

Eurocontrol Technics Group Inc. (EUO.V)

BRUCE ROWLANDS, Chairman and CEO of Eurocontrol Technics Group Inc., has 25 years of sales, operations, capital markets and senior management experience with emerging market companies. Prior to forming Eurocontrol Technics Group Inc., Mr. Rowlands worked in the biotechnology and investment banking industries as Senior Vice President with Lorus Therapeutics, a leading Canadian biotechnology company, and Vice President and Director of Dominick and Dominick Securities Canada, a Canadian investment banking firm.

SECTOR — ENERGY

(AYM608) TWST: Would you begin with a brief introduction to the Eurocontrol Technics Group, including some highlights from your history and an overview of your current operations?

Mr. Rowlands: Eurocontrol Technics Group is a business we've been building since 2006, largely through the acquisition of assets in Israel. Our primary market, on a broad basis, is authentication, verification, certification and technologies that have outputs around these issues. So part of our mantra is, "If it can be measured, it should be measured."

Our largest business sector at the moment is the authentication of hydrocarbons. We mark hydrocarbons for both governments and oil companies to counteract the illicit commercialization of hydrocarbons. There are a variety of problems in the hydrocarbon sector — some are applicable to retail fuel and some applicable to crude. As most everybody has probably realized through the activities of ISIS in Iraq and Syria, international terrorism is largely financed by the illicit commercialization of crude and its derivatives, keeping in mind that crude and its derivatives are the most highly fungible substances on the earth, and therefore the perfect material to trade illicitly.

So the first company that we acquired in 2006 was Global Fluids International of Israel. GFI has commercialized a technology known as Petromark, an ISO-accredited and entirely covert molecular marking system for marking hydrocarbons of any type. So think of barcodes for oil — whose is it? What is it? What's its fiscal status? Perhaps you're marking the hydrocarbons to determine where they came from. There are a variety of reasons why customers mark their hydrocarbons; it really depends on what problem they are trying to solve.

If you go to our website, you'll see two of our most recent press releases on results that have been achieved in Tanzania and Albania. In Tanzania, a study undertaken by the University of Dar es Salaam confirmed that in the first three years of our project in Tanzania, our Petromark technology returned \$300 million of otherwise lost tax revenue to the government of Tanzania, with the cost for Petromark implementation being a fraction of the \$300 million.

In Albania, our press release disclosed results that were brought forward by the Director of Customs in Albania. We've been marking fuel in Albania since roughly mid-2013. So they've compared the month of September 2013 to the month of September 2014, and what we do is we mark the legal market. One of the things that we see when we introduce a marking program,

and as knowledge of the program gets into the marketplace, is that generally many of the participants who are manipulating fuels give up the practice because they realize they're going to be caught. So that's exactly what occurred in Albania.

And, because the Albanians hadn't initiated the monitoring and enforcement side of the program between September 2013 and September 2014 and we were doing the marking, the impact was that the legal market, the market that we marked in September 2014 was 20% larger than the legal market of September 2013. And that equated into an additional U.S.\$11 million of tax revenue into the Albanian Treasury, for just that one month of September 2014, which is in line with the expectations that we suggested the program would return — about \$150 million annually to the Albanian Treasury, and at \$11 million a month we're close enough for that number that I'm comfortable with our forecast. So that's a brief description of our primary business.

In 2010, we bought another company in Israel called Xenemetrix. Xenemetrix are experts in the area of Energy Dispersive X-ray Fluorescence, or EDXRF for short, which is the protocol that we use for monitoring our covert markers downstream. So the acquisition of Xenemetrix was one part vertical integration, as we purchased the company that produces an important part of the overall Petromark system, and one part diversification, as Xenemetrix has customers besides Petromark.

So the way the system works is, we're marking hydrocarbons at parts per million, so if we're marking a fuel line for a customer at four parts per million, I should be able to go downstream from the marking site and find the marker at four parts, if everything is all right. If I go downstream and I find the marker at three parts per million, then I know that 25% of the material that was measured had some type of an adulterant that was added to the fuel after the fuel was marked and therefore has diluted down both the marker and the fuel. This technology falls into a category of technologies known as tag and trace. We tag it, and we trace it.

The third business we have in Israel is the only one of the three that doesn't produce revenue currently — XwinSys is currently a development-stage company. XwinSys is utilizing our underlying expertise in EDXRF, and we're combining this technology with 2D and 3D image processing technology to produce a one-stop solution as a verification tool in the production of semiconductors. That work is going on as we speak.

So those are the three businesses, all of which touch the areas of authentication, verification and certification. We continue to

look for other opportunities. We do have a letter of intent currently with a company in Austin, Texas, by the name of Austin Automation & Instrumentation. Information on this letter of intent is on our website.

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TWST: Can you tell us a little bit about the decision to purchase that company?

Mr. Rowlands: Well, Austin Automation & Instrumentation is also another EDXRF company, with an expertise in that area. They have been the distributors in the United States and in Asia for our Xenometrix division, so this is how we know them. They have an interesting business and significant expertise in EDXRF.

They also would bring distribution, customers and technology, as they are utilizing ED-XRF in different applications than Xenometrix. We are currently doing our due diligence, so I am not warranting that this transaction will absolutely happen. I’m hoping that the due diligence produces the evidence we need to move forward with this acquisition, but in these processes you never know.

That said, if we were to acquire Austin Automation & Instrumentation, Eurocontrol would go deeper and wider into EDXRF. If you go, again, to the website and read the press release around the letter of intent, you’ll see that Austin Automation & Instrumentation is potentially in line for a fairly large \$40 million contract with a large international company for the provision of over 400 specialized spectrometers for a global rollout in this particular company’s manufacturing facilities worldwide. It’s a beautiful thing, but it’s not a sure thing. However, I do believe that Austin Automation & Instrumentation has a very good chance of obtaining this contract, so that is part of our motivation.

You’ll see that the way the deal is structured, we would provide shares and warrants, and the warrants, as described in the press release, speak to this large contract and their ability to bring it in. So that’s the rationale there. Our business has been put together through acquisition. We’ve made three acquisitions. We have a letter of intent on a potential fourth acquisition. And that’s where we are.

There are a variety of other opportunities on our radar. Our business is strongly cash-flow positive and we’ll have our Q3 results out later this week, and we have reason to believe that we have significant growth in the top line coming at us, both through additional fuel marking contracts and also with broadening our base in EDXRF technologies. We also are very enthused about our XwinSys subsidiary, which, despite not currently generating revenue, we believe is turning into an important asset. The combination of 2D and 3D image processing with EDXRF spectrometry is a core platform technology. The first application is going to be in the semiconductor space, and we’re well into discussions with many of

the prominent members of the semiconductor industry currently. So that’s the summary of the operations.

TWST: As you said, you’ve built the business through some acquisitions. How would you characterize your M&A strategy at this point? What types of acquisitions will you be looking for and in what geographic areas, etc.?

Mr. Rowlands: The area of investment will always be in authentication, verification and certification. Our positioning on M&A is opportunistic. We’re looking for good businesses, good technologies, and we’re not in a hurry to acquire businesses that require heaps of working capital to make them work. We’re looking for businesses that are on the verge of significant growth, that have identified vertical markets.

Geographically, we are not too particular. Israel happens to be the most advanced technology country on the planet, so we spend lots of time there looking at things. We have two agreements with the Tel Aviv University that we are sponsoring. One is the development of a new approach to fuel marking, and the other is an nano-authentication technology that was developed at the university. The authentication technology enjoys a U.S. patent currently, and it’s a nano-authentication technology for printing, imprinting and 3D printing. So in those cases, we’re sponsoring research in return for commercial rights, to make a long story short.

We’re working to bring forward technologies, in particular, in the area of illicitly traded materials. As you may know, there is a huge, absolutely gigantic black market in many products. Our efforts in hydrocarbons revolves around GFI, the first company we acquired, and their Petromark fuel marketing technology was actually developed by the Israeli government’s R&D labs at Soreq.

The Israelis developed the technology because the historic standard for marking hydrocarbons is colored dye. Colored dye is horse-and-buggy technology, and it is about as effective, as colored dyes can be easily removed from hydrocarbons and they can be easily imitated, and that’s what the Israelis really observed. Anything that’s visible is largely useless. The Israelis, as most people I think are aware, are particularly fond of covert technologies. So that’s what Petromark is — there is no product or solution like it in the marketplace.

TWST: Can you comment on the strength of your balance sheet at this point, and are there any areas that you’re working to improve?

Mr. Rowlands: Yes, we are working to improve the top line. We have a small amount of shareholder debt on our balance sheet, about \$1.5 million. Our last reported cash position was at just over \$2.6 million at September 30, 2014, so we’re currently in the circumstance where we have more revenue than market cap. We have roughly half of our market cap in cash.

So Eurocontrol stock is a screaming buy. I’ve been a buyer consistently over the last weeks and months, as have other parties within the company. The balance sheet is not perfect, but our cash position, certainly for the time being, serves as an insurance policy against an otherwise poor junior market, in particular in Canada. I’d hazard a guess that there are very few companies around that are cash-flow positive, with growing revenue and that have three unique world-leading technologies under their control that you can buy for one times current year’s revenue. All of the subsidiaries are wholly owned; there are no other shareholders.

So we're trading now at slightly under one times this year's base case for revenue. We have cash on the balance sheet, so I think by anybody's analysis, whatever it is you wish to analyze, whatever standards you wish to use, I think you'd come to the conclusion that Eurocontrol is significantly undervalued. We used to have a \$40 million market cap when we had no revenue, but the markets haven't been kind to small companies, particularly in Canada as evidenced by our current share price.

TWST: How would you characterize the competitive environment for the business, and what advantages do you have?

Mr. Rowlands: There's not a lot of competition; the competition is largely the colored-dye people. The colored dyes are going the way of the dodo bird. Our technology has numerous advantages over its competitors. First, our system is completely covert. Nobody else has a system that's completely covert. Second, we enjoy numerous ISO accreditations, including ISO 17025, which means that the output of our Petromark system produces results that are of sufficient forensic quality to be admissible as evidence in a court of law, something that no other competitor technology offers.

We have a number of other ISO accreditations for data management and some other things, and very important is that we have the only technology that produces the full final forensic result in the field where the test is conducted — our competitors get indicative results in the field, and they have to send samples to labs. Anytime you send a sample to a lab, you've basically given up the opportunity to use that sample as evidence because any good lawyer will rip it apart on chain of custody, which is: Where was the lab? How far away was the lab? How long was the sample gone? How many people handled the sample, and so forth?

So what we like to say is, we don't take the sample to the lab; we take the lab to the sample. Our mobile ED-XRF analyzers that are produced by our subsidiary Xenometrix are portable. We go into a gas station, as an example, and take a very small amount of material from the hose. We put it in the analyzer, and within five minutes we know whether the marker is present and in what concentration, and as long as the marker is present and in the proper concentration your job is done, and off to the next gas station you go. So that's how it works.

As I said, it's classic tag-and-trace technology. In this case, it happens to be covert technology and, as I said, anybody that knows anything about the Israelis knows that covert is one of their favorite things. So that's how the technology works. I don't think anyone would disagree that what we have is the most robust system available today.

TWST: What are the top two or three items on your strategic agenda for 2015, the things people who are keeping an eye on the company can look for you to accomplish next year?

Mr. Rowlands: Well, two-thirds to three-quarters of

our revenue is recurring, because that is the way the fuel-marking business works. We'll go in and meet with governments and oil companies and frequently national oil companies. And so first, you have to understand what is the problem, who is "zooming" who and how are they doing it. Once we understand that, then we can design the program. We work with the customer to implement the program, but we don't run the programs. They are usually run by government departments, and in some circumstances it can be run by companies from the international inspection community.

The recurring component is my objective for 2015, 2016. We've been doing this for a while, so we're well advanced in numerous markets. We expect to acquire more fuel-marking contracts next year, and we might even get a couple this year, depending on what happens. So adding to the recurring revenue line is the key objective, which is to say, bring forward more fuel marking contracts. Of course, every time we get a fuel-marking contract, it has an implication to Xenometrix, because they build the analyzers to support the contract. Once we have a program up and running we are in the business of selling our liquid chemical marker into the program, which is where the margin is and where our recurring revenue comes from — razor and razor blades.

To make a long story short, I think that there is a reasonable expectation that at this time next year, the contracted fuel marking business for us will produce, at least on a pro forma basis, a top line somewhere around \$20 million or beyond. At \$20 million, we can produce roughly \$6 million of EBITDA. Currently, Eurocontrol has a market capitalization of about \$6 million. So I don't mind holding on to the \$6 million number as long as I can change that from being the market cap to being the pro forma EBITDA. And then I think the market might pay me as much as 10 times EBITDA, which means that the stock, if that were to all happen, could appreciate 10 times from current prices. Hence why I'm a buyer of Eurocontrol stock.

TWST: Thank you. (MES)

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