ZECOTEK PHOTONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS
ENDED JULY 31, 2010 AND 2009

AUDITORS' REPORT

To the Shareholders of:
Zecotek Photonics Inc.

We have audited the consolidated balance sheets of Zecotek Photonics Inc. as at July 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial positions of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Berris Mangan

CHARTERED ACCOUNTANTS

Vancouver, B.C.
November 15, 2010

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Zecotek Photonics Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at July 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 81,010	$ 81,430
Trade receivables	1,483	2,116
Interest receivable	-	298
Goods and services tax recoverable	34,828	15,411
Prepaid expenses	14,790	17,184
	132,111	116,439
Due from related parties *(note 6)*	-	14,410
Restricted short term investments *(note 5)*	15,000	15,000
Deposits	54,950	73,594
Property and equipment *(note 7)*	112,491	780,046
Equipment under capital lease *(note 8)*	16,684	23,835
Patent costs *(note 9)*	177,442	221,952
Total Assets	$508,678	$ 1,245,276
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities *(note 13)*	$ 2,206,366	$ 1,715,438
Current portion of obligations under capital lease *(note 12)*	7,282	7,213
Share subscriptions received *(note 19)*	650,000	-
Liabilities of discontinued operations *(note 11)*	-	53,254
	2,863,648	1,775,905
Obligations under capital lease *(note 12)*	15,263	22,330
Shareholders' Equity		
Share capital *(notes 10(b) and 22)*	32,702,057	29,410,773
Contributed surplus *(note 10(g))*	6,902,220	5,099,237
Deficit	(41,974,510)	(35,062,969)
	(2,370,233)	(552,959)
Nature of Business and Going Concern Uncertainty *(note 1)*		
Commitments and Contingencies *(notes 14 and 21)*		
Total Liabilities and Shareholders' Equity	$ 508,678	$ 1,245,276

Approved, on behalf of the Board:

"Faouzi Zerrouk"
Director

"David Toyoda"
Director

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)
Years ended July 31, 2010 and 2009

	2010	2009
Revenue	$ 67,848	$ 350,584
Cost of Sales	12,737	246,594
Gross Profit	55,111	103,990
Expenses		
Operating, general and administrative *(notes 13 and 15)*	2,912,317	2,673,071
Research and development *(notes 13 and 15)*	2,304,633	959,153
Stock-based compensation *(note 10(e))*	811,458	557,565
Financing *(notes 10(b)(ii) and 10(b)(iii))*	135,460	56,753
Foreign exchange loss	117,667	61,046
Amortization of property and equipment	241,435	342,259
Amortization of patent costs	28,000	28,005
	6,550,970	4,677,852
Loss before interest and other costs	(6,495,859)	(4,573,862)
Other income *(note 11)*	53,254	-
Interest income	-	6,176
Impairment of property and equipment *(note 7)*	(452,425)	-
Impairment of patent costs *(note 9)*	(16,511)	(49,264)
Net loss and comprehensive loss for the year	(6,911,541)	(4,616,950)
Deficit, Beginning of Year	(35,062,969)	(30,446,019)
Deficit, End of Year	$(41,974,510)	$(35,062,969)
Loss per common share – basic and diluted	$(0.13)	$(0.10)
Weighted average number of common shares outstanding – basic and diluted *(note 10(f))*	51,487,197	46,002,861

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended July 31, 2010 and 2009

	2010	2009
Operating Activities:		
Net loss and comprehensive loss for the year	$(6,911,541)	$(4,616,950)
Adjustments for items not involving cash:		
Amortization of property and equipment	241,436	342,259
Amortization of patent costs	28,000	28,005
Stock-based compensation	811,458	557,565
Impairment of property and equipment	452,425	-
Impairment of patent costs	16,511	49,264
Financing costs – non-cash	135,460	56,753
Other income – non-cash	(53,254)	-
	(5,279,505)	(3,583,104)
Changes in non-cash working capital:		
Interest receivable	298	31,808
Trade receivables	633	22,321
Goods and services tax recoverable	(19,417)	51,725
Prepaid expenses	2,394	81,284
Accounts payable and accrued liabilities	490,928	1,147,635
	(4,804,669)	(2,248,331)
Investing Activities:		
Net proceeds on disposal of short term investments	-	1,345,000
Deposits recovered (paid)	18,644	(1,777)
Acquisition of property and equipment	(19,156)	(2,013)
Grant reimbursements of property and equipment costs received	-	245,613
Patent costs incurred	-	(100,330)
	(512)	1,486,493
Financing Activities:		
Proceeds from shares and units issued, net of issuance costs	4,147,349	556,565
Share subscriptions received	650,000	-
Repayments of obligations under capital lease	(6,998)	(7,232)
Advances to related parties	14,410	(14,410)
	4,804,761	534,923
Increase (decrease) in cash and cash equivalents	(420)	(226,915)
Cash and cash equivalents, Beginning of Year	81,430	308,345
Cash and cash equivalents, End of Year	$ 81,010	$ 81,430

See accompanying Notes to Consolidated Financial Statements

1. Nature of business and going concern uncertainty

Nature of Business

Zecotek Photonics Inc. (the "Company") is a development stage enterprise which was incorporated on November 25, 1983 under the laws of the Province of British Columbia, Canada.

The activities of the Company are focused on the creation of advanced materials and integrated optoelectronic devices for high resolution medical imaging, optical precision surgery and biopharmaceutical research.

The Company has five wholly owned subsidiaries as follows:

Subsidiary	Main current or planned activity
Zecotek Crystals Inc.	Inactive
Zecotek Lasers Inc.	Inactive
Zecotek 3D Inc.	Inactive
Zecotek Photonics Singapore Pte. Ltd.	Holding company for Singapore subsidiaries
Zecotek Medical Systems AG	Swiss company for certification of medical technologies

Zecotek Photonics Singapore Pte. Ltd. holds 100% ownership interests in Zecotek Display Systems Pte. Ltd. and Zecotek Imaging Systems Pte. Ltd., and a 90% ownership interest in Zecotek Laser Systems Pte. Ltd.. These subsidiaries have principal activities described as follows:

Subsidiary	Main current or planned activity
Zecotek Display Systems Pte. Ltd.	Research and development (and eventual exploitation) of 3D imaging technologies
Zecotek Imaging Systems Pte. Ltd.	Research and development (and eventual exploitation) of medical imaging technologies
Zecotek Laser Systems Pte. Ltd.	Research and development (and eventual exploitation) of medical laser technologies

Zecotek Imaging Systems Pte. Ltd. holds a 100% ownership interest in Zecotek Imaging Systems (Malaysia) SDN BHD ("ZISM") which was incorporated on June 24, 2008 with principal activity described as follows:

Subsidiary	Main current or planned activity
Zecotek Imaging Systems (Malaysia) SDN BHD	Research and development (and eventual exploitation) of medical imaging technologies

1. Nature of business and going concern uncertainty (Continued)

Nature of Business (Continued)

Four other wholly owned subsidiaries of the Company, O-Tooz Energie Group Inc., FilmIndustry.com, Inc., DJscene.com Media, Inc. and OnlineConsortium.com Inc., have been inactive since August of 2001 (see note 11).

Going concern uncertainty

The Company's ability to continue to operate and meet its obligations as they come due is dependent upon the ability of the Company to obtain further equity financing, retain the support of its principal shareholders, and to successfully bring its technologies to market and achieve future profitable operations. The ultimate outcomes of these matters cannot presently be determined because they are contingent on future events.

These financial statements have been prepared on the going concern basis which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. As at July 31, 2010, the Company had very limited operating revenue, a cumulative deficit of $41,974,510 and a working capital deficiency of $2,731,537. The cash balance as of July 31, 2010 was significantly less than short term liabilities and the average annual operating cash outflow of the Company over the prior two years. These factors create substantial doubt as to the ability of the Company to continue as a going concern.

Management of the Company believes that it will be successful in securing additional financing as necessary to fund operations for the upcoming year, and that the going concern assumption remains appropriate.

These financial statements do not give effect to adjustments, if any, which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

2. Significant accounting policies

(a) Basis of Consolidation

The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries as identified in Note 1. All significant inter-company accounts and transactions have been eliminated upon consolidation.

No recognition is made of the share of a loss of a non-controlling interest in a subsidiary which would result in an asset to the Company.

2. Significant accounting policies (continued)

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, balances on deposit with banks and highly liquid market investments with original terms of maturity of less than ninety days at time of acquisition, intended for use in current operations, and is reported at fair value.

(d) Short Term Investments

Short term investments, which consist of financial instruments purchased with an original maturity of ninety days or greater and less than one year, are recorded at estimated market value.

(e) Restricted Short Term Investments

Restricted short term investments are short term investments pledged as security or otherwise subject to restricted liquidity, and are recorded at estimated market value.

(f) Property and Equipment

Amortization is provided on the following bases:

Equipment	20% to 33% declining balance
Furniture	20% to 30% declining balance
Leasehold improvements	three years straight-line
Vehicle	30% declining balance

(g) Intangible Assets

The purchase cost of technologies is initially capitalized as an asset.

The cost of intangible assets which are determined to have an indefinite life is not amortized, but is tested for impairment on an annual basis, based on a comparison of the fair value of the intangible asset with its carrying amount. The carrying amount is adjusted for impairment as necessary and any excess of the carrying amount over the fair value of the intangible asset is charged to earnings in the current period.

The cost of intangible assets which are determined to have a finite useful life is amortized on a systematic basis over the estimated remaining useful life.

2. Significant accounting policies (continued)

(g) Intangible Assets (continued)

Product registration costs related to efforts by the Company to acquire legal protections for its proprietary products, such as trademarks and patents, are capitalized if the Company believes that obtaining the trademark or patent, and recovery of the costs from future related revenues is reasonably assured, otherwise the costs are expensed. Capitalized costs are amortized on a straight-line basis over 5 to 20 years. The amortization period is determined based on the anticipated duration of legal protection, an assessment of the period of time over which the Company may be able to generate revenues from the related product, and expected obsolescence.

(h) Research and Development Costs

Research costs are expensed in the year incurred.

Development costs include all expenditures considered directly attributable to efforts by the Company to develop, and bring to commercial production, a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized.

(i) Impairment of Long-lived Assets

The Company reviews for the impairment of long-lived assets, including property and equipment and intangible assets with finite life, held for use, whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. The assessment of recoverability is made based on projected undiscounted future net cash flows that are directly associated with the asset’s use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying amount and the fair value of the impaired assets, and is presented as an impairment loss in the current period.

(j) Foreign Currency Translation

The Company follows the temporal method of foreign currency translation for consolidation of its foreign subsidiaries’ operations. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at each year-end date. Non-monetary assets and liabilities and related depreciation and amortization expenses are translated at the historical exchange rate. Revenue and expenses, other than depreciation and amortization, are translated at the average exchange rate for the year. The resulting exchange gains or losses are included in net income for the year.

(k) Leases

Leases are classified as capital or operating leases. The asset value and the related obligations under capital leases are recorded at the present value of the minimum future lease payments, discounted at the rate implicit in the lease. The capitalized value is amortized annually. Lease payments under operating leases are expensed in accordance with the terms of the lease agreements.

2. Significant accounting policies (continued)

(l) Stock-Based Compensation

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in Note 10(e). The fair value method of accounting for stock-based compensation transactions is used. The fair value of stock options is generally estimated at the date of grant using the Black-Scholes Option Pricing Model and is amortized over the vesting terms of the options.

The fair value of stock-based payments to non-employees is periodically remeasured, until the earliest of the completion of services, a firm commitment to complete services, and the vesting date.

(m) Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are generally allocated based on the relative estimated fair market values of the shares and the warrants. Warrants are valued using the Black-Scholes Option Pricing Model.

(n) Share issue costs

Professional, agent and regulatory fees as well as other costs directly attributable to specific financing transactions are reported as deferred financing costs until the transactions are completed, if successful completion is considered reasonably assured. Share issue costs are charged to capital stock when the related shares are issued. Costs relating to financing transactions that are not completed or for which completion is considered unlikely, are charged to net income.

(o) Income Taxes

The Company accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(p) Loss per Share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized based on the use of proceeds that could be obtained upon exercise of such options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation generally produces an anti-dilutive effect for loss years.

2. Significant accounting policies (continued)

(q) Tenant Inducements

Inducements received by the Company from landlords with respect to leased premises are deferred and recognized as a reduction of rent expense evenly over the term of the lease.

(r) Asset Retirement Obligations

The Company recognizes the fair value of any liability for an asset retirement obligation in the period in which it is incurred by increasing the carrying amount of the related asset by the same amount as the liability that is recorded. The asset retirement cost is amortized over the asset's estimated useful life and charged to operations.

(s) Revenue Recognition

Revenue is recognized when the Company’s product is shipped, the title is transferred to the customer and collection of the amount billed is considered reasonably assured.

(t) Government assistance

Government grants are recognized when there is reasonable assurance that the Company has complied with the conditions of the grant. Such grants are accounted for as reduction of the related expense or asset, or as income, as appropriate.

(u) Financial instruments

Financial assets and liabilities are measured at fair value upon their initial recognition. Subsequent measurement is based on either fair value or amortized cost, depending upon the classification. All financial instruments have been classified into one of the following five categories: 1) held-to-maturity; 2) loans and receivables; 3) other financial liabilities; 4) available-for-sale; and 5) held-for-trading.

- Cash and cash equivalents, and short-term investments are classified as held-for-trading and are measured at fair value with changes in fair value recognized in net income.

- Trade and interest receivable, due from related parties and refundable deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method.

- Accounts payable, obligations under capital lease and share subscriptions received are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(v) Comprehensive income

Comprehensive income is the change in equity of the Company during a period consisting of net income from operations and other comprehensive income (“OCI”). OCI includes unrealized gains and losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The Company does not have any items that required separate recognition outside of net income.

3. New and Future Accounting Pronouncements

(a) Goodwill and Intangible Assets

Effective August 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes amended standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The adoption of this standard did not have a material impact on the financial statements of the Company for the year ended July 31, 2010.

(b) International Financial Reporting Standards

In January of 2006, the CICA adopted a strategic plan to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") for certain types of entities, including the Company, effective August 1, 2011. The Company has not yet fully assessed the impact of the adoption of IFRS.

4. Financial instruments and risks

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial instruments of the Company include cash and cash equivalents, short term investments, trade and interest receivables, due from related parties, refundable deposits, accounts payable, share subscriptions received and obligations under capital lease. The carrying amounts of these financial instruments approximated their respective fair values except where otherwise noted.

Credit risk

Financial instruments that potentially subject the Company to concentration of credit risks include cash and short term investments. The Company places its cash and short term investments with high credit quality financial institutions. Short term investments are generally held in fixed rate securities. Concentration of credit risks with respect to receivables is limited.

Foreign currency risk

The Company uses financial instruments to manage fluctuations in foreign currency exchange rates. In accordance with CICA Section 3855 the Company accounts for all derivative financial instruments using the fair value accounting method.

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies including Singapore dollars, United States dollars, Euros, and Swiss Francs. Most of the transactions in the Company's Singapore operations are undertaken in Singapore dollars. The Company monitors fluctuations in rates and takes action, if deemed necessary, to mitigate its risks.

(Expressed in Canadian Dollars)

4. Financial instruments and risks (continued)

Foreign currency risk (continued)

At July 31, 2010, the Company had accounts payable balances of $930,234 United States dollars ($953,468 Canadian dollars), $690,267 Singapore dollars ($522,394 Canadian dollars), 24,009 Euros ($32,285 Canadian dollars) and 82,920 Malaysian Ringgits ($26,825 Canadian dollars), such amounts representing exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Short-term investments with variable interest rates include guaranteed investment certificates with original maturities of greater than three months, exposing the Company to limited interest rate risk. The Company does not use financial instruments to mitigate this interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company currently settles its financial obligations from cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. As at July 31, 2010, the Company had insufficient cash and cash equivalents to satisfy its short term obligations.

5. Short term investments

Guaranteed investment certificates with an interest rate of Prime minus 2.75% have been pledged as collateral for the Company's corporate credit cards and are presented on the balance sheet as restricted short term investments.

6. Due from related parties

Details of amounts due from related parties are as follows:

	2010	2009
Due from Dr. Faouzi Zerrouk	$ -	$ 14,410

Amounts due from Dr. Faouzi Zerrouk ("Dr. Zerrouk"), the Chairman of the Board of Directors, President and Chief Executive Officer of the Company, relate to travel and other advances, are non-interest bearing, unsecured and without fixed terms of repayment.

(Expressed in Canadian Dollars)

7. Property and equipment

	Cost	Accumulated Amortization	Write-off	Amortized Cost
Equipment	$ 1,142,348	$ 628,773	$452,425	$ 61,150
Furniture	60,996	36,213	-	24,783
Leasehold improvements	302,831	276,273	-	26,558
July 31, 2010	$ 1,506,175	$ 941,259	$452,425	$ 112,491

	Cost	Accumulated Amortization	Write-off	Amortized Cost
Equipment	$ 1,139,638	$ 493,217	$ -	$ 646,421
Furniture	60,996	30,017	-	30,979
Leasehold improvements	286,385	183,739	-	102,646
July 31, 2009	$ 1,487,019	$ 706,973	$ -	$780,046

An amount of $452,425 has been recognized as an impairment loss for the 2010 year as the recoverability of certain costs of equipment used in the laser segment of the Company (note 16) was considered doubtful.

8. Equipment under capital lease

		Cost	Accumulated Amortization	Amortized Cost
July 31, 2010	Vehicle	$ 57,227	$ 40,543	$ 16,684

		Cost	Accumulated Amortization	Amortized Cost
July 31, 2009	Vehicle	$ 57,227	$ 33,392	$ 23,835

9. Patent costs

		Cost	Accumulated Amortization	Write-off	Amortized Cost
July 31, 2010	Patent Costs	$ 279,997	$ 86,044	$ 16,511	$ 177,442

		Cost	Accumulated Amortization	Write-off	Amortized Cost
July 31, 2009	Patent Costs	$ 336,937	$ 65,721	$ 49,264	$ 221,952

An amount of $16,511 (2009:$49,264) has been recognized as an impairment loss for the 2010 year as the recoverability of certain patent costs related to the laser segment of the Company (note 16) was considered doubtful.

(Expressed in Canadian Dollars)

10. Share capital

(a) Authorized

The authorized share capital of the Company is an unlimited number of common voting shares with no par value.

(b) Issued and outstanding common shares:

	Number of Shares	Amount $
Balance July 31, 2008	**45,455,838**	**$ 28,985,958**
Private placement (i)	1,003,333	424,815
Balance July 31, 2009	**46,459,171**	**$ 29,410,773**
Private placement (iv)	5,925,000	2,458,270
Exercise of warrants (v)	1,020,833	833,014
Balance July 31, 2010	**53,405,004**	**$ 32,702,057**

(i) On January 13, 2009 the Company completed a private placement of 1,003,333 units issued at $0.60 per unit, resulting in gross proceeds of $602,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one additional common share for a period of eighteen months at a price of $0.70 per share. The warrant's exercise period was to accelerate if the common shares of the Company traded above $1.00 for a period of 10 consecutive days. The Company paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares ($42,140) and issued to the agent non-transferable warrants to purchase common shares equal in number to 6% of the units sold (60,200) under the private placement with the same terms. The estimated fair value of agents' warrants granted was determined to be $9,194 (approximately $0.15 per warrant), using the Black-Scholes option pricing model (note 10(d)).

The amounts assigned to the share and warrant portions of the units were allocated proportionately based on the share price at the issuance date and the warrant value determined using the Black Scholes option pricing model with the assumptions detailed in note 10(d).

(ii) On February 26, 2009, the Company amended the terms of the 781,500 warrants issued to subscribers which closed on September 6, 2007. The exercise price of the warrants was reduced from $2.00 to $0.75 per common share. The expiry date for the warrants was extended by twelve months from March 6, 2009 to March 6, 2010. The exercise period of the amended warrants was to be accelerated if certain conditions were met. The estimated fair value of the warrants increased by $56,753 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 10(d)). The amount was considered a financing expense and charged to operations for the 2009 year.

(Expressed in Canadian Dollars)

10. Share capital (continued)

(b) Issued and outstanding common shares (continued)

(iii) On August 5, 2009, the Company amended the terms of the 1,078,150 warrants issued to subscribers of a private placement which closed on December 20, 2007. The exercise price of the warrants was reduced from $2.10 to $0.75 per common share with no change to the expiry date of December 20, 2009. The exercise period of the amended warrants is to be accelerated if certain conditions are met. The estimated fair value of the warrants increased by $135,460 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 10(d)). The amount was considered a financing expense and charged to operations for the 2010 year.

(iv) On October 23, 2009, the Company completed a non-brokered private placement of 5,925,000 units of the Company at a price of $0.63 per unit for gross proceeds of $3,732,750. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $1.00 per common share for a period of 24 months. The exercise period of the warrants is to be accelerated if certain conditions are met. The Company paid a finder's fee equal to 7% of the gross proceeds from the private placement and issued finder's warrants to purchase common shares equal in number to 6% of the units sold under the private placement with the same terms. Legal and other issuance costs amounted to $34,570. The estimated fair value of agents' warrants granted was determined to be $94,581 (approximately $0.27 per warrant), using the Black-Scholes option pricing model (note 10(d)).

The amounts assigned to the share and warrant portions of the units have been allocated proportionately based on the share price at the issuance date and the warrant value determined using the Black-Scholes option pricing model with the assumptions detailed in Note 10(d).

(v) On February 4 and 23, 2010, 170,000 and 833,333 common share purchase warrants were exercised at $0.70 per share for total cash proceeds of $702,333. On February 16 and March 5, 2010, 12,500 and 5,000 common share purchase warrants were exercised at $0.75 per share for total cash proceeds of $13,125.

(c) Common share purchase warrants

	Number of warrants	Weighted average exercise price
Balance, July 31, 2008	**1,859,650**	**2.06**
Warrants granted (note 10(b)(i))	1,003,333	0.70
Warrants repriced (note 10(b)(ii))	-	(1.25)
Balance, July 31, 2009	**2,862,983**	**$ 1.24**
Warrants granted (note 10(b)(iv))	5,925,000	1.00
Warrants repriced (note 10(b)(iii))	-	(1.35)
Warrants exercised (note 10(b)(v))	(1,020,833)	(0.70)
Warrants expired	(1,842,150)	(0.75)
Balance, July 31, 2010	**5,925,000**	**$ 1.00**

(Expressed in Canadian Dollars)

10. Share capital (continued)

(c) Common share purchase warrants (continued)

At July 31, 2010 the share purchase warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
5,925,000	**1.00**	**October 23, 2011**

(d) Agent's warrants and options

	Number of warrants	Weighted average exercise price
Balance, July 31, 2008	**442,134**	**$1.33**
Agents' warrants granted in private placement	60,200	0.70
Agents' warrants expired	(291,193)	1.20
Balance, July 31, 2009	**211,141**	**$1.34**
Agents' warrants granted in private placement	355,500	1.00
Agents' warrants expired	(150,941)	(1.60)
Agents' warrants expired	(60,200)	(0.70)
Balance, July 31, 2010	**355,500**	**$1.00**

At July 31, 2010 the agents' warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
355,500	**$ 1.00**	**October 23, 2011**

The fair value of agents' and common share purchase warrants has been estimated at the date of grant using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2010	2009
Annualized stock volatility	81.6%	83.9%
Risk-free interest rate	1.4%	0.9%
Expected warrant life	2 years	1.3 years
Dividend payments	0.0%	0.0%

(Expressed in Canadian Dollars)

10. Share capital (continued)

(e) Stock options

On December 28, 2007, the Board of Directors approved a new stock option plan. Under the plan, the Company may grant options to purchase common shares in the Company to employees, directors, officers, and consultants of the Company. The exercise price of the options is to be determined by the Board of Directors but generally will be equal to or greater than the market price of the shares at the grant date. Options will vest according to the following schedule:

25% - on grant date
25% - six months after grant date
25% - twelve months after grant date
25% - eighteen months after grant date

As of July 31, 2010, the Company has reserved 8,340,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 258,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2008	**4,609,000**	**$ 1.25**
Options granted	2,925,000	0.65
Balance, July 31, 2009	**7,534,000**	**$ 1.02**
Options granted	820,000	0.71
Options expired	(1,025,000)	(0.67)
Balance, July 31, 2010	**7,329,000**	**$ 1.03**

At July 31, 2010, 6,195,250 options had vested, which have a weighted average exercise price of $1.10.

The estimated fair value of options granted to employees, directors and officers is amortized to expense over the vesting period of the options, resulting in compensation expense and addition to contributed surplus of $811,458 for the year ended July 31, 2010 (2009 - $557,565).

The weighted average fair value of stock options granted during the year ended July 31, 2010 has been estimated at the date of grant using the Black-Scholes Option Pricing Model as $0.46 (2009 - $0.42) per share using the following weighted average assumptions:

	2010	2009
Annualized stock volatility	79.0%	81.1%
Risk-free interest rate	2.3%	2.0%
Expected option life	5 years	5 years
Dividend payments	0.0%	0.00%

(Expressed in Canadian Dollars)

10. Share capital (continued)

(e) Stock options (continued)

Options outstanding at July 31, 2010 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$0.65	2,850,000	2,137,500	3.75
$0.65	45,000	33,750	3.87
$0.71	820,000	410,000	4.47
$0.72	100,000	100,000	0.48
$0.75	529,000	529,000	0.12
$0.80	60,000	60,000	1.46
$0.93	140,000	140,000	0.64
$1.05	160,000	160,000	1.02
$1.10	300,000	300,000	1.48
$1.20	100,000	100,000	1.50
$1.30	100,000	100,000	2.19
$1.55	240,000	240,000	0.85
$1.76	1,725,000	1,725,000	0.78
$1.79	160,000	160,000	2.33
	7,329,000	6,195,250	2.41

The Black-Scholes Option Pricing Model, used by the Company to calculate option and warrant values, was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price, volatility, and expected time until exercise, which greatly affect the calculated values.

(f) Escrow shares

As at July 31, 2010 a total of 240,000 (2009 - 720,000) of the issued shares were held in escrow, the release of which is subject to a pre-determined schedule through January of 2011 as indicated below.

January 2011	240,000

The escrowed shares are included in the computation of the weighted-average number of common shares outstanding for the purpose of determining loss per share.

(Expressed in Canadian Dollars)

10. Share capital (continued)

(g) Contributed surplus

	July 31, 2010	July 31, 2009
Balance, beginning of year	$ 5,099,237	$ 4,353,169
Stock-based compensation expense	811,458	557,565
Agents' warrants granted (Notes 10(b)(i) and (iv))	94,581	9,194
Warrants issued (Notes 10(b)(i) and (iv))	884,040	122,556
Warrants amended (Notes 10(b)(ii) and (iii))	135,460	56,753
Warrants exercised (Note 10(b)(v))	(122,556)	-
Balance, end of year	$ 6,902,220	$ 5,099,237

11. Discontinued operations

In the 2002 year, the Company's subsidiary, O-Tooz Energie Group Inc. ("O-Tooz"), disposed of its two healthy fast food outlets in Vancouver. The discontinued operation resulted in the default of lease agreement liabilities of approximately $108,000.

In January of 2005, the Company abandoned O-Tooz along with its other inactive subsidiaries, Djscene.com Media Inc., Online Consortium.com Inc. and FilmIndustry.com Inc. As at July 31, 2009, the remaining liabilities, net of assets, of these discontinued operations were segregated in the consolidated balance sheet. During the 2010 year, the Company received a legal opinion that the lease liability had exceeded the statute of limitation period, consequently the liability has been reversed and the resulting gain recognized as other income.

12. Obligations under capital leases:

Future minimum lease payments for obligations under capital leases as at July 31, 2010 are as follows:

2011	$	10,761
2012		10,761
2013		10,761
		32,282
Less: interest at a rate of 6.45% per annum		(9,737)
		22,545
Less: current portion of principal repayments		(7,282)
Obligation under capital leases, long term	$	15,263

13. Related party transactions

The Company undertook the following transactions with related parties. These transactions were measured at the exchange amounts which are the amounts of consideration established and agreed upon by the related parties.

(a) The Company incurred fees of $180,000 (2009 - $150,000) for consulting services provided by Dr. Zerrouk and a company controlled by Dr. Zerrouk. The Company also provided Dr. Zerrouk, as part of his compensation package, a school, transport and housing allowance totaling $276,989 (2009 - $143,067). At July 31, 2010, $47,908 (2009 - $52,500) of the consulting fees and $96,900 (2009 - $5,809) of the school, transport and housing allowance was unpaid and included in accounts payable and accrued liabilities.

(b) During the 2010 year, the Company incurred legal fees of $56,235 (2009 - $32,300) to Boughton Law Corporation, legal counsel to the Company. A director of the Company is an Associate Counsel of Boughton Law Corporation. At July 31, 2010, $5,234 (2009 - $26,027) of these fees was unpaid and included in accounts payable and accrued liabilities.

(c) During the 2010 year, the Company incurred fees of $87,685 (2009 - $89,895) for accounting and related services to a company controlled by the Chief Financial Officer of the Company. At July 31, 2010, $16,275 (2009: $6,804) of these fees were unpaid and included in accounts payable and accrued liabilities.

(d) During the 2010 year, the Company granted options to certain directors to acquire 640,000 shares of the Company at a price of $0.71 per share until January 19, 2015. During the 2009 year, the Company granted options to certain directors to acquire 1,100,000 shares of the Company at a price of $0.65 per share until April 28, 2014.

(e) During the 2010 year, the Company granted options to certain officers to acquire 20,000 shares of the Company at a price of $0.71 per share until January 19, 2015.

(f) During the 2010 year, the Company paid research and development fees totalling of $245,000 to PlanB Media AG, a Swiss corporation with a director in common with the Company, in respect to development of certain software technology.

14. Commitments and agreements

a) Effective February 27, 2006, the Company completed an exclusive license agreement with a third party for the use of the patents, technical data and know-how of its proprietary LFS scintillation crystal technology. Under the agreement, the Company is to receive a royalty of a fixed percentage of the gross selling price for each unit of licensed product delivered, sold, or leased to a third party during the twenty year term of the agreement. To date the Company has not yet received any revenue under the agreement.

b) Effective June 27, 2006, Zecotek Medical Systems Singapore Pte. Ltd. (“ZMSS”) entered into a Collaborative Research Agreement, which was subsequently amended, with the University of Washington (“UW”) for joint development of a proprietary technology for use in medical imaging systems. Pursuant to the agreement, ZMSS is to pay a total of US$2,429,597 to UW for the development project, as billed by UW. As at July 31, 2010, a total of US$1,358,340 ($1,492,420 Canadian dollars) had been paid and US$650,038 ($679,287 Canadian dollars) was unpaid and included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

14. Commitments and agreements (continued)

c) Effective May 1, 2006, ZMSS entered into an employment agreement with Dr. Zerrouk in respect to the positions of Chairman, President and Chief Executive Officer of the Company and its subsidiaries. The agreement provides for annual compensation totaling $486,000 Singapore dollars (approximately $363,965 Canadian dollars) and is for an indefinite term. In order to terminate the agreement, the Company must provide not less than twelve months notice, pay severance equal to twenty four month's salary and retain all stock options held by Dr. Zerrouk.

d) The Company has entered into office leases for its Singapore offices. The Company also has entered into an apartment lease for certain employees in Singapore. Minimum required lease payments under these agreements are as follows:

2011	$ 183,650
2012	63,504
	$ 247,154

e) Effective August 24, 2006, the Company entered into a Collaborative Research Agreement with the University of British Columbia ("UBC") to jointly develop advanced light sources and optical systems for medical imaging products for the period from September 1, 2006 to December 31, 2009. Pursuant to the agreement, the Company paid $98,600 upon execution of the agreement, paid a further $98,600 on September 1, 2007. As at July 31, 2010, a portion of the final payment totaling $53,600 was unpaid and included in accounts payable and accrued liabilities.

f) Effective March 28, 2007 the Company's Singapore subsidiary, Zecotek Laser Systems Pte. Ltd. ("ZLS") completed two asset purchase agreements to acquire certain laser technologies from Inversion Fiber Co. Ltd. ("Inversion") and Tekhnoscan JS Company ("Tekhnoscan"). Inversion and Tekhnoscan each received 5% of the issued common shares of ZLS.

The asset purchase agreements also include provisions for an assignment of convertibility rights to the common shares of ZLS by which the ZLS shares could be exchanged for shares of the Company, once a market value of the shares of ZLS can be established.

As conditions of the asset purchase agreements, ZLS entered into Manufacturing Agreements with Inversion and Tekhnoscan. The manufacturing agreements appoint Inversion and Tekhnoscan as non-exclusive manufacturers of the laser systems for ZLS. Under these agreements, Inversion and Tekhnoscan are to manufacture laser systems at cost, as defined under the agreements.

g) Effective October 24, 2008, the Company entered into a Research and Development Agreement with Inversion Fiber Co. Ltd. ("Inversion") under which Inversion is to provide services to the Company in respect to laser technology development. Under this agreement, the Company is required to make payments totaling $380,000 (US). The first payment of $76,000 (US) was due during the 2010 year and has been paid by the Company.

(Expressed in Canadian Dollars)

14. Commitments and agreements (continued)

h) The Company entered into an agreement dated April 2, 2008, which was subsequently amended, with JSC Center of Advanced Projects ("JSC"), a Russian company, with respect to the development of certain crystal products for application in medical devices. Under the agreement, the Company is required to make payments totaling $560,000 (US), which had been paid as at July 31, 2009. Intellectual property rights developed pursuant to the agreement are to be allocated among the Company and the scientists engaged in the projects, on a basis to be determined.

On December 31, 2008, the Company and JSC entered into another agreement in respect to the investigation of properties of optical elements for applications in medical devices. Under the agreement, the Company is required to make payments totaling $110,000 (US). The first payment of $40,000 (US) was due on August 25, 2009 and has been paid by the Company. Intellectual property rights developed pursuant to the agreement are to be allocated among the Company and the scientists engaged in the projects, on a basis to be determined. Effective September 14, 2009, the agreement was amended to require total payments of $200,000 (US).

As at July 31, 2010, the Company had paid a total of $160,000 (US) to JSC pursuant to the payment schedule in the agreement.

i) On January 12, 2010 the Company and JSC Centr-Telco, a Russian company, entered into an agreement in respect to the manufacturing and investigation of optical elements for applications in medical devices. Under the agreement, the Company is required to make payments totaling $220,000 (US). The first two payments of $70,000 (US) were due on March 25, 2010 and June 25, 2010 and have been paid by the Company. Intellectual property rights developed pursuant to the agreement are to be allocated among the Company and the scientists engaged in the projects, on a basis to be determined.

j) Effective May 15, 2010, the Company entered into a Patent Licensing Agreement with the University of British Columbia ("UBC") whereby UBC grants to the Company a worldwide, exclusive license to use and sublicense a patent related to a new active medium for solid state lasers (the "technology") for a term of 20 years or until the last patent licensed under this agreement expires. Pursuant to the agreement, the Company is to pay UBC a royalty of 4% of the Company's revenue, and 25% of the Company's sublicensing revenue from the technology, with a minimum annual royalty of $5,000 in 2013, $10,000 in 2014 and $20,000 thereafter. The Company is also to pay an annual maintenance fee of $500 during the term of the agreement and an initial license fee of $10,000. As at July 31, 2010, the initial license fee of $10,000 was unpaid and is included in accounts payable and accrued liabilities.

The future commitments described in notes 14(b), (g), (h), (i) and (j)are summarized as follows:

2011	$ 921,343
2012	11,000
2013	26,000
2014	31,000
2015	41,000
	$ 1,030,343

(Expressed in Canadian Dollars)

15. Government grants

The Company has received grants from the Government of Singapore – Economic Development Board and the Government of Malaysia – Industrial Development Authority. These grants are conditional upon the Company meeting certain requirements in respect to local employment, expenditures and production. As at July 31, 2010, certain of these conditions in respect to the Singapore government grant have not been met. The consequences to the Company as a result of the failure to meet these conditions can not reasonably be determined at this time, and will be recognized at the time that such a determination can be made.

During the 2010 year, the Company received salary cost assistance from the Government of Singapore totalling $15,514. This has been reported as a reduction of research and development costs.

During the 2009 year, the Company received grants from the Government of Singapore totalling $1,250,883 representing reimbursement of certain costs of the Company. An amount of $245,613 was reported as a reduction of equipment cost, an amount of $977,039 was reported as a reduction of research and development expenses, and an amount of $28,231 was reported as a reduction of operating, general and administrative expenses.

During the 2009 year, the Company also received grants from the Government of Malaysia totalling $133,515, represents reimbursement of certain costs of the Company. This amount was reported as a reduction of research and development expenses.

16. Segmented information

The Company has principal operations in Canada and Singapore (Asia) and is organized into three sales geographic areas consisting of Asia, Europe, and North America. Reporting information by geographic area is as follows:

2010	**Asia**	**Europe**	**North America**	**Total**
Revenue	$ 20,774	$ 47,074	$ -	$ 67,848
Property and equipment	$ 92,597	$ 6,960	$ 12,934	$ 112,491
Equipment under capital lease	$ 16,684	$ -	$ -	$ 16,684
Patent costs	$ 177,442	$ -	$ -	$ 177,442

2009	**Asia**	**Europe**	**North America**	**Total**
Revenue	$ 318,219	$ 32,365	$ -	$ 350,584
Property and equipment	$ 754,261	$ 8,700	$ 17,085	$ 780,046
Interest income	$ -	$ -	$ 6,176	$ 6,176
Equipment under capital lease	$ 23,385	$ -	$ -	$ 23,385
Patent costs	$ 221,952	$ -	$ -	$ 221,952

(Expressed in Canadian Dollars)

16. Segmented information (continued)

The Company is a photonics technology company developing and commercializing laser systems and components, high-performance crystals, solid-state photo detectors, optical imaging and 3D display technologies.

The Company defines its operating segments based on the type of products it is developing and commercializing. The Company's operating segments include lasers, imaging and display systems. The laser systems segment includes laser systems and components and the high-performance RFO Vanadate crystal. The imaging systems segment includes photo detectors and the LFS scintillation crystals. The Display systems segment includes 3D display technologies.

Reporting information by operating segment is as follows:

2010	**Lasers**	**Imaging**	**Display**	**Total**
Revenue	$ -	$ 67,848	$ -	$ 67,848

2009	**Lasers**	**Imaging**	**Display**	**Total**
Revenue	$ 318,219	$ 32,365	$ -	$ 350,584

For the 2010 year, revenue of the Company from two customers represented 94.0% of total revenue. Revenue from one customer totalled $47,074 and from the other totalled $16,676.

For the 2009 year, revenue of the Company from two customers represented 93.9% of total revenue. Revenue from one customer totalled $258,195 and from the other totalled $70,886.

17. Income taxes

(a) A reconciliation of the Canadian and Singapore statutory tax rates to the effective rates for the Company is as follows:

	2010		**2009**	
	Canada	**Singapore**	**Canada**	**Singapore**
Statutory income tax rate	(29.1%)	(17.0%)	(30.2%)	(17.0%)
Tax losses not recognized	29.1%	17.0%	30.2%	17.0%
Effective tax rate	-	-	-	-

(Expressed in Canadian Dollars)

17. Income taxes (continued)

(b) At July 31, 2010 and 2009, the tax effects of temporary differences that give rise to the Company's future income tax assets are as follows:

	2010		2009	
	Canada	**Singapore**	**Canada**	**Singapore**
Operating losses	$ 2,675,200	$ 3,626,500	$ 2,396,000	$ 2,696,000
Intangible assets	29,400	(27,000)	9,400	(22,000)
Share issuance costs	106,000	-	129,700	-
Property and equipment	28,200	25,000	34,600	(25,000)
	$ 2,838,800	$3,624,500	$ 2,569,700	$ 2,649,000
Less: valuation allowance	(2,838,800)	(3,624,500)	(2,569,700)	(2,649,000)
	$ -	$ -	$ -	$ -

The valuation allowance reflects the Company's estimate that the benefit of the tax assets more likely than not will not be realized.

(c) As at July 31, 2010, the Company and its subsidiaries have operating losses carried forward for Canadian and Singapore income tax purposes**,** available to reduce taxable income of future years, subject to certain restrictions. The Canadian tax losses expire commencing in the 2011 year as follows:

2011	$ 103,007
2015	1,478,231
2026	2,426,535
2027	2,254,153
2028	1,846,998
2029	1,298,391
2030	1,293,531
	$10,700,846

Operating losses for Singapore tax purposes of approximately $21,300,000 may be carried forward indefinitely, subject to certain restrictions.

18. Statement of cash flows – supplementary information

(a) Cash paid for income taxes and interest is summarized as follows:

	July 31, 2010	**July 31, 2009**
Cash paid for income taxes	$ Nil	$ Nil
Cash paid for interest	$ 2,069	$ 2,814

18. Statement of cash flows – supplementary information (continued)

(b) Significant non-cash transactions occurring during the 2010 and 2009 years were as follows:

(i) On October 23, 2009, the Company granted agents' warrants at an estimated fair value of $94,851, as describe in note 10(b)(iv).

(ii) On August 5, 2009, the Company amended the terms of 1,078,150 warrants resulting in the recognition of expense of $135,460 as described in Note 10(b)(iii).

(iii) On January 13, 2009, the Company granted agents' warrants at an estimated fair value of $ $9,194, as described in note 10(b)(i).

(iv) On February 26, 2009, the Company amended the terms of 781,500 warrants resulting in the recognition of expense of $56,753 as described in Note 10(b)(ii).

19. Share subscriptions received

During the 2010 year, the Company received $650,000 pursuant to a share subscription agreement dated October 7, 2010 as described in note 22.

20. Capital disclosures

The Company manages its capital in order to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes shareholders' equity and long-term debt in the definition of capital. At July 31, 2010, the Company had a negative capital balance of $2,354,970.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or undertake other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended July 31, 2009.

21. Contingencies

During the 2009 year, the Company received grants from the Government of Singapore – Economic Development Board ("EDB") as described in Note 15. As these grants are conditional upon the Company meeting certain requirements in respect to local employment, expenditures and production and certain of these conditions have not been met as of July 31, 2010, the EDB could require the Company to return a portion of these grants. The outcome of this matter is uncertain, any loss will be recognized at the time that such a determination can be made.

22. Subsequent events

The Company completed two share subscription agreements in October of 2010. Under the agreements, the subscribers are to purchase 2,773,584 units of the Company at a price of $0.53 per unit, for gross proceeds of $1,470,000. Each unit is to consist of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.70 per share for a period of 24 months. The exercise period of the warrants is to be accelerated if certain conditions are met.

The Company is to pay a finder’s fee equal to 5% of the gross proceeds of the sales of the shares and issue 124,811 non-transferable finder’s warrants. Each finder’s warrant is to entitle the holder to purchase one share at a price of $0.70 for a period of 24 months after the date that the private placements close. All shares and warrants are to be subject to a four-month hold period.

In August of 2010, an additional amount of $520,000 was received pursuant to these agreements.