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Interviews & News!

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With Terrorism And The Illicit Trade Of Oil And Gas On The Rise, Eurocontrol Is In The Right Place At The Right Time With Their Petromark™ Technology That Can Be Used To Identify Hydrocarbons In Transit

eurocontrol
TECHNICS

Energy
Security
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W. Bruce Rowlands
President & Chief Executive Officer

BIO:

W. Bruce Rowlands brings an extensive background in new and emerging technologies, international capital markets, investment banking, and executive communications to his role as President, CEO and Director of Eurocontrol. Mr. Rowlands has served in senior executive positions in both emerging public market companies, taking them through key corporate milestones and within the Canadian investment industry..

Company Profile:

Eurocontrol Technics Inc. through its wholly owned subsidiary Global Fluids International S.A. ("GFI") is one of the world's pioneers in developing and implementing innovative molecular marking systems for the oil industry. Through its proprietary Petromark(TM) integral system, GFI has developed a 4-part solution consisting of molecular markers, injection, monitoring and control components. Oil industry cost realities along with GFI's 5-year R&D efforts to create

its industry-leading marking solutions, combined with access to capital provided by Eurocontrol Technics Inc. allows management to pursue numerous anticipated oil marking opportunities in fiscal 2008 and in years to come.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Rowlands, what is your vision for Eurocontrol Technics?

Mr. Rowlands: "The vision of Eurocontrol is to deploy the world's leading energy security technology in the field of tag and trace technology for marking hydrocarbons. There are a variety of reasons why hydrocarbons need to be marked, and we believe we have the emerging global standard for the identification of hydrocarbons in transit and for the purpose of setting a fuel's fiscal status."

CEOCFO: What are you marking and why are you marking it?

Mr. Rowlands: "Our technology called Petromark™ was developed for the purpose of combating the financing of terrorism and organized crime amongst other things. The illicit trade of oil and gas, which is a problem that results in losses between 100 and \$200 billion a year, to oil companies and governments, is also one of the primary sources of funding for terrorism. Many oil companies are becoming much more proactive on the subject of protecting their brands. Certainly, nobody wishes to be seen as complacent about terrorism and the financing of organized crime. This is a novel technology, significantly better than what is

available from others. There are three important distinguishing factors to our technology, firstly we do not have to take the fuel sample to a lab, we take the lab to the fuel. Which is to say, we have a mobile laboratory, that is an ISO accredited laboratory, 17025 accredited, which is the highest lab accreditation you can receive.

Why is it important to take the lab to the fuel and not the fuel to the lab? It is important for two reasons, if you have to take samples to a lab by the time you get the results, the underlying evidence has usually been pumped out and sold, so you have no evidence in court. The other problem you have when you get into court is you have a chain of custody argument. Lawyers love to challenge people on the subject of where the sample goes, how long was it in transit, how many miles did it travel, how many different people handled it and so forth. They are ultimately making the argument that the adulteration of the underlying sample occurred somewhere other than where the sample was taken. Those are two major problems that we avoid because we can go right to the location where the fuel sits. We get the final result right there in the field. We have a mobile detector that is ISO 17025 accredited, and on top of that, we give you a quantifiable result. If we are marking a fuel line for you at four parts per million (PPM), I should be able to go anywhere downstream from the marking site and find our marker at four PPM. If I only find it at two PPM then I know that half of what we just measured is an adulterant that was added to the fuel after the fuel was marked."

CEOCFO: What do you actually measure?

Mr. Rowlands: “We are measuring the presence of our marker. We are imbedding our marker at (PPM) so I should be able to find it anywhere downstream from the marking site at the prescribed concentration. If we find it in a lesser concentration then we know that the underlying fuel has been diluted. All sorts of things are used from water to used motor oil, urine, and so forth; anything that is less valuable than the hydrocarbons that you are diluting. The criminal element are always cutting it with less valuable material. There are three primary activities in the illicit trade of oil and gas. The first one is the fiscal misuse of fuel based on the fuel’s fiscal status, for example, it could be fuel that is destined for export out of a particular country that is actually kept inside the country and sold at the fully taxed price making the spread for themselves. It could be farm gas, what farmers pay for a liter of fuel is something entirely different from what we pay on the highway.

With the older technologies in this industry the marker is a visible colorant added to the fuel. The problem is of course, that the criminal element can visibly see that the fuel has been marked. The idea is, you take the “washed” fuel out on the highway, sell it at the fully taxed price, and make the spread for themselves. The second problem is the physical adulteration of fuels; you start out with a thousand gallons of 91-octane gasoline, you pour in 400 gallons of used motor oil, or solvents or water or whatever and now you have 1,400 gallons of 91-octane gasoline as far as what you are going to pump out and sell. The third big area, which is exclusively ours from a security point of view, is the theft of crude oil in transit in pipelines and ships. We have the only technology available today in Petromark™, which is applicable to crude oil.”

CEOCFO: Who is using your services today?

Mr. Rowlands: “We are just entering the commercialization phase of our business

now. We have just recently won a government tender in Uganda where we displaced an incumbent competitor, who quite frankly have inferior technology. That is why we won the tender. We have two contracts with a leading European-based multinational that have \$6 billion of revenue in twelve countries with six thousand employees. I anticipate that there will be additional contracts coming from them in the future.”

CEOCFO: Is the oil industry looking for better solutions or do you need to convince them they should have it?

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- W. Bruce Rowlands

Mr. Rowlands: “The oil industry is looking for better solutions, more robust solutions that provide you with quantitative results, discreet technologies that will withstand the forensic review of a court of law. From our point of view, anything that is a visible marker either a colorant or florescent dye, anything like that is of no use because the criminal element can see it. Why that is important is the criminal element can then also be assured when they have successfully removed the colorant from the fuel, which quite frankly is easy to do. It is easy to remove colored dyes and florescent dyes from fuel, it is also quite frankly easy to go and build imitation dyes, anybody with a

modest background in chemistry can go to a chemistry library and put together colored dyes, it is not difficult. It is the last century’s technology. Our technology has the advantage that it is entirely discreet; there is no way for you to know that the fuel is being marked unless you are told so. We are marking these fuel lines at very low concentrations of our markers. You would not be able to go into the fuel and find our marker unless you knew what it was you were looking for and had the proper technology calibrated in the right way to look for it. The actual production of the liquid chemical marker is done by a large international chemical company under contract with us. Our mobile x-ray florescent detectors are also built for us by a contract manufacturer.”

CEOCFO: Do you have offices or distributors worldwide?

Mr. Rowlands: “We do not have distributors. At the end of the day, this is sort of the Gillette business model. What I mean by that is that it is a razor/razorblade solution. The razor in our case being the x-ray florescent detectors. The razorblades being the liquid chemical marker that we sell into the marking programs we implement. We inject the marker into fuel, when the fuel is burned, the marker is destroyed. These are ongoing projects. Once you set up and we are starting to mark particular lines of fuel on behalf of

whoever it might be, that is an ongoing process. That particular brand of fuel will always be marked with this marker at the prescribed concentration. At the end of the day, the business that we are in is selling the liquid chemical marker, which is where the margin is, we are approaching 80% gross margin into the marking programs. The detection equipment, we have built for us and we supply to the customer, but we are not in the detection and monitoring business. Some customers use the equipment themselves internally, they have the know-how and the staff to be able to do the monitoring, others will use our logistical partner which is a com-

pany called Inspectorate International; Inspectorate International is one of the large global inspection companies, they operate in 130 countries and at every loading, discharge and ship-to-ship terminal in the world. Most if not all, of the major oil companies on the planet would be customers of Inspectorate. International currently.

The inspection industry really plays anywhere large quantities of commodities, be it steel, petrochemicals, agricultural commodities, whatever it is, are traveling long distances between seller and buyer. The buyer wants to know upon receiving the shipment that it is in fact what they contracted to buy, from the point of view of quality and so forth. That is where the inspection industry steps in. Inspectorate International, our logistical partner, were introduced to us by the European Oil company for whom we are working right now. That is the business model. We just recently struck a joint venture agreement with a group out of Europe and that joint venture is for China, Russia, India, South Korea, Libya, and Algeria. This particular group are significant investors in exploration and production companies in these territories, as well as, in the pipeline systems in these territories. They have joined us in a joint venture to help us market the technology in these areas.”

CEOCFO: What is the financial picture of the company?

Mr. Rowlands: “We just reported our first financial numbers that include revenue, which was on the last day of February. That was our fiscal third quarter which ended at the end of December. The revenue from that quarter was \$340,000 approximately. We are tracking towards a number similar to that in this current quarter. We have the company on an annualized revenue run-rate at the moment

of about US\$1.5M. There are a variety of other opportunities; I expect that we will have the company on a run-rate of about ten million by the end of 2008. Most of that revenue is from the sale of markers. Our revenue breaks down to about two-thirds to three-quarters from the sale of our liquid chemical marker with a gross margin of seventy to eighty percent and the balance of the revenue will be from the sale of detectors, spare parts and service contracts that we have in terms of setting up marking sites and so forth. We are in a good position; we have about a million dollars of working capital currently. We are burning about a \$100,000 a month so we are in a stable position and do not anticipate having to go back to the market in order to fulfill what we are going to be doing this year.”

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CEOCFO: Why should potential investors be interested and what might they miss that they really need to understand about the company?

Mr. Rowlands: “Well I think that the important thing is to understand that this technology is addressing an old problem which has been addressed historically with old technology. Our technology is the cutting-edge in these kinds of marking programs. The industry that I categorize Eurocontrol as being a part of is the authentication industry. In 2005, the global authentication industry was thought to have revenue of about \$500 million, a very small emerging industry. Why is it important? Well it’s important

because we are moving towards a time where nobody will be allowed to sell anything to anybody unless they can determine at the point of sale that what they are purchasing is the real thing and not a counterfeit. There has been a huge explosion in counterfeit goods. That is not the business that we are currently in but certainly the authentication and the verification of hydrocarbons is a subset it is one of the silos within the emerging authentication industry. It is a very interesting industry. There are other technologies that apply in the security printing space, also in radio frequency ID. What we are seeing today is governments and legislators are pushing industry to put these kinds of systems on their supply chains right down to the point of sale. This is because of the explosion in counterfeit goods, which has been a direct result of

the war on terror and specifically the initiatives that have been taken to restrict the movement of illicit cash. It is no longer as easy to move cash around, so organized crime and others, instead of moving cash around they are moving counterfeit goods around. They find a large supply chain, they arrange to place their goods in that supply chain and take

payment for their counterfeit goods in the location where they wish to have the money. That is the broader picture of authentication that we are looking at for future acquisitions.”

CEOCFO: What should readers remember about your story?

Mr. Rowlands: “It is a compelling business model. It is a razor/razorblade model, which is attractive to investors. The contracts we get tend to be three or four years at a minimum with recurring sales quarter to quarter on a very high-margin item being the liquid chemical marker.”

PETROMARKTM ●●●
BY GFI - GLOBAL FLUIDS INTERNATIONAL

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