

ZECOTEK MEDICAL SYSTEMS INC.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JULY 31, 2006 AND 2005

Dated at November 20, 2006

This MD&A should be read in conjunction with the audited financial statements for the twelve months ended July 31, 2006. The significant accounting policies are outlined in Note 2 to the Financial Statements of the Company for the year ended July 31, 2006 and have been applied consistently for the year ended July 31, 2006.

Company Overview

Zecotek Medical Systems Inc. ("ZMS" or the "Company") is a bio-photonics company with base and laboratories in Singapore with an additional laboratory at the University of British Columbia. ZMS focuses on the creation of advanced materials and integrated optoelectronic devices for high resolution medical imaging, optical precision surgery, biopharmaceutical research and 3D displays. The Company is a Canadian public company trading on the TSX Venture Exchange under the symbol "ZMS.V". On April 20, 2006, the Company's shares began trading on the Frankfurt Stock Exchange under the trading symbol - W11.F. On May 15, 2006, the Company released its new website: <http://www.zecotekmed.com>.

All dollar amounts are expressed in Canadian dollars. 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, 2006 as reported by the Bank of Canada, for the conversion of one Singapore dollar into Canadian dollars was \$0.7163.

On December 31, 2004, the Company's new, wholly owned subsidiary, Zecotek Crystals Inc. ("Crystals"), acquired from Zecotek Holdings Inc. ("Holdings") the intellectual property and know-how, including an International Patent application, associated with a new and proprietary scintillation crystal ("LFS") that emits blue light and that is a key component in the design of whole body positron emission tomograph ("PET") scanners.

LFS is a crystal material which falls into a category of materials known as "scintillators". These materials emit light when exposed to sources of radiation. Scintillation materials are used for imaging purposes, by assisting in the capture of high resolution images.

High performance scintillation crystals are developed principally for OEM manufacturers of PET and PET-CT scanners. Other applications are in micro-PET detectors used in drug research, and gamma cameras used for specific applications such as breast and prostate examinations. Additional non-medical applications include gamma ray detector systems for homeland security, geological surveying, materials analysis, high energy physics and nuclear stockpile monitoring. Novel scintillation crystals have provided the greatest source of performance and cost improvement for PET scanners in recent years. In addition to image quality improvements, resolution and sensitivity gains. The improved crystals offer faster imaging times, requiring less radio-trace element to be injected into the patient and therefore allowing hospitals and other medical facilities to achieve a greater patient throughput.

In oncology, PET provides early diagnoses, more accurate tumor detection, and better assessment of patient response to chemotherapy and radiation therapy compared with other imaging techniques (such as a CAT scan, MRI or ultrasound). PET scans can search the entire body for cancer in a single examination, more accurately revealing any spreading of the cancer as well as the primary site. It may also indicate whether a tumor is benign or malignant. Improved patient outcomes and reduced healthcare costs from the use of PET scans are driving market growth.

In cardiology, PET enables screening for suspected coronary artery disease, to assess flow rates and flow reserve and to distinguish good heart muscle from bad for bypass and transplant candidates.

In neurology, PET can be used for diagnosis and assessment of a number of neurological disorders including Alzheimer's, Parkinson's and Huntington's disease.

Scintillation materials such as LFS can be employed for other uses which include homeland security (port and harbor security for baggage and container screening), product analysis (detection of defective products such as bad

food), radiation detection (health and security in workplace), drug testing on animals and geology and oil exploration. For all these uses, scintillation material is coupled with a detector to capture radiation emanating from the subject material.

The mass production and marketing of the LFS has been licensed to Northrop Grumman under a 20-year contract to provide ZMS with an on-going revenue stream.

The Company's Canadian subsidiary, Zecotek Crystals Inc., retains ownership of the LFS scintillation material.

In early 2006, the Company determined it could derive superior returns and increased shareholder value through the integration of its various medical imaging technologies into higher value-added components and the selective production of finished product. Following this decision, several sites for the expansion of research and commercialisation facilities were evaluated, with Singapore eventually chosen. In April 2006 ZMS incorporated Zecotek Medical Systems Singapore Pte Ltd ("ZMSS") as a new, wholly owned subsidiary.

ZMSS then acquired three portfolios of intellectual property and technologies specifically for development and commercialisation in its Singapore facilities. For operational and financial efficiencies the Singapore operations have been organised into three Divisions; Medical Imaging, 3D Display and Medical Lasers. The Singapore operations will continue to be supported by ZMS-linked laboratories in Russia and Canada, as well as collaboration partners in the U.S and Canada, and by project management and market development from North America and Europe - much of which will also qualify for grant support from Singapore.

These new technologies include:

- a real time auto-stereoscopic 3D display;
- various solid state and fiber laser technologies, including a solid state laser for bio-instrumentation, and a thin film waveguide micro laser technology, the latter being currently in development jointly with UBC;
- enabling technologies for combined PET-MRI machines;
- a new scintillation material for medical imaging to eventually serve as a successor material to the LFS;
- a solid state photon counter;
- the RFO crystal, aimed at substituting the present YAG crystal for various laser applications; and
- a light source for optical coherence tomography, in development in conjunction with UBC.

Highlights

Relocation to Singapore

In addition to Singapore's excellent infrastructure, its large pool of highly trained research personnel and its world-class high-technology manufacturing sector, a key factor in its choice was the support of the Government of Singapore's Economic Development Board ("EDB") who welcomed Zecotek as their first bio-photonics company, subsequently approving in principle reimbursable grants of approximately 30% of total operational and capital costs. To establish eligibility for the grants, Zecotek Medical Systems Singapore Pte Ltd. incorporated 3 new subsidiaries:

Zecotek Display Systems Pte. Ltd.; Zecotek Imaging Systems Pte. Ltd.; Zecotek Laser Systems Pte. Ltd.

Effective July 1, 2006 the Company moved its operational headquarters to Singapore. After examining various scenarios, the Company determined that Singapore offered the most cost-competitive business location, including R&D grants and tax incentives. ZMS will remain a Canadian corporation with its corporate headquarters in Canada, though most of its operations, management and personnel will be located in Singapore. ZMS will maintain a laboratory at its present location at the University of British Columbia.

At July 31, 2006, the Company has paid the CEO and one employee \$75,000 and \$35,000 respectively for relocation costs to move to Singapore. In addition the Company spent \$11,892 to purchase additional furniture and equipment there. It also spent \$12,111 to incorporate the new Singaporean subsidiaries.

In June 2006 ZMSS signed a lease agreement in Singapore for rental of 2,778 square feet of office space. The lease term is from January 1, 2007 to December 31, 2009 for gross monthly rent of SGD \$22,512 or approximately CDN \$16,125.

ZMSS also signed a lease agreement for rental of a furnished apartment for its employees. The lease term is from July 5, 2006 to June 30, 2008 for a gross monthly rent of SGD \$3,300 or approximately CDN \$2,360. Employees will stay at the apartment until they are able to secure permanent lodging as this is more cost effective than having them stay at a hotel during their transition. The apartment will also be used by scientists traveling to Singapore to work on research and development and by directors and officers traveling to Singapore for meetings.

Private Placement

Concurrently with the Technology Acquisition, the Company closed the Private Placement consisting of 6,389,400 Units at a price of \$0.90 for gross proceeds of \$5,750,460. Each Unit consists of one common share and one half of one warrant. Each whole warrant entitles the holder to acquire one common share for a period of 18 months at a price of \$1.30. For its services, the Company paid Research Capital Corporation a cash commission of 8% of the gross proceeds and issued 638,940 options to acquire Units consisting of one common share and one-half share purchase warrant at \$0.90 for a period of 18 months.

Asset Purchase

To acquire various bio-photonic technologies, on May 12, 2006 the Company's subsidiary, Zecotek Medical Systems Singapore Pte. Ltd. completed an Asset Purchase Agreement with Zecotek Holdings Singapore Pte. Ltd., a company controlled by the Company's CEO, for a total consideration of \$7,388,000 consisting of \$338,000 in cash (of which \$80,000 was paid in fiscal 2005 and charged to operations) and the non-cash issuance of 11,750,000 common shares of ZMS. Pursuant to Canadian Generally Accepted Accounting Principles ("GAAP") for related party transactions, the technologies were recorded at the carrying value of \$1 recorded on Zecotek Holdings Singapore Pte. Ltd.'s books and the cash payment of \$258,000 was recorded as an increase of the deficit balance.

Lutetium Fine Silicate ("LFS") Scintillation Crystal

Northrop Grumman Agreement

In March 2006 the Company licensed its proprietary Lutetium Fine Silicate ("LFS") scintillation crystal material to Northrop Grumman Corporation ([NYSE:NOC](#)) under a 20-year exclusive licensing agreement the two companies signed. Developed principally for medical imaging markets, the crystal allows Northrop Grumman to expand its crystal product line in this growth area.

Northrop Grumman will promote, market, manufacture, distribute and sell the LFS product worldwide through Synoptics, a business unit of the company's Space Technology sector, based in Charlotte, N.C. Under the agreement, Northrop Grumman will receive a royalty 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. [Synoptics](#) expects to begin manufacturing LFS scintillation crystal at its Charlotte facility within the next six months.

LFS Patent

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.

RFO Crystal

On April 10, 2006 the Company announced the introduction of the Rare earth Fine Oxide (RFO) crystal, a significant technological breakthrough in the development of crystals for solid-state lasers. This innovation is patentable subject matter and will be the object of an international patent application.

Presently, the leading crystal used by laser manufacturers is the YAG crystal, which is used in about 60% of laser applications, ranging from medical lasers to high power industrial laser systems. The Company's proprietary RFO crystal growth technology which has been under development for the past three years is a viable substitute to YAG and is targeted to provide the higher performance that manufacturer's desire along with significant cost savings.

The next step to the RFO development is fine-tuning the mass-market manufacturing process, which is estimated to take 10-12 months. Subsequently, the Company will consider a number of alliances that will assist in the advancement to large scale manufacturing.

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, 2006	Audited Year Ending July 31, 2005	Audited Year Ending July 31, 2004
Total revenues	\$ 44,153	\$ 4,110	\$ 0
Net loss for the year	\$ (5,734,665)	\$ (1,342,601)	\$ (84,045)
Earnings/loss per share	\$ (0.37)	\$ (0.13)	\$ (0.01)
Total assets	\$ 4,275,901	\$ 3,197,577	\$ 110,833
Long term debt	\$ 0	\$ 0	\$ 0
Share Capital	\$ 16,246,313	\$ 10,506,895	\$ 6,376,520
Number of Shares	34,692,741	15,033,341	6,151,841
Retained earnings (loss)	\$ (13,801,155)	\$ (7,778,490)	\$ (6,435,889)

Summary Financial Information for the Eight Most Recently Completed Quarters

	July 31, 2006	April 30, 2006	January 31, 2006	October 31, 2005
Operating Accounts				
Net sales	Nil	Nil	Nil	Nil
Net loss	\$4,275,901	\$743,791	\$474,415	\$402,291
Balance Sheet Accounts				
Total Assets	\$4,336,369	\$2,529,782	\$3,107,112	\$2,948,467
Loss per share	\$0.178	\$0.045	\$0.030	\$0.026
	July 31, 2005	April 30, 2005	January 31, 2005	October 31, 2004
Operating Accounts				
Net sales	Nil	Nil	Nil	Nil
Net loss	\$753,950	\$324,518	\$216,900	\$47,233
Balance Sheet Accounts				
Total Assets	\$3,197,577	\$2,781,117	\$2,554,598	\$86,819
Loss per share	\$0.050	\$0.024	\$0.017	\$0.007

Results of Operations for the Year Ended July 31, 2006 and 2005

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's annual audited financial statements and related notes.

For the year ended July 31, 2006, the Company's consolidated net loss from operations was \$5,734,665 (2005 - \$1,342,601).

Analysis of some of the more significant expenses for the year ended July 31, 2006 is as follows:

Research and Development expenses were \$595,787 (2005 - \$755,325). The Company incurred research and development expenses which it considered overhead and therefore not directly attributable to specific product development, or not otherwise meeting the criteria for initial capitalization of costs.

Amortization expense was \$26,828 (2005 - \$9,692). In fiscal 2005 the Company purchased office furniture and equipment including computers to set up its new UBC office. The Company entered into an office lease for the UBC office and incurred leasehold improvements.

Consulting fees were \$515,301 (2005 - \$201,333). Consulting fees were \$314,218 (2005 - \$160,249). Accounting fees were \$117,967 (2005 - \$41,084) for work done regarding the year end audit. Investor Relations were \$83,116 (2005 - nil). The Company signed a one year IR contract in March 2006 for \$7,500 per month plus disbursements and paid \$17,500 for an ongoing contract with eResearch.

Legal fees were \$123,570 (2005 - \$88,729) for work done relating to the AGM, the May 2006 Asset Purchase Agreement, private placement and escrow agreement and the

Filing fees were \$45,618 (2005 - \$50,743) for filings with the TSX and BCSC and for news release dissemination.

Rent and storage expense was \$131,463 (2005 - \$47,204). The Company pays \$3,000 per month on a month-to-month lease for its head office location as well as \$6,260 per month for office and research facilities at UBC. In addition, the scientists and staff at the UBC office had access to recreation facilities for \$2,500 per month until July 31, 2006.

Travel and Entertainment was \$114,154 (2005 - \$40,140) for accommodations and travel to Vancouver by Russian scientists, for directors to attend Board meetings and travel to meet with investors regarding the Private Placement

Marketing and Promotion \$7,680 (2005 - \$6,134) to set up meetings with potential investors and for research materials for the library.

Office expenses were \$53,735 (2005 - \$29,803). The increase relates primarily to ongoing expenses incurred at the UBC office/lab location. This includes office supplies, telephone, postage, courier and bank fees.

Salaries and benefits were \$108,421 (2005 - \$44,691) for in-house bookkeeping, compensation of the Company's former CFO and for medical insurance.

Stock-based compensation expense of \$1,074,620 (2005 - \$72,917) At July 31, 2006, 2,306,250 options have vested at an average exercise price of \$0.93. The estimated fair value of options granted to executive officers, directors, and employees and consultants since August 1, 2004 is amortized to expense over the vesting period of the stock options resulting in compensation expense and addition to contributed surplus of \$1,074,620.

Impairment loss - \$2,990,606 (2005 - nil) During fiscal 2005 the Company carried forward on its Balance Sheet \$1,788,293 made up of \$1,671,793 paid for the acquisition of its LFS crystal and \$116,600 for monies paid for research and development. In fiscal 2006 ZMS spent an additional \$185,905 on its LFS crystal development and \$1,016,408 on the research and development of its other bio-photonic technologies. This additional \$1,202,313 was recorded on the Balance Sheet for the Company's first 3 quarters. In order to be consistent with U.S. accounting standards and to adopt a conservative position under Canadian GAAP, the Company has decided for its annual financial statements to write off all accumulated R&D cost of technologies under development (including acquisition costs) until such time as the Company is revenue-making. Accordingly, \$1,778,293 in respect of the LFS crystal was written down to \$1, as well as all R&D costs incurred during the year on all its technologies. Once the Company commences to earn revenues, it will then consider as of that time capitalizing R&D costs and writing them off over the useful life of the technologies, subject to an annual impairment of value analysis.

Foreign exchange gain - \$8,965 (2005 – nil) The Company recorded a gain on the restatement of payments made in Singapore dollars to Canadian dollars.

Financing

On August 4, 2005 and pursuant to a private placement of August 2004, 200,000 warrants were exercised at \$0.50 per share for gross proceeds of \$100,000.

On August 30, 2005, 2,500 agents' warrants were exercised at \$0.50 for gross proceeds of \$1,250.

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

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

On May 12, 2006 the Company completed a private placement of 6,389,400 Units at \$0.90 per Unit for gross proceeds of \$5,750,460. Each Unit consisted of one common share and one-half share purchase warrant.

In May and June 2006, 120,000 options were exercised at \$0.50 per share and 10,000 options at \$0.75 per share were exercised for total cash proceeds of \$67,500. Contributed surplus of \$43,650 and \$2,983 previously recorded on these options were reclassified to share capital account.

Liquidity and Capital Resources

The Company has suffered recurring losses from operations and currently does not yet have any revenue producing assets. Its ability to conduct operations, including the development of its new technology and the acquisition of additional technologies is dependent on its ability to raise funds as needed.

At July 31, 2006 the Company had \$3,769,014 (2005 – \$1,142,598) in cash and cash equivalents and a consolidated working capital of \$3,638,117 (2005 - \$1,080,168) for ongoing working expenses. On May 12, 2006 the company completed its Private Placement consisting of 6,389,400 Units at a price of \$0.90 for gross proceeds of \$5,750,460. In addition, during the year the exercise of warrants and options generated an additional \$730,500 of funding for the Company. The Company also recorded \$44,153 (2005 – 4,110) interest on funds held in a GIC.

There are currently 3,194,700 outstanding warrants exercisable at \$1.30 per share and 638,940 outstanding agents' options exercisable at \$.90 per option, all exercisable for a period of 18 months.

Exercisable outstanding options represent a total of 4,835,000 common shares issuable. At July 31, 2006, 2,306,250 options were exercisable and would provide proceeds of \$2,146,300 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.

Lease Agreements

The Company has a lease agreement for the rental of office space at its UBC location. The lease expires February 23, 2008. The future minimum lease obligations are as follows:

2007	\$ 52,152
2008	26,076
Total	\$ 78,228

In June 2006, ZMSS signed a lease agreement in Singapore for rental of office space there. The lease term is from January 1, 2007 to December 31, 2009.

2007	\$ 177,485
2008	270,138
2009	270,138

2010	112,558
Total	SGD \$ 830,319
Or Approximately	CDN \$ 594,757

ZMSS signed a lease agreement in Singapore for rental of apartment space for its employees. The lease term is from July 5, 2006 to June 30, 2008.

2007	\$ 39,600
2008	36,300
Total	SGD\$ 78,228
Or Approximately	CDN \$ 54,367

Share Capital

Authorized: Unlimited

Set out below is the outstanding share data of the Company as at July 31, 2006. For additional detail, see Note 9 to the audited financial statements for July 31, 2006.

At July 31, 2006	Number outstanding
Common Shares	34,692,741
Options to Purchase Common Shares	4,835,000
Agent's Options to Purchase Common Shares and warrants	638,940
Warrants to Purchase Common Shares	3,194,700

Escrow shares:

At July 31, 2006 a total of 12,724,378 shares were held in escrow, their release subject to a predetermined time schedule. Subsequently on November 12, 2006 an additional 1,762,500 shares was released.

Related Party Transactions

Support Agreement

The Company and its subsidiary, Zecotek Crystals Inc. entered into a research and development agreement with Zecotek Laboratories Inc., a subsidiary of Zecotek Holdings Ltd., by way of a Support Agreement dated January 1, 2005. Labs provided research and development services utilizing 9 scientists/employees working at the UBC location and 11 scientists working in Russia who were necessary for further development of the Company's technology. Labs' received a monthly fee of \$85,685 plus GST. This agreement terminated upon the completion of the asset purchase in May 2006.

Asset Purchase

On December 31, 2004, the Company's subsidiary, Zecotek Crystals Inc., completed its Asset Purchase Agreement with Zecotek Holdings Inc. whereby Holdings received \$80,000 in cash and 2,400,000 shares of the Company in payment. Dr. A. Faouzi Zerrouk, is the founder and majority shareholder of Holdings.

Subsequent to the completion of the asset acquisition, Dr. Zerrouk was appointed Chairman, President, CEO and Director of the Company. Directly and indirectly Dr. Zerrouk controls 2,410,000 common shares or 6.95% of the issued and outstanding common shares of the Company. In addition, he personally holds 560,000 options at \$0.50 per share that expire on December 31, 2009 and an additional 60,000 options exercisable at \$0.70 that expire on January 18, 2010.

On May 12, 2006 the Company completed an Asset Purchase Agreement with Zecotek Holdings Singapore Pte. Ltd. (“Holdings Singapore”) pursuant to which the Company acquired all the bio-photonic technologies owned by Holdings Singapore. To acquire the various bio-photonic technologies, the Company paid to Holdings Singapore \$338,000, issued 11,750,000 common shares of the Company and issued 10% of the Class A preferred shares of any subsidiary of the Company into which the technologies might be transferred at a later stage. The Company’s CEO is the majority shareholder of Holdings Singapore and through this company, directly and indirectly controls 11,750,000 common shares or 33.86% of the issued and outstanding common shares of the Company. In addition, he received 900,000 options exercisable at \$1.76 per share that expire on May 12, 2011.

Services of CEO

The services of the CEO are provided to the Company by a director who controls Zecotek Holdings and Zecotek Holdings Singapore. Total fees paid to the CEO in fiscal 2006 were \$215,481 (2005 - \$180,000); for research & development costs of \$150,837 (2005 - \$180,000) and for consulting fees of \$64,644 (2005 – 0). In addition, the Company incurred \$75,000 in relocation costs for the CEO and his family for their move to Singapore.

Financial Services

During fiscal 2006 a total of \$55,000 (2005 - \$15,000) was paid to the former CFO who was also a director for financial services, which was recorded as wages. In addition the Company paid \$29,975 (2005 - \$21,628) for bookkeeping services to a director of the Company which was also included in wages.

Management Consulting Services

The services of the Vice-President, Strategic Affairs is provided to the Company by a director, who along with the Company’s CEO, controls Zecotek Holdings and Zecotek Holdings Singapore. The fees are recorded in Consulting expense and were \$120,000 (2005 - \$120,000). During the 2006 year, 120,000 options were exercised at \$0.50 per share.

Forward Looking Statements

Certain statements contained herein that are not historical facts are forward-looking statements that involve risks and uncertainties. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements.

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 2 independent members, Erich Sager of Zurich, Switzerland and Dr. Ahmad Magad of Singapore, and a non-independent member, Michel Coderre, of Montreal, Quebec, who were all appointed to the Audit Committee in July 2006. Mr. Sager was then appointed 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. Dr. Magad, CPA, MBA, Doctorate in Business Administration, is a director of several Singapore companies and a Member of Parliament for Singapore’s electoral area of Pasir Ris-Punggol. Mr. Coderre is a Chartered Accountant and lawyer. 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.

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. Copies of this information are available either on SEDAR or upon request to the Secretary of the Company.