



EUROCONTROL TECHNICS GROUP INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2014 and 2013

(In Canadian dollars)

(UNAUDITED)

EUROCONTROL TECHNICS GROUP 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 GROUP INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(Expressed in Canadian dollars)

As at,	Notes	June 30, 2014	December 31, 2013
ASSETS			
Current assets			
Cash		\$ 2,317,235	\$ 2,185,662
Amounts receivable	7	571,474	583,698
Inventories	8	601,991	545,360
Prepaid expenses		41,362	28,340
Total current assets		3,532,062	3,343,060
Non-current assets			
Loan receivable	21	203,364	322,807
Equipment	9	232,151	223,288
Deferred development costs	10	318,644	337,388
Technology rights	11	2,471,829	2,654,718
Intellectual property	5	324,599	349,568
TOTAL ASSETS		\$ 7,082,649	\$ 7,230,829
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	12, 18	\$ 848,442	\$ 835,987
Shareholder loans	13	1,375,243	1,491,322
Total current liabilities		2,223,685	2,327,309
Non-current liabilities			
Loan		15,013	22,749
Total liabilities		2,238,698	2,350,058
Shareholders' equity			
Issued capital	14	14,690,341	14,690,341
Warrants reserve	15	-	-
Share-based payment reserve	16	395,856	395,856
Accumulated other comprehensive income		45,120	-
Deficit		(10,287,366)	(10,205,426)
Total shareholders' equity		4,843,951	4,880,771
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 7,082,649	\$ 7,230,829

Nature of operations and going concern (note 1)

Commitments and contingencies (note 23)

APPROVED ON BEHALF OF THE BOARD:

Signed "W. BRUCE ROWLANDS", Director

Signed "GADI GONEN", Director

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

EUROCONTROL TECHNICS GROUP INC.

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

		Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Revenue	6	\$ 1,470,691	\$ 1,816,035	\$ 2,890,171	\$ 3,162,314
Costs of sales		(637,870)	(813,174)	(1,264,362)	(1,287,620)
Direct amortization	10, 11	(113,301)	(268,888)	(226,602)	(584,924)
Gross profit		719,520	733,973	1,399,207	1,289,770
Expenses					
Consulting and management	18	231,212	181,222	458,883	474,007
Depreciation	9	20,444	12,407	41,747	27,577
Administration		203,080	239,814	398,633	492,640
Sales and marketing expenses		124,913	57,864	224,513	128,603
Research and development		196,344	172,334	222,027	351,678
Public company costs		50,561	31,089	88,850	64,982
Share-based expense	16	-	-	-	151,000
Total expenses		826,554	694,730	1,434,653	1,690,487
Income (loss) before the undernoted		(107,034)	39,244	(35,446)	(400,717)
Other income and expense					
Finance (loss) income		(224)	(1,298)	(501)	350
Foreign exchange (loss) gain		(9,402)	102,152	16,926	140,485
Finance expense	18	(24,626)	(23,915)	(50,668)	(47,193)
		(34,252)	76,939	(34,243)	93,642
Income (loss) before income taxes		(141,286)	116,183	(69,689)	(307,075)
Income tax recovery (expense)		417	(8,339)	(12,251)	(8,778)
Net income (loss)		(140,869)	107,844	(81,940)	(315,853)
Income (loss) per share					
Basic		\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Diluted		\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding					
Basic		89,160,738	89,160,738	89,160,738	89,160,738
Diluted		89,160,738	111,277,903	89,160,738	89,168,738
Other comprehensive income (loss) - items that may subsequently reclassify into income (loss)					
Net income (loss)		(140,869)	107,844	(81,940)	(315,853)
Exchange gain on translation of foreign subsidiary		(50,463)	-	45,120	-
Net comprehensive income (loss)		(191,332)	107,844	(36,820)	(315,853)

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

EUROCONTROL TECHNICS GROUP INC.

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

(Expressed in Canadian dollars)

	Number of Shares	Issued Capital (Note 14)	Warrants Reserve (Note 15)	Share-based Payment Reserve (Note 16)	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2012	89,160,738	\$ 14,690,341	\$ 866,379	\$ 296,736	\$ (10,681,464)	\$ -	\$ 5,171,992
Expiry of stock options	-	-	-	(35,960)	35,960	-	-
Share-based expense	-	-	-	151,000	-	-	151,000
Loss for the period	-	-	-	-	(315,853)	-	(315,853)
Balance as at June 30, 2013	89,160,738	\$ 14,690,341	\$ 866,379	\$ 411,776	\$ (10,961,357)	\$ -	\$ 5,007,139
Expiry of warrants	-	-	(866,379)	-	866,379	-	-
Expiry of stock options	-	-	-	(15,920)	15,920	-	-
Loss for the period	-	-	-	-	(126,368)	-	(126,368)
Balance as at December 31, 2013	89,160,738	\$ 14,690,341	\$ -	\$ 395,856	\$ (10,205,426)	\$ -	\$ 4,880,771
Exchange gain on translation of foreign subsidiary	-	-	-	-	-	45,120	45,120
Income for the period	-	-	-	-	(81,940)	-	(81,940)
Balance as at June 30, 2014	89,160,738	\$ 14,690,341	\$ -	\$ 395,856	\$ (10,287,366)	\$ 45,120	\$ 4,843,951

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

EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(Expressed in Canadian dollars)

For the six month periods ended June 30,	Notes	2014	2013
Cash provided by (used in):			
Operating activities			
Loss for the period		\$ (81,940)	\$ (315,853)
Items not involving cash:			
Amortization of intellectual property		24,969	-
Amortization of equipment	9	41,747	27,577
Amortization of deferred development costs	10	18,744	122,848
Amortization of technology right	11	182,889	462,077
Share-based expense		-	151,000
Foreign exchange loss (gain)		8,510	(168,006)
Foreign exchange gain on shareholder loans		(2,302)	65,706
Accrued interest on shareholder loans		50,668	47,193
Working capital adjustments			
Change in amounts receivable		12,224	255,176
Change in inventories		(56,631)	37,653
Change in prepaid expenses		(13,022)	78,223
Change in accounts payables and accrued liabilities		12,455	1,144,030
Cash flows from operating activities		198,311	1,907,624
Investing activities			
Equipment expenditures		(27,082)	(14,417)
Loan repayments		(7,736)	-
Loan payments received		119,443	(7,607)
Cash flows used in investing activities		84,625	(22,024)
Financing activities			
Repayment of shareholder loans		(164,445)	(150,351)
Cash flows used in financing activities		(164,445)	(150,351)
Effect of exchange rate changes on cash		13,082	145,099
Increase (Decrease) in cash		131,573	1,880,348
Cash, beginning of the period		2,185,662	1,582,030
Cash, end of the period		\$ 2,317,235	\$ 3,462,378
Supplementary cash flow information			
Interest paid		\$ 50,668	\$ 47,193

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

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2014 and 2013

1. NATURE OF OPERATIONS AND GOING CONCERN

Eurocontrol Technics Group Inc. (the "Company") is a publicly listed company incorporated in British Columbia and Continued in the Province of Ontario. The Company participates in the energy security and authentication, verification and certification markets globally.

The Company's shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "EUO". The head office, principal and registered address and records office of the Company is located at 401 Bay Street, Suite 2828, Toronto, Ontario, M5H 2Y4.

Due to a history of annual operating losses, the Company's continuance as a going concern is dependent upon its ability to maintain profitable levels of operation. It is not possible to predict if the Company will maintain profitable levels of operations. Management of the Company expects that the Company's revenue from operations, together with its existing cash and other current assets, will be adequate to meet its short-term working capital requirements during the next 12 months.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 27, 2014.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2013 annual financial statements.

Adoption of revised and new standards and interpretations

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32, Financial Instruments, Presentation ("IAS 32") – In December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The adoption of this standard did not result in any changes to the Company's disclosure of its financial instruments.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company's disclosure of its financial instruments.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2014 and 2013

2. BASIS OF PRESENTATION, (continued)

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

IFRIC 21 – Levies (“IFRIC 21”) was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

New Accounting Policies not yet adopted:

At the date of authorization of these financial statements, the IASB and IFRIC had issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. The Company is currently assessing what impact the application of these standards or amendments will have on the interim condensed consolidated financial statements of the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2014 and 2013

3. PRINCIPLES OF CONSOLIDATION

These consolidated financial statements for the three and six month periods ended June 30, 2014 and 2013 include the financial position, results of operations and cash flows of the Company and its subsidiaries. The Company's subsidiaries are as follows:

Name	Country of incorporation	Economic interest	Basis of Accounting
Global Fluids International S.A. ("GFI")	Nevis	100%	Full consolidation
Xenemetrix Ltd. ("Xenemetrix")	Israel	100%	Full consolidation
XwinSys Ltd. ("XwinSys")	Israel	100%	Full consolidation

Subsidiaries

Subsidiaries are entities over which the Company has control, whereby 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 at which control ceases.

Business Combinations and Goodwill

On the acquisition of a subsidiary that meets the definition of a business, the acquisition 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 as 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 the statement of operations;
- 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 statement of operations.

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.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2014 and 2013

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- **Assets' carrying values and impairment charges** - In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Impairment of technology rights, deferred development costs and intellectual property** - While assessing whether any indications of impairment exist for technology rights, deferred development costs and intellectual property, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable of such assets. Internal sources of information include the manner in which technology rights and deferred development assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's technology rights, deferred development costs and intellectual property, costs to sell the assets and the appropriate discount rate.
- **Share-based payments** – The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Income taxes** - The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.
- **Functional currency determination** - The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21 The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Corporation reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.
- **Contingencies** – refer to note 23.

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****5. INTELLECTUAL PROPERTY**

The Company, through its wholly owned subsidiary XwinSys, holds intellectual property on image processing technology. The intellectual property is licensed until 2020. Intellectual property is being amortized over the estimated useful life on a straight-line basis of seven years.

Cost

Balance as at December 31, 2012	\$	349,568
Additions		-
Balance as at December 31, 2013		349,568
Additions		-
Balance as at June 30, 2014	\$	349,568

Accumulated amortization

Balance as at December 31, 2012	\$	-
Amortization expense		-
Balance as at December 31, 2013		-
Amortization expense		24,969
Balance as at June 30, 2014	\$	24,969

Carrying amounts

Balance as at December 31, 2013	\$	349,568
Balance as at June 30, 2014	\$	324,599

6. OPERATING SEGMENTS

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		Revenue from external customers	
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Africa	\$ 1,225,411	\$ 943,102	\$ 2,086,288	\$ 2,031,889
North America	35,236	90,033	78,847	90,033
Asia	35,465	272,073	148,665	529,565
Europe	174,579	510,827	520,757	510,827
South America	-	-	55,615	-
	\$ 1,470,691	\$ 1,816,035	\$ 2,890,171	\$ 3,162,314

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****6. OPERATING SEGMENTS, (continued)**

GFI accounts for \$2,117,307 (2013 - \$2,405,950) of the revenue generated for the six month period ended June 30, 2014, representing 73% (2013 – 76%) of overall revenue from the sale of its oil markers. Xenometrix accounts for \$772,864 (2013 - \$756,364) of the revenue generated for the six month period ended June 30, 2014, representing 27% (2013 – 24%) of overall revenue. Xenometrix revenue is from sales of EDXRF systems.

As at June 30, 2014

	South America	North America	Asia	Total
Equipment	\$ -	\$ -	\$ 232,151	\$ 232,151
Deferred development costs	318,644	-	-	318,644
Technology rights	2,025,738	-	446,092	2,471,829
Intellectual property	-	-	324,599	324,599

As at December 31, 2013

	South America	North America	Asia	Total
Equipment	\$ -	\$ -	\$ 223,288	\$ 223,288
Deferred development costs	337,388	-	-	337,388
Technology rights	2,144,899	-	509,819	2,654,718
Intellectual property	-	-	349,568	349,568

7. AMOUNTS RECEIVABLE

As at,	June 30, 2014	December 31, 2013
Trade receivables	\$ 523,395	\$ 580,272
Tax receivables	44,851	-
Other	3,228	3,426
	\$ 571,474	\$ 583,698

8. INVENTORIES

As at,	June 30, 2014	December 31, 2013
Materials	\$ 175,806	\$ 138,284
Work in process	85,544	44,001
Finished goods	340,642	363,075
	\$ 601,991	\$ 545,360

Inventories are carried at the lower of cost and net realizable value. Materials, work in process, and finished goods are recorded at cost. For the three and six month periods ended June 30, 2014 and 2013, the cost of inventories recognized as an expense and included in cost of sales was \$637,870 and \$1,264,362 respectively, (2013 - \$813,175 and \$1,287,621 respectively).

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

(Expressed in Canadian dollars)

For the three and six month periods ended June 30, 2014 and 2013

9. EQUIPMENT

		Office furniture, computers and equipment	Vehicles	Total
Cost				
Balance as at December 31, 2012	\$	231,682	64,291	295,973
Additions		115,225	-	115,225
Disposals		(28,350)	-	(28,350)
Balance as at December 31, 2013		318,557	64,291	382,848
Additions		27,082	-	27,082
Disposals		-	-	-
Foreign exchange		28,199	6,020	34,220
Balance as at June 30, 2014	\$	373,838	70,311	444,149
Accumulated depreciation				
Balance as at December 31, 2012	\$	85,459	\$ 21,500	\$ 106,959
Depreciation		46,464	13,725	60,189
Disposals		(7,588)	-	(7,588)
Balance as at December 31, 2013		124,335	\$ 35,225	\$ 159,560
Depreciation		34,373	7,375	41,747
Disposals		-	-	-
Foreign exchange		8,330	2,360	10,691
Balance as at June 30, 2014	\$	167,038	\$ 44,960	\$ 211,998
Carrying amounts				
Balance as at December 31, 2013	\$	194,222	\$ 29,066	\$ 223,288
Balance as at June 30, 2014	\$	206,800	\$ 25,351	\$ 232,151

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****10. DEFERRED DEVELOPMENT COSTS**

During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

Cost	Marker	Equipment	Total
Balance as at December 31, 2012	\$ 920,137	\$ 651,922	\$ 1,572,059
Additions	-	-	-
Balance as at December 31, 2013	920,137	651,922	1,572,059
Additions	-	-	-
Balance as at June 30, 2014	\$ 920,137	\$ 651,922	\$ 1,572,059
Accumulated amortization			
Balance as at December 31, 2012	\$ 460,065	590,416	1,050,481
Amortization expense	122,684	61,506	184,190
Balance as at December 31, 2013	582,749	651,922	1,234,671
Amortization expense	18,744	-	18,744
Balance as at June 30, 2014	\$ 601,493	\$ 651,922	\$ 1,253,415
Carrying amounts			
Balance as at December 31, 2012	\$ 337,388	\$ -	\$ 337,388
Balance as at June 30, 2014	\$ 318,644	\$ -	\$ 318,644

11. TECHNOLOGY RIGHTS

The Company, through its wholly owned subsidiaries GFI and Xenometrix, holds a licence to produce and sell fuel markers, detectors and XRF systems. The fuel markers and detectors are licensed under a 20 year licence agreement from the holder of the patents. The XRF systems are licensed until February 2018. Technology rights assets relating to markers and detectors and XRF Systems are being amortized over their estimated useful lives on a straight-line basis of 10 years (ending in fiscal 2016) and seven years (ending in fiscal 2018), respectively. During the three month period ended March 31, 2014, the estimate of the useful life of the fuel marker and detectors was reassessed and the useful life was estimated to be ending in fiscal 2022.

Cost	Markers and Detectors	XRF Systems	Total
Balance as at December 31, 2012	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Additions	-	-	-
Balance as at December 31, 2013	7,844,267	892,184	8,736,451
Additions	-	-	-
Balance as at June 30, 2014	\$ 7,844,267	\$ 892,184	\$ 8,736,451
Accumulated amortization			
Balance as at December 31, 2012	\$ 4,902,673	254,910	5,157,583
Amortization expense	796,695	127,455	924,150
Balance as at December 31, 2013	5,699,368	382,365	6,081,733
Amortization expense	119,161	63,728	182,889
Balance as at June 30, 2014	\$ 5,818,529	\$ 446,093	\$ 6,264,622
Carrying amounts			
Balance as at December 31, 2013	\$ 2,144,899	\$ 509,819	\$ 2,654,718
Balance as at June 30, 2014	\$ 2,025,738	\$ 446,092	\$ 2,471,829

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As at,		June 30, 2014	December 31, 2013
Accounts payable	\$	441,611	\$ 289,945
Accrued liabilities		406,831	546,042
	\$	848,442	\$ 835,987

13. SHAREHOLDER LOANS

			June 30, 2014	December 31, 2013
Euro loan				
Principal	€	500,000	\$ 727,450	\$ 731,420
Interest	€	408,493	594,316	556,708
Total outstanding Euro loan			1,321,766	1,288,128
US dollar loan				
Principal	\$	850,000	906,950	904,060
Interest	\$	378,395	403,747	400,559
			\$ 1,310,697	\$ 1,304,619
Repayments			(1,257,220)	(1,101,425)
Total outstanding US loan			53,477	203,194
Total			\$ 1,375,243	\$ 1,491,322

The total payable includes the principal amount of €500,000 (\$727,450) (December 31, 2013 - €500,000 (\$731,420)) and accrued interest of €408,493 (\$594,316) (December 31, 2013 - €380,567 (\$556,708)) loaned by the former shareholders of GFI. These loans payable bear an annual interest rate of 7.2%. A director of the Company is among recipients of such loans.

The remainder of the shareholder loans balance relates to the principal amount of US\$850,000 (\$906,950) (December 31, 2013 - US\$850,000 (\$904,060)) and accrued interest of US\$378,395 (\$403,747) (December 31, 2013 - US\$376,607 (\$400,559)) in loans payable to the former shareholders of GFI. The US dollar shareholder loans will be repaid through 25% of the income generated by contracts of GFI.

As at June 30, 2014, the Company repaid US\$1,178,276 (\$1,257,220), (December 31, 2013 - US\$1,035,563 (\$1,101,425)). This portion of the loans payable bears an annual interest rate of 5.0%.

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14. ISSUED CAPITAL

Authorized: Unlimited common shares without par value

	June 30, 2014	December 31, 2013
Issued capital	<u>\$ 14,690,341</u>	<u>\$ 14,260,341</u>
Fully paid common shares	<u>89,160,738</u>	<u>89,160,738</u>

Commons shares issued:

	Number of Shares	Value of shares
Balance as at December 31, 2013 and 2012	89,160,738	\$ 14,260,341
Balance as at June 30, 2014	89,160,738	\$ 14,260,341

As at June 30, 2014 and December 31, 2013 and 2012, the Company had the following commitment to issue shares:

	Number of Shares	Value of shares
Shares to be issued – warrants exercised	1,000,000	\$ 260,000
Shares to be issued – warrant valuation	-	170,000
Balance as at December 31, 2012, December 31, 2013 and June 30, 2014	1,000,000	\$ 430,000

15. WARRANTS RESERVE

The following table summarizes information about warrants:

	Number of Warrants	Value
Balance as at December 31, 2012	15,154,665	\$ 866,379
Warrants expired	(15,154,665)	(866,379)
Balance as at December 31, 2013 and June 30, 2014	-	\$ -

There were no warrants outstanding as of June 30, 2014 and December 31, 2013 and 2012.

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****16. SHARE-BASED PAYMENT RESERVE****Employee share option plan**

The Board of Directors of the Company adopted a stock option 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 TSXV 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 set at the last closing price of the Company's common shares before the date of grant.

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 table summarizes information about share-based payment reserve:

Balance as at December 31, 2011	\$	640,100
Expiry of stock options		(343,364)
Balance as at December 31, 2012	\$	296,736
Share based payments		151,000
Expiry of stock options		(51,880)
Balance as at December 31, 2013 and June 30, 2014	\$	395,856

The following share-based payment arrangements were in existence as at June 30, 2014:

Number of options outstanding	Number of exercisable options	Grant date	Expiry date	Exercise price	Fair value at grant date
1,700,000	1,700,000	February 23, 2011	February 23, 2016	\$ 0.16	244,856
5,112,500	5,112,500	March 11, 2013	March 11, 2018	\$ 0.10	151,000
6,812,500	6,812,500				\$ 395,856

The share options outstanding as at June 30, 2014 had a weighted exercise price of \$0.11 (December 31, 2013: \$0.11) and a weighted average remaining contractual life of 3.2 years (December 31, 2013: 3.7 years).

All options vested on their date of issue and expire within five years of their issue, or 30 days after the resignation of the director, officer, employee or consultant.

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****16. SHARE-BASED PAYMENT RESERVE (continued)***Fair value of share options granted in the six month period ended June 30, 2014*

During the six month period ended June 30, 2014, no share options were granted.

Fair value of share options granted in the year ended December 31, 2013

On March 11, 2013, 5,112,500 share options were granted to directors, officers and consultants of the Company to acquire the Company's shares at an exercise price of \$0.10 until March 11, 2018. These share options had an estimated fair value of \$151,000 at grant date.

The share options were priced using the Black-Scholes option-pricing model as at the date of the grant assuming a five year term to maturity with an expected volatility based on historical prices of the Company, an expected dividend yield, and a risk free interest rate, as noted in the table below. 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.

	Number of Options Granted	
	5,112,500	
Grant date share price	\$	0.04
Exercise price	\$	0.10
Expected volatility		123%
Expected option life		5 years
Expected dividend yield		0%
Risk-free interest rate		1.39%

Movements in shares options during the period/year:

The following reconciles the share options outstanding during the six month period ended June 30, 2014 and years ended December 31, 2013 and 2012:

	Number of options	Weighted average exercise price
Balance as at December 31, 2011	4,110,000	\$ 0.19
Expired	(2,060,000)	\$ 0.20
Balance as at December 31, 2012	2,050,000	\$ 0.18
Granted	5,112,500	\$ 0.10
Expired	(350,000)	\$ 0.28
Balance as at December 31, 2013 and June 30, 2014	6,812,500	\$ 0.11

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****17. FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities as at June 30, 2014 and December 31, 2013 were as follows:

	Loans and receivables	Other financial liabilities	Total
As at June 30, 2014			
Cash	\$ 2,317,235	-	\$ 2,317,235
Amounts receivable	523,395	-	523,395
Loans receivable	203,364	-	203,364
Accounts payable and accrued liabilities	-	848,442	848,442
Shareholder loans	-	1,375,243	1,375,243
Loans	-	15,013	15,013

	Loans and receivables	Other financial liabilities	Total
As at December 31, 2013			
Cash	\$ 2,185,662	-	\$ 2,185,662
Amounts receivable	580,272	-	580,272
Loans receivable	322,807	-	322,807
Accounts payable and accrued liabilities	-	835,987	835,987
Shareholder loans	-	1,491,322	1,491,322
Loans	-	22,749	22,749

As at June 30, 2014, 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 June 30, 2014 and December 31, 2013, 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, loan receivable, accounts payable, accrued liabilities and loans classified as long term 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.

18. RELATED PARTY DISCLOSURES

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

- For the six month period ended June 30, 2014 \$50,668 (2013 - \$47,193) in interest was charged on the shareholder loans as described in note 13.

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18. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the three and six month periods ended June 30, 2014 and 2013 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Short-term compensation and benefits	\$ 303,650	\$ 145,250	\$ 451,400	\$ 293,500
Share-based payments	-	-	-	126,000
	\$ 303,650	\$ 145,250	\$ 451,400	\$ 419,500

As at June 30, 2014, an amount of \$41,026 (December 31, 2013 - \$101,762) due to members of key management personnel, was included in accounts payable and accrued liabilities. This amount is unsecured, non-interest bearing and without fixed terms of repayment.

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.

See also note 23.

19. 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 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 the six month period ended June 30, 2014. The Company and its subsidiaries are not subject to externally imposed capital requirements.

20. 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, amounts receivable and loan 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.

EUROCONTROL TECHNICS GROUP INC.**Notes to the Condensed Consolidated Interim Financial Statements (unaudited)****(Expressed in Canadian dollars)****For the three and six month periods ended June 30, 2014 and 2013****20. FINANCIAL RISK FACTORS (continued)****Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at June 30, 2014, the Company had a cash balance of \$2,317,235 (December 31, 2013 - \$2,185,662) to settle current liabilities of \$2,223,685 (December 31, 2013 - \$2,327,309). This amount includes \$1,375,243 (December 31, 2013 - \$1,491,322) in shareholder loans (note 13).

All of the Company's financial liabilities other than shareholder loans have contractual maturities of less than 365 days and are subject to normal trade terms. The Company cannot ensure there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holding cash. The Company is currently seeking sources of funding to meet short term liabilities, and short term cash requirements. The terms of the shareholder loans are described in note 13.

Market risk**(a) Interest rate risk**

The Company carries shareholder loans with interest and repayment terms as described in note 13. 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 and its subsidiaries is the Canadian dollar. The Company undertakes transactions denominated in foreign currencies, including US dollars and Euros, and as such is exposed to price risk due to fluctuations in foreign exchange rates against the Canadian dollar. The Company does not use derivative instruments to reduce exposure to foreign exchange risk.

The exposure of the Company's financial assets and liabilities to foreign currency risk as at June 30, 2014 is as follows:

	CDN Dollar	US Dollar	Euro	Total (in CDN dollars)
Financial assets				
Cash	\$ 34,499	\$ 2,282,736	\$ -	\$ 2,317,235
Amounts receivable	-	\$ 571,474	-	571,474
Loan receivable	-	\$ 203,364	-	203,364
	\$ 34,499	\$ 3,057,574	\$ -	\$ 3,092,073
Financial liabilities				
Accounts payable and accrued liabilities	\$ 51,283	\$ 797,159	\$ -	\$ 848,442
Shareholder loans	-	53,477	1,321,766	1,375,243
Loan	-	15,013	-	15,013
	\$ 51,283	\$ 865,649	\$ 1,321,766	\$ 2,238,698

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 \$219,000 (2013 - \$22,000) based on the foreign currency balances at June 30, 2014.

EUROCONTROL TECHNICS GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

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20. FINANCIAL RISK FACTORS (continued)

(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.

21. LOAN RECEIVABLE

On September 20, 2012, the Company, through its wholly owned subsidiary Global Fluids International S.A., loaned US\$200,000 and paid for various expenses amounting to US\$114,094 on behalf of GFI U Ltd., a non-related company, pursuant to a five year contract extension with the Ministry of Energy and Mineral Development, Government of the Republic of Uganda for the continued deployment of the Company's Petromark™ technology in that country. The loan carries an interest rate of 10% and is without fixed terms of repayment. As at June 30, 2014, the balance of principal and interest outstanding amounts to \$203,364 (December 31, 2013 – \$322,807).

22. COMPARATIVE FIGURES

The Company revised the classification of certain of its expenses to cost of sales and direct amortization. This classification includes: amortization of technology rights, general and administration expenses and R&D related expenses. In 2013, amortization of technology rights had been categorized as depreciation expense. This change in classification resulted in a reduction of expenses of \$684,017, an increase of cost of sales of \$221,941 and an increase in direct amortization of \$462,076. This reclassification was made in order to more accurately disclose the gross profit of the Company.

23. COMMITMENT AND CONTINGENCIES

- a) In January 2012, a lawsuit for approximately US\$100,000 was filed against the Company by a supplier for services it alleges were received by the Company but not paid for. In the opinion of management, this lawsuit has no merit and the ultimate disposition of this lawsuit will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows. As a result, this amount has not been reflected in these consolidated financial statements.
- (b) Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to \$148,132 during the six month period ended June 30, 2014. Royalty-bearing grants are repayable upon successful commencement of sales at a rate of 4% of sales up until the balance of the grants is repaid in full. As of June 30, 2014, the balance of the grants received to date to be repaid is approximately \$438,000.