ZECOTEK PHOTONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS
ENDED JULY 31, 2008 AND 2007

AUDITORS' REPORT

To the Shareholders of:
Zecotek Photonics Inc.

We have audited the consolidated balance sheets of Zecotek Photonics Inc. as at July 31, 2008 and 2007 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, 2008 and 2007 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 11, 2008

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Zecotek Photonics Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at July 31, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 308,345	$ 1,577,863
Short term investments *(note 5)*	1,340,000	-
Trade receivables	24,437	-
Interest receivable	32,106	5,416
Goods and services tax recoverable	67,136	34,346
Prepaid expenses	98,468	46,601
	1,870,492	1,664,226
Due from related parties *(note 6)*	-	65,209
Restricted short term investments *(note 5)*	20,000	20,000
Deposits	71,817	653,689
Property and equipment *(note 7)*	1,355,690	567,151
Equipment under capital lease (note 8)	34,050	48,643
Patent costs *(note 9)*	198,891	137,113
	$3,550,940	$ 3,156,031
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 567,803	$ 325,344
Current portion of obligations under capital lease	7,217	6,764
Share subscription received	-	14,145
Liabilities of discontinued operations *(note 11)*	53,254	53,254
	628,274	399,507
Obligations under capital lease	29,558	34,471
Shareholders' Equity		
Share capital *(note 10(b))*	28,985,958	21,809,339
Contributed surplus *(note 10(g))*	4,353,169	2,955,552
Deficit	(30,446,019)	(22,042,838)
	2,893,108	2,722,053
Nature of Business and Going Concern Uncertainty *(note 1)*		
Commitments *(note 13)*		
Contingencies *(note 14)*		
Total Liabilities and Shareholders' Equity	$ 3,550,940	$ 3,156,031

Approved on behalf of the Board:

"Faouzi Zerrouk"
Director

"Erich Sager"
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, 2008 and 2007

	2008	2007
Revenue	$ 303,859	$ -
Cost of Sales	217,751	-
Gross Profit	86,108	-
Expenses		
Operating, general and administrative	4,036,618	3,677,217
Research and development	3,449,646	2,919,790
Stock-based compensation *(note 10(e))*	656,249	1,530,686
Foreign exchange loss	105,782	75,430
Amortization of property and equipment	247,420	110,945
Amortization of patent costs	36,061	1,655
	8,531,776	8,315,723
Loss before interest income	(8,445,668)	(8,315,723)
Interest income	103,054	74,040
Impairment of patent costs	(60,567)	-
Net loss and comprehensive loss for the year	(8,403,181)	(8,241,683)
Deficit, Beginning of Year	(22,042,838)	(13,801,155)
Deficit, End of Year	$(30,446,019)	$(22,042,838)
Loss per common share – basic and diluted	$(0.19)	$(0.22)
Weighted average number of common shares outstanding – basic and diluted *(note 10(f))*	43,923,799	37,590,137

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended July 31, 2008 and 2007

	2008	2007
Operating Activities:		
Net loss for the year	$(8,403,181)	$(8,241,683)
Adjustments for items not involving cash:		
Amortization of property and equipment	247,420	110,945
Amortization of patent costs	36,061	1,655
Stock-based compensation	656,249	1,530,686
Impairment of patent costs	60,567	-
Write-off of due from related party	67,559	-
	(7,335,325)	(6,598,397)
Changes in non-cash working capital:		
Interest receivable	(26,690)	23,519
Trade receivables	(24,437)	-
Goods and services tax recoverable	(32,790)	87,356
Prepaid expenses	(51,867)	(35,849)
Accounts payable and accrued liabilities	242,459	106,312
	(7,228,650)	(6,417,059)
Investing Activities:		
Net proceeds on disposal of (purchase of) short term investments	(1,340,000)	3,500,000
Deposits received (paid)	-	(580,456)
Acquisition of property and equipment	(439,494)	(547,107)
Patent costs incurred	(158,406)	(67,419)
	(1,937,900)	2,305,018
Financing Activities:		
Proceeds from shares issued, net of issuance costs (note 10(b))	7,903,842	5,429,437
Share subscriptions received	-	14,145
Repayments of obligations under capital lease	(4,460)	(15,994)
Advances (to) from related parties	(2,350)	13,302
	7,897,032	5,440,890
Increase (decrease) in cash and cash equivalents	(1,269,518)	1,328,849
Cash and cash equivalents, Beginning of Year	1,577,863	249,014
Cash and cash equivalents, End of Year	$ 308,345	$ 1,577,863

See accompanying Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

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 Company changed its name from Zecotek Medical Systems Inc. on November 26, 2007.

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	Date of incorporation	Main current or planned activity
Zecotek Crystals Inc.	August 6, 2004	Inactive
Zecotek Lasers Inc.	June 7, 2005	Inactive
Zecotek 3D Inc.	October 18, 2005	Inactive
Zecotek Photonics Singapore Pte. Ltd.	April 4, 2006	Holding company for Singapore subsidiaries
Zecotek Medical Systems AG	May 8, 2007	Swiss company for certification of medical technologies

Zecotek Photonics Sinagpore Pte. Ltd. holds 100% ownership interests in Zecotek Display Systems Pte. Ltd. and Zecotek Imaging Systems Pte. Ltd., and an 90% ownership interest in Zecotek Laser Systems Pte. Ltd.. These subsidiaries were incorporated in the 2006 year, with principal activities described as follows:

Subsidiary	Main 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 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

These financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which presumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. The Company has incurred significant losses since its inception. In the current year, the Company has started generating revenues as it commenced production but not significant enough to sustain the costs. These factors, among others, raise uncertainty about the ability of the Company to continue as a going concern. The continued operations of the Company are 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 outcome of which cannot be predicted at this time. Management of the Company is of the view that these objectives will be met and that the Company will continue as a going concern.

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.

(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.

2. Significant accounting policies (continued)

(d) Short Term Investments

Short term investments, which consist of financial instruments purchased with an original maturity of greater than ninety days 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 basis:

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

(g) Intangible Assets

The purchase cost of technologies is initially captialized 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.

Intangible assets which are determined to have a finite useful life are amortized on a systematic basis over the estimated remaining useful life.

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 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 anticipated 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.

2. Significant accounting policies (continued)

(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 gain or losses on translation are included in operations for the year.

(k) 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.

(l) Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are generally allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

In circumstances where agent warrants are issued coincidentally with a unit offering, both the agent warrants and the warrant portion of the unit offering are valued using the Black-Scholes option pricing model.

2. Significant accounting policies (continued)

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

2. Significant accounting policies (continued)

(s) 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.

(t) Changes in Accounting Policies

On August 1, 2007, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 – *Comprehensive Income*, Section 3251 – *Equity*; Section 3855 – *Financial Instruments – Recognition and Measurement*, Section 3861– *Financial Instruments – Disclosure and Presentation*, and Section 3865 – *Hedges*. These new Sections of the CICA Handbook contain, among other things, comprehensive standards for the recognition, measurement, presentation and disclosure of financial instruments.

Comprehensive income
CICA Section 1530 introduced a new requirement to temporarily present certain gains and losses from changes in fair value outside net income and within other comprehensive income (loss) ("OCI"). It 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. Upon adoption of Section 1530, the Company incorporated the new required statement of comprehensive income by creating a "Statement of Operations, Comprehensive Loss and Deficit". The Company does not have any items that required separate recognition outside of net income,and, as a result, the adoption of this section did not have any impact on the Company's financial statements.

Financial instruments
CICA Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be recognized and presented. 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 and accrued liabilities, obligations under capital lease and liabilities of discontinued operations are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

3. New Accounting Pronouncements

(a) Financial Instruments – Disclosures and Presentation

New requirements for financial instrument presentation and disclosure were issued by the CICA in December of 2006; Section 3862 – *Financial Instruments – Disclosures*; and Section 3863 – *Financial Instruments – Presentation* which replaces Section 3861 – *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards add to previous presentation requirements. These new Sections are effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company is assessing the impact of these changes on its financial statements.

(b) Inventories

In June of 2007, the CICA issued Section 3031 – *Inventories,* which will replace the existing inventory standard. The new standard requires inventory to be valued on a first-in, first-out or weighted averaged basis. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008. The application of this standard is not expected to have a material impact on the consolidated financial statements of the Company, however, the Company is still assessing the impact of this new standard.

(c) Capital Disclosures

The CICA has issued Section 1535 – *Capital Disclosures,* which will require disclosure of objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company is currently evaluating the impact of this standard on its financial statements.

(d) General Standards on Financial Statements Presentation

The CICA has issued a new amendment to Section 1400, General Standards of Financial Statement Presentation, which includes requirements to assess and disclose an entity’s ability to continue as a going concern. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008.

(e) Goodwill and Intangible Assets

The CICA has issued a new accounting standard: Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450 “Research and Development Costs”. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2009. The Company is presently assessing the impact of the new accounting standard on its financial statements.

3. New Accounting Pronouncements (continued)

(f) 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") over a transition period ending in 2011. The Company is assessing the impact of the transition to IFRS on its financial statements.

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 and restricted short term investments, trade and interest receivables, due from related parties, refundable deposits, accounts payable, obligations under capital lease, and liabilities of discontinued operations.

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

The Company uses financial instruments for non-trading purposes 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.

Financial risk is the risk to the Company's results of operations that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, as well as credit risk associated with the financial stability of the issuers of the financial instruments. The company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

Foreign currency risk

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. At July 31, 2008, the Company had cash balances of $73,604 United States dollars ($75,368 Canadian dollars), $120,243 Singapore dollars ($90,185 Canadian dollars) and 52,089 Swiss Francs ($50,948 Canadian dollars), exposed to foreign exchange risk.

5. Short term investments

(a) Short term investments as at July 31, 2008 are comprised of guaranteed investment certificates ("GIC") with a weighted average interest rate of 3.25%.

(b) A GIC in the amount of $20,000 (2007 - $20,000) has been pledged as collateral for the Company's corporate credit cards and is presented on the balance sheet as Restricted short term investments.

(Expressed in Canadian Dollars)

6. Amounts due from related parties

Details of amount due from related parties are as follows:

	2008	2007
Due from Dr. Faouzi Zerrouk	$ -	$ 60,023
Due from Zecotek Laboratories Inc.	-	5,186
	$ -	$ 65,209

Amounts due from Dr. Faouzi Zerrouk ("Dr. Zerrouk"), the Chairman of the Board of Directors, President and Chief Executive Officer, relate to travel and other advances, are non-interest bearing, unsecured and without fixed terms of repayment. As at July 31, 2008, the ability of the Company to recover the amount due is considered doubtful, and consequently an amount of $67,559 has been written off and recognized as a loss for the 2008 year.

7. Property and equipment

	Cost	Accumulated Amortization	Amortized Cost
Equipment	$ 1,383,238	$ 258,711	$ 1,124,527
Furniture	60,996	22,272	38,724
Leasehold improvements	286,385	93,946	192,439
July 31, 2008	$ 1,730,619	$ 374,929	$ 1,355,690

	Cost	Accumulated Amortization	Amortized Cost
Equipment	$ 440,268	$ 83,137	$ 357,131
Furniture	59,724	12,750	46,974
Leasehold improvements	209,261	46,215	163,046
July 31, 2007	$ 709,253	$ 142,102	$ 567,151

8. Equipment under capital lease

		Cost	Accumulated Amortization	Amortized Cost
July 31, 2008	Vehicle	$ 57,227	$ 23,177	$ 34,050

		Cost	Accumulated Amortization	Amortized Cost
July 31, 2007	Vehicle	$ 57,227	$ 8,584	$ 48,643

(Expressed in Canadian Dollars)

9. Patent costs

		Cost	Accumulated Amortization	Write-off	Net book Value
July 31, 2008	Patent Costs	$ 297,174	$ 37,716	$ 60,567	$198,891

		Cost	Accumulated Amortization	Write-off	Net book Value
July 31, 2007	Patent Costs	$ 138,768	$ 1,655	$ -	$ 137,113

During the 2007 year, the company received a U.S. patent for its LFS crystal technology for which related costs were $49,664.

During the 2008 year, an amount of $60,567 has been written off and recognized as a loss for the year as the recoverability of that amount is considered doubtful.

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, 2006	34,692,741	$ 16,246,313
Private placement (i)	3,043,478	3,067,733
Exercise of options (ii)	553,000	584,671
Exercise of agent options (iii)	507,102	588,578
Exercise of warrants (iv)	1,016,957	1,322,044
Balance, July 31, 2007	**39,813,278**	**21,809,339**
Private placements (v),(vi)	3,719,300	4,698,308
Exercise of options (vii)	70,000	87,441
Exercise of agents' options (viii)	131,838	153,022
Exercise of warrants (ix)	1,408,380	1,830,894
Exercise of agents' warrants (ix)	313,042	406,954
Balance, July 31, 2008	**45,455,838**	**$ 28,985,958**

(i) On February 19, 2007, the Company issued, by way of a private placement, 3,043,478 common shares at $1.15 per share for gross proceeds of $3,500,000. The Company paid a finder's fee equal to 8% of the gross proceeds of the sale of the shares and issued non-transferable agent's warrants to purchase shares equal in number to 7% of the shares sold (213,043) under the private placement. The warrants have an exercise price of $0.90 and expire two years from the date of placement. The estimated fair value of agents' warrants granted was determined to be $152,267 ($0.71 per share), using the Black-Scholes option pricing model (note 10(d)).

10. Share capital (continued)

(b) Issued and outstanding common shares (continued)

(ii) During the year ended July 31, 2007, 553,000 options at an approximate weighted average price of $0.78 were exercised for total cash proceeds of $431,000. Contributed surplus amounts of $153,671 related to these options were consequently transferred to the share capital account.

(iii) During the year ended July 31, 2007, 507,102 agent options at $0.90 per share were exercised for total cash proceeds of $456,392. Contributed surplus amounts of $132,186 related to these options were consequently transferred to the share capital account. One-half share purchase warrant was attached to each share received in the exercise of options, giving rise to 253,551 warrants. These warrants were to expire if unexercised by November 12, 2007 and had an exercise price of $1.30 per share.

(iv) During the year ended July 31, 2007, 1,016,957 warrants were exercised at $1.30 per share for total cash proceeds of $1,322,044.

(v) On September 6, 2007, the Company completed a non-brokered private placement of 1,563,000 units issued at $1.60 per unit, resulting in gross proceeds of $2,500,800. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of eighteen months at a price of $2.00 per share. The Company paid a finder's fee equal to 5% of the gross proceeds of the sale of the shares and issued to the agent non-transferable warrants to purchase shares equal in number to 5% of the units sold (78,150) under the private placement with the same terms. The estimated fair value of agents' warrants granted was determined to be $22,122 (approximately $0.28 per share), 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).

(vi) On December 20, 2007, the Company completed a private placement of 2,156,300 units issued at $1.60 per unit, resulting in gross proceeds of $3,450,080. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of twenty four months at a price of $2.10 per share. The Company paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares and issued to the agent non-transferable warrants to purchase shares equal in number to 7% of the units sold (150,941) under the private placement with an exercise price $1.60 per share. Legal and other share issuance costs amounted to $77,849. The estimated fair value of agents' warrants granted was determined to be $96,850 (approximately $0.64 per share), 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).

(vii) During the year ended July 31, 2008, 70,000 options at a weighted average price of $0.79 per share were exercised for total cash proceeds of $55,000. Contributed surplus amounts of $32,441 related to these options were consequently transferred to the share capital account.

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(b) Issued and outstanding common shares (continued)

(viii) During the year ended July 31, 2008, 131,838 agents' options at a weighted average price of $0.90 per share were exercised for total cash proceeds of $118,655. Contributed surplus amounts of $34,367 related to these options were consequently transferred to the share capital account.

(ix) During the year ended July 31, 2008, 1,408,380 common share purchase warrants and 313,042 agents' warrants were exercised at $1.30 per share for total cash proceeds of $2,237,848.

(c) Common share purchase warrants

	Number of warrants	Weighted average exercise price
Balance, July 31, 2006	3,194,700	$ 1.30
Warrants exercised	(1,016,670)	1.30
Balance, July 31, 2007	**2,178,030**	**1.30**
Warrants exercised (note 10(b)(ix))	(1,408,380)	1.30
Warrants expired	(769,650)	1.30
Warrants granted (notes 10(b)(v) & (vi))	1,859,650	2.06
Balance, July 31, 2008	**1,859,650**	**$ 2.06**

At July 31, 2008, the share purchase warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
781,500	**$ 2.00**	**March 6, 2009**
1,078,150	**2.10**	**December 20, 2009**

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(d) Agent's warrants and options

	Number of warrants	Weighted average exercise price
Balance, July 31, 2006	**638,940**	**$ 0.90**
Agents' options exercised	(507,102)	0.90
Agents' warrants granted on exercise of options	253,551	1.30
Agents' warrants exercised	(6,287)	1.30
Agents' warrants granted in private placements	213,043	0.90
Balance, July 31, 2007	**592,145**	**1.07**
Agents' options exercised	(131,838)	0.90
Agents' warrants granted on exercise of options	65,917	1.30
Agents' warrants exercised	(313,042)	1.30
Agents' warrants expired	(139)	1.30
Agents' warrants granted in private placements	229,091	1.74
Balance, July 31, 2008	**442,134**	**$1.33**

At July 31, 2008, the agents' options and warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
213,043	**$ 0.90**	**February 18, 2009**
78,150	**$ 2.00**	**March 6, 2009**
150,941	**$ 1.60**	**December 20, 2009**

The estimated fair value of agents options and warrants has been recognized as a reduction of share capital and an addition to contributed surplus of $118,972 (2007: $152,267).

The fair value of agents' options and warrants has been estimated at the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2008	2007
Annualized stock volatility	77.7%	77.9%
Risk-free interest rate	4.1%	4.1%
Expected option/warrant life	1.8 years	2.0 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, 2008, 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 2,928,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	**Weighted average exercise price**
Balance, July 31, 2006	4,835,000	$ 1.22
Options granted	720,000	1.04
Options exercised	(553,000)	0.78
Options expired	(533,000)	1.44
Balance, July 31, 2007	4,469,000	1.22
Options granted	260,000	1.60
Options exercised	(70,000)	0.79
Options expired	(50,000)	0.80
Balance, July 31, 2008	**4,609,000**	**$ 1.25**

At July 31, 2008, 4,479,000 options had vested, which have a weighted average exercise price of $1.24.

The estimated fair value of options granted to employees, directors, officers and consultants is amortized to expense over the vesting period of the options, resulting in compensation expense and addition to contributed surplus of $656,249 for the year ended July 31, 2008 (2007 – $1,530,686).

The weighted average fair value of stock options granted during the year ended July 31, 2008 has been estimated at the date of grant using the Black-Scholes option pricing model as $1.03 per share (2007 - $0.66) using the following weighted average assumptions:

	2008	2007
Annualized stock volatility	78.0%	74.0%
Risk-free interest rate	4.0%	4.1%
Expected option life	5 years	4.4 years
Dividend payments	0.0%	0.0%

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(e) Stock options (continued)

Options outstanding at July 31, 2008 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$0.50	560,000	560,000	1.42
$0.70	260,000	260,000	1.47
$0.72	100,000	100,000	2.48
$0.75	554,000	554,000	2.12
$0.80	60,000	60,000	3.46
$0.93	140,000	140,000	2.64
$0.99	100,000	100,000	2.93
$1.05	160,000	160,000	3.02
$1.10	300,000	300,000	3.48
$1.20	100,000	100,000	3.50
$1.30	100,000	50,000	4.19
$1.55	240,000	240,000	2.85
$1.76	1,775,000	1,775,000	2.78
$1.79	160,000	80,000	4.33
	4,609,000	4,479,000	2.61

The Black-Scholes model, used by the Company to calculate option 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, 2008 a total of 4,746,878 (2007: 8,795,628) 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.

November 2008	1,762,500
January 2009	261,878
May 2009	1,762,500
June 2009	240,000
January 2010	240,000
June 2010	240,000
January 2011	240,000
	4,746,878

The escrowed shares are included in the computation of the weighted-average number of common shares outstanding.

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(g) Contributed Surplus

	2008	2007
Balance, beginning of year	$2,955,552	$1,558,457
Options granted (note 10(e))	656,249	1,530,686
Options exercised (notes 10(b)(ii) and (vii))	(32,441)	(153,671)
Agents' warrants exercised (notes 10(b)(iii) and (viii))	(34,367)	(132,187)
Agents' warrants granted (notes 10(b)(i),(v) and (vi))	118,972	152,267
Warrants issued (notes 10(b)(v) and (vi))	689,204	-
Balance, end of year	$4,353,169	$2,955,552

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. The liabilities, net of assets, of these discontinued operations have been segregated in the consolidated balance sheet.

12. Related party transactions

The Company has had 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 paid $193,120 (2007 - $188,288) for consulting services to Dr. Zerrouk and a company controlled by Dr. Zerrouk. The Company also provided Dr. Zerrouk, as part of his compensation package, the use of a house with an annual rent of $102,024 (2007 - $96,320).

(b) The Company paid $94,280 to Boughton Law Corporation, legal counsel to the Company, during the 2008 year for legal services rendered. A director of the Company is an Associate Counsel of Boughton Law Corporation.

(c) During the 2007 year, the Company granted options to a director to acquire 100,000 shares at a price of $1.20 per share until January 30, 2012.

(d) During the 2008 year, a former director exercised options to acquire 50,000 shares at a price of $0.80. Another officer exercised 20,000 options at a price of $0.75 per share.

(Expressed in Canadian Dollars)

13. 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 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$2,368,222 to UW for the development project, as billed by UW. As at July 31, 2008, a total of US$1,016,536 ($1,098,519 Canadian dollars) had been paid.

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 $558,000 Singapore dollars (approximately $395,343 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 Vancouver and Singapore offices. The Company also has entered into an apartment lease for certain employees in Singapore. Minimum required lease payments under these agreements including that described in Note 12(a) are as follows:

2009	$ 299,337
2010	80,630
	$ 379,967

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 and made a final payment of $98,600 on September 1, 2008.

f) Effective February 14, 2007, ZMSS entered into a Joint Research and Development and Technological Works Agreement with Professor Zair Sadygov (“Sadygov”) in respect to a planned joint development of a proprietary technology for use in medical imaging systems. Pursuant to the agreement, ZMSS is required to provide funding on a monthly basis of a total amount of US$150,000 to Sadygov for the development project.

(Expressed in Canadian Dollars)

13. Commitments and agreements (continued)

g) 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 Tehknoscan JS Company ("Tehknoscan"). Inversion and Tehknoscan each received 5% of the issued common shares of ZLS. The asset purchases were recorded at nominal amounts, as no objectively determined significant value can be attributed to the purchased technologies or to the shares of ZLS.

Under the asset purchase agreements, if, within six months of the effective dates, the Company closed a cash financing from an outside third party and issued shares based on a valuation of the Company lower than $100 million US dollars, Inversion and Tekhnoscan are each to be issued additional shares, such that each company will hold up to 7% of the issued fully participating common shares of ZLS. No steps have been taken in respect to the possible application of this provision as a result of the financing described in Note 10(b)(v).

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 Techknoscan are to manufacture laser systems at cost, as defined under the agreements.

(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), of which $380,000 (US) (approximately $383,000 (CAD)) had been paid at July 31, 2008. 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.

The future commitments described in notes 13(b), (e) and (h) are summarized as follows:

	Research Contracts
2009	$ 726,828
2010	443,908
2011	391,958
2012	10,500
2013	20,500
	$ 1,593,694

14. Contingencies

During the 2007 year, the landlord in respect to a tenancy agreement made by the Company for a residence to be used by Dr.Zerrouk in Singapore initiated a legal claim against ZMSS in October of 2006 in respect to the termination of the agreement by ZMSS. During the 2008 year, the Company settled the claim and recovered deposits in the amount of $32,769.

(Expressed in Canadian Dollars)

15. 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:

2008	Asia	Europe	North America	Total
Revenue	$ 91,953	$ 15,237	$ 196,669	$ 303,859
Property and equipment	$ 1,322,498	$ 10,875	$ 22,317	$ 1,355,690
Interest income	$ -	$ 70	$ 102,984	$ 103,054
Equipment under capital lease	$ 34,050	$ -	$ -	$ 34,050
Patent costs	$ 198,891	$ -	$ -	$ 198,891

2007	Asia	Europe	North America	Total
Revenue	$ -	$ -	$ -	$ -
Property and equipment	$ 527,316	$ 13,594	$ 26,241	$ 567,151
Interest income	$ -	$ -	$ 74,040	$ 74,040
Equipment under capital lease	$ 48,643	$ -	$ -	$ 48,643
Patent costs	$ 137,113	$ -	$ -	$ 137,113

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 commencing in the 2008 year 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:

2008	Lasers	Imaging	Display	Total
Revenue	$ 285,972	$ 17,887	$ -	$ 303,859

(Expressed in Canadian Dollars)

16. Income taxes

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

	2008		2007	
	Canada	**Singapore**	**Canada**	**Singapore**
Statutory income tax rate	(32.3%)	(18.0%)	(34.1%)	(18.0%)
Tax losses not recognized	32.3%	18.0%	34.1%	18.0%
Effective tax rate	-	-	-	-

(b) At July 31, 2008 and 2007, the tax effects of temporary differences that give rise to the Company's future income tax assets are as follows:

	2008		2007	
	Canada	**Singapore**	**Canada**	**Singapore**
Operating losses	$ 2,518,000	$ 1,927,500	$ 2,692,000	$ 880,405
Intangible assets	1,300	77,800	500	60,800
Share issuance costs	255,400	-	264,000	-
Property and equipment	19,500	60,300	10,100	21,500
	2,794,200	2,065,600	2,966,600	962,705
Less: valuation allowance	(2,794,200)	(2,065,600)	(2,966,600)	(962,705)
	$ -	$ -	$ -	$ -

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, 2008, 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 2009 year as follows:

2009	$ 149,957
2010	99,190
2011	103,007
2015	1,478,231
2026	2,426,535
2027	2,254,153
2028	1,744,883
	$8,255,956

Operating losses for Singapore tax purposes of approximately $10,700,000 may be carried forward indefinitely, subject to certain restrictions.

(Expressed in Canadian Dollars)

17. Statement of cash flows – supplementary information

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

	July 31, 2008	**July 31, 2007**
Cash paid for income taxes	$ Nil	$ Nil
Cash paid for interest	$ 3,867	$ 1,609

(b) Significant non-cash transactions occurring during the 2008 and 2007 years were as follows:

(i) On September 6, 2007, the Company granted agents' warrants at an estimated fair value of $22,122, as described in note 10(b)(v).

(ii) On December 20, 2007, the Company granted agents' warrants at an estimated fair value of $96,850, as describe in note 10(b)(vi).

(iii) On February 19, 2007, the Company granted agents' warrants at an estimated fair value of $152,267, as describe in note 10(b)(i).

18. Comparative figures

Certain comparative figures for the 2007 year have been reclassified to conform to the presentation adopted in the 2008 year.

19. Subsequent event

In August and October of 2008, the Company received two grant payments from the Government of Singapore Economic Development Board in the amounts of $256,024 and $273,224 respectively.