

Resource Stock Report V19 #12.0 Eurocontrol Technics Group – EUO, Aug 15 2013

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I came across an amazing little penny stock that is making good money with revenue growing strongly and has world leading technology in Energy Security, Authentication and Verification using a molecule based fuel marking system called Petromark™. The more I looked into, the better the story and fundamentals became. I think everyone should try to obtain a position in

**Eurocontrol Technics Group Inc TSXV:EUO OTC: EUCTF Recent Price C\$0.10
52 week trading range \$0.03 to \$0.13**

Shares outstanding 89.1 million
Fully Diluted 106.8 million

The stock is well held with approx. 25% among the former shareholders of the subsidiaries that were acquired and approx. 40% held by Institutions. Also, Insiders have been active acquiring stock in the market.

Only covert fuel marking technology available, developed in Israel (National Research Center)
Only technology that is ISO 17205 approved – test evidence will hold in court
Only technology that does not require lab verification, on site analysis like taking the lab on site.
Full forensic test result is completed in the field
Covered by 5 patents

They have a number of contracts around the world for their Petromark™ technology and yearly revenue is running about \$7 to \$8 million now and success on just **one of a few new contracts under current negotiation could easily double that in the near term.**

Throughout the world, fuel distribution networks experience problems associated with the evasion of taxes (smuggling) and illegal product blending. This results in significant financial losses and damage.

Adulteration introduces a foreign substance into petrol or diesel illegally for financial gain. And leads to downgrading of the quality of petrol or diesel hence damaging engine parts and also loss of Government revenues. For instance kerosene can be added into diesel fuel and not detected by consumers in the short term

Currently the annual global loss from illicit trade of fuels is estimated at approx. US\$100 billion and some time back the World Energy Outlook projected the Energy security sector would grow to over US\$100 billion. Following is a news article that came out this week, highlighting the problem in Nigeria. <http://allafrica.com/stories/201308121229.html>

The European Parliament may soon be demanding from sellers of stolen crude the certificate of origin for their products. This was one of the decisions taken at the meeting of the members of the African, Caribbean, Pacific Parliaments and their European Union counterparts at the conclusion of their recent meeting in Abuja. According to Mitchell Rivasi, acting President of ACP-EU, the need to stop the huge loss of Nigeria's oil to thieves necessitated the decision.

Said Rivasi: "*We want to ban European refineries from buying uncertificated oil. 400,000 barrels a day is a huge loss.*"

This is a very significant market that has only become more futile with today's higher energy prices. Last week I met with Chairman/CEO Bruce Rowlands to learn all I could about this technology and it's potential and I can tell you it is absolutely enormous and I will try to bring that to light in this report.

Another aspect I like about investing in, thus supporting this company is **that you are doing the world some good, you are helping alleviate tax evasion (a taxpayers expense) and could curtail or shut down terrorism's major source of funding, yes that is correct, it is illicit fuel trade.**

A lot of the problem stems from illegal entities trying to take advantage of government fuel subsidies, an accepted practice in most of the Developing World to help protect the poor from soaring energy costs. However, subsidized and non-subsidized fuel in the same country typically is a major temptation for tax evasion and fuel adulteration.

In 2008, a year in which oil prices were roughly the same as current levels, the International Energy Agency estimates that global fuel subsidies totaled \$557 billion dollars. Even a small country such as Bolivia spends a staggering \$380 million a year in fuel subsidies, which represents 2% of the country's GDP (\$19 billion in GDP).

<http://online.wsj.com/article/SB10001424052748703820904576058071716311988.html>

When the government tried to eliminate subsidies, riots threatened to topple the government and it had to be restored. It is widely acknowledged that most of the subsidized fuel is pirated and resold at huge profits in Chile, Peru and Brazil.

Eurocontrol's marker has proven to be very effective in helping governments manage their fuel subsidy bill and realize vital tax revenue. **In Tanzania, based on publicly released figures by the government, after deploying Eurocontrol's Petromark™ technology, the tax revenue doubled from the previous year (when there was no Eurocontrol marker deployed). In the same time period, kerosene imports decreased by 35%.**

Management

W. Bruce Rowlands - Chairman, President and CEO has 25 years capital markets, operations and sales experience with emerging market companies. Most recently, Mr. Rowlands had a senior VP position with Lorus Therapeutics. Previously, Mr. Rowlands was VP and Director of a Canadian investment banking firm - Dominick & Dominick Securities Inc.

Andres Tinajero - (MBA) CFO has 15 years experience in a broad range of industries and as VP Finance or CFO of a number of start up and medium size public companies. He has worked for the IMF / State Bank as a Risk Manager and the United Nations World Food Program as Financial Director.

Gadi Gonen - Chief Operating Officer & Director has 20 year's experience in establishing and managing companies, raising private and public equity and transitioning companies from R&D phase to profitable companies.

General (Ret.) Sir Michael Rose – Director General (Ret.) Sir Michael Rose commanded the United Kingdom's Special Air Service ("SAS") and commanded the UN Protection Force in Bosnia. He retired from the Army in September 1997. Since leaving the Army, he has written and lectured extensively on peacekeeping and leadership to a wide variety of audiences around the world.

Brig. General Uzyel Ben Itzhak - VP Operations has served in the Israeli armed forces for 30 years and has worked as a consultant for the Israel military and industrial complex both in Israel and abroad

Dr. Eli Zahavi - Director has over 30 years of experience in the international oil industry. Over the course of his career, Dr. Zahavi served in various positions and gained valuable experience in managing and running oil companies in the continental US, Puerto Rico and Israel as well as in crude oil and petroleum products trade.

Kenneth Wawrew – Director has over 40 years' experience in the high technology industry. He has been instrumental in the start up and success of a number of software and automated optical inspection technology companies. Mr. Wawrew was CEO of Image Processing Systems Inc. (IPS), a TSX listed company that developed E-vision technology for advanced manufacturing applications.

Paul Wood - Director has 25 years business experience focused on corporate development and **James Fairbairn (CA) - Director** has more than 20 years' experience with publicly-traded companies.

Technology and Marker Process Introduction

Global Fluids International (GFI) S.A., established in 2001 and a fully owned subsidiary of Eurocontrol Technics Group offers a most advanced fully integrated marking, mixing and detection system – Petromark™ for the oil industry. The R&D process was conducted by the National Research Center of Israel (NRC), which is considered to be one of the world's leading research institutes.

A Fuel Marker (or Tracer) is a unique identifier mixed into a fuel so that marked fuel can be distinguished from unmarked fuel through a process of testing. A successful fuel marking programme will both detect and ultimately prevent smuggling and blending.

Fuel Marking

Typically, all fuel on which taxes have been paid is marked with a marker that cannot be imitated and can only be detected with specialist equipment. Any dealer, whether a retail service station or a mine, that is caught with incorrectly marked fuel is therefore guilty of illicit trade, and is prosecuted. There are many similar applications for fuel marking in the private and public sectors such as brand protection, quality control and subsidy monitoring.

XRF Technology

Advanced XRF technology has been adapted for use in the marking of fuel, making it possible to now achieve accurate test results quickly and relatively cheaply. This technology is robust and has been successfully implemented in a number of countries with outstanding results. This technology is marketed as "Petromark™" available through GFI, a fully owned subsidiary of Eurocontrol Technics Group.

Eurocontrol has a fully owned subsidiary call Xenemetrix Inc. that supplies/sells the XRF equipment. Xenemetrix is a leading designer, manufacturer, and marketer of energy-dispersive x-ray fluorescence (EDXRF) systems and components. Located in Israel, Xenemetrix is dedicated to designing, manufacturing and supporting EDXRF benchtop spectrometers and analyzers as well as laboratory and mobile elemental analysis instrumentation and has 30 years of experience in this field.

Highlights of Eurocontrol's Petromark™ system:

- New technology in fuel marking
- Marker is unique; cannot be copied, washed out or removed
- Equipment is robust with Worldwide accreditation by technical labs
- The only marker that is ISO 17025 accredited (test requirements)
- Can be used in dark & opaque products and in Bio-fuels
- Field tests are conclusive, accurate and repeatable
- Fast and Simple
- No requirement for a centralised lab
- GPS reading and Printable
- Automatic transmission of test result

Petromark™ is the only fuel marking analyzing system that is ISO accredited and certified. ISO 17025 accredited since 2007.

In an era where governments and oil companies face a growing threat from fuel theft and adulteration and tax evasions, the Petromark™ integrated system has become crucial to the struggle against loss of revenues. Currently, the company provides vital cutting edge and unique solution to customers such as governments as well as national and private oil companies. GFI positioned itself as one of the leading companies in the field!

The Petromark™ system has already been tested and approved for marking and used by governments, major oil companies and distributors around the world.

The Petromark™ Marker can be used for all variety types of fuels and lubricants including "black products" such as: Diesel fuel, fuel OIL, heavy fuel oil, crude oil, engine oils (synthetic and hydrocarbon based) ethanol and its derivatives and all bio-fuel types.

Petromark™ Marker exhibits long term molecule stability and maintains its structure and specifications at least for one year and is directly measurable by the analyzers, and there is no need for any additional chemical substance for this measurement.

It does not change the color of the fuel at any stage of the analysis/test nor does it change or alter the quality and characteristics of the fuels. It does not interact with the specific/unique additives of each individual oil company inserted to the fuels or cause any harm or damage to car engines.

The marker does not clog or damage the catalytic converters as well it does not damage the O2 sensors and is easily mixable in fuels. It cannot be separated from fuel by physical means or chemical reactions.

In layman's terms the company's Petromark™ technology can mark and trace using unique molecular markers providing for numerous coding combinations. The system is based on

applying the markers into the fuel and then taking samples of the marked fuel downstream and analyzing the marker concentration level. The marker possesses several important characteristics that differentiate it from rival offerings, including good stability in all conditions, invisible, covert and cannot be altered or erased.

Financial

Last financials reveal about \$1.6 million in cash and no debt other than approx. \$1.4 million in shareholder loans held by original GFI shareholders.

Revenue in the 1st qtr, was about \$1.35 million and I expect the 2nd qtr financial will show the trend to an approx. \$7 to \$8 million/year revenue run rate.

In my discussions with the company I expect that current operations should be self-funded. Their **revenue model is very good with about 75% revenue as reoccurring (Customers pay by the litre of fuel that is marked) and gross margins are high >70%**

With new contracts on the horizon, very little cash is required as an outlay on any new contract as the revenue model is basically a pay as you use. My summary will explain the potential for the huge revenue increase that I expect.

Summary

The company's current revenue stream is mostly Africa and Eastern Europe. They have had a contract in Tanzania for a couple of years so we can expropriate potential based on the Tanzania experience that can generate minimum annualized recurring revenue of \$2 million

According to EIA in 2012 Tanzania was only producing about 100 barrels of oil per day and consumed about 35,000 barrels a day so is quite small in regards to oil production and use. Previous Tanzania's exposure was the fact that virtually all fuel was and still is imported.

Now looking at Nigeria which is the other extreme and is plagued with illicit oil trading highlights the huge potential. Hydrocarbon resources are the mainstay of the country's economy, according to EIA in 2012 Nigeria produced 2.55 million barrels a day and consumed 240,000 barrels per day making Nigeria a large exporter of oil, ranked #12 in the World. Estimates of theft range around 200,000 to 400,000 barrels per day

<http://www.eia.gov/countries/country-data.cfm?fips=NI>

If Eurocontrol could land a contract here it would easily generate 10 times the revenue compared to a smaller country and oil user like Tanzania and probably more like 20 times - so potential for \$20 to \$40 million in reoccurring revenue per year in a country like Nigeria.

Looked at another way, if you consider the 50 or so countries in the African Union and exclude the big ones, Nigeria and South Africa you can easily see \$100 million per year in revenue potential.

And I am only looking at Africa. Central Europe, Asia and South America are obvious potential candidates as well.

Currently the company is pursuing **3 new contract opportunities and any one of these would**

approximately represent a double in the current revenue/per year run rate of \$7 to \$8 million.

So if they close on one deal a double in revenue, two deals approx. a triple in revenue.

At \$0.10 per share the market cap is only \$9 million not much more than 1 times current revenue run rate. Once this company grows some more, becomes better known and will be generating a good profit as well - we could easily see it trading at 3 or 4 times revenue, especially since the majority of their revenue is a reoccurring stream.

\$20 million per year at 3 times revenue would be a market cap of \$60 million **or about 6 times the current share price.**

Near term I have a target on the stock of \$0.30 to \$0.50 and longer term I expect it could easily be well North of \$1.00

I have only talked about their fuel marking system but they also recently announced a new product, its new Petro–Marine XRF system, a monitoring system for marine vessels. New legislation requires the use of low sulphur fuels in environmentally sensitive areas. Petro-Marine XRF is an onboard X-Ray Florescence analysis system for detecting sulfur in diesel fuel to provide compliance with new international regulations for sulfur oxides in diesel fuel.

Just today the company announced they have begun a pilot project for this product with a large (fleet in excess of 100 marine vessels) container shipping company with headquarters in Israel.

The target market for the Petro-Marine XRF system is very large. There are approximately 55,000 merchant ships currently in service worldwide, including bulk carriers, dry cargo vessels, multipurpose vessels, container vessels, tankers, liquid petroleum gas, liquid natural gas and most cruise ships, providing the company with an available market approximating \$1.6-billion (U.S.)

One of the major elements in marine is catastrophic avoidance as you may be aware with a couple recent Cruise ship incidents. Whether you have 1,000s of passengers or 1,000s barrels of oil on board you don't want to be floating around disabled!!!

In addition to the ability to measure sulfur oxides in diesel fuel, the Petro-Marine XRF system is designed to also monitor:

- Wear metals in oils**– The concentrations of wear metals in engine lubricating oil can be directly related to the engine components and can indicate component wear. An engine maintenance program using the Petro-Marine XRF system routinely measures concentrations of wear metals in oils in order to avoid unexpected engine failure and ensure a high degree of safety.

- Cat Fines in fuel**- Cat fines are compounds of silicon and aluminum which are required as catalysts in the refining process, however these particles can cause severe cylinder wall damage when present in large concentrations and can cause engine failure. The Petro-Marine XRF system allows ship owners to confirm the presence and magnitude of Cat Fines in the fuel within seconds during the fuel purchase process thereby avoiding potential engine failure.

- Sea water contamination and Fraudulent mixing of bunker fuels**

They just announced this new product in February but down the road it could be adding to revenues and profits.



The stock is acting very well, seems to be anticipating a change in the companies fortune, yet it has still not broken out significantly. We can see in the past year it built a base between \$0.03 and \$0.08 cents and just recently broke above this base and has broken above the 200 day MA so a new uptrend appears in place. The next major resistance is around \$0.14, a break above that would likely signal a move to much higher prices.

I currently own 100,000 shares
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