EUROCONTROL TECHNICS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2011and 2010

reflecting the Company's adoption of International Financial Reporting Standards ("IFRS")

as issued by the International Accounting Standards Board ("IASB")

(In Canadian dollars)

(UNAUDITED)

EUROCONTROL TECHNICS 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 INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)
(Expressed in Canadian dollars)

As at:	Notes	**March 31, 2011**	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash		$ 1,123,962	$ 1,779,973	$ 391,639
Amounts receivable	8	737,785	801,187	665,959
Inventories	9	366,825	191,416	59,084
Prepaid expenses		424,623	392,311	76,045
		2,653,195	3,164,887	1,192,727
Non-current assets				
Deposits		-	-	23,131
Property, plant and equipment	10	155,812	161,139	55,555
Deferred development costs	11	1,116,563	1,201,561	1,309,937
Technology rights	12	5,174,663	5,402,634	5,294,878
		$ 9,100,233	$ 9,930,221	$ 7,876,228
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	14	$ 1,061,525	$ 1,181,706	$ 349,250
Deferred income		38,548	315,682	-
Shareholder loans	15	1,732,756	1,783,493	1,934,947
		2,832,829	3,280,881	2,284,197
Non-current liabilities				
Loan		17,088	18,497	-
		2,849,917	3,299,378	2,284,197
Shareholders' equity				
Issued capital	16	12,481,781	12,483,730	10,555,736
Warrants reserve	17	1,245,273	1,245,273	358,275
Commitment to issue shares	18	430,000	430,000	430,000
Share-based payment reserve	19	1,434,860	1,174,860	1,174,860
Deficit		(9,341,598)	(8,703,020)	(6,926,840)
		6,250,316	6,630,843	5,592,031
		$ 9,100,233	$ 9,930,221	$ 7,876,228

Basis of Presentation and Going Concern (note 2)

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 INC.

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

	Notes	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenue		$ 1,204,075	$ 443,207
Costs of sales		(197,693)	(75,083)
Direct depreciation and amortization	11	(84,998)	(45,522)
Gross Profit		921,384	322,602
Expenses			
Share-based expense	20	519,000	-
Consulting and management services		469,190	283,400
Sales and marketing expenses		248,197	54,331
Depreciation and amortization		239,306	197,071
Administration		114,114	95,113
Research and development		86,882	-
Public company costs		28,049	32,489
		1,704,738	662,404
Loss from operations		(783,354)	(339,802)
Other income and expense			
Finance income		121	21
Foreign exchange gain (loss)		(71,580)	53,074
Finance expense	15	(30,670)	(28,372)
		(102,129)	24,723
Income tax expense		(12,095)	(538)
Loss and Comprehensive loss for the period		(897,578)	(315,617)
Basic and diluted loss per share		$ (0.01)	$ (0.01)
Weighted average common shares outstanding - Basic and diluted		70,320,738	51,029,949

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

EUROCONTROL TECHNICS INC

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

	Number of Shares	Issued Capital	Warrants Reserve	Commitment to Issue Shares	Share-based Payment Reserve	Deficit	Total
		(Note 16)	(Note 17)	(Note 18)	(Note 19)		
Balance as at December 31, 2010	69,320,738	$ 12,483,730	$ 1,245,273	$ 430,000	$ 1,174,860	$ (8,703,020)	$ 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	-	-	-	-	-	(897,578)	(897,578)
Balance as at March 31, 2011	**69,320,738**	**$ 12,481,781**	**$ 1,245,273**	**$ 430,000**	**$ 1,434,860**	**$ (9,341,598)**	**$ 6,250,316**
Balance as at January 1, 2010	50,029,949	$ 10,555,736	$ 358,275	$ 430,000	$ 1,174,860	$ (6,926,840)	$ 5,592,031
Loss for the period	-	-	-	-	-	(315,617)	(315,617)
Balance as at March 31, 2010	**50,029,949**	**$ 10,555,736**	**$ 358,275**	**$ 430,000**	**$ 1,174,860**	**$ (7,242,457)**	**$ 5,276,414**

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

EUROCONTROL TECHNICS INC

Condensed Consolidated Interim Statements of Cash Flows (unaudited)
(Expressed in Canadian dollars)

	Three months ended March 31, 2011	2010
Cash provided by (used in):		
Operating activities		
Loss for the period	$ (897,578)	$ (315,617)
Items not involving cash:		
Amortization of equipment	11,335	15,815
Amortization of deferred development costs	84,998	30,671
Amortization of technology right	227,971	196,107
Share-based expense	519,000	-
Foreign exchange loss	15,990	4,164
Foreign exchange loss (gain) on shareholder loans	15,441	(112,393)
Accrued interest on shareholder loans	29,900	28,089
Working capital adjustments		
Change in receivables	63,402	87,064
Change in inventories	(175,409)	8,030
Change in prepaid expenses	(34,261)	(165,546)
Change in deposits	-	(10,238)
Change in accounts payables and accrued liabilities	(120,181)	64,312
Change in deferred income	(277,134)	-
	(536,526)	(169,542)
Investing activities		
Deferred development expenditures	-	(35,391)
Property, plant and equipment expenditures	(6,008)	(4,926)
	(6,008)	(40,317)
Financing activities		
Repayment of loan	(1,409)	-
Repayment of shareholder loans	(96,078)	-
	(97,487)	-
Effect of exchange rate changes on cash	(15,990)	(3,876)
Decrease in cash	(656,011)	(213,735)
Cash, beginning of the period	1,779,973	391,639
Cash, end of the period	$ 1,123,962	$ 177,904
Cash is comprised of:		
Cash in bank	$ 1,123,962	$ 177,904
	$ 1,123,962	$ 177,904

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

1. NATURE OF OPERATIONS

Eurocontrol Technics Inc. (the "Company") is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Ontario.

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 June 28, 2011.

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated interim financial statements of the Company and its subsidiaries were prepared in accordance with IFRS, as issued by the IASB. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and by IFRS 1, *First-time Adoption of IFRS*. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income, and the statement of financial position and cash flows.

As these are the Company's first set of consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2011 and beyond, the Company may not provide the same amount of disclosure in the Company's consolidated interim financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements, which will be prepared in accordance with IFRS.

These financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

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, 2011 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, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to 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 the amendments to 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 the amendments to IFRS 7 on its financial statements.

IFRS 13 *Fair Value Measurement* 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 the amendments to IFRS 13 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, where 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 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 income statement.

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 these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets such as amounts receivable, inventories, property, plant and equipment, technology rights, deferred development costs and the ultimate liability arising on contingencies. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants, income tax accounts, depreciation and amortization expense.

6. SIGNIFICANT ACCOUNTING POLICIES

a) Presentation currency

The Company's presentation currency is the Canadian dollar. The functional currency of the Company and its subsidiaries is also the Canadian dollar.

b) Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses are presented in operations in the period in which they occur.

c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

d) Revenue recognition

Revenue is recognized when all of the following conditions are satisfied:

- the specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the product sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Share-based payment

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For those options that expire after vesting, the recorded value is transferred to retained earnings (deficit).

f) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

g) Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

h) Taxation

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Taxation (cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Property, plant and equipment

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Equipment is amortized over its estimated useful life on a straight line basis as follows:

Office furniture, vehicles, computers and equipment	14.5% to 33%
Machinery and spectrometer equipment	30%
Vehicle	15%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the income statement when the asset is derecognised.

Technology rights

Technology rights are being amortized over their estimated useful lives on an annual straight-line basis as follows:

Licence - markers and detectors	10 years
License - XRF Systems	7 years

Deferred development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Deferred development costs are being amortized over their estimated useful life on a straight line basis as follows:

Marker development costs	10 years over the life of the technology rights
Equipment development	3 years over the life of the equipment

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Impairment of non-financial assets

The Company conducts annual internal assessments of the carrying values of non-financial assets including equipment and intangible assets (technology rights and deferred development costs). The carrying values of capitalised equipment and intangible assets are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other Company's of assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill and indefinite life intangibles, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses recognised in relation to goodwill or indefinite life intangibles are not reversed for subsequent increases in its recoverable amount.

l) Financial instruments

Financial assets:

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and amounts receivable.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

l) Financial instruments (cont'd)

Subsequent measurement:

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income and finance costs in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) the Company has transferred substantially all the risks and rewards of the asset; or,
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

l) Financial instruments (cont'd)

Impairment of financial assets:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of operations.

Financial liabilities:

Initial recognition and measurement:

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, shareholder loans and other loans.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

l) Financial instruments (cont'd)

Subsequent measurement:

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of operations.

Interest-bearing loans and borrowings:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of operations when the liabilities are derecognised, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of operations.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

m) Cash and cash equivalents

Cash and cash equivalents comprise of cash at banks and at hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash is net of outstanding bank overdrafts.

6. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) Inventories

Inventories consist of materials, work in process and finished goods and are stated at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

o) Provisions

General

Provisions are recognised when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

p) Loss per share

Basic income (loss) per common share has been computed by dividing the income (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per common share is determined using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average share price for the period with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. For the periods ended March 31, 2011 and 2010, all options and warrants were excluded from the computation of diluted income (loss) per share as they were anti-dilutive.

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 March 31,	
	2011	**2010**
North America	$ 201,930	$ -
Africa	1,002,145	236,259
Europe	-	206,948
	$ 1,204,075	$ 443,207

7. OPERATING SEGMENT (cont'd)

	As at March 31, 2011			
	South America	North America	Asia	Total
Equipment	$ -	$ 24,266	$ 131,546	$ 155,812
Deferred development costs	1,116,563	-	-	1,116,563
Technology rights	4,314,343	-	860,320	5,174,663

	As at December 31, 2010			
	South America	North America	Other	Total
Equipment	$ -	$ 12,260	$ 148,879	$ 161,139
Deferred development costs	1,201,561	-	-	1,201,561
Technology rights	4,510,450	-	892,184	5,402,634

	As at January 1, 2010			
	South America	North America	Other	Total
Deposits	$ -	$ -	$ 23,131	$ 23,131
Equipment	32,504	-	23,051	55,555
Deferred development costs	1,309,937	-	-	1,309,937
Technology rights	5,294,878	-	-	5,294,878

8. AMOUNTS RECEIVABLE

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 573,344	$ 682,520	$ 612,729
Tax receivables	89,357	80,363	50,197
Other	75,084	38,304	3,033
	$ 737,785	$ 801,187	$ 665,959

Bid bond receivable

In 2005, GFI participated in a tender to supply the Turkish national fuel marker, managed by EMRA (Energy Market Regulatory Authority), which is a statutory regulatory entity of the Turkish Government. GFI was announced as the winning bidder of this tender, receiving official notification. A performance bond of €500,000 was posted by GFI upon winning the tender in 2006. The award was later rescinded and the bond was not returned to the Company. It is possible that the €500,000 will be returned by EMRA to GFI. However, as the Company has no assurance that this will happen, in 2009, a full valuation allowance had been recorded against the receivable.

9. INVENTORIES

	March 31, 2011	December 31, 2010	January 1, 2010
Materials	$ 252,036	$ 161,472	$ 59,084
Work in process	67,130	10,759	-
Finished goods	47,659	19,185	-
	$ 366,825	$ 191,416	$ 59,084

10. PROPERTY, PLANT AND EQUIPMENT

	Office furniture, computers and equipment	Spectrometer equipment	Machinery	Vehicles	Total
Cost					
Balance as at January 1, 2010	$ 53,221	$ 237,001	$ 211,145	$ -	$ 501,367
Additions	11,063	-	-	12,877	23,940
Acquisitions through business combinations (note 13)	139,208	-	-	-	139,208
Balance as at December 31, 2010	203,492	237,001	211,145	12,877	664,515
Additions	6,008	-	-	-	6,008
Balance as at March 31, 2011	$ 209,500	$ 237,001	$ 211,145	$ 12,877	$ 670,523
Accumulated depreciation					
Balance as at January 1, 2010	$ 30,170	$ 235,496	$ 180,146	$ -	$ 445,812
Depreciation	23,890	1,505	30,999	1,170	57,564
Balance as at December 31, 2010	54,060	237,001	211,145	1,170	503,376
Depreciation	9,681	-	-	1,654	11,335
Balance as at March 31, 2011	$ 63,741	$ 237,001	$ 211,145	$ 2,824	$ 514,711
Carrying amounts					
As at January 1, 2010	$ 23,051	$ 1,505	$ 30,999	$ -	$ 55,555
As at December 31, 2010	$ 149,432	$ -	$ -	$ 11,707	$ 161,139
As at March 31, 2011	$ 145,759	$ -	$ -	$ 10,053	$ 155,812

11. DEFERRED DEVELOPMENT COSTS

	Marker	Equipment	Total
Cost			
Balance as at January 1, 2010	$ 920,137	$ 481,813	$ 1,401,950
Additions	-	170,109	170,109
Balance as at December 31, 2010	920,137	651,922	1,572,059
Balance as at March 31, 2011	$ 920,137	$ 651,922	$ 1,572,059
Accumulated amortization			
Balance as at January 1, 2010	$ 92,013	$ -	$ 92,013
Amortization expense	122,684	155,801	278,485
Balance as at December 31, 2010	214,697	155,801	370,498
Amortization expense	30,671	54,327	84,998
Balance as at March 31, 2011	$ 245,368	$ 210,128	$ 455,496
Carrying amounts			
As at January 1, 2010	$ 828,124	$ 481,813	$ 1,309,937
As at December 31, 2010	$ 705,440	$ 496,121	$ 1,201,561
As at March 31, 2011	$ 674,769	$ 441,794	$ 1,116,563

12. TECHNOLOGY RIGHTS

The Company, through its wholly owned subsidiaries GFI and Xenemetrix, holds a licence to produce and sell fuel markers, detectors and XRF systems. The fuel markers and detectors are licensed under a 20 year license agreement from the holder of the patents. The patents are pending examination or issuance as at March 31, 2011 and because of this, their scope in each country remains to be determined. The XRF systems are licensed until February 2018.

	Markers and Detectors	XRF Systems	Total
Cost			
Balance as at January 1, 2010	$ 7,844,267	$ -	$ 7,844,267
Acquisition from business combinations (note 13)	-	892,184	892,184
Balance as at December 31, 2010	7,844,267	892,184	8,736,451
Balance as at March 31, 2011	$ 7,844,267	$ 892,184	$ 8,736,451
Accumulated amortization			
Balance as at January 1, 2010	$ 2,549,389	$ -	$ 2,549,389
Amortization expense	784,428		784,428
Balance as at December 31, 2010	3,333,817	-	3,333,817
Amortization expense	196,107	31,864	227,971
Balance as at March 31, 2011	$ 3,529,924	$ 31,864	$ 3,561,788
Carrying amounts			
As at January 1, 2010	$ 5,294,878	$ -	$ 5,294,878
As at December 31, 2010	$ 4,510,450	$ 892,184	$ 5,402,634
As at March 31, 2011	$ 4,314,343	$ 860,320	$ 5,174,663

13. BUSINESS COMBINATIONS

Acquisition of Xenemetrix Ltd.

On October 1, 2010, the Company acquired 100% of the issued and outstanding common shares of Xenemetrix. Xenemetrix is a private company that develops, manufactures and sells x-ray fluorescent ("XRF") systems; Xenemetrix is the supplier of the XRF systems that make up the monitoring component of the Company's Petromark™ hydrocarbon marking technology.

In connection with the acquisition, the Company: (i) issued an aggregate of 4,133,334 common shares of the Company (ii) issued 1,533,333 common share purchase warrants entitling the holder thereof to acquire one common share at an exercise price of $0.50 for a period of 24 months from the date of closing; and (iii) delivered a cash payment in the amount of US$180,000 ($184,734).

The purchase price of all the outstanding shares of Xenemetrix was determined to be $947,062 based on the fair value of the identifiable assets and liabilities acquired. The outstanding warrants were valued at $108,867 on the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 144%; risk-free interest rate of 1.31% and an expected average life of two years.

Consideration transferred		
Shares of the Company	$	620,000
Warrants of the Company		108,867
Cash		184,734
Assumption of shareholder liabilities		33,461
	$	947,062

Assets acquired and liabilities assumed at the date of acquisition		
Working capital	$	28,378
Equipment		139,208
Loans		(112,708)
Technology – XRF Systems (note 12)		892,184
	$	947,062

Net cash inflow on acquisition of subsidiary		
Consideration paid in cash	$	(184,734)
Cash and cash equivalent acquired		402,644
	$	217,910

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	$ 972,110	$ 1,116,943	$ 305,550
Accrued liabilities	89,415	64,763	43,700
	$ 1,061,525	$ 1,181,706	$ 349,250

15. SHAREHOLDER LOANS

			March 31, 2011	December 31, 2010	January 1, 2010
Euro loan					
Principal	€	500,000	$ 689,100	$ 665,940	$ 750,000
Interest	€	225,026	310,135	282,864	246,800
US dollar loan					
Principal	$	850,000	826,030	845,410	889,608
Interest	$	318,871	309,880	304,192	275,258
			$ 2,135,145	$ 2,098,406	$ 2,161,666
Repayments			(402,389)	(314,913)	(226,719)
			$ 1,732,756	$ 1,783,493	$ 1,934,947

The former shareholders of GFI advanced funds to GFI prior to its acquisition by the Company. The total payable includes the principal amount of €500,000 ($689,100) (December 31, 2010 - €500,000 ($665,940); January 31, 2010 - €500,000 ($750,000)) and accrued interest of €225,026 ($310,135) (December 31, 2010- €212,380 ($282,864); January 1, 2010 - €164,535 ($246,800)) loaned by the former shareholders of GFI in order to post the bid bond in the tender (see note 8). This portion of the shareholder loans will be 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%.

The remainder of the shareholder loans balance relates to the principal amount of US$850,000 ($826,030) (December 31, 2010 - US$850,000 ($845,410); January 1, 2010 - US$850,000 ($889,608)) and accrued interest of US$318,871 ($309,880) (December 31, 2010 - US$305,844 ($304,192); January 1, 2010 - US$263,004 ($275,258)) 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, 2011, the Company repaid US$414,065 ($402,389) (December 31, 2010 - US$316,623 ($314,913); January 1, 2010 - US$216,623 ($226,719)). 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.

16. ISSUED CAPITAL

Authorized

100,000,000 common shares without par value

Issued capital comprises:

	March 31, 2011	December 31, 2010	January 1, 2010
69,320,738 fully paid common shares (December 31, 2010: 69,320,738) (January 1, 2010: 50,029,949)	$ 12,481,781	$ 12,483,730	$ 10,555,736

Fully paid common shares, which have no par value, carry one vote per share and carry a right to dividends. The fair value of shares issued for consulting services was determined by reference to the market rate for similar consulting services.

Commons shares issued:

	No. of Shares #	Value $
Balance as at January 1, 2010	50,029,949	10,555,736
Warrants exercised	2,790	474
Warrant valuation – warrants exercised	-	335
Private placement net of issue costs (i) (ii)	15,154,665	2,273,199
Private placement – warrant valuation (i) (ii)	-	(803,379)
Acquisition of Xenemetrix Ltd. (note 13)	4,133,334	620,000
Share issue costs (i) (ii)	-	(162,635)
Balance as at December 31, 2010	69,320,738	12,483,730
Share issue costs	-	(1,949)
Balance as at March 31, 2011	69,320,738	12,481,781

(i) On September 27, 2010, the Company completed the first tranche of announced private placement issuing 12,036,332 units of the Company at a price of $0.15 per unit for gross proceeds in the amount of $1,805,449. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of $0.20 until September 27, 2012. The Company paid finder's fees of $79,740 and issued 546,000 finder's warrants. Each finder's warrant is exercisable into one unit consisting of one common share and one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.15 until September 27, 2012. The fair value of the warrants and finder's warrants was estimated at $654,358 and $55,692 respectively on the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 152%; risk-free interest rate of 1.42% and an expected average life of two years.

16. ISSUED CAPITAL (cont'd)

(ii) On December 10, 2010, the Company completed the second tranche of its private placement. The Company issued 3,118,333 units at a price of $0.15 per unit for gross proceeds in the amount of $467,750. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.20 until December 10, 2012. The expiry of the warrants may be accelerated, if at any time following the 6 month anniversary of the date of the warrant certificates, the closing price of the underlying common shares listed on the TSX Venture Exchange is greater than $0.45 for 30 or more consecutive trading days on a volume weighted average basis, at which time the Company may give notice to the warrant holders that the warrants will expire on the 30th day following receipt of the notice. The securities issued pursuant to the financing are subject to a four month regulatory hold period. The Company paid finder's fees in the amount of $21,931 and issued 60,600 finder's warrants in connection with the closing of the second tranche of the financing. Each finder's warrant entitles the holder to acquire one unit of the Company at a price of $0.15 until December 10, 2012. The fair value of the warrants and finder's warrants was estimated at $149,021 and $5,272 respectively on the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 127%; risk-free interest rate of 1.72% and an expected average life of two years.

17. WARRANTS RESERVE

	March 31, 2011	December 31, 2010	January 1, 2010
Common share purchase warrants	$ 1,245,273	$ 1,245,273	$ 358,275

The following table summarizes information about warrants:

	No. of Warrants #	Value $
Balance as at January 1, 2010	4,737,077	358,275
Warrants issued from private placement	15,762,460	864,326
Warrants issued on acquisition of Xenemetrix Ltd. (note 13)	1,533,333	108,867
Warrants exercised	(2,790)	(335)
Warants expired	(1,360,000)	(85,860)
Balance as at December 31, 2010	20,670,080	1,245,273
Balance as at March 31, 2011	20,670,080	1,245,273

17. WARRANTS RESERVE (cont'd)

No. of warrants		Grant date fair value of warrants	Exercise Price	Expiry Date
3,128,871		$ 242,446	0.25	July 6, 2011
246,811	(i)	29,617	0.17	July 6, 2011
12,036,332		654,358	0.20	September 27, 2012
546,000	(ii)	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	(iii)	5,272	0.15	December 10, 2012
20,670,080		$ 1,245,273		

(i) These are exercisable into units consisting of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.25 until July 6, 2011.

(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 September 27, 2012.

(iii) 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.

18. COMMITMENT TO ISSUE SHARES

	No. of Shares #	Value $
Shares to be issued – warrants exercised	1,000,000	260,000
Shares to be issued – warrant valuation	-	170,000
As at January 1, 2010, December 31, 2010 and March 31, 2011	1,000,000	430,000

19. SHARE-BASED PAYMENT RESERVE

Balance as at January 1, 2010	$ 1,174,860
Balance as at December 31, 2010	1,174,860
Share-based payments	519,000
Expiry of stock options	(259,000)
Balance as at March 31, 2011	$ 1,434,860

20. SHARE-BASED PAYMENTS

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 share-based payment arrangements were in existence as at March 31, 2011:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
400,000	400,000	September 28, 2006	September 28, 2011	$ 0.40	$ 90,800
950,000	950,000	October 1, 2006	October 1, 2011	$ 0.40	227,000
200,000	200,000	October 1, 2006	October 1, 2011	$ 0.32	47,400
250,000	250,000	October 26, 2006	October 26, 2011	$ 0.40	74,250
500,000	500,000	November 6, 2006	November 6, 2011	$ 0.70	120,000
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
3,460,000	3,460,000	February 23, 2011	February 23, 2016	$ 0.16	519,000
6,660,000	6,660,000				$ 1,256,310

The share options outstanding as at March 31, 2011 had a weighted exercise price of $0.28 (December 31, 2010: $0.44), and a weighted average remaining contractual life of 562 days (December 31, 2010: 452 days).

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, 2011, 3,460,000 share options (no options granted for the three months ended March 31, 2010) were granted to directors, officers and employees of the Company to acquire the Company's shares at $0.16 until February 23, 2016. These options vested immediately and had an estimated fair value of $519,000 at grant date.

The share options were priced using the Black-Scholes option-pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 5 years of the Company.

20. SHARE-BASED PAYMENTS (cont'd)

Inputs into the model:

Grant date share price	$	0.16
Exercise price	$	0.16
Expected volatility		139%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		2.61%

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 January 1, 2010	4,200,000	$	0.42
Expired	(500,000)	$	0.32
Balance as at December 31, 2010	3,700,000	$	0.44
Granted	3,460,000	$	0.16
Expired	(500,000)	$	0.60
Balance as at March 31, 2011	6,660,000	$	0.28

21. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and are disclosed in note 6. Financial assets and financial liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

	Loans and receivables	Other financial liabilities	Total
As at January 1, 2010			
Cash	$ 391,639	-	$ 391,639
Amounts receivable	665,959	-	665,959
Accounts payable and accrued liabilities		349,250	349,250
Shareholder loans		1,934,947	1,934,947

	Loans and receivables	Other financial liabilities	Total
As at December 31, 2010			
Cash	$ 1,779,973	-	$ 1,779,973
Amounts receivable	801,187	-	801,187
Accounts payable and accrued liabilities		1,181,706	1,181,706
Shareholder loans		1,783,493	1,783,493
Loans		18,497	18,497

	Loans and receivables	Other financial liabilities	Total
As at March 31, 2011			
Cash	$ 1,123,962	-	$ 1,123,962
Amounts receivable	737,785	-	737,785
Accounts payable and accrued liabilities		1,061,525	1,061,525
Shareholder loans		1,732,756	1,732,756
Loans		17,088	17,088

As at March 31, 2011, 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, 2011, 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.

22. 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, 2011
	Country of incorporation	**% equity interest**
Global Fluids International S.A	Nevus	100
Xenemetrix Ltd.	Israel	100

22. RELATED PARTY DISCLOSURES (cont'd)

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

- For the three months ended March 31, 2011, the Company was charged $7,500 (three months ended March 31, 2010 - $7,500) by a corporation controlled by a director of the Company for administrative and promotional services, which were recorded in consulting and management services.
- The Company shares its premises with other corporations that have common directors. The Company reimburses the related corporations for its proportional share of the expenses. At as March 31, 2011, an amount of $nil (December 31, 2010 - $8,211) was included in accounts payable and accrued liabilities and an amount of $24,137 (December 31, 2010 - $nil) was advanced in relation to these expenses. These amounts are non-interest bearing, unsecured with no fixed terms of repayment.
- For the three months ended March 31, 2011, $30,670 (three months ended March 31, 2010 - $28,089) in interest was charged on the shareholder loans described in note 15. Included in this amount is $3,282 (three months ended March 31, 2010 - $3,859) charged by a shareholder who is also a director of the Company.

Related party transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties. The amounts owing from the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

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	
	2011	2010
Short-term compensation and benefits	$ 172,521	$ 147,800

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.

23. 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 2010 or 2011. The Company and its subsidiaries are not subject to externally imposed capital requirements.

24. 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, 2011, the Company had a cash balance of $1,123,962 (December 31, 2010 - $1,779,973) to settle current liabilities of $2,832,823 (December 31, 2010 - $3,280,881). This amount includes $1,732,756 (December 31, 2010 - $1,783,493) in shareholder loans (note 15).

Market risk:

(a) Interest rate risk

The Company carries shareholder loans with interest and repayment terms as described in note 15. Management believes that interest rate risk is remote as the Company currently does not carry interest-bearing debt at floating rates.

(b) Foreign currency risk

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

The exposure of the Company's financial assets and liabilities to foreign currency risk as at March 31, 2011 are as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
Financial assets				
Cash	$ 517,202	$ 606,760	$ -	$ 1,123,962
Amounts receivable	39,615	698,170	-	737,785
	$ 556,817	$ 1,304,930	$ -	$ 1,861,747
Financial liabilities				
Accounts payable and accrued liabilities	$ 94,472	$ 967,053	$ -	$ 1,061,525
Shareholder loans		733,520	999,236	1,732,756
Loan	-	17,088	-	17,088
	$ 94,472	$ 1,717,661	$ 999,236	$ 2,811,369

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 $140,000 (December 31, 2010 - $180,000) based on the foreign currency balances at March 31, 2011.

24. FINANCIAL RISK FACTORS (cont'd)

(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.

25. CONTINGENT LIABILITIES

The Company is party to certain management contracts. These contracts contain clauses requiring that additional payments of $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 ($81,930) all due within one year.

As part of its settlement with a supplier of XRF detectors, the Company agreed to pay compensation to the supplier totaling 35% of the amount of any settlement received from EMRA in the event that the Turkish marker contract is not executed, to a maximum compensation amount of US$1,360,375. The supplier will waive its right to this compensation if the Turkish contract is executed.

26. TRANSITION TO IFRS

Transition elections

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

The Company has elected not to apply IFRS 3 *Business Combinations* and restate business combinations that occurred prior to the Transition Date and further, not to apply the recognition and measurement requirements of IFRS 2, *Share-based Payments* to equity instruments granted after November 7, 2002 and vested prior to Transition Date.

26. TRANSITION TO IFRS (cont'd)

Changes in accounting policies

In addition to the certain optional exemptions and mandatory exceptions, the following narrative explains the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

Reclassification within equity section

IFRS requires an entity to present each component of equity, a reconciliation between carrying amount at the beginning and end of the period, separately disclosing each change. On adoption of IFRS, the Company reclassified the value of expired warrants and stock options from share-based payment reserves (contributed surplus) to deficit. As a result, the Company performed the following reclassification:

	December 31, 2010	March 31, 2010	January 1, 2010
Decrease in share-based payment reserve	$ (3,839,124)	$ (3,753,264)	$ (3,753,264)
Decrease in deficit	3,839,124	3,753,264	3,753,264
Changes to shareholders' equity	$ -	$ -	$ -

IFRS requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position from the reclassification discussed above did not impact the consolidated statements of operations and comprehensive income and the consolidated statements of cash flows; consequently, reconciliations between Canadian GAAP and IFRS for earnings, comprehensive income and cash flows are not presented.

For the periods ended	December 31, 2010	March 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP:	$ 6,630,843	$ 5,276,414	$ 5,592,031
IFRS Adjustments:			
Decrease in deficit	$ 3,839,124	$ 3,753,264	$ 3,753,264
Decrease in share-based payment reserve	(3,839,124)	(3,753,264)	(3,753,264)
Shareholders' equity under IFRS	$ 6,630,843	$ 5,276,414	$ 5,592,031

26. TRANSITION TO IFRS (cont'd)

Reconciliation of consolidated statement of financial position as at January 1, 2010

	Canadian GAAP Balances	IFRS reclassifications	IFRS Balance
ASSETS			
Current assets			
Cash	$ 391,639		$ 391,639
Amounts receivable	665,959		665,959
Inventories	59,084		59,084
Prepaid expenses	76,045		76,045
	1,192,727	-	1,192,727
Non-current assets			
Deposits	23,131		23,131
Property, plant and equipment	55,555		55,555
Deferred development costs	1,309,937		1,309,937
Technology rights	5,294,878		5,294,878
	$ 7,876,228	$ -	$ 7,876,228
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 349,250		$ 349,250
Shareholder loans	1,934,947		1,934,947
	2,284,197	-	2,284,197
Shareholders' equity			
Issued capital	10,555,736		10,555,736
Commitment to issue shares	430,000		430,000
Warrants reserve	358,275		358,275
Share-based payment reserve	4,928,124	(3,753,264)	1,174,860
Deficit	(10,680,104)	3,753,264	(6,926,840)
	5,592,031	-	5,592,031
	$ 7,876,228	$ -	$ 7,876,228

26. TRANSITION TO IFRS (cont'd)

Reconciliation of consolidated statement of financial position as at March 31, 2010

	Canadian GAAP Balances	IFRS reclassifications	IFRS Balance
ASSETS			
Current assets			
Cash	$ 177,904		$ 177,904
Amounts receivable	578,895		578,895
Inventories	51,054		51,054
Prepaid expenses	241,591		241,591
	1,049,444	-	1,049,444
Non-current assets			
Deposits	33,459		33,459
Property, plant and equipment	44,288		44,288
Deferred development costs	1,314,657		1,314,657
Technology rights	5,098,771		5,098,771
	$ 7,540,619	$ -	$ 7,540,619
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 413,562		$ 413,562
Shareholder loans	1,850,643		1,850,643
	2,264,205	-	2,264,205
Shareholders' equity			
Issued capital	10,555,736		10,555,736
Commitment to issue shares	430,000		430,000
Warrants reserve	358,275		358,275
Share-based payment reserve	4,928,124	(3,753,264)	1,174,860
Deficit	(10,995,721)	3,753,264	(7,242,457)
	5,276,414	-	5,276,414
	$ 7,540,619	$ -	$ 7,540,619

26. TRANSITION TO IFRS (cont'd)

Reconciliation of consolidated statement of financial position as at December 31, 2010

	Canadian GAAP Balances	IFRS reclassifications	IFRS Balance
ASSETS			
Current assets			
Cash	$ 1,779,973		$ 1,779,973
Amounts receivable	801,187		801,187
Inventories	191,416		191,416
Prepaid expenses and other current assets	392,311		392,311
	3,164,887	-	3,164,887
Non-current assets			
Property, plant and equipment	161,139		161,139
Deferred development costs	1,201,561		1,201,561
Technology rights	5,402,634		5,402,634
	$ 9,930,221	$ -	$ 9,930,221
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 1,181,706		$ 1,181,706
Deferred income	315,682		315,682
Shareholder loans	1,783,493		1,783,493
	3,280,881	-	3,280,881
Non-current liabilities			
Loan	18,497		18,497
	3,299,378	-	3,299,378
Shareholders' equity			
Issued capital	12,483,730		12,483,730
Commitment to issue shares	430,000		430,000
Warrants reserve	1,245,273		1,245,273
Share-based payment reserve	5,013,984	(3,839,124)	1,174,860
Deficit	(12,542,144)	3,839,124	(8,703,020)
	6,630,843	-	6,630,843
	$ 9,930,221	$ -	$ 9,930,221