ZECOTEK MEDICAL SYSTEMS INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS
ENDED OCTOBER 31, 2006 AND 2005

NOTICE

The interim financial statements of the company have been prepared by and are the responsibility of the company's management and have not been reviewed by the Company's independent auditor.

ZECOTEK MEDICAL SYSTEMS INC.
CONSOLIDATED BALANCE SHEET
For the Three Months Ended October 31, 2006
(Expressed in Canadian Dollars)

	October 31, 2006	July 31, 2006
ASSETS		(audited)
Current		
Cash & cash equivalents	$ 382,625	$ 249,014
Short-term investments *(note 4)*	1,750,000	3,500,000
Accrued interest receivable	5,707	28,935
GST recoverable	22,195	121,702
Prepaid expenses *(note 13 (d))*	123,955	10,752
Total Current Assets	2,284,482	3,910,403
Due from related parties *(note 5)*	69,518	78,511
Restricted short-term investments *(note 4)*	20,000	20,000
Deposits *(note 16)*	0	73,233
Property and Equipment *(note 6)*	462,800	122,405
Patent costs *(note 7)*	94,239	71,348
Intangible assets and development costs *(note 8)*	0	1
	646,557	365,498
Total Assets	$ 2,931,039	$ 4,275,901

LIABILITIES AND SHAREHOLDERS' EQUITY

	October 31, 2006	July 31, 2006
Current		
Accounts payable & accrued liabilities	$ 48,965	$ 219,032
Liabilities of discontinued operations *(note 12)*	53,254	53,254
Total Liabilities	102,219	272,286
Shareholders' Equity		
Share capital *(note 9 (b))*	16,255,057	16,246,313
Contributed surplus *(note 9(g))*	1,921,974	1,558,457
Deficit	(15,348,211)	(13,801,155)
Total Shareholders' Equity	2,828,820	4,003,615
Total Liabilities and Shareholders' Equity	$ 2,931,039	$ 4,275,901

On behalf of the Board:

"Dr. F. Zerrouk" — Director

"Erich Sager" — Director

See accompanying Notes to Consolidated Financial Statements

ZECOTEK MEDICAL SYSTEMS INC.
CONSOLIDATED STATEMENT OF INCOME AND LOSS
For the Three Months Ended October 31, 2006 and 2005
(Expressed in Canadian Dollars)

	Three Month Period Ended October 31, 2006	Three Month Period Ended October 31, 2005
REVENUE		
Interest Income	0	2,280
EXPENSES		
Accounting	12,171	13,225
Amortization	8,052	3,135
Consulting	168,779	30,000
Entertainment and Travel	61,499	20,821
Filing fees	4,608	2,780
Legal	23,236	5,660
Office expenses	11,100	5,685
Rent and parking	82,009	25,185
Research and development	657,200	203,661
Salaries	140,732	21,816
Salaries – Stock Compensation	366,261	68,765
Telephone & utilities	8,951	3,838
Foreign exchange	2,458	
	1,547,056	404,571
Loss from operations for the period	(1,547,056)	(402,291)
Deficit, Beginning of Period	(13,801,155)	(7,778,490)
Deficit, End of Period	(15,348,211)	(8,180,781)
Loss per share	($0.044)	($0.026)

See accompanying Notes to Consolidated Financial Statements

ZECOTEK MEDICAL SYSTEMS INC.

CONSOLIDATED CASH FLOW STATEMENT

For the Three Months Ended October 31, 2006 and 2005

Unaudited - Prepared by Management

(Expressed in Canadian Dollars)

	Three Month Period Ended October 31, 2006	Three Month Period Ended October 31, 2005
OPERATING ACTIVITIES:		
Net loss for the period	$ (1,547,056)	$ (402,291)
Adjustment for items not involving cash:		
Amortization of property and equipment	8,052	3,135
Stock-based compensation	366,261	68,765
	(1,172,743)	(330,391)
Change in non-cash working capital:		
Loan receivable	30,000	(30,000)
Non-refundable deposit - acquisition assets	0	(119,449)
Accrued interest receivable	(5,707)	0
Accounts receivable and prepaid expenses	(43,369)	(26,796)
Accounts payable & accrued liabilities	63,247	(10,482)
Net cash used in operating activities	44,171	(186,727)
FINANCING ACTIVITIES:		
Proceeds from shares issued, net of costs	1,013,155	101,250
Advances to related companies	95,892	(32,945)
Net cash provided by financing activities	1,109,047	68,305
INVESTING ACTIVITIES:		
Increase in short-term investments	(1,150,000)	400,000
Acquisition of property and equipment	(410,367)	(3,684)
Disposition of intangible assets	1,807,742	0
Patent costs incurred	(94,239)	0
Net cash used in investing activities	153,136	396,316
Net cash from continuing operations	133,611	(52,497)
Increase (Decrease) in cash position	133,611	(52,497)
Cash position, Beginning of year	249,014	122,598
Cash position, End of First Quarter	$ 382,625	$ 70,101

See accompanying Notes to Consolidated Financial Statements

(Expressed in Canadian Dollars)

1. NATURE OF BUSINESS AND GOING CONCERN UNCERTAINTY

Nature of Business

Zecotek Medical Systems 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 was inactive until it purchased certain technologies on December 31, 2004 from Zecotek Holdings Inc., pursuant to an Amended and Restated Asset Purchase Agreement. The Company changed its name from Equicap Financial Corp. on February 10, 2005.

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.

Effective May 12, 2006, the Company purchased certain additional technologies from Zecotek Holdings Singapore Pte. Ltd. pursuant to an Asset Purchase Agreement.

The Company has four wholly owned subsidiaries as follows:

Subsidiary	Date of incorporation	Main current or planned activity
Zecotek Crystals Inc.	August 6, 2004	Research and development and licensing of a scintillation material
Zecotek Lasers Inc.	June 7, 2005	Inactive
Zecotek 3D Inc.	October 18, 2005	Inactive
Zecotek Medical Systems Singapore Pte. Ltd.	April 4, 2006	Holding company for Singapore subsidiaries

The Company holds a 90% interest in the following subsidiaries which were incorporated in the 2006 year:

Subsidiary	Main planned activity
Zecotek Display Systems Pte. Ltd.	Research and development (and eventual exploitation) in 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

Four other 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 12).

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. To date, the Company has no products in commercial production or use and does not currently have any revenues other than interest earned on short-term investments. 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, the support of its principal shareholders, and successfully bring its technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time.

These financial statements do not give effect to adjustments, if any, that 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

These interim consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles on a consistent basis with the Company's annual financial statements for the year ended July 31, 2006. These interim 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. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended July 31, 2006 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the Company's audited financial statements for the year ended July 31, 2006.

3. 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.

The carrying value of cash and cash equivalents, short-term and restricted short-term investments, accrued interest receivable, due from and to related parties, deposits, accounts payable and accrued liabilities and liabilities of discontinued operations approximate their fair value due to their short-term nature.

Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash and short-term investments, the balances of which are stated on the consolidated balance sheet. The Company places its cash in high credit quality financial institutions. Concentration of credit risks with respect to receivables is limited.

Financial risk is the risk to the Company's results of operations that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, as well as credit risk associated with the financial stability of the issuers of the financial instruments. The Company has operations in Singapore, some of the transactions of which are transacted in Singapore dollars. The Company also incurs certain costs in US dollars. Accordingly, the Company is exposed to foreign exchange risk in respect to these currencies, and has not undertaken hedging activities to mitigate this risk. The Company's short-term investments are invested in fixed rate securities.

(Expressed in Canadian Dollars)

4. SHORT-TERM INVESTMENTS

Short-term investments are comprised of guaranteed investment certificates ("GIC") with a weighted average interest rate of 3.75% (2005 – 2.24%) and maturities ranging to May, 2007. At October 31, 2006, the fair value of the short-term investments approximates the carrying amount, based on quoted market prices.

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

5. AMOUNTS DUE TO AND FROM RELATED PARTIES

Details of amount due from related parties are as follows:

	October 2006	July 2006
Due from Dr. Faouzi Zerrouk	$ 54,332	$ 54,332
Due from Zecotek Laboratories Inc.	15,186	24,179
	$ 69,518	$ 78,511

Amounts due from Dr. Faouzi Zerrouk ("Dr. Zerrouk"), the Chairman of the Board of Directors, President and Chief Executive Officer, relate to travel and other advances.

Amounts due from Zecotek Laboratories Inc., a company controlled by Dr. Zerrouk, which is a subsidiary of a significant shareholder of the Company, Zecotek Holdings Inc., represent advances made pursuant to a Support Agreement.

The amounts due to and from related parties are non-interest bearing, unsecured and without fixed terms of repayment.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 311,858	$ 26,942	$ 284,916
Furniture	47,052	6,301	40,751
Leasehold improvements	138,458	9,921	128,537
Motor vehicle	8,596	0	8,596
October 31, 2006	$ 505,964	$ 43,164	$ 462,800

	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 122,409	$ 25,609	$ 96,800
Furniture	22,732	5,630	17,102
Leasehold improvements	17,007	8,504	8,503
July 31, 2006	$ 162,148	$ 39,743	$ 122,405

(Expressed in Canadian Dollars)

7. PATENT COSTS

	Cost	Accumulated Amortization	Net Book Value
October 2006	$ 94,239	$ -	$ 94,239
July 2006	$ 71,348	$ -	$ 71,348

8. INTANGIBLE ASSETS AND DEVELOPMENT COSTS

	2006	2005
Balance, July 31, 2005	$ 1,788,293	$ -
Acquisition of intangible assets *(note 8(i))*	-	1,671,793
Acquisition of intangible assets *(note 8 (ii))*	1	-
Development costs incurred during year		
LFS crystal technology *(note 13(a))*	185,905	116,500
Biophotonic technology *(note 13(a))*	1,016,408	-
Impairment loss for year *(notes 8(i) and (ii))*	(2,990,606)	-
Balance, July 31, 2006	**$ 1**	**$ 1,788,293**

i) On December 31, 2004, the Company's subsidiary, Zecotek Crystals Inc., completed an Asset Purchase Agreement for the purchase of a Lutetium Fine Silicate ("LFS") crystal technology from Zecotek Holdings Inc., for total consideration of $1,636,333, consisting of cash of $280,333 and common shares, warrants and stock options of the Company with a total assigned value of $1,356,000 (see note 9(b)(iii)). Legal expenses incurred in relation to the acquisition amounted to $35,460. Further development expenses of $185,905 (2005- $116,500) representing salaries and fees paid to employees and consultants and other directly attributable costs for work undertaken to develop and commercialize the technology had been capitalized.

At July 31, 2006, the capitalized acquisition and development costs to that date, totalling $1,974,198, were written-down to a nominal carrying amount of $1. The technology has been licensed on a long term basis to a third party as described in Note 15(a). However, the ability of the Company to generate revenue from the technology under this agreement is unproven and uncertain. Therefore the Company does not have adequate assurance that the capitalized costs will be recovered in a reasonable period of time.

ii) Effective May 12, 2006, the Company and its Singapore subsidiaries, Zecotek Medical Systems Singapore Pte. Ltd., Zecotek Display Systems Pte. Ltd. ("ZMSS"), Zecotek Imaging Systems Pte. Ltd. and Zecotek Laser Systems Pte. Ltd. completed an asset purchase of certain biophotonics technology from Zecotek Holdings Singapore Pte. Ltd. of which Dr. Zerrouk is a majority shareholder. Consideration consisted of cash of $338,000, the issuance of 11,750,000 common shares of the Company (estimated market value of $0.90 per share) and preferred shares of all subsidiary companies of ZMSS which are convertible to 10% of the issued common shares of each subsidiary. The interest represented by the preferred shares will be recognized as a non-controlling interest on the balance sheet and statement of loss, as appropriate. The cash payment and common shares of the Company had been completed in May of 2006. The preferred shares have yet to be issued.

(Expressed in Canadian Dollars)

8. INTANGIBLE ASSETS AND DEVELOPMENT COSTS - continued

In conjunction with the asset purchase, the Company granted options to acquire 2,125,000 common shares of the Company at a price of $1.76 which may be exercised for a period of five years to certain employees, directors, officers or consultants of the vendor and related companies.

Under the asset purchase agreement, the Company is responsible for any liabilities associated with the purchased assets, including any sales taxes arising as a result of the purchase and any contractual liabilities or liabilities associated with intellectual property rights.

The transaction was considered to be a Related Party transaction and consequently the purchased intangible assets were recorded at the nominal carrying amount of the related party vendor. Under this presentation, the shares issued as consideration for the purchase have also been recorded at a nominal amount. The cash portion of the consideration which was paid in the 2006 year ($258,000) has been recorded as an increase of the deficit balance.

As at July 31, 2006, the Company had incurred development costs related to this technology, including that described in Note 15(b), incurred before and after the acquisition of the technology, totalling $1,016,408, which had been capitalized. These costs have been written off as at July 31, 2006 as the Company is unable to establish reasonable assurance of future recovery of these costs based on projected cash flows derived from the technology.

9. 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, 2004	6,151,841	$ 6,376,520
Private placement (i)	200,000	100,000
Private placement (ii)	3,145,000	1,347,500
Acquisition of LFS crystal technology (iii)	3,142,000	1,065,000
Private placement (iv)	900,000	499,500
Exercise of warrants (v)	1,494,500	1,118,375
Balance, July 31, 2005	15,033,341	10,506,895
Exercise of warrants (vi)	202,500	101,250
Exercise of warrants (vii)	200,000	68,000
Exercise of warrants (viii)	987,500	493,750
Private placement (ix)	6,389,400	5,750,460
Acquisition of technologies (x)	11,750,000	1
Exercise of options (xi)	120,000	103,650
Exercise of options (xi)	10,000	10,483
Share issuance costs (ix)	-	(621,623)
Share issuance costs – agents' options (ix)	-	(166,553)
Balance, July 31, 2006	34,692,741	16,246,313
Exercise of options (xii)	8,000	8,744
Balance, October 31, 2006	**34,700,741**	**$ 16,255,057**

9. SHARE CAPITAL

b) Issued and outstanding common shares - continued

i) On August 10, 2004, the Company completed a non-brokered private placement consisting of 200,000 units at a price of $0.50 per unit and received cash consideration of $100,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase one additional share for a period of one year at an exercise price of $0.50 per share. The Company applied the residual approach and allocated total proceeds of $100,000 to common shares and a nil value to the attached warrants.

ii) On December 31, 2004, the Company completed an offering of 3,000,000 units at $0.50 per unit for net cash proceeds of $1,347,500 after issued expenses of $152,500. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share for a period of six months at a price of $0.75 per share. The Company applied the residual approach and allocated total proceeds of $1,500,000 to common shares and a nil value to the attached warrants. The Company also issued 145,000 common shares at $0.50 per share to the agent for corporate finance services rendered in relation to the transaction.

iii) On December 31, 2004, pursuant to an Asset Purchase Agreement, as part consideration paid for the acquisition of the LFS crystal technology from Zecotek Holdings Inc., the Company issued 2,400,000 common shares at a discounted fair market value of $700,000 as the common shares are subject to escrow for up to six years and settled an assumed debt of $200,000 by the issuance of 400,000 units at $0.50 per unit. Each unit consisted of one common share and one warrant to purchase one common share at $0.50 for a period of 12 months. The Company also issued 202,000 common shares at $0.47 per share (totalling $95,000) as a finder's fee in respect to the transaction, and 140,000 common shares at $0.50 per share (totalling $70,000) pursuant to an Assignment Agreement dated July 5, 2004 to acquire the rights to the LSF scintillation material technology and issued stock options to purchase 800,000 common shares exercisable at $0.50 per share for a period of five years. The options were valued at $291,000 ($0.36 per option share).

iv) On February 8, 2005, the Company issued, by way of a private placement, 900,000 units at $0.60 per unit for net proceeds of $499,500 net of issuance expenses of $40,500. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share for a period of six months at an exercise price of $0.90 per share. The units were subject to a four month hold period from the closing date.

v) During the year ended July 31 2005, 1,484,500 warrants were exercised at $0.75 per share and 10,000 warrants were exercised at $0.50 per share, for total cash proceeds of $1,118,375.

vi) In August, 2005, 202,500 warrants were exercised at $0.50 per share for gross proceeds of $101,250.

vii) On November 1, 2005, 200,000 warrants were exercised at $0.34 per share for gross proceeds of $68,000.

viii) In December, 2005, 987,500 warrants were exercised at $0.50 per share for gross proceeds of $493,750.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - continued

b) Issued and outstanding common shares:

ix) On May 12, 2006, the Company completed an offering of 6,389,400 units at $0.90 per unit for net cash proceeds of $5,128,837 after issuance expenses of $621,623. Each unit consists of one common share and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of eighteen months at a price of $1.30 per share. The Company applied the residual approach and allocated total proceeds of $5,750,460 to common shares and a nil value to the attached warrants. The Company also issued 638,940 agents' options to agents for corporate finance services rendered in relation to the transaction. Each agent option consists of the right to acquire a unit with the same terms as described above. The estimated fair value of agents' options granted was determined to be $166,553, using the Black-Scholes option pricing model (note 9(e)).

x) On May 12, 2006, pursuant to the Asset Purchase Agreement described in Note 8(ii), as partial consideration paid for the acquisition of biophotonic technology, the Company issued 11,750,000 common shares. The common shares are subject to escrow and are to be released according to a pre-determined schedule over three years to May of 2009. The shares were recorded at the nominal carrying amount of the related party vendor. Share issuance costs of $30,000 were incurred, which have been recorded as an increase of the deficit balance.

xi) During the year ended July 31 2006, 120,000 options were exercised by a director and officer of the Company at $0.50 per share, and 10,000 options at $0.75 per share were exercised by an employee, for total cash proceeds of $67,500. Contributed surplus amounts of $43,650 and $2,983 respectively related to these options were consequently transferred to the share capital account.

xii) During the quarter ended October 31 2006, 8,000 options at $0.75 were exercised by an employee for total cash proceeds of $6,000. Contributed surplus amounts of $2,774 related to these options were consequently transferred to the share capital account. During the quarter ended October 31, 2006, 8,000 stock options at an exercise price of $0.75 per share expired. 100,000 stock options at $0.70 per share and 50,000 stock options at $1.76 per share also all expired unexercised.

c) Common share purchase warrants

	Number of warrants	**Weighted average exercise price**
Balance, July 31, 2004	200,000	$ 0.34
Warrants granted	3,240,000	0.68
Warrants exercised	(1,494,500)	0.75
Warrants expired	(15,500)	0.75
Balance, July 31, 2005	1,930,000	0.59
Warrants granted	3,194,700	1.30
Warrants exercised	(1,390,000)	0.48
Warrants expired	(540,000)	0.87
Balance, July 31 and October 31, 2006	**3,194,700**	**$ 1.30**

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - Continued

d) Stock options

On December 28, 2005, 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 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 October 31, 2006, the Company has reserved 5,200,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 75,000 were available for future issuance. Stock option transactions and the number outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2004	-	$ -
Options granted in connection with Asset Purchase Agreement *(notes 8(i) and 13(c) and (d))*	800,000	0.50
Options granted to employees, directors, officers and consultants *(note 13(c)))*	560,000	0.70
Balance, July 31, 2005	1,360,000	0.58
Options granted to employees, directors, officers and consultants *(notes 13(c) and (d))*	3,605,000	1.43
Options exercised	(130,000)	0.52
Balance, July 31, 2006	4,835,000	$ 1.22
Options expired unexercised	(100,000)	0.70
Options expired unexercised	(50,000)	1.76
Options expired unexercised	(8,000)	0.75
Options exercised	(8,000)	0.75
Options granted to employees and consultants *(notes 13 (e))*	160,000	1.05
Balance, October 31, 2006	**4,829,000**	**$ 1.22**

At October 31, 2006, 2,484,250 options have vested, which have a weighted average exercise price of $0.93.

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 $366,291 for the first quarter ended October 31, 2006 (year ended 2006 – $1,074,620).

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - Continued

d) Stock options - continued

The weighted average fair value of stock options granted during the 2006 year has been estimated at the date of grant using the Black-Scholes option pricing model as $0.57 per share (2006 - $0.70) using the following weighted average assumptions:

	October 31, 2006	July 31, 2006
Annualized stock volatility	60.0%	55.2%
Risk-free interest rate	4.2%	4.3%
Expected option life	4.8 years	4.8 years
Dividend payments	0.0%	0.0%

The following summarizes options outstanding at October 31, 2006:

Exercise price	Number of options	Number of options Exercisable	Weighted average remaining life (years)
$0.50	680,000	680,000	3.17
$0.70	460,000	460,000	3.22
$0.72	100,000	50,000	4.24
$0.75	574,000	430,500	3.87
$0.93	140,000	70,000	4.39
$0.99	100,000	25,000	4.68
$1.00	300,000	150,000	4.41
$1.05	160,000	40,000	4.77
$1.55	240,000	60,000	4.60
$1.76	2,075,000	518,750	4.53
	4,829,000	2,484,250	4.15

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

e) Agents' Options

As at October 31, 2006, agents' options outstanding are as follows (see note 9(b)(ix)) :

Weighted average exercise price	Number of agents' options	Number of agents' options exercisable	Weighted average remaining life (years)
$0.90	638,940	638,940	1.03

The fair value of agents' options has been estimated at the date of grant of options at $166,553, using the Black-Scholes option pricing model using the following weighted average assumptions:

Annualized stock volatility	55.7%
Risk-free interest rate	4.1%
Expected option life	1.5 years
Dividend payments	0.0%

(Expressed in Canadian Dollars)

9. SHARE CAPITAL - Continued

f) Escrow Shares

As at October 31, 2006 a total of 12,724,378 (2005 - 4,027,434) of the shares issued were held in escrow, the release of which is subject to a pre-determined schedule through January of 2011. Subsequent to October 31, 2006, 1,762,500 escrow shares were released.

g) Contributed Surplus

		October 31, 2006		July 31, 2006
Balance, beginning of quarter	$	1,558,457	$	363,917
Options granted (note 9(d))		366,291		1,074,620
Agents' options granted (note 9(e))		-		166,553
Options exercised (note 9(b)(xi))		(2,774)		(46,633)
Balance, end of quarter	$	1,921,974	$	1,558,457

10. RESEARCH AND DEVELOPMENT EXPENSES

In the quarter ended October 31, 2006, the Company incurred research and development expenses of $87,616 (2005 - $73,719) which it considered not directly attributable to specific product development, such as overhead, or not otherwise meeting the criteria for initial capitalization of such costs.

11. GENERAL AND ADMINISTRATIVE

		2006		2005
Consulting and other professional *(notes 13(c), (d), (e), (i) and (j)*	$	180,950	$	13,225
Filing fees		4,608		2,780
Legal		23,236		5,660
Office and miscellaneous		30,561		12,658
Rent & parking		82,009		25,185
Salaries and benefits *(notes 13(f) and (g))*		140,732		21,816
Stock-based compensation *(note 9(d))*		366,261		68,765
Travel & entertainment		61,499		20,821
Total	**$**	**889,856**	**$**	**170,910**

12. DISCONTINUED OPERATIONS

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

In January of 2005, the Company abandoned O-Tooz along with its other inactive subsidiaries, Djscene.com Media Inc., Online Consortium.com Inc. and FilmIndustry.com Inc. The liabilities of these discontinued operations have been segregated in the consolidated balance sheet.

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS

a) The Company paid research and development expenses during the quarter ending October 31, 2006 of $66,058 (2005 – $30,000) and consulting fees of $33,029 (2005 - $15,000) to Dr. Zerrouk.

b) Included in consulting expense for the 3 months ending October 31, 2006 $30,000 (2005 - $30,000) representing payments to a director and officer of the Company.

c) The Company paid salary during the 3 months ending October 31, 2006 of $9,945 (2005 - $5,905) to a director of the Company.

d) The Company paid consulting fees during the 3 months ending October 31, 2006 of $1,000 (2005 - $nil) to a director of the Company.

Except where otherwise noted, these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. INCOME TAXES

a) A reconciliation of the Canadian statutory tax rate to the effective rate for the Company is as follows:

	2006	2005
Statutory income tax rate	(34%)	(34%)
Tax losses not recognized	34%	34%
Effective tax rate	—	—

b) At July 31, 2006, the tax effects of temporary differences that give rise to the Company's future income tax assets are as follows:

	2006	2005
Non-capital losses subject to expiry	$ 2,038,700	$ 1,056,700
Intangible assets and development costs	522,400	217,800
Share issuance costs	257,000	77,600
Property and equipment	7,500	(700)
	2,825,600	1,351,400
Less: valuation allowance	(2,825,600)	(1,351,400)
	$ -	$ -

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, 2006, the Company and Zecotek Crystal Inc. have non-capital losses carried forward for Canadian tax purposes of approximately $5,996,241, available to reduce taxable income of future years, subject to certain restrictions. These losses expire commencing in the 2007 year as follows:

(Expressed in Canadian Dollars)

14. INCOME TAXES - continued

2007	$ 279,529
2008	1,406,327
2009	149,957
2010	99,190
2011	103,007
2015	1,478,231
2016	2,480,000
	$5,996,241

15. 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, 2006 a total of US$265,130 ($300,843 Canadian dollars) had been paid. In October 2006, an additional amount of US$106,130 ($120,882 Canadian dollars) was paid.

c) Effective May 1, 2006, ZMSS entered into an employment agreement with Dr. Zerrouk in respect to the positions of Chairman, President and Chief Executive Officer of the Company and its subsidiaries. The agreement provides for an annual remuneration package including salary and cost of living allowances totaling $558,000 Singapore dollars (currently approximately $396,300 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) Effective May 12, 2006, the Company granted Research Capital Corp. a right of first refusal to lead any future private or public equity or debt offering of the Company until May 12, 2007.

e) 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 are as follows:

2007	$ 207,650
2008	245,580
2009	193,500
2010	80,630
	$ 727,360

(Expressed in Canadian Dollars)

15. COMMITMENTS AND AGREEMENTS – continued

f) Effective August 22, 2006, Zecotek Medical Systems Singapore Pte. Ltd. entered into a tenancy agreement for a furnished residence for its CEO in Singapore. Monthly rent of SGD $12,000 (approximately CDN $8,500) is to be paid from September 1, 2006 to August 31, 2008, totalling SGD $288,000 (approximately CDN $204,600). While the lease has been entered into by ZMSS, the actual monthly payments are to be made by the CEO personally. To date ZMSS has paid SGD $36,000 or approximately CDN $25,700 for rent on behalf of the CEO which will be recovered by ZMSS.

Minimum required lease payments under these agreements are as follows:

2007	$ 86,500
2008	103,810
	$ 190,310

g) 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 $98,600 on September 1, 2007 and will make the final payment on September 1, 2008, totalling $295,800. The initial fee was paid in October of 2006.

16. CONTINGENT LIABILITIES

The landlord in respect to a tenancy agreement made by the Company for a residence to be used by Dr. Zerrouk initiated a legal claim against ZMSS in October of 2006 in respect to the termination of the agreement by ZMSS. The dispute relates to changes to the original agreement which ZMSS claims were promised by the landlord. ZMSS terminated the tenancy agreement and demanded return of deposits of $45,000 Singapore dollars (approximately CDN $32,233) from the landlord. The landlord has claimed loss of rental income of $360,000 Singapore dollars (approximately CDN $257,868) over the term of the agreement (August 1, 2006 to July 31, 2008) and costs incurred to remove certain chattels. Management of the Company is of the view that the landlord's claim does not have merit, that ZMSS is not liable for the claims for damages made by the landlord, and that it will be successful in recovering the deposit. The outcome of this matter is uncertain. Any loss of the Company as a result of the claim will be recognized when that determination can reasonably be made.

17. NON-CASH FINANCING TRANSACTIONS

a) December 31, 2004, the Company issued 145,000 common shares at $0.50 per share to an agent for corporate finance services rendered in respect to an offering of units of the Company (note 9(b)(ii)).

b) On December 31, 2004, pursuant to an asset purchase agreement, the Company issued 2,400,000 common shares for $700,000 as part consideration, settled an assumed debt of $200,000 by issuance of 400,000 units at $0.50 per unit, issued 202,000 common shares at $0.47 per share as a finder's fee, and issued 140,000 common shares at $0.50 per share, pursuant to an assignment agreement to acquire the rights to the LSF scintillation material technology (note 9(b)(iii)).

c) On May 12, 2006, the Company issued 638,490 agents' options at an estimated fair value of $166,553 for corporate finance services rendered by agents (note 9(b)(ix)).

d) On May 12, 2006, the Company issued 11,750,000 common shares as partial consideration in acquiring technologies as described in notes 8(ii) and 9(b)(x).

(Expressed in Canadian Dollars)

18. GEOGRAPHIC INFORMATION

The Company has operations in Canada and Singapore. Geographic information by country as at October 31, 2006 and 2005 are as follows:

	October 31, 2006	October 31,2005
Property and equipment		
Canada	$ 31,389	$ 52,433
Singapore	302,782	-
	$ 334,171	$ 52,433

	October 31, 2006	October 31,2006
Revenue		
Canada	$ -	$ 2,280
Singapore	-	-
	$ -	$ 2,280

19. SUBSEQUENT EVENTS

a) Subsequent to October 31, 2006, 1,762,500 common shares of the Company held in escrow were released.

b) In November 2006 the Company was issued a U.S. patent for the LFS scintillation material. The granting of the LFS patent is a significant technical validation that will offer Northrop Grumman, the Company's manufacturing and distribution alliance, added technical validity to proceed with the manufacturing and the World-wide sale of the LFS under the assurance of a U.S. patent. The U.S. patent number is 7,132,060.

c) On November 23, 2006 the Company announced that it has entered into a Non-Disclosure Agreement with GE Healthcare in respect of its LFS scintillation material. By virtue of this Agreement, the Company and its manufacturer Northrop Grumman will provide GE Healthcare with information in respect of using LFS in the crystal block design for GE's PET/CT machines as well as associated pricing.