ZECOTEK PHOTONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS
ENDED JULY 31, 2009 AND 2008

berris mangan

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of:
Zecotek Photonics Inc.

We have audited the consolidated balance sheets of Zecotek Photonics Inc. as at July 31, 2009 and 2008 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, 2009 and 2008 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 23, 2009

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A PARTNERSHIP OF INCORPORATED PROFESSIONALS

Zecotek Photonics Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at July 31, 2009 and 2008

	2009	**2008**
Assets		
Current Assets		
Cash and cash equivalents	$ 81,430	$ 308,345
Short term investments *(note 5(a))*	-	1,340,000
Trade receivables	2,116	24,437
Interest receivable	298	32,106
Goods and services tax recoverable	15,411	67,136
Prepaid expenses	17,184	98,468
	116,439	1,870,492
Due from related parties *(note 6)*	14,410	-
Restricted short term investments *(note 5(b))*	15,000	20,000
Deposits	73,594	71,817
Property and equipment *(notes 7 and 15)*	780,046	1,355,690
Equipment under capital lease *(note 8)*	23,835	34,050
Patent costs *(note 9)*	221,952	198,891
	$1,245,276	$ 3,550,940
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,715,438	$ 567,803
Current portion of obligations under capital lease	7,213	7,217
Liabilities of discontinued operations *(note 11)*	53,254	53,254
	1,775,905	628,274
Obligations under capital lease	22,330	29,558
Shareholders' Equity		
Share capital *(note 10(b))*	29,410,773	28,985,958
Contributed surplus *(note 10(g))*	5,099,237	4,353,169
Deficit	(35,062,969)	(30,446,019)
	(552,959)	2,893,108
Nature of Business and Going Concern Uncertainty *(note 1)*		
Commitments *(note 13)*		
Contingencies *(note 14)*		
Total Liabilities and Shareholders' Equity	$ 1,245,276	$ 3,550,940

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, 2009 and 2008

	2009	2008
Revenue	$ 350,584	$ 303,859
Cost of Sales	246,594	217,751
Gross Profit	103,990	86,108
Expenses		
Operating, general and administrative *(notes 12 and 15)*	2,673,071	4,036,618
Research and development *(note 15)*	959,153	3,449,646
Stock-based compensation *(note 10(e))*	557,565	656,249
Financing *(note 10(b)(vii))*	56,753	-
Foreign exchange loss	61,046	105,782
Amortization of property and equipment	342,259	247,420
Amortization of patent costs	28,005	36,061
	4,677,852	8,531,776
Loss before interest and other costs	(4,573,862)	(8,445,668)
Interest income	6,176	103,054
Impairment of patent costs	(49,264)	(60,567)
Net loss and comprehensive loss for the year	(4,616,950)	(8,403,181)
Deficit, Beginning of Year	(30,446,019)	(22,042,838)
Deficit, End of Year	$(35,062,969)	$(30,446,019)
Loss per common share – basic and diluted	$(0.10)	$(0.19)
Weighted average number of common shares outstanding – basic and diluted *(note 10(f))*	46,002,861	43,923,799

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended July 31, 2009 and 2008

	2009	2008
Operating Activities:		
Net loss and comprehensive loss for the year	$(4,616,950)	$(8,403,181)
Adjustments for items not involving cash:		
Amortization of property and equipment	342,259	247,420
Amortization of patent costs	28,005	36,061
Stock-based compensation	557,565	656,249
Impairment of patent costs	49,264	60,567
Financing costs – non-cash	56,753	-
Write-off of due from related party	-	67,559
	(3,583,104)	(7,335,325)
Changes in non-cash working capital:		
Interest receivable	31,808	(26,690)
Trade receivables	22,321	(24,437)
Goods and services tax recoverable	51,725	(32,790)
Prepaid expenses	81,284	(51,867)
Accounts payable and accrued liabilities	1,147,635	242,459
	(2,248,331)	(7,228,650)
Investing Activities:		
Net proceeds on disposal of (purchase of) short term investments	1,345,000	(1,340,000)
Deposits received (paid)	(1,777)	-
Acquisition of property and equipment	(2,013)	(439,494)
Grant reimbursements of property and equipment costs received	245,613	-
Patent costs incurred	(100,330)	(158,406)
	1,486,493	(1,937,900)
Financing Activities:		
Proceeds from shares and units issued, net of issuance costs *(note 10(b))*	556,565	7,903,842
Repayments of obligations under capital lease	(7,232)	(4,460)
Advances (to) from related parties	(14,410)	(2,350)
	534,923	7,897,032
Increase (decrease) in cash and cash equivalents	(226,915)	(1,269,518)
Cash and cash equivalents, Beginning of Year	308,345	1,577,863
Cash and cash equivalents, End of Year	$ 81,430	$ 308,345

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 Singapore 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 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

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 and at July 31, 2009 has a substantial working capital deficiency. The Company is still in the process of developing its commercial revenue stream and the current revenue generated is not sufficient 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 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.

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 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.

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, or as income, as appropriate.

(t) 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 liabilities of discontinued operations are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(u) 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.

(v) Adoption of New Accounting Standards

(i) General standards of financial statement presentation

Effective August 1, 2008, the Company adopted an amendment to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation, which includes specific requirements to assess and disclose an entity's ability to continue as a going concern. The standard requires management, in assessing the appropriateness of the going concern assumption, to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The Company discloses its going concern uncertainty in Note 1.

2. Significant accounting policies (continued)

(v) Adoption of New Accounting Standards (continued)

(ii) Financial instruments – disclosures and presentation

Effective August 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These two sections require enhanced disclosure and presentation standards for financial instruments. The disclosures of the Company related to financial instruments are included in Note 4.

(iii) Capital disclosures

Effective August 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed, and requires disclosure of information about an entity's objectives, policies and processes for managing capital. The capital disclosures of the Company are included in Note 19.

3. New Accounting Pronouncements

(a) Goodwill and Intangible Assets

In February of 2008, the CICA issued a new accounting standard, 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, and will be effective for the Company for the year beginning August 1, 2009. The adoption of this standard is not expected to have a material impact on the financial statements of the Company.

(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 January 1, 2011.

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.

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.

At July 31, 2009, the Company had cash balances of $6,217 United States dollars ($6,708 Canadian dollars), $73,851 Singapore dollars ($55,361 Canadian dollars), 19,674 Swiss Francs ($19,897 Canadian dollars) and 6,607 Malaysian Ringgits (2,024 Canadian dollars), and accounts payable balances of $394,201 United States dollars ($425,343 Canadian dollars), $604,115 Singapore dollars ($452,860 Canadian dollars), 24,042 Euros ($37,039 Canadian dollars) and 234,563 Malaysian Ringgits (71,847 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 fixed interest rates include guaranteed investment certificates with original maturities of greater than three months, exposing the Company to 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, 2009, the Company had insufficient cash and cash equivalents to satisfy its short term obligations.

(Expressed in Canadian Dollars)

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 $15,000 (2008 - $20,000) with an interest rate of Prime minus 2.75% has been pledged as collateral for the Company's corporate credit cards and is 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:

	2009	2008
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.

7. Property and equipment

	Cost	Accumulated Amortization	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

	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	191,439
July 31, 2008	$ 1,730,619	$ 374,929	$1,355,690

8. Equipment under capital lease

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

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

(Expressed in Canadian Dollars)

9. Patent costs

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

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

During the 2009 year, the Company received a Chinese patent and a Canadian patent related to its LFS crystal technology for which total costs incurred was $37,934.

An amount of $49,264 (2008: $60,567) has been written off and recognized as a loss for the 2009 year as the recoverability of that amount was 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 **$**
Balance, July 31, 2007	**39,813,278**	**21,809,339**
Private placements (i), (ii)	3,719,300	4,698,308
Exercise of options (iii)	70,000	87,441
Exercise of agents' options (iv)	131,838	153,022
Exercise of warrants (v)	1,408,380	1,830,894
Exercise of agents' warrants (v)	313,042	406,954
Balance July 31, 2008	**45,455,838**	**$ 28,985,958**
Private placement (vi)	1,003,333	424,815
Balance July 31, 2009	**46,459,171**	**$ 29,410,773**

10. Share capital (continued)

(b) Issued and outstanding common shares (continued)

(i) 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 consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitled 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 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 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 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).

(iii) 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.

(iv) 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.

(v) 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.

(Expressed in Canadian Dollars)

10. Share capital (continued)

(b) Issued and outstanding common shares (continued)

(vi) 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 consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of eighteen months at a price of $0.70 per share. The exercise period of the warrants will be accelerated if certain conditions are met. The Company paid a finder's fee equal to 7% of the gross proceeds ($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. Legal costs amounted to $3,295. 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 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) On February 26, 2009, the Company amended the terms of the 781,500 warrants issued to subscribers of the private placement described in Note 10(b)(i). 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 is to be accelerated if certain conditions are 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.

(c) Common share purchase warrants

	Number of warrants	Weighted average exercise price
Balance, July 31, 2007	**2,178,030**	**1.30**
Warrants exercised (note 10(b)(v))	(1,408,380)	1.30
Warrants expired	(769,650)	1.30
Warrants granted (notes 10(b)(i) & (ii))	1,859,650	2.06
Balance, July 31, 2008	**1,859,650**	**$ 2.06**
Warrants granted (note 10(b)(vi))	1,003,333	0.70
Warrants repriced (note 10(b)(vii))		(1.25)
Balance, July 31, 2009	**2,862,983**	**$ 1.24**

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(c) Common share purchase warrants (continued)

At July 31, 2009, the share purchase warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
1,078,150	**$ 2.10**	**December 20, 2009**
781,500	**0.75**	**March 6, 2010**
1,003,333	**0.70**	**July 13, 2010**

(d) Agent's warrants and options

	Number of warrants	Weighted average exercise price
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**
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**

At July 31, 2009, the agents' warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
150,941	**$ 1.60**	**December 20, 2009**
60,200	**$ 0.70**	**July 13, 2010**

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 with the following weighted average assumptions:

	2009	2008
Annualized stock volatility	83.9%	77.7%
Risk-free interest rate	0.9%	4.1%
Expected option/warrant life	1.3 years	1.8 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, 2009, 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 53,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	**Weighted average exercise price**
Balance, July 31, 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**
Options granted	2,925,000	0.65
Balance, July 31, 2009	**7,534,000**	**$ 1.02**

At July 31, 2009, 5,340,250 options had vested, which have a weighted average exercise price of $1.17.

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 $557,565 for the year ended July 31, 2009 (2008 – $656,249).

The weighted average fair value of stock options granted during the year ended July 31, 2009 has been estimated at the date of grant using the Black-Scholes option pricing model as $0.42 (2008 – $1.03) per share using the following weighted average assumptions:

	2009	2008
Annualized stock volatility	81.1%	78.0%
Risk-free interest rate	2.0%	4.0%
Expected option life	5 years	5 years
Dividend payments	0.0%	0.0%

(Expressed in Canadian Dollars)

10. Share capital (Continued)

(e) Stock options (continued)

Options outstanding at July 31, 2009 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$0.50	560,000	560,000	0.42
$0.65	2,880,000	720,000	4.75
$0.65	45,000	11,250	4.87
$0.70	260,000	260,000	0.47
$0.72	100,000	100,000	1.48
$0.75	554,000	554,000	1.12
$0.80	60,000	60,000	2.46
$0.93	140,000	140,000	1.64
$0.99	100,000	100,000	1.93
$1.05	160,000	160,000	2.02
$1.10	300,000	300,000	2.48
$1.20	100,000	100,000	2.50
$1.30	100,000	100,000	3.19
$1.55	240,000	240,000	1.85
$1.76	1,775,000	1,775,000	1.78
$1.79	160,000	160,000	3.33
	7,534,000	5,340,250	2.84

The Black-Scholes model, used by the Company to calculate option values, was developed to estimate fair values 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, 2009 a total of 720,000 (2008: 4,746,878) 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 2010	240,000
June 2010	240,000
January 2011	240,000
	720,000

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

	2009	2008
Balance, July 31, 2008	$4,353,169	$2,955,552
Options granted (Note 10(e))	557,565	656,249
Options exercised	-	(32,441)
Agents' warrants exercised	-	(34,367)
Agents' warrants granted (Notes 10(b)(i), (ii) and (vi))	9,194	118,972
Warrants granted (Notes 10(b)(i), (ii) and (vi))	122,556	689,204
Warrants amended (Note 10(b)(vii))	56,753	-
Balance, July 31, 2009	$5,099,237	$4,353,169

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

12. 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 paid $150,000 (2008 - $193,120) for consulting services to Dr. Zerrouk and a company controlled by Dr. Zerrouk. At July 31, 2009, $52,500 (2008: nil) of these fees were included in accounts payable and accrued liabilities. The Company also provided Dr. Zerrouk, as part of his compensation package, the use of a house with an annual rent of $143,067 (2008 - $102,024).

(b) During the 2009 year, the Company paid legal fees of $32,300 (2008: $94,280) to Boughton Law Corporation, legal counsel to the Company, for legal services rendered. A director of the Company is an Associate Counsel of Boughton Law Corporation. At July 31, 2009, $26,027 (2008: nil) of these fees were included in accounts payable and accrued liabilities.

(c) During the 2009 year, the Company paid $89,895 (2008: $146,779) for accounting and related services to a company controlled by the Chief Financial Officer of the Company. At July 31, 2009, $6,804 (2008: $11,949) of these fees were included in accounts payable and accrued liabilities.

(d) During the 2009 year, the Company granted options to 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 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, 2009, a total of US$1,066,536 ($1,162,119 Canadian dollars) had been paid and US$429,214 ($463,122 Canadian dollars) was unpaid and included in accounts payable and accrued liabilities.

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 $418,291 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:

2010	$ 115,822
2011	38,679
2012	3,223
	$ 157,725

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. During the 2009 year, the Company paid $45,000 towards the final amount due of $98,600.

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 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.

(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).

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

	Research Contracts
2010	$ 650,196
2011	500,628
2012	10,500
2013	20,500
	$ 1,181,824

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. 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, 2009, certain of these conditions in respect to the Singapore government grant have not been met. The Company is in discussions with the Singapore government regarding these matters. 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 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 has been reported as a reduction of equipment cost, an amount of $977,039 has been reported as a reduction of research and development expenses, and an amount of $28,231 has been 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 has been 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:

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	$ 23,835	$ -	$ -	$ 23,835
Patent costs	$ 221,952	$ -	$ -	$ 221,952

(Expressed in Canadian Dollars)

16. Segmented information (continued)

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

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:

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

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

For the 2009 year, revenue of the Company from two customers represented 93.9% of total revenue. Revenue from one customer totalled $258,195 (2008: nil) and from the other totalled $70,886 (2008: nil).

For the 2008 year, revenue of the Company from three customers represented 79.3% of total revenue. Revenue from those three customers totalled $240,951.

(Expressed in Canadian Dollars)

17. Income taxes

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

	2009		2008	
	Canada	**Singapore**	**Canada**	**Singapore**
Statutory income tax rate	(30.2%)	(17.0%)	(32.3%)	(18.0%)
Tax losses not recognized	30.2%	17.0%	32.3%	18.0%
Effective tax rate	-	-	-	-

(b) At July 31, 2009 and 2008, the tax effects of temporary differences that give rise to the Company's future income tax assets are as follows:

	2009		2008	
	Canada	**Singapore**	**Canada**	**Singapore**
Operating losses	$ 2,396,000	$ 2,696,000	$ 2,518,000	$ 1,927,500
Intangible assets	9,400	(22,000)	1,300	77,800
Share issuance costs	129,700	-	255,400	-
Property and equipment	34,600	(25,000)	19,500	60,300
	$ 2,569,700	$2,649,000	$ 2,794,200	$ 2,065,600
Less: valuation allowance	(2,569,700)	(2,649,000)	(2,794,200)	(2,065,600)
	$ -	$ -	$ -	$ -

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, 2009, 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 2010 year as follows:

2010	$ 99,190
2011	103,007
2015	1,478,231
2026	2,426,535
2027	2,254,153
2028	1,744,883
2029	1,377,000
	$9,482,999

Operating losses for Singapore tax purposes of approximately $15,800,000 may be carried forward indefinitely, subject to certain restrictions.

(Expressed in Canadian Dollars)

18. Statement of cash flows – supplementary information

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

	July 31, 2009	**July 31, 2008**
Cash paid for income taxes	$ Nil	$ Nil
Cash paid for interest	$ 2,814	$ 3,867

(b) Significant non-cash transactions occurring during the 2009 and 2008 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)(i).

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

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

(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)(vii).

19. 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, 2009, the Company had a negative capital balance of $530,629.

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, 2008.

20. Subsequent events

(a) On August 5, 2009, the Company announced amendments to the terms of 1,078,150 warrants issued to subscribers of the private placement described in Note 10(b)(ii). The Company reduced the exercise price of the warrants 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.

(b) 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. Each finder's warrant entitles the holder to purchase one share at a price of $1.00 per share for a period of 24 months.

(c) In August and September of 2009, the Company advanced two payments totalling $145,000 to planBmedia AG, a related Swiss corporation, in respect to a proposed investment in a joint development of certain software technology.