquid Hydrocarbons" (US Patent 8,158,432). The process patent protects GFI's Petromark™ fuel marking technology. Similarly, as announced on July 18, 2012, the Company has been granted a patent by the Israeli Patent Office entitled "Method and System for Marking and Determining the Authenticity of Liquid Hydrocarbons (Israeli Patent 158679). This is the fifth process patent the Company has been granted. The Company also holds process patents for Petromark™ in India, China and Russia. Additional process patent applications have been submitted in other countries.

## **SUMMARIZED OF FINANCIAL RESULTS**

The Company recorded a net loss of \$415,245 and \$880,795 for the three and six months ended June 30, 2012, respectively compared to a net loss of \$836,852 and \$1,734,430 for the comparable three and six months ended June 30, 2011. Revenues for the three and six months ended June 30, 2012 amounted to \$1,146,960 and \$2,240,941, respectively compared to \$1,065,194 and \$2,269,269 for the three and six months ended June 30, 2011.

Expenses of \$1,169,193 for the second quarter of 2012 were comparable with the expenses of \$1,138,181 for the second quarter of 2011. Expenses for the six months ended June 30, 2012 of \$2,293,382 were lower compared to the expenses of \$2,842,919 for the six months ended June 30, 2011 primarily due to share-based compensation expense in the amount of \$519,000 recognized on the granting of 3,210,000 stock options (no stock options granted for the six months ended June 30, 2012) and lower sales and marketing related expenses.

Administration expenses for the three and six months ended June 30, 2012 totaled \$163,370 and \$316,141, respectively compared to \$152,823 and \$266,937 for the three and six months ended June 30, 2011. The Company continues to share office space and other resources with companies that have common directors and officers.

The Company also incurred a foreign exchange translation gain of \$103,476 and \$78,248 for the three and six months ended June 30, 2012, respectively compared to a loss of \$72,621 and \$144,201 for the three and six months ended June 30, 2011, respectively. The Company has shareholder loans denominated in US dollars and Euro. The Company's revenue is earned in US dollars. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

Interest expenses of \$24,492 and \$49,930 for the three and six months ended June 30, 2012 (compared to \$32,758 and \$63,428 for the three and six months ended June 30, 2011) mainly related to GFI's shareholder loans, payable to the former shareholders of GFI.

**SUMMARY OF QUARTERLY RESULTS**

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

	<b>Q2 2012</b>	<b>Q1 2012</b>	<b>Q4 2011</b>	<b>Q3 2011</b>
Revenue	\$ 1,146,960	\$ 1,093,981	\$ 1,925,767	\$ 1,204,565
Cost of sales	(467,857)	(382,699)	(512,637)	(341,019)
Gross profit	679,103	711,282	1,413,130	863,546
Expenses	1,169,193	1,124,189	1,376,876	1,631,574
Other expense (income)	(14)	(39)	(342)	-
Interest expense	24,492	25,438	13,564	28,981
Foreign exchange loss (gain)	(103,476)	25,228	(47,802)	10,145
Income taxes expense (recovery)	4,153	2,016	3,434	(7,754)
	1,094,348	1,176,832	1,345,730	1,662,946
Net income (loss)	(\$415,245)	(\$465,550)	\$67,400	(\$799,400)
Basic and fully diluted loss per share	\$ (0.00)	\$ (0.01)	\$ -	\$ (0.01)
Total assets	\$ 8,263,751	\$ 8,279,038	\$ 8,948,077	\$ 9,558,718

	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Q4 2010</b>	<b>Q3 2010</b>
Revenue	\$ 1,065,194	\$ 1,204,075	\$ 1,385,952	\$ 554,256
Cost of sales	(646,323)	(282,691)	(637,307)	(247,523)
Gross profit	418,871	921,384	748,645	306,733
Expenses	1,138,181	1,647,978	1,319,864	934,209
Writeoff of deposits	-	-	-	33,459
Other income	129	(121)	(90)	(61)
Interest expense	32,758	30,670	35,003	28,982
Foreign exchange loss (gain)	72,621	71,580	(71,636)	71,410
Income taxes expense	12,034	12,095	1,096	1,021
	1,255,723	1,762,202	1,284,237	1,069,020
Net loss	(\$836,852)	(\$840,818)	(\$535,592)	(\$762,287)
Basic and fully diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Total assets	\$ 8,372,882	\$ 9,100,233	\$ 9,930,221	\$ 9,261,559

## **CARRYING VALUE OF BALANCE SHEET ITEMS**

Deferred development costs of \$691,574 as at June 30, 2012 (December 31, 2011 - \$861,570) represent fuel marker and analyzing equipment technology development costs that have been deferred and are being amortized over ten years (life of the technology rights) and three years (life of the equipment), respectively.

Technology rights that were purchased as part of the 100% acquisition of GFI and Xenometrix in previous years, have attributed values of \$7,844,267 and \$892,184. License of markers and detectors from GFI are amortized over 10 years on a straight line basis. Amortization of License of markers and detectors was charged to operations in the amounts of \$227,969 and \$455,940 for the three and six months ended June 30, 2012, respectively (\$227,970 and \$455,941 for the three and six months ended June 30, 2011, respectively). As at June 30, 2012, the carrying value of the technology rights is \$4,047,081 (December 31, 2011 - \$4,503,021).

Intellectual property that was purchased as part of the 100% acquisition of XwinSys described above has an attributed value of \$349,568. As at June 30, 2012, the carrying value of the intellectual property is \$349,568.

Total accounts payable, accrued liabilities, deferred revenue and shareholder loans amounted to \$2,608,101 as at June 30, 2012 (December 31, 2011 - \$2,767,312). The shareholder loans amounted to \$1,497,294 (December 31, 2011 - \$1,669,182) and is due to the former shareholders of GFI who advanced funds to GFI prior to its acquisition by the Company. The shareholder loans consist of two amounts:

- (a) Principal 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 a tender, managed by EMRA (Energy Market Regulatory Authority, a statutory regulatory entity of the Turkish Government). This portion of the shareholder loans is reimbursed by first priority from the earlier of (i) the results of the legal proceedings with EMRA, and/or (ii) the first income generated by GFI. This portion of the loans payable bears an annual interest rate of 7.2%.
- (b) Principal 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)). This portion of 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%.

## **LIQUIDITY AND CASH FLOWS**

The Company ended the second quarter of 2012 with cash of \$1,775,731, compared to \$1,940,872 as at December 31, 2011. The Company had working capital of \$362,360 as at June 30, 2012 compared to working capital of \$585,713 as at December 31, 2011.

Cash provided by operating activities was \$23,582 during the six months ended June 30, 2012 compared to the use of \$745,347 during the six months ended June 30, 2011. Changes to cash flows from operating activities primarily relate to lower sales and marketing related expenses.

Cash used in investing activities was \$1,208 during six months ended June 30, 2012 compared to the use of \$64,501 during the six months ended June 30, 2011. Investing activities mainly relate to equipment acquisitions and disposals.

Cash used in financing activities was \$195,373 during the six months ended June 30, 2012 compared to use of \$137,141 during the six months ended June 30, 2011. Financing activities mainly relate to the repayment of the shareholder loans.

## TRANSACTIONS WITH RELATED PARTIES

### *General and administration*

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.

### *Related party balances*

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.

### *Shareholder loans*

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.

### *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
	<u>\$124,941</u>	<u>\$ 447,161</u>	<u>\$ 174,714</u>	<u>\$ 619,682</u>

## OUTSTANDING SHARE DATA

As of August 17, 2012, 89,160,738 common shares of the Company were outstanding. Of the options to purchase common shares issued to service providers under the share option plan of the Company, 4,110,000 remain outstanding with exercise prices ranging from \$0.16 to \$0.30, with expiry dates ranging between December 10, 2012 and March 30, 2016. If exercised, 4,110,000 common shares would be issued for proceeds of \$784,600. In addition, 17,711,898 share purchase warrants and broker warrants were outstanding with exercise prices ranging from \$0.15 to \$0.50, expiring between September 27, 2012 and December 10, 2012. If exercised, 17,711,898 common shares would be issued for proceeds of \$3,930,310.

## 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.

## **RISKS AND UNCERTAINTIES**

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

## **COMMITMENTS AND CONTINGENCIES**

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.

## **FINANCIAL INSTRUMENTS**

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.

### *Market risk:*

#### (a) Interest rate risk

The Company carries shareholder loans with interest and repayment terms as described in note 14 of the condensed consolidated interim financial statements. Management believes that interest rate risk is remote as the Company currently does not carry interest-bearing debt at floating rates.

(b) Foreign currency risk

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

The exposure of the Company's financial assets and liabilities to foreign currency risk as at June 30, 2012 are as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
<b>Financial assets</b>				
Cash	\$ 256,963	\$ 1,518,768	\$ -	\$ 1,775,731
Amounts receivable	98,945	722,687	-	821,632
	<b>\$ 355,908</b>	<b>\$ 2,241,455</b>	<b>\$ -</b>	<b>\$ 2,597,363</b>
<b>Financial liabilities</b>				
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
	<b>\$ 206,931</b>	<b>\$ 1,318,817</b>	<b>\$ 1,021,295</b>	<b>\$ 2,547,043</b>

A 10% change in foreign exchange rates between the Canadian dollar and these foreign currencies over the next year would affect net loss by approximately \$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.

*Fair value:*

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

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

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

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### *Accounting Standards Issued but not yet Applied*

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

IFRS 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.

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.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet transactions.

### **Cautionary Note Regarding Forward-looking Information**

Except for statements of historical fact contained herein, the information in this press release constitutes “forward-looking information” within the meaning of Canadian securities law. Such forward-looking information may be identified by words such as “plans”, “proposes”, “estimates”, “intends”, “expects”, “believes”, “may”, “will” and include without limitation, statements regarding the future operating and financial performance of the Company, the execution of this agreement and its implementation and the impact of this agreement on the performance of the Company. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially, include, among others, competition risks, execution risks, country risks, and lack of a history of profitability. Most of these factors are outside the control of the Company. Investors are cautioned not to put undue reliance on forward-looking information. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.