eurocontrol
TECHNICS GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

(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 position of Eurocontrol Technics Group Inc. ("Eurocontrol" or the "Company") for the year ended December 31, 2011. The MD&A, dated April 19, 2012, should be read in conjunction with the Company's Audited Consolidated Financial Statements and Notes for the year ended December 31, 2011.

The Consolidated Financial Statements and Management Discussion and Analysis were reviewed and approved by the Company's Audit Committee and the Board of Directors.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board requires publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's consolidated financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board and are the first annual financial statements that comply with IFRS. As this will be the first year of reporting under IFRS, First time Adoption of IFRS ("IFRS 1"') is applicable. In accordance with IFRS 1, the Company has applied IFRS retrospectively as of January 1, 2010 (the Transition Date) for comparative purposes. In preparing the opening balance sheet in accordance with IFRS, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-conversion Canadian GAAP.

For further information, please refer to the Company's Consolidated Financial Statements and Notes for the year ended December 31, 2011.

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. The Company through its wholly owned subsidiaries Global Fluids International S.A. ("GFI"), and Xenemetrix Ltd. ("Xenemetrix") continues to pursue numerous fuel marking opportunities globally with GFI, and is working to expand Xenemetrix's distribution reach though new marketing agreements with leading scientific equipment distributors. The Company continues to build-out its XRF systems and hydrocarbon authentication programs.

EXECUTIVE SUMMARY

During the year, the Company expanded its global network and presence and continued to source marketing and distribution partnerships with new and well established distributors in all parts of the world. Specifically, the Company signed the following:

- a non-exclusive distribution agreement with Opton Laser International ("Opton") of France. Opton offers instrumentation products for analysis, measurement, modulation, technologies for detection, visualization, optics and opto-mechanics. Opton will promote and distribute Xenemetrix's products in France, Belgium and Switzerland (see press release dated March 24, 2011).

- an exclusive distribution agreement with Eastern Applied Research Inc. ("Eastern") of Buffalo, New York, USA. For twenty years, Eastern has provided a reliable source of service, support and solutions for all models of X-ray fluorescence analyzers. They are experienced at providing on-site certification, training and repair services for a wide range of x-ray fluorescence analyzers and also provide

consultation and application support. Eastern will exclusively promote and distribute Xenemetrix's products in the North American market (see press release dated April 5, 2011).

- an exclusive marketing and distribution agreement with Calulo Petrochemicals Group ("Calulo") via its subsidiary Viacor Trading. Calulo is an energy and chemical investment vehicle that provides the energy industry with a number of services including shipping, logistics, ships agency and petroleum product trading. The Calulo will implement the Petromark™ technology on an exclusive basis in southern Africa using its logistical and financial capabilities. The Company's partnership with Calulo strengthens the Company's African network, where the Company, through its wholly owned subsidiary GFI, already has two operating projects in Tanzania and Uganda (see press release dated April 11, 2011).

- an exclusive distribution agreement for Thailand with Sithiporn Associates Co., Ltd. ("Sithiporn"). Sithiporn is one of the leading scientific equipment distributors in Thailand and has plans to expand its market area into other selected southeastern Asian countries. The Company's expansion into southeast Asia demonstrates that a global demand for its Energy-Dispersive X-ray Fluorescence ("EDXRF") systems exists. Sithiporn is an ideal partner for Xenemetrix as it has more than two decades of experience and service to the scientific community in the analytical instruments business. Sithiporn's customer base will benefit from having a top of the line product to purchase. Sithiporn will have exclusive rights to promote and distribute Xenemetrix's products in Thailand (see press release dated June 6, 2011).

- an exclusive distribution agreement with Veretex Technics ("Veretex") of Spain. Veretex markets, distributes and installs equipment for laboratory research and is the second largest scientific equipment sales organization in Spain. Veretex has been granted exclusive rights to promote and distribute Xenemetrix's products in Spain (see press release dated June 15, 2011).

- an exclusive distribution agreement with AIMIL Ltd. ("Aimil") of India. Aimil is at the forefront of the instrumentation industry in India, providing state-of-the-art instruments and related services to clients across the Indian sub-continent. Aimil has been granted exclusive rights to promote and distribute Xenemetrix's products in India, Bangladesh and Sri Lanka (see press release dated October 12, 2011).

In addition, during the year, the Company received approval from the Romanian government to sell its Energy-Dispersive X-Ray Fluorescence ("EDXRF") technology in the country. This approval opens new horizons in a developing country - the Romanian market for EDXRF analyzers is expected to grow significantly in the next three years and Xenemetrix is well poised to meet the expected demand increase for its technologies. Also, the Company has partnered with Eastern Applied Research in order to develop a more advanced Restriction on Hazardous Substance ("RoHS") test solution for its Energy-Dispersive X-Ray Fluorescence ("EDXRF") analyzer. By further developing its product line, the Company is able to increase its presence in the elemental analysis market and is anticipating a growth in sales in the USA by 20 systems per year once the versatile EDXRF is available.

Additionally, the Company continues to further invest in research and development. The Company, through its subsidiary Xenemetrix, has replaced its Silicon Lithium ("Si(Li))" liquid nitrogen cooled detector solution, with Silicon Drift Detector ("SDD") technology upgrades to its full suite of Energy Dispersive X-Ray Fluorescence ("EXDRF") analyzers. Also, the Company through its subsidiary GFI, is currently developing its Petromark™ 2nd generation DNA hydrocarbon markers.

OUTLOOK

The Company will continue to focus on the acquisition, development and commercialization of innovative energy security, authentication, verification, and certification technologies. The Company will pursue anticipated oil marking opportunities and tenders around the world and will continue to expand its global networks and presence.

The Company will also evaluate other authentication and security technologies that may be available for acquisition. In particular, as announced on March 8, 2012, the Company has agreed to acquire all of the issued and outstanding common and preferred shares of XwinSys Ltd. ("XwinSys") for consideration of five million 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 Xenemetrix'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 our platform of authentication, verification and certification technologies. The acquisition is subject to customary conditions including satisfactory completion of due diligence review and approval of the TSX Venture Exchange.

SUMMARIZED OF FINANCIAL RESULTS

The Company recorded sales of $5,399,601 for fiscal 2011, compared to sales of $2,914,391 for fiscal 2010. The Company realized a net loss of $2,409,670 (or $0.03 per share) for fiscal 2011 compared to a net loss of $1,862,040 (or $0.03 per share) for fiscal 2010. In October 2010, the Company acquired Xenemetrix, a leading designer, manufacturer and marketer of Energy-Dispersive X-ray Fluorescence (EDXRF) systems and components for a wide range of industries and applications. The Company purchased Xenemetrix with the aim to leverage the in-house technology portfolio to revamp the product line to include systems dedicated to anti-counterfeiting and home-land security. Xenemetrix was awarded Frost & Sullivan's "Global Product Line Strategy of the Year Award in the EDXRF Analyzers Market" for the year 2010. The Company's financial results for fiscal 2011 now incorporates twelve months of results from Xenemetrix compared to three months in fiscal 2010.

Expenses were $5,794,609 for fiscal 2011 compared to $3,600,028 for fiscal 2010 primarily due to the inclusion of Xenemetrix's operational expenses for twelve months in fiscal 2011 compared to three months in fiscal 2010. Fiscal 2011 is the first full year in which the financial results of Xenemetrix are consolidated with the Company. Furthermore, expenses for the year ended December 31, 2011 were higher due to non-cash share-based compensation expense in the amount of $462,240 recognized on granting of 3,210,000 stock options in fiscal 2011 (no stock options were granted in fiscal 2010), higher sales and marketing expenses, administration and amortization of technology rights. Sales and marketing expenses and administration for fiscal 2011 have increased over the comparable period as a result of fiscal 2011 being the first full-year inclusion of the financial results of Xenemetrix and due to higher marketing related expenses recognized by the Company in the current year.

The Company also incurred foreign exchange translation losses of $106,544 in fiscal 2011 compared to a translation gain of $113,019 in fiscal 2010 as a result of a weakening Canadian dollar in the earlier parts of the year relative to the United States dollar. The Company's revenue is denominated in US dollars and the Company's reporting currency is Canadian dollars. Moreover, the Company has shareholder loans denominated in US dollars and Euro. Consequently, the Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

Interest expenses of $105,973 for fiscal 2011, compared to $121,345 for fiscal 2010 mainly related to the shareholder loans, payable to the former shareholders of GFI.

ANNUAL INFORMATION

The annual results have been as follows:

		December 31, 2011 Twelve months ended		December 31, 2010 Twelve months ended		December 31, 2009 Nine months ended (*)
Revenue	$	5,399,601	$	2,914,391	$	559,455
Net loss	$	(2,409,670)	$	(1,862,040)	$	(3,239,144)
Loss per share, basic and fully diluted	$	(0.03)	$	(0.03)	$	(0.07)
Total Assets	$	8,948,077	$	9,930,221	$	7,876,228
Total long term liabilities	$	51,954	$	18,497	$	-

(*) The Company had changed its year end to December 31 from March 31 during 2009. As a result, the fiscal 2009 financial results are for the nine month period ended December 31, 2009. In addition, the fiscal 2009 financial results included in this table are in accordance with pre-IFRS changeover Canadian GAAP.

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SUMMARY OF QUARTERLY RESULTS

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

Fiscal 2011	Q4	Q3	Q2	Q1
Revenue	$ 1,925,767	$ 1,204,565	$ 1,065,194	$ 1,204,075
Cost of sales	(512,637)	(341,019)	(646,323)	(282,691)
Gross profit	1,413,130	863,546	418,871	921,384
Expenses	1,320,116	1,631,574	1,138,181	1,704,738
Writeoff of deposits	-	-	-	-
Other expense (income)	(342)	-	129	(121)
Interest expense	13,564	28,981	32,758	30,670
Foreign exchange loss (gain)	(47,802)	10,145	72,621	71,580
Income taxes expense (recovery)	3,434	(7,754)	12,034	12,095
	1,288,970	1,662,946	1,255,723	1,818,962
Net income (loss)	$124,160	($799,400)	($836,852)	($897,578)
Basic and fully diluted loss per share	$ -	$ (0.01)	$ (0.01)	$ (0.01)
Total assets	$ 8,948,077	$ 9,558,718	$ 8,372,882	$ 9,100,233

Fiscal 2010	Q4	Q3	Q2	Q1
Revenue	$ 1,385,952	$ 554,256	$ 530,976	$ 443,207
Cost of sales	(637,307)	(247,523)	(122,338)	(120,605)
Gross profit	748,645	306,733	408,638	322,602
Expenses	1,319,864	934,209	683,551	662,404
Writeoff of deposits	-	33,459	-	-
Other income	(90)	(61)	(32)	(21)
Interest expense	35,003	28,982	28,988	28,372
Foreign exchange loss (gain)	(71,636)	71,410	(59,719)	(53,074)
Income taxes expense	1,096	1,021	4,394	538
	1,284,237	1,069,020	657,182	638,219
Net loss	($535,592)	($762,287)	($248,544)	($315,617)
Basic and fully diluted loss per share	$ (0.03)	$ (0.01)	$ -	$ (0.01)
Total assets	$ 9,930,221	$ 9,261,559	$ 8,103,629	$ 7,540,619

As noted above, the overall increase in revenues and expenses since the fourth quarter of 2010 is the result of the Company's acquisition of Xenemetrix in October 2010.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2011, the Company held cash of $1,940,872 compared to $1,779,973 as at December 31, 2010. The Company had working capital of $585,713 as at December 31, 2011 compared to a working capital deficit of $115,994 as at December 30, 2010. In September 2011, the Company closed a private placement of 14,840,000 common shares (the "Shares") at a price of $0.10 per Share for gross proceeds of $1,484,000 (the "Offering"). The Shares issued pursuant to the Offering are subject to a four month regulatory hold period. The Company paid finder's fees in the amount of $29,225 and issued 417,500 finder's warrants in connection with the closing of the Offering. Each finder's warrant entitles the holder thereof to acquire one Share at a price of $0.10 for a period of one year following the closing of the Offering. The Company used the net proceeds from this private placement to fund general working capital requirements in the fourth quarter of 2011.

Amounts receivable totalling $924,695 are comprised of trade receivables of $767,151 (2010 - $682,520); recoverable federal and provincial sales taxes of $144,106 (2010 - $80,363), and other receivables of $13,438 (2010 - $38,304).

Equipment with a carrying value of $230,461 (2010 - $161,139) relate to capital expenditures on office equipment, computer equipment, and vehicles.

Deferred development costs of $861,570 as at December 31, 2011 (2010 - $1,201,561) 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 with a carrying value of $4,503,021 (2010 - $5,402,634) were purchased as part of the acquisition of GFI in previous years and Xenemetrix in 2010, with attributed values of $7,844,267 and $892,184 bring recognized respectively at the date of acquisition. 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 amount of $772,158 for the year ended December 31, 2011, (for the year ended December 31, 2010 - $784,428). XRF systems from Xenemetrix are amortized over 7 years on a straight line basis. Starting in fiscal 2011, amortization of XRF systems was charged to operations in the amount of $127,455 for the year ended December 31, 2011, (for the year ended December 31, 2010 - $nil).

Total accounts payable, accrued liabilities, deferred income and shareholder loans amounted to $2,767,312 as at December 31, 2011 (2010 - $3,280,881). The shareholder loans amounted to $1,669,182 (2010 - $1,783,493) 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 ($659,626) (2010 - €500,000 ($665,940)) and accrued interest of €263,671 ($347,861) (2010 - €212,380 ($282,864)) 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 ($864,450) (2010 - US$850,000 ($845,410)) and accrued interest of US$339,699 ($345,474) (2010 - US$305,844 ($304,192)). This portion of the shareholder loans will be repaid through 25% of the income generated by contracts of GFI. As at December 31, 2011, the Company repaid US$539,065 ($548,229) (2010 - US$316,623 ($314,913). This portion of the loans payable bears an annual interest rate of 5.0%.

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

Deposits

In the prior years, the Company, through its subsidiary, GFI, advanced US$1,500,000 to a supplier of XRF detectors in order to initiate the production of an order of 235 detectors required to fulfill GFI's obligation under the Turkish government tender awarded to GFI. The order was postponed until the outcome of the Company's efforts to reinstate the fuel marking contract with EMRA is determinable. As a result, the supplier incurred losses on the contract with GFI, and a penalty of US$500,000 was negotiated between the supplier and GFI. This penalty reduced the deposits to US$1,000,000. As at December 31, 2009, the Company purchased 15 detectors and wrote off US$925,000 as a result of the order with the supplier expiring on December 31, 2009. In fiscal 2010, the Company applied US$45,000 of the deposit from the purchase of detectors. The remaining amount of US$30,000 ($33,549) was written off during the year ended December 31, 2010.

CASH FLOWS

Operating

Cash used in operating activities was $991,639 for the year ended December 31, 2011 compared to cash used of $595,784 for the comparable period in 2010. The increase in cash used in operating activities is a result of higher sales and marketing expenses for the current year.

Investing

Cash used in investing activities was $125,731 for the year ended December 31, 2011 compared to cash provided of $23,861 for the comparable period in 2010. Current year’s capital expenditures primarily relate to purchase of equipment and vehicles.

Financing

Cash provided by financing activities was $1,245,539 for the year ended December 31, 2011 compared to cash provided of $1,989,597 for the comparable period in 2010. During the current year, the Company completed a private placement by issuing 14,840,000 common shares of the Company at the price of $0.10 per unit for gross proceeds of $1,484,000. In fiscal 2010, the Company completed a private placement, in two tranches, by issuing 15,154,665 common share of the Company at the price of $0.15 per unit for gross proceeds of $2,273,199. Proceeds from the private placements were offset by the repayments of the loans to shareholders.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

The Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

General and Administration

During the year ended December 31, 2011, the Company was charged $50,000 (2010 - $30,000) by a corporation controlled by a director of the Company for administrative and consulting services.

Related party balances

The Company shares its premises with other corporations that have some common directors and/or officers. The Company reimburses the related corporations for its proportional share of expenses. As at December 31, 2011, an amount of $25,425 (2010 – payable of $8,211) was advanced in relation to these expenses. The amounts outstanding are unsecured, non-interest bearing with no fixed terms of repayment. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Private placement

In connection with the September 2011 private placement, 100,000 common shares were sold to a certain director and officer of the Company.

In connection with the September 2010 private placement, 133,000 common shares were sold to a certain director of the Company; and 133,333 common shares were sold to a certain director and officer of the Company.

Shareholder loans

For the year ended December 31, 2011, $105,973 (year ended December 31, 2010 - $108,721) in interest was charged on the shareholder loans described in note 15. Included in this amount is $12,594 (December 31, 2010 - $12,205) charged by a shareholder who is also a director of the Company.

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:

	Year ended December 31	
	2011	2010
Short-term compensation and benefits	$ 645,551	$ 707,095
Share-based payments	314,000	-
	$ 959,551	$ 707,095

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.

FOURTH QUARTER

In the fourth quarter of 2011, the Company had net income of $124,160, compared to a net loss of $535,592 in the fourth quarter of 2010. Expenses of $1,288,970 were comparable to the expenses of $1,284,237 for the fourth quarter of 2010. The decrease in net loss for current quarter is a result of stronger sales, with revenues of $1,925,767 for the fourth quarter of 2011, compared to $1,385,952 for the fourth quarter of 2010.

SUBSEQUENT EVENTS

As announced on March 8, 2012, the Company has agreed to acquire all of the issued and outstanding common and preferred shares of XwinSys Ltd. ("XwinSys") for consideration of 5,000,000 common shares of the Company. XwinSys is a private company located in Israel that develops, manufactures and sells inspection systems for the semiconductor industry. The acquisition is subject to customary conditions including satisfactory completion of due diligence review and approval of the TSX Venture Exchange.

CAPITAL STRUCTURE

As at December 31, 2011 and April 19, 2012 the Company had an authorized capital of an unlimited number of common shares of which the following were outstanding:

As at	December 31, 2011	April 19, 2012
Common Shares	84,160,738	84,160,738
Warrants	17,711,898	17,711,898
Share options	4,110,000	4,110,000

Of the options to purchase common shares issued 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.

CRITICAL 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 and deferred development assets - While assessing whether any indications of impairment exist for technology rights and deferred development costs, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable of such assets. Internal sources of information include the manner in which technology rights and deferred development assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's technology rights and deferred development assets, costs to sell the assets and the appropriate discount rate.

- Share-Based Payments - Management 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$82,000 ($83,000) all due within one year.

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 December 31, 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, 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.

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.

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 27, IAS 28, and IAS 1 on its financial statements.

FINANCIAL INSTRUMENTS AND OTHER 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 December 31, 2011, the Company had a cash balance of $1,940,872 (2010 - $1,779,973) to settle current liabilities of $2,767,312 (2010 - $3,280,881). This amount includes $1,669,182 (2010 - $1,783,493) in shareholder loans.

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.

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

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
Financial assets				
Cash	$ 781,482	$ 1,159,390	$ -	$ 1,940,872
Amounts receivable	175,875	748,820	-	924,695
	$ 957,357	$ 1,908,210	$ -	$ 2,865,567
Financial liabilities				
Accounts payable and accrued liabilities	$ 215,068	$ 858,557		$ 1,073,625
Shareholder loans	-	661,695	1,007,487	1,669,182
Loan	-	51,954	-	51,954
	$ 215,068	$ 1,572,206	$ 1,007,487	$ 2,794,761

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 $25,000 (December 31, 2010 - $180,000) based on the foreign currency balances at December 31, 2011.

(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.

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.