



ZECOTEK PHOTONICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended July 31, 2009

November 26, 2009

Zecotek Photonics Corporate Update And President's Message

During the past year we have continued to focus on Zecotek's core business strategy: to commercialize technologies through strategic alliances with leading, world class players which provide expertise in product development, manufacturing processes, brand and market acceptance with established sales and distribution channels. This strategy is intended to secure revenues, optimize cash flow and protect intellectual property rights through unique profit sharing partnerships as well as minimize capital and operational expenditures. It is particularly suited to meet the challenges of the current global financial environment which has significantly impaired the flow of capital and created new challenges for technology development companies like Zecotek.

However, in spite of these challenges, I am pleased to report that our actions to preserve cash and minimize expenditures have not impacted the Company's ability to reach product development milestones, retained key staff, and importantly deliver on key sales opportunities in both the Imaging and Laser Divisions. We continue to receive endorsements from respected scientific organizations, industry players and partners. This was exemplified by the honour of the prestigious Frost & Sullivan 2009 Enabling Technology Award, received by Zecotek for its technological breakthroughs and product excellence in both PET (positron emission tomography) and PET/CT (computed tomography) medical imaging markets.

We have also continued to receive funding from the governments of Singapore and Malaysia – a welcomed validation of Zecotek's technologies, business model and management capabilities. Equally important is the continued support we receive from shareholders as the Company raised over \$3.7 million in three separate non-brokered private placements. These rounds of funding allow the Company to maintain its competitive advantages both technologically and as regard to timing to market. The Company is now fully focused on taking products to production through credible and strategic manufacturers. This phase of transfer to production is closely coordinated with the agenda of adoption by major system integrators and end users. The Company aims to complete this phase within Q2 of 2010. The Company has completed the majority of its development programs and is preparing to fulfill initial orders for a gamete of products, across its three divisions in Q1 2010.

Highlights of the past twelve months as Zecotek has made significant progress in each of the three major divisions:

ZECOTEK IMAGING SYSTEMS

Product Development

- Completed development of the MAPD-3N, a production based design upgrade from the advanced Micro-pixel Avalanche Photo Diodes (MAPD) solid-state photo detectors. The upgrade was a result of a close interaction with major end users.
- Developed new MAPD-3N devices with circular sensitive area of 1.1mm in diameter for Centers for High Energy Physics (Large Hadron Collider) and bio-instrumentation markets.
- Developed a new pre-molded plastic package design which allows end-users to create multi sensor arrays for use in PET medical scanners.
- In the process of integrating a patent pending modular 4x4 Detector unit, based on a new ceramic-based 4x4 MAPD-3N array and a uniquely designed block with Depth Of Interration measurement and scintillation capabilities. These dimensions can be modified for application specific designs in particular for PET scanners.

Partnerships/Marketing

- We are in advanced discussions with two government agencies for the vertical integration and manufacture of cost effective PET and PET/MRI scanners for a national health program. By leveraging Zecotek's key components and imaging expertise there is an opportunity for new and substantial untapped markets.

- Established Zecotek as a prime candidate supplier to CERN (European Organization for Nuclear Research) for our MAPD-3N devices for their High Energy Particles Experiments, and more specifically, the Compact Muon Solenoid (CMS) Hadron Calorimeter experiment and NA61 experiment. Entered into discussions with a European medical imaging company to supply MAPD-3N devices in array format for brain PET and dedicated scanners with smaller Field of Views.
- Initiated the transfer of the MAPD-3N device fabrication processes as well as the subsequent mass production to a major Singapore based semiconductor fabricator.
- Supplied MAPD evaluation samples to a major U.S. instrumentation manufacturer as a key component for a new range of flow cytometers and initial feedback has been positive.
- Received a purchase order from a major European organization for trial samples of our proprietary large dimensions format LFS3 crystal bars and initial feedback on testing has been very positive. We look forward to large volume orders for these high value bars.

ZECOTEK LASER SYSTEMS

Product Development

- Completed transfer of our proprietary fiber laser technology to Fujikura who are now in initial production stage of our green fiber lasers. Trial samples have been delivered to major instrumentation OEM's.
- Completed development of a new proprietary femto-second fiber optic laser for bio-instrumentation, OCT, two-photon microscopy, and ID marking and encryption nanotechnologies.
- Introduced the High Power Solid State Green Laser "Mozart" for pumping ultra-wide-tuneable lasers. Extensions of this product will target semiconductor and material processing, optical cooling and trapping, OPO/parametric amplifiers.
- Successfully developed and tested a 532nm microchip laser advanced prototype, for projectors and semiconductor processing. Ten additional units are in production for marketing probes and promotional activities.

Partnerships/Marketing

- The U.S. National Institute of Health (NIH) reported excellent results with our GFL for flow cytometry applications and in March 2009, at their invitation, we co-authored a paper with Dr. W Telford reporting on key advantages of GFL's in cytometry.
- Developed the world's first tunable Green Fiber Laser (540-550nm) prototype which is in testing at the NIH. Other wavelength ranges are being completed for applications in bio-instrumentation (flow cytometry).
- Our Japanese manufacturing partners have started pilot production of smaller package/lower noise GFL 2.0 550 nm fiber laser.
- Received a preliminary specification from a major U.S. based instrumentation company for fiber lasers to be ordered in production quantities (pending satisfactory testing).
- Established a marketing and sales team in Vancouver, B.C. for North American sales with particular focus on Fiber Lasers for flow cytometry system OEMs and research labs.

ZECOTEK DISPLAY SYSTEMS

- We have successfully completed the development of our fifth generation pre-production prototype Real-Time 3D2D Display System. This 36" unit integrates a newly designed modulator unit manufactured under contract by LT-Pyrkal, (Armenia) and a next generation lenticular screen

manufactured under contract by Anteryon (Netherlands). It delivers a significant enhancement of all key 3D parameters including: an increase in the number of perspectives from 40 to 94 (3D application specificity depends on an optimal number); viewing angle increased by approximately 40% from the prior prototype; frame rate augmented from 40Hz to 50Hz (with no flicker); and brightness is increased by 1.3 times.

- Work has been initiated on an up-grade of the system software to support real time capability using Xilinx GPU.
- We are presently in discussions with European and Japanese OEM's regarding production and commercialization of our 3D technology, and we have shipped our demonstration unit to our Zurich offices for a demonstration program for European OEM's and investors.

In addition to our corporate progress and our product development we are vigilant with building a very strong patent portfolio to protect our intellectual properties. Various key patents have been granted, while others are pending. Our vigorous strategy of patent protection will ensure that Zecotek's core technology assets remain secure and provide for continuing value as a source of new core enabling technologies, products and systems.

All-in-all we are very pleased with the growth in market acceptance and recognition of our photonics technologies. We have been successful at attracting respected scientific organizations and industry leading partners along with government and private funding which is clear validation of our technology and its market potential. We have set near term goals to complete optimal manufacturing and commercialization partnerships for our technologies and for each of the three divisions, in an effort to create the best possible value for our shareholders. I would like to thank you personally for your continued support.

Best regards,

Dr. Faouzi Zerrouk
Chairman, President and Chief Executive Officer
Zecotek Photonics Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

November 26, 2009

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's annual audited financial statements for the year ended July 31, 2009 and notes thereto. The significant accounting policies are outlined in Note 2 to the Financial Statements of the Company for the year ended July 31, 2009. All dollar amounts are expressed in Canadian dollars except where noted. The Company's accounts are maintained in Canadian dollars. The business activities of the Company, carried out through its subsidiaries in Singapore are conducted primarily in Singapore dollars. The rate of exchange on July 31, 2009 as reported by the Bank of Canada, for the conversion of one Singapore dollar into Canadian dollars was \$0.7496.

Company Overview

Zecotek Photonics Inc. 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's photonic product portfolio is used in a broad range of commercial and research applications in the major markets of material processing, bio-science, high-energy and new materials research, multimedia and security. Founded in 2003, the Company has focused on building shareholder value by commercializing novel, patented and patent-pending photonic technologies directly and through strategic alliances and joint ventures with leading industry partners such as Northrop Grumman (U.S.A.) for Zecotek's patented LFS scintillation material, Fujikura Ltd. (Japan) for fiber and solid-state laser systems, Malaysian Institute of Microelectronics (Malaysia) for the solid-state MAPD photo detectors and Anteryon BV (Netherlands) for a key component of the 3D display screen.

Zecotek's operational, pre-production and production facilities are located in Singapore. Through its wholly owned subsidiary Zecotek Photonics Singapore Pte Ltd., enabling technologies for use in industrial and medical imaging application are developed by three distinct operating divisions: Zecotek Imaging Systems Pte. Ltd., Zecotek Laser Systems Pte. Ltd. and Zecotek Display Systems Pte. Ltd. The Company's corporate headquarters is located in Vancouver, B.C. with additional research projects and laboratories in Malaysia, Russia and U.S.A. The Company is a Canadian public company trading on the TSX Venture Exchange under the symbol "ZMS" and on the Frankfurt Stock Exchange under the trading symbol "WII". The Company's website is www.zecotek.com.

Lasers Systems

Zecotek's laser program is targeted at meeting the needs in the biomedical, scientific and material processing industries. The Company's initial focus has been to develop laser and laser components for the biomedical industry, however, Zecotek has expanded its laser program beyond the biomedical industry due to significant demand for lasers from other industrial sectors. The Company is developing the following laser technologies:

- **Fiber lasers** for use in bio-instrumentation, genomics, proteomics, scientific and material processing;
- **Diode pumped solid-state lasers** for drug discovery, clinical diagnostics, scientific and industrial applications;
- **Thin film waveguide micro-lasers** for high speed integrated circuits.
- **Special application dye lasers** for high-precision laser spectroscopy.

Zecotek has initiated sales of a Rare earth Fine Oxide (RFO) Vanadate crystal which was developed to replace the ubiquitous YAG crystal, which is used in approximately 60% of laser applications, ranging from medical lasers to high-power industrial laser systems. Management believes the Company's proprietary RFO crystal growth technology is more efficient and thus more cost effective and provides improved performance when compared with the YAG crystal.

Imaging Systems

Zecotek's imaging strategy is to develop novel technologies that provide superior performance at a competitive price. The focus of the strategy is development and commercialization of important photonic technologies specifically patented Lutetium Fine Silicate (LFS) scintillation crystals used in scientific and medical imaging devices, and new generation of solid-state photo detectors, Micro-pixel Avalanche Photodiodes (MAPD), used in a broad range of medical and non-medical application.

3D Display Systems

Zecotek has successfully developed and demonstrated a colour, 32 inch 3D display prototype that offers multiple viewers with true volumetric visualization while exhibiting depth and parallax. Zecotek's Real-Time 3D2D Display is a novel, proprietary display system for the visualization of images and data. Based on the auto stereoscopic principle, but with substantial patent pending innovation, it represents a new generation of 3D displays. Zecotek's 3D display is particularly powerful when applied to the field of medical imaging. Its design provides for multi-user, multi-view, freedom of movement, high resolution in both 3D and 2D modes, superior image dynamic range in 2D mode, 2D and 3D simultaneous displays, common brightness, compatibility with existing applications and designed to be cost competitive.

Zecotek Product Summary

- Patented LFS scintillation material;
- Patent-pending MAPD solid-state photon counters;
- Proprietary RFO Vanadate crystal;
- Growing portfolio of Lasers:
 - Green Fiber Laser, Model GLF 550 & Model GLF-540-0.2;
 - CW Narrow-Band Ti: Sapphire laser, Model TIS-FD-08/A-scan-WV;
 - CW Single-Frequency Ti: Sapphire Laser, Model TIS-SF-878;
 - CW Single Frequency Ring Dye Laser;
 - CW Ti: Sapphire Laser, Model TIS-SF-777;
 - Solid-State 336nm DPSS Laser;
 - Frequency Doubling Device, Model FD-SE-07;
 - New Surgical Laser, Model SL 1.4 Fiber Coupled Laser;
 - High-Power, High-Resolutions Laser Spectrometer, Model TIS/DYE-FD-08/A-scan.

Zecotek Research & Development Programs

- New scintillation material for medical imaging to eventually serve as a successor material to the LFS;
- Enabling technologies for combined PET-MRI detectors, in development with the University of Washington;
- Various solid-state and fiber lasers, including the Green Fiber Laser;
- Thin film waveguide micro laser technology, being currently in development jointly with UBC;
- Real time auto-stereoscopic 3D display.

Corporate Developments

Financings

Zecotek Closes C\$3.7 Million Private Placement

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 at any time on or before the 24-months anniversary of the closing of the offering. The Warrant's exercise period will automatically accelerate if the common shares of the Company trade above \$1.50 for a period of 10 consecutive trading days. The Company will pay a finder's fee equal to 7% of the gross proceeds of the sale of the Shares and issue non-transferable 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 \$1.00 for a period of 24 months after the date the private placement closes.

On August 5, 2009, the Company amended the terms of 1,078,150 warrants issued to subscribers of a private placement which closed on December 20, 2007. The Company will re-price the exercise price of the subscriber warrants to \$0.75 per common share from the initial exercise price of \$2.10 with no change to the expiry date of December 20, 2009. The amended warrants will contain an acceleration provision, such that, if, for a period of ten consecutive trading days (the "Premium Trading Days"), the closing price of the Company's shares is \$1.00 per share or higher, the warrant exercise period will be shortened to a period of 30 days. The 30-day period will commence seven calendar days after the tenth Premium Trading Day.

On February 26, 2009, the Company announced to amend the terms of the 781,500 warrants issued to subscribers of a private placement which closed on September 6, 2007. The Company will re-price the

exercise price of the subscriber warrants to \$0.75 per common share from the initial exercise price of \$2.00 and extend the expiry date for these warrants by twelve months from March 6, 2009 to March 6, 2010. The amended warrants will contain an acceleration provision, such that, if, for a period of ten consecutive trading days, the closing price of the Company's shares is \$1.00 per share or higher, the warrant holders will have 30 days to exercise their warrants; otherwise the warrants will expire on the 31st day.

On January 13, 2009, the Company closed a non-brokered 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 whole warrant entitles the holder to purchase one additional common share for a period of eighteen months at an exercise price of \$0.70 per common share. The warrant's exercise period will automatically accelerate if the common shares of the Company trade above \$1.00 for a period of 10 consecutive days. The Company paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares and issue non-transferable finder's warrants to purchase common shares equal in number to 6% of the units sold under the private placement

Award

In early March 2009, the Company received the Frost & Sullivan 2009 Enabling Technology Award in the PET (positron emission tomography) and PET/CT (computed tomography) medical imaging markets. Zecotek received this Award in recognition of the Company's research and development and clinical validation achievements for its next-generation scintillation crystals and solid-state photo detector technology. Frost & Sullivan acknowledged that Zecotek distinguished itself from its competitors through its best practices in technology developments and strategic alliances for its medical imaging products.

Patents

On September 29, 2008 the Canadian Patent Office issued a notice of allowance to Zecotek Imaging Systems Singapore Pte. Ltd., a wholly owned subsidiary of Zecotek Photonics Inc., for its LFS scintillation material. This application is identical to the LFS scintillation applications that have been issued or allowed in the United States, Russia, China, Europe and Japan.

On September 3, 2008, the Company received Notification of Grant of Patent Rights from the Chinese Patent Office for its LFS scintillation material. The grant of these additional Chinese patent rights further validates and strengthens Zecotek's worldwide patent position in its innovative LFS scintillation material.

Government Grants

Singapore Economic Development Board grants Research Incentives

During the year, Zecotek received grant payments amounting to \$1,250,883 under the previously announced Government of Singapore Economic Development Board's (EDB) Research Incentive Scheme for Companies. The payment covers a re-imbusement of a portion of operational expenses in research and development, including salaries, equipment, materials, professional and consulting services and staff training, for Zecotek's Singapore based product development and commercialization programs. Under the terms of the agreement, grant details remain confidential. General details of EDB's support programs can be found on EDB's website www.edb.gov.sg.

Malaysian Industrial Development Authority grants Research Incentives

During the year, the Company received grant payments amounting to \$133,515 from the Malaysian Industrial Development Authority. The Malaysian Industrial Development Authority (MIDA) incentive grants come as a product of Zecotek's relationship, established in 2007, with the Malaysian Institute for Micro-electronics Systems (MIMOS) to complete the development of the manufacturing process of Zecotek's new-generation MAPD solid-state photo detectors.

Investor Relations

Zecotek Re-Engages CHF Investor Relations

In August 2009, the company retained CHF Investor Relations (Cavalcanti Hume Funfer Inc.), ("CHF"), an investor relations firm whose management team's combined experience accounts for a full century working in brokerage, trading, financial analysis, and investment sales.

Selected Annual Information

The Company's fiscal year end is July 31. The following is a summary of certain selected audited consolidated financial information for the Company's three most recently completed fiscal years.

	Audited Year Ending July 31, 2009	Audited Year Ending July 31, 2008	Audited Year Ending July 31, 2007
Revenue	\$ 350,584	\$ 303,859	\$ -
Interest income	\$ 6,176	\$ 103,054	\$ 74,040
Net loss for the year	\$ (4,616,950)	\$ (8,403,181)	\$ (8,241,683)
Earnings/loss per share	\$ (0.10)	\$ (0.19)	\$ (0.22)
Total assets	\$ 1,245,276	\$ 3,550,940	\$ 3,156,031
Long term debt	\$ 0	\$ 0	\$ 0
Share Capital	\$ 29,410,773	\$ 28,985,958	\$ 21,809,339
Number of Shares	46,459,171	45,455,838	39,813,278
Deficit	\$ (35,062,969)	\$ (30,446,019)	\$ (22,042,838)

Summary of Quarterly Results

The following table sets out certain financial information for the past eight quarters

Quarters ended (unaudited)	July 31, 2009	April 30, 2009	January 31, 2009	October 31, 2008
Operating Accounts				
Revenue	\$96,072	\$254,512	\$ Nil	Nil
Net loss	\$1,141,424	\$1,101,770	\$999,074	\$1,317,929
Balance Sheet Accounts				
Total Assets	\$1,245,276	\$1,672,159	\$2,184,027	\$2,554,838
Loss per share	\$0.02	\$0.02	\$0.02	\$0.03
Quarters ended (unaudited)	July 31, 2008	April 30, 2008	January 31, 2008	October 31, 2007
Operating Accounts				
Revenue	\$135,620	\$35,820	\$132,419	Nil
Net loss	\$2,111,483	\$1,906,562	\$2,288,606	\$2,096,530
Balance Sheet Accounts				
Total Assets	\$3,550,940	\$5,183,601	\$7,102,587	\$3,889,105
Loss per share	\$0.05	\$0.04	\$0.05	\$0.05

Results of Operations

Revenue

Revenues amounted to \$96,072 in the fourth quarter of 2009 and \$350,584 in the year ended July 31, 2009 compared \$135,620 and \$303,859 in the same periods in 2008. These revenues are from the sale of laser equipment (91%), LFS crystals (5%), and MAPDs (4%) to major companies and organizations that are increasingly testing our products for potential larger scale ramp-up.

Gross Margin

The gross profit for the fourth quarter of 2009 amounted to \$28,822 on \$96,072 of product sales for an average gross margin of 30% compared to 25% in the same period in 2008. For fiscal 2009, the gross profit amounted to \$103,990 on \$350,584 of product sales for an average gross margin of 30 percent compared to 28% gross margins in the same period in 2008.

Interest Income

Interest income amounted to \$6176 in the quarter ended July 31, 2009, compared with \$10,375 in the same period in 2008, reflecting a decrease of 40%. Interest income totaled \$6,176 in the year ended July 31, 2009, a decrease of 94% when compared to \$103,054 in the same period in 2008. These decreases in interest income are largely due to the Company's liquidities being lower pursuant to the sale of its short term investments.

Government Grants

In the fourth quarter of fiscal year 2009, the Company received \$162,119 in grant payments from the Government of Singapore Economic Development Board's ("EDB"). For fiscal 2009, the total grants received amount to \$1,384,398 which includes \$1,250,883 from EDB and \$133,515 from Malaysian Industrial Development Authority ("MIDA"). The payments cover the re-imbursement of a portion of operational expenses in research and development, including salaries, equipment, materials, professional and consulting services and staff training, for Zecotek's Singapore and Malaysia based product development and commercialization programs. No grants were received in the previous year.

Operating, General and Administrative Expenses

Operating, General and administrative ("G&A") expenses amounted to \$565,317 in the fourth quarter of 2009, compared with \$1,134,855 in the same period of 2008, representing a decrease in costs of 50%. For fiscal 2009, G&A expenses totaled \$2,673,071, a decrease in costs of 34% when compared to \$4,036,618 for the same period in 2008. The decrease is due to controlling of costs through reduction of staff, rollbacks in salaries and consulting fees, cutbacks in operating expenses including office, administrative and travelling costs, and getting government grants to fund some of the expenses. Government grants reducing the operating, general and administrative expenses amounted to \$28,231 in fiscal 2009. In 2008 there were no government grants. Management has worked diligently in managing the administrative and overhead costs and continues to monitor those costs.

Increases or decreases in specific categories are:

1. Consulting and other professional fees – decreased 47% from \$1,428,164 to \$750,858, primarily due to the rollback of consulting fees by the executives and operational management.
2. Insurance – decreased 6% from \$46,657 to \$43,945, due to policy maintenance with the same insurance firms.
3. Investor relations and filing fees – decreased 52% from \$229,217 to \$109,364 as a result of a change in investor relation firms' monthly/annual costs.
4. Office and General – decreased 14% from \$176,369 to \$151,093 as a result of overall cost saving measures.
5. Marketing and promotion – decreased 78% from \$182,148 to \$39,715 in fiscal 2009 driven by an overall budget reduction on marketing.
6. Rent – increased 17% from \$381,159 to \$444,235 as a result of an increase in the operating costs associated with the leased premises of the Company's facilities in Canada and Singapore.
7. Salaries and benefits – decreased 16% from \$1,192,749 to \$1,006,098. The decrease was due to the reduction of staff and rollbacks in salaries.
8. Travel – decreased 68% from \$400,155 to \$127,763 primarily due to the reduction in travel due to general budgetary reductions. Meetings are increasingly being carried out through teleconferencing.

Research and Development Expenses

Research and development ("R&D") expenses amounted to \$558,258 in the fourth quarter of 2009, compared with \$762,161 in the fourth quarter of 2008, representing a decrease in costs of 27%. For the year ended July 31, 2009, R&D expenses were \$959,153 compared to \$3,449,646 for the same period of 2008, reflecting a decrease in costs of 72%. These decreases in costs are due to the completion of certain research contracts, prioritization of R&D activities and obtaining government grants from Singapore and Malaysia to fund some of the research and development costs. Government grants reducing the research and development expenses

amounted to \$1,110,554 in fiscal 2009. In 2008 there were no government grants. The total research and development costs before the funding through government grants total \$2,069,707 in fiscal 2009.

The focus of the research and development projects that are still being currently carried out in laboratories in Canada, Singapore, Malaysia, Russia and U.S.A. is to meet the specifications required by the OEM and adapting and improving our technologies for different applications demanded by the market.

The research contract with the University of Washington for the joint development of a proprietary technology for use in medical imaging systems is still ongoing. The amount accrued towards the University of Washington research contract in the current year is \$406,806 compared to \$441,491 in 2008. As at July 31, 2009, \$463,122 was outstanding and included in the accounts payable and accrued liabilities. Negotiations are ongoing to work out a payment schedule and amendment of contract terms as the development of the proprietary technology for use in medical imaging systems has advanced significantly.

Stock-based Compensation

Stock-based compensation expenses amounted to \$4,595 in the fourth quarter of 2009, compared with \$64,808 in the same period of 2008, representing a decrease in costs of 93%. For fiscal 2009, stock-based compensation expenses totaled \$557,565 a decrease in costs of 15% when compared to \$656,249 for the same period in 2008. The decrease is as a result of reduction in compensation of stock option grants to the employees and consultants of the Company.

Financing

Financing costs of \$56,753 for fiscal 2009 was as a result of amending the terms of the 781,500 warrants and determined using the Black-Scholes option pricing model. The exercise price of the warrants was reduced from \$2.00 to \$0.75 per common share and the expiry date was extended by twelve months. The amount is considered a financing expense and charged to operations. There were no financing costs as a result of amendment of warrants in the 2008 year.

Foreign Exchange Loss

Foreign exchange gain amounted to \$87,792 in the fourth quarter of 2009, compared with loss of \$19,629 in the same period of 2008. For fiscal year 2009, foreign exchange loss was \$61,046 a decrease in costs of 42% when compared to \$105,782 for the same period in 2008. The decrease is due to impact of the foreign currency fluctuations.

Amortization of property and equipment

Amortization expense for the fourth quarter of 2009 increased to \$86,062 from \$78,906 in the same period of 2008, an increase of 9%. For fiscal 2009, the amortization was \$342,259 an increase of 38% when compared to \$247,420 for the same period in 2008. The increase is due to the provision of full year amortization as compared to the half year in 2008. The Company provides half year amortization in the year the assets are acquired.

Amortization of patent costs

Amortization expense for the fourth quarter of 2009 decreased from \$34,201 to \$717 in the same period of 2008, a decrease of 98%. For fiscal 2009, the amortization was \$28,005, a decrease of 22% when compared to \$36,061 for the same period in 2008. The decrease is due to the write off of certain patent costs in the current year.

Impairment of patent costs

Impairment of patent costs for some of the technologies decreased to \$49,264 in the current fiscal year from \$60,567 in the same period in 2008. These technologies are either still in the developmental stages or sales have not yet materialized thus it is difficult for the Company to justify whether the carrying value can be recovered from forecasted cash flows and profitability information, including estimated future operating results, trends and other available information.

Net Loss

The Company recorded a net loss of \$1,141,424 or \$0.02 per share in the fourth quarter of 2009, compared with \$2,111,483 or \$0.05 per share in the same period of 2008, a decrease of 46%. A net loss of \$4,616,950 or \$0.10 per share was recorded in the fiscal year 2009 compared with \$8,403,181 or \$0.19 per share in the same

period of 2008 resulting in a decrease of 45%. The Company's loss decreased due to strategic cost control measures which minimized operational expenditures including voluntary 50% reductions in salary by key staff, decreased research and development costs as some of the technologies are already in the commercialization stage and obtaining government grants.

Liquidity and Capital Resources

For fiscal 2009, the Company has a net loss of \$4,616,950 and negative cash flow from operating activities of \$2,248,331 compared to a net loss of \$8,403,181 and negative cash flow from operating activities of \$7,228,650 for fiscal 2008. As a result of recurring losses over the Company's history, the Company has accumulated deficit of \$35,062,969 as at July 31, 2009. The accounts payable and accrued liabilities have increased by \$1,147,635 in fiscal 2009 compared to \$242,459 for fiscal 2008. Subsequent to the year-end, part of the financing received from the non-brokered private placement on October 23, 2009 was used to pay down a portion of these payables.

Net cash provided by financing activities in fiscal 2009 was \$534,923 as compared to \$7,897,032 for fiscal 2008. In 2009, the financing activities consisted mainly of the issuance of shares through a non-brokered private placement.

Net cash provided by investing activities in fiscal 2009 was \$1,486,493 as compared to \$(1,937,900) for fiscal 2008. In 2009 the cash proceeds of \$1,345,000 were from the disposal of the short term investments. Grant reimbursements of property and equipment costs amounted to \$245,613. \$100,330 was used in investment in patent costs and \$2,013 was used to purchase computer equipment.

The Company has suffered recurring losses from operations and currently the revenues do not generate enough cash to sustain its operations. Its ability to conduct operations, including the commercialization of its technologies, development of new technologies and the acquisition of additional technologies is dependent on its ability to raise funds as needed.

At July 31, 2009 the Company had \$81,430 in cash and cash equivalents, a decrease of \$226,915 (14%) over the \$308,345 cash and cash equivalents available at July 31, 2008. The consolidated working capital was \$(1,659,465) at July 31, 2009, a decrease of \$2,901,683 over the \$1,242,218 of consolidated working capital at July 31, 2008. The decrease in working capital mainly resulted from an increase in liabilities as the Company attempted to conserve cash during the global downturn of the economy.

Subsequent to the year-end, 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 at any time on or before the 24-months anniversary of the closing of the offering. The Warrant's exercise period will automatically accelerate if the common shares of the Company trade above \$1.50 for a period of 10 consecutive trading days. The Company will pay a finder's fee equal to 7% of the gross proceeds of the sale of the Shares and issue non-transferable 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 \$1.00 for a period of 24 months after the date the private placement closes.

Share Capital

Set out below is the outstanding share data of the Company as at July 31, 2009. For additional details, see Note 10 to the audited financial statements for July 31, 2009.

At July 31, 2009	Number outstanding
Common shares	46,459,171
Stock options	7,534,000
Common share purchase warrants	2,862,983
Agent's warrants	211,141

Outstanding options represent a total of 7,534,000 common shares issuable. At July 31, 2009, 5,340,250 were exercisable and would provide proceeds of \$6,232,413 to the Company if all the vested options were exercised in full. The exercise of these options is completely at the discretion of the holders and the Company has no indication that any of these options will be exercised.

At July 31, 2009 the Company had outstanding 2,862,983 common share purchase warrants out of which 781,500 were exercisable at \$0.75 per share expiring on March 6, 2010, 1,078,150 warrants were exercisable at \$2.10 per share expiring on December 20, 2009 and 1,003,333 warrants were exercisable at \$0.70 per share expiring on July 13, 2010. Subsequent to the year-end, the exercise price for the 1,078,150 warrants was amended to \$0.75 per common share from \$2.10 per share. There is no change to the expiry date of December 20, 2009.

At July 31, 2009 the Company had outstanding 211,141 agent's warrants out of which 150,941 were exercisable at \$1.60 per share expiring on December 20, 2009 and 60,200 agent's warrants were exercisable at \$0.70 per share expiring on July 13, 2010.

Escrow shares

As at July 31, 2009 a total of 720,000 (2008: 4,746,878) shares were held in escrow, their release subject to a predetermined time schedule.

Contractual Obligations

The following table summarizes the Company's contractual obligations as at July 31, 2009, and the effect such obligations are expected to have on our liquidity and cash flows in future years. The table excludes amounts already recorded in the consolidated balance sheet as current liabilities and certain other purchase obligations discussed below:

	2010	2011	2012	2013
Rental leases	\$ 115,822	\$ 38,679	\$ 3,223	\$ -
Research Contracts	650,196	500,628	10,500	20,500

Purchase orders for third party components, finished goods and other goods and services are not included in the above table. Management is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

The Company has entered into contracts for other outsourced services. However, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. The expected timing of payment of the obligations discussed above is estimated based on current information. The timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or for some obligations, changes to agreed-upon amounts.

Disclosure Controls and Procedures Related to Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely disclosure. The Company's Chief Executive Officer and the acting Chief Financial Officer have concluded, based on their evaluation as of July 31, 2009, that the Company's disclosure controls and procedures are operating effectively to provide reasonable assurance that material information related to the Company are made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and acting Chief Financial Officer believe that the disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control over Financial Reporting

The Chief Executive Officer and acting Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and the acting Chief Financial Officer have assessed the design of internal control over financial reporting as at July 31, 2009 and during the process, they have identified certain weaknesses in internal controls over financial reporting. The weaknesses in the Company's internal control over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement may not be prevented or detected on a timely basis.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting other than:

- The Chief Financial Officer is no longer with the Company and an acting Chief Financial Officer has been appointed temporarily until a new Chief Financial Officer is hired;
- Due to the size of the Company and limited staff it is not feasible to achieve complete segregation of incompatible duties.

Management and the Board of Directors work to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Audit Committee

In compliance with the TSX Venture Exchange Policy 3.1 "Directors, Officers and Corporate Governance" section 10.1, the Audit Committee is comprised of 3 members, Erich Sager of Zurich, Switzerland, David Toyoda (independent) of Vancouver, Canada and Dr. Faouzi Zerrouk of Singapore. Mr. Sager is the Chairman of the Audit Committee.

Mr. Sager has many years experience in the private banking sector in Switzerland and serves on several Boards as Director. David Toyoda is a lawyer and serves on several Boards as Director. Dr. Faouzi Zerrouk has many years experience serving on the board of high tech organizations and as a Chief Executive Officer. The Audit Committee will serve until the next Annual General Meeting at which time the new Board of Directors will appoint or re-appoint the Audit Committee.

Forward-looking statements

This discussion may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, Company's ability to successfully complete new product development along the timelines expected; the Company's need for funds to achieve its goals and uncertainties as to the availability and cost of funding; uncertainty as to the continued and future demand for the Company's products; the development of competing technologies and the possibility of increased competition; and other economic trends and conditions in the markets that the Company and its customers serve; and the effect of the risks associated with technical difficulties or delays in product introductions, improvements, implementation, product development, product pricing or other initiatives of the Company and its competitor. Investors are also directed to consider the other risks and uncertainties discussed in the Company's required financial statements and filings. All other companies and products listed herein may be trademarks or registered trademarks of their respective holders.

Additional Information

Additional information relating to the Company, including the Annual Information Form and its audited year end financial statements is available on SEDAR at www.sedar.com.