

**ISEE3D INC.**

**Financial Statements  
(unaudited)**

**June 30, 2009**

Balance Sheet

Statement of Loss

Statement of Deficit

Statement of Cash Flows

Notes to Financial Statements

# **ISEE3D INC.**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

**Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.**

**The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

**The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

**ISEE3D INC.**  
**BALANCE SHEET**  
(Unaudited)

As at June 30, 2009 and December 31, 2008

|   | June 30,<br>2009         | December 31,<br>2008    |
|---|--------------------------|-------------------------|
| <b>ASSETS</b>   |                          |                         |
| <b>Current assets</b>                                 |                          |                         |
| Cash  | \$ 697,892               | \$ 18,690               |
| Accounts receivable                                   | 92,925                   | 10,796                  |
| Prepaid expenses                                      | <u>8,650</u>             | <u>12,952</u>           |
|   | 799,467                  | 42,438                  |
| <b>Property and equipment</b> (Note 4)                | 75,649                   | 48,318                  |
| <b>Other assets</b>                                   | <u>9,097</u>             | <u>-</u>                |
| <b>TOTAL ASSETS</b>                                   | <b><u>\$ 884,213</u></b> | <b><u>90,756</u></b>    |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>       |                          |                         |
| <b>Current liabilities</b>                            |                          |                         |
| Accounts payable and accrued liabilities              | \$ 213,955               | \$ 255,015              |
| Dividend payable (Note 5)                             | <u>7,690</u>             | <u>7,463</u>            |
|   | <u>221,645</u>           | <u>262,478</u>          |
| <b>Shareholders' deficiency</b>                       |                          |                         |
| Preferred shares (Note 5)                             | 5,045                    | 5,045                   |
| Common shares (Note 5)                                | 24,061,336               | 22,581,235              |
| Obligation to issue shares (Note 5)                   | 116,984                  | -                       |
| Contributed surplus (Note 7)                          | 573,445                  | 495,448                 |
| Deficit   | <u>(24,094,242)</u>      | <u>(23,253,450)</u>     |
|   | 662,568                  | (171,722)               |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b> | <b><u>\$ 884,213</u></b> | <b><u>\$ 90,756</u></b> |

**ISEE3D INC.**  
**STATEMENT OF LOSS**  
(Unaudited)

For the Three Months and Six Months Ended June 30, 2009 and 2008

|  | Three Months Ended |                  | Six Months Ended  |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 30, 2009      | June 30, 2008    | June 30, 2009     | June 30, 2008    |
| <b>REVENUE</b>                           | \$ -               | \$ -             | \$ -              | \$ -             |
| <b>OPERATING EXPENSES</b>                |                    |                  |                   |                  |
| Amortization                             | 5,957              | 4,838            | 10,051            | 8,421            |
| Bank charges and interest                | 2,005              | 25,307           | 2,986             | 35,958           |
| Consulting and management                | 112,375            | 10,916           | 297,691           | 29,642           |
| Filing fees                              | 36,643             | 16,219           | 42,468            | 37,196           |
| General and administrative               | 37,382             | 20,956           | 54,084            | 103,849          |
| Investor relations                       | 21,912             | -                | 21,912            | -                |
| Professional fees                        | 56,799             | -                | 81,510            | -                |
| Reactivation expenses                    | -                  | 25,726           | -                 | 30,233           |
| Research and development                 | 223,185            | -                | 223,185           | -                |
| Stock based compensation                 | 11,625             | -                | 42,612            | -                |
| Travel                                   | 41,293             | 37,168           | 64,066            | 45,587           |
|  | <u>549,176</u>     | <u>141,130</u>   | <u>840,565</u>    | <u>290,886</u>   |
| <b>LOSS BEFORE UNDERNOTED ITEMS</b>      | (549,176)          | (141,130)        | (840,565)         | (290,886)        |
| Gain on settlement of debts              | <u>-</u>           | <u>-</u>         | <u>-</u>          | <u>42,632</u>    |
| <b>NET LOSS FOR THE PERIOD</b>           | <u>(549,176)</u>   | <u>(141,130)</u> | <u>(840,565)</u>  | <u>(248,254)</u> |
| <b>Basic and diluted loss per share</b>  | <u>(0.03)</u>      | <u>(0.02)</u>    | <u>(0.05)</u>     | <u>(0.03)</u>    |
| <b>Weighted average number of shares</b> |                    |                  |                   |                  |
| <b>Outstanding for the period</b>        | <u>20,035,615</u>  | <u>9,042,922</u> | <u>18,380,251</u> | <u>8,518,368</u> |

**ISEE3D INC.**  
**STATEMENT OF DEFICIT**  
(Unaudited)

For the Three Months and Six Months Ended June 30, 2009 and 2008

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|                                     | <u>Three Months Ended</u> |                        | <u>Six Months Ended</u> |                        |
|-------------------------------------|---------------------------|------------------------|-------------------------|------------------------|
|                                     | <u>June 30, 2009</u>      | <u>June 30, 2008</u>   | <u>June 30, 2009</u>    | <u>June 30, 2008</u>   |
| <b>DEFICIT, BEGINNING OF PERIOD</b> | \$ (23,544,839)           | \$ (22,622,024)        | \$ (23,253,450)         | \$ (22,514,900)        |
| <b>NET LOSS</b>                     | (549,176)                 | (141,130)              | (840,565)               | (248,254)              |
| <b>DIVIDEND ON PREFERRED SHARES</b> | <u>(227)</u>              | <u>(227)</u>           | <u>(227)</u>            | <u>(227)</u>           |
| <b>DEFICIT, END OF PERIOD</b>       | \$ <u>(24,094,242)</u>    | \$ <u>(22,763,381)</u> | \$ <u>(24,094,242)</u>  | \$ <u>(22,763,381)</u> |

**ISEE3D INC.**  
**STATEMENT OF CASH FLOWS**  
(Unaudited)

For the Three Months and Six Months Ended June 30, 2009 and 2008

|   | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|---|---------------------------|----------------------|-------------------------|----------------------|
|   | <b>June 30, 2009</b>      | <b>June 30, 2008</b> | <b>June 30, 2009</b>    | <b>June 30, 2008</b> |
| <b>OPERATING ACTIVITIES</b>               |                           |                      |                         |                      |
| Net loss for the period                   | \$ (549,176)              | \$ (141,130)         | \$ (840,565)            | \$ (248,254)         |
| Add items not involving cash:             |                           |                      |                         |                      |
| Amortization of property and equipment    | 5,957                     | 4,838                | 10,051                  | 8,421                |
| Stock based compensation                  | 11,625                    | -                    | 42,612                  | -                    |
| Changes in non-cash working capital items |                           |                      |                         |                      |
| Accounts receivable                       | (75,907)                  | (4,581)              | (82,129)                | 3,091                |
| Prepaid expenses and deposits             | (3,650)                   | -                    | 4,302                   | 1,250                |
| Accounts payables and accrued liabilities | (87,146)                  | (83,286)             | (41,060)                | (304,584)            |
|   | <u>(698,297)</u>          | <u>(224,159)</u>     | <u>(906,789)</u>        | <u>(540,076)</u>     |
| <b>INVESTING ACTIVITIES</b>               |                           |                      |                         |                      |
| Acquisition of property and equipment     | (24,842)                  | (16,726)             | (37,382)                | (16,726)             |
| Acquisition of intellectual property      | <u>(5,337)</u>            | <u>-</u>             | <u>(9,097)</u>          | <u>-</u>             |
|   | <u>(30,179)</u>           | <u>(16,726)</u>      | <u>(46,479)</u>         | <u>(16,726)</u>      |
| <b>FINANCING ACTIVITIES</b>               |                           |                      |                         |                      |
| Shares issued for debt                    | 116,984                   | (404,452)            | 116,984                 | (111,212)            |
| Shares issued for cash                    | 1,159,803                 | 624,299              | 1,445,159               | 654,299              |
| Proceeds from exercise of warrants        | 177,533                   | -                    | 177,533                 | -                    |
| Share issue costs                         | (93,936)                  | -                    | (107,206)               | -                    |
|   | <u>1,360,384</u>          | <u>219,847</u>       | <u>1,632,470</u>        | <u>543,087</u>       |
| <b>INCREASE (DECREASE) IN CASH</b>        | 631,908                   | (21,038)             | 679,202                 | (13,715)             |
| <b>CASH, BEGINNING OF THE PERIOD</b>      | <u>65,984</u>             | <u>23,332</u>        | <u>18,690</u>           | <u>16,009</u>        |
| <b>CASH, END OF THE PERIOD</b>            | <u>\$ 697,892</u>         | <u>\$ 2,294</u>      | <u>\$ 697,892</u>       | <u>\$ 2,294</u>      |

## **ISEE3D, INC.**

### **Notes to Financial Statements (unaudited)**

June 30, 2009 and 2008

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#### **1. Organization and Business Activities**

ISEE3D, Inc. (the "Company") was formed by way of an amalgamation on October 15, 1997 between International Telepresence (Canada) Inc. a Company federally incorporated on September 14, 1994, and International Telepresence Corporation, a business incorporated in 1981 under the Business Corporations Act (British Columbia). On February 29, 2000, stockholders of the Company approved an amendment to the articles of the Company changing its name to ISEE3D, Inc.

The Company owns a portfolio of patents, patent applications and specialized know how which are fundamental to providing a unique and cost effective means for the capture of broadcast quality stereoscopic (3D) images through a single lens. The Company's technology has broad applications in a great number of markets including the home entertainment industry, consumer electronics and imaging devices including microscopes, endoscopes and sophisticated medical imaging systems.

#### **2. Basis of Presentation and Going Concern**

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on future events including raising and maintaining adequate capital from either shareholders or outside lenders to finance future development activities. There is no certainty that these or other strategies will be sufficient to permit the Company to continue beyond June 30, 2009.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

The interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They do not include all information and disclosures required for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2008.

The accounting policies followed by the Company are set out in Note 3 to the audited consolidated financial statements for the year ended December 31, 2008 and have been consistently followed in the preparation of these interim consolidated financial statements.

## ISEE3D, INC.

### Notes to Financial Statements (unaudited)

June 30, 2009 and 2008

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### 3. Recent Accounting Pronouncements

**a) Business Combinations, Non-controlling Interest and Consolidated Financial Statements**

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

The Company does not anticipate the adoption of the above standards will have a significant impact on the Company's financial statements.

**b) International financial reporting standards ("IFRS")**

In addition to the above new accounting pronouncements, the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 4. Property and Equipment

|                    | Cost              | Accumulated<br>Amortization | 2009<br>Net Carrying Value | 2008             |
|--------------------|-------------------|-----------------------------|----------------------------|------------------|
| Computer Equipment | \$ 87,119         | \$ 25,774                   | \$ 61,345                  | \$ 38,238        |
| Office Furniture   | <u>20,688</u>     | <u>6,384</u>                | <u>14,304</u>              | <u>17,843</u>    |
|                    | <u>\$ 107,807</u> | <u>\$ 32,158</u>            | <u>\$ 75,649</u>           | <u>\$ 56,081</u> |

**ISEE3D, INC.**  
**Notes to Financial Statements (unaudited)**  
June 30, 2009 and 2008

**5. Share Capital**

a) Authorized:

Unlimited number of common shares, voting, without par value

Unlimited number of preferred shares, non-voting, issuable in series, convertible redeemable at the option of the Company, entitled to a cumulative dividend of 9% per annum.

b) Series A 9% Preferred Shares:

The Series A preferred shares are entitled to a cumulative cash dividend of 9% per annum, payable in semi-annual installments on January 1 and July 1.

As at June 30, 2009, the preferred shares had dividends declared but in arrears of \$7,690 (2008 - \$7,236). The Series A preferred shares are convertible at face value into common shares at a rate that approximates the Company's common share trading price immediately prior to the conversion.

c) Changes in common shares and Series A preferred shares were as follows:

|   | Common Shares     |                      | Series A Preferred Shares |                 |
|---|-------------------|----------------------|---------------------------|-----------------|
|   | Number            | Dollars              | Number                    | Dollars         |
| Balance, January 1, 2009                  | 16,406,939        | \$ 22,581,235        | 6                         | \$ 5,045        |
| Issued for cash - private placement (i)   | 633,000           | 94,950               |                           |                 |
| Issued for cash - private placement (ii)  | 1,102,706         | 165,406              |                           |                 |
| Issued for finders' fee                   | 51,800            | 7,770                |                           |                 |
| Less: Share issuance costs                | -                 | (77,249)             |                           |                 |
| <b>Balance, March 31, 2009</b>            | <b>18,194,445</b> | <b>\$ 22,772,112</b> | <b>6</b>                  | <b>\$ 5,045</b> |
| Issued for cash - private placement (iii) | 2,685,017         | 402,753              |                           |                 |
| Issued for finder's share (iii)           | 64,640            | 10,342               |                           |                 |
| Issued for cash - private placement (iv)  | 5,213,667         | 782,050              |                           |                 |
| Issued for finder's share (iv)            | 349,732           | 97,925               |                           |                 |
| Issued for warrant exercised (v)          | 1,183,550         | 177,533              |                           |                 |
| Less: Share issuance costs                |                   | (181,379)            |                           |                 |
| <b>Balance, June 30, 2009</b>             | <b>27,691,051</b> | <b>\$ 24,061,336</b> | <b>6</b>                  | <b>\$ 5,045</b> |

Quarter -ended March 31, 2009:

- i) On March 4, 2009, the Company closed a private placement by issuing 633,000 units at \$0.15 per unit for gross proceeds of \$94,950. The Company paid a finder's fee of \$4,500. Each unit consists of one common share and one-half of one share purchase warrant. One full warrant entitles the holder to acquire one additional common share at \$0.20 per share for a period of six months from the date of issuance

## **ISEE3D, INC.**

### **Notes to Financial Statements (unaudited)**

June 30, 2009 and 2008

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#### **5. Share Capital (Continued)**

- ii) On March 25, 2009, the Company closed a private placement by issuing 1,102,706 units at \$0.15 per share for gross proceeds of \$ 165,406. Each unit consists of one common share and one-half of one share purchase warrant. One full warrant entitles the holder to acquire one additional common share at \$0.20 per share for a period of six months from the date of issuance. The Company paid a finder's fee of \$7,770 and issued an aggregate of 51,800 finder's shares at a deemed price of \$0.15 per share in connection with monies raised under this private placement.

#### Quarter -ended June 30, 2009

- iii) On May 12, 2009, the Company closed a private placement by issuing 2,685,017 units at \$0.15 per unit for gross proceeds of \$402,752.50. Each unit consists of one common share and one share purchase warrant. One full warrant entitles the holder to acquire one additional common share at \$0.20 for a period of twenty-four months from the date of issuance. In connection with monies raised under this private placement, the Company paid aggregate finder's fees of \$18,969 and issued an aggregate of 64,640 finder's shares at a deemed price of \$0.15 per share.
- iv) On June 29, 2009, the Company closed a private placement by issuing 5,213,665 units at \$0.15 per unit for gross proceeds of \$782,049.75. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at \$0.20 per share for a period of twenty-four months from the date of issuance. In connection with monies raised under this private placement, the company paid an aggregate finder's fee of \$27,445 and issued an aggregate of 349,732 finder's shares at a deemed price of \$0.15 per share and 166,700 finder's warrants entitling the holder to acquire one additional common share of the Company at \$0.20 per share for a period of twenty-four months from the date of issuance.
- v) During this quarter, the Company issued 1,183,550 common shares at \$0.15 per share from the exercise of warrants for aggregate proceeds of \$177,533.
- vi) On June 29, 2009, the Company signed a series of debt settlement agreements to settle a total \$116,984.20 in outstanding debt through the issuance of 779,894 shares at a deemed price of \$0.15 per share. These shares were issued on July 10, 2009.

#### d) Warrants Issued and Outstanding

During this period, the Company issued warrants in conjunction with common shares for private placements (note 4 c i, ii, iii & iv). The warrants issued and outstanding as at June 30, 2009 are as follows:

**ISEE3D, INC.****Notes to Financial Statements (unaudited)**

June 30, 2009 and 2008

**5. Share Capital (Continued)**

|                                  | 2009                  |   |
|----------------------------------|-----------------------|---|
|                                  | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price (\$) |
| Outstanding, beginning of period | 1,415,000             | 0.15  |
| Issued with shares               | 8,766,535             | 0.20  |
| Issued for finders fees          | 166,700               | 0.20  |
| Warrants exercised               | (1,183,550)           | (0.15)  |
| Warrants expired                 | (231,450)             | (0.15)  |
| Outstanding, end of period       | <b>8,933,235</b>      | <b>0.20</b>                                   |

During the quarter ended June 30, 2009, the Company issued 166,700 warrants as finders fees in conjunction with a private placement (note 4 c iv). The fair market value was determined to be \$35,385 using the Black Scholes Pricing model using the following assumptions:

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 0.25%     |
| Volatility              | 177.07%   |
| Expected life in years  | 2 years   |
| Strike price            | \$ 0.20   |
| Grant date fair value   | \$ 0.2123 |

**6. Stock Based Compensation**Stock Option Plan

The Company has adopted an incentive stock option plan (the "Stock Option Plan") which provides that the Board of Directors of the Corporation may from time to time, in its discretion, grant to directors, officers, employees and other key personnel of the Corporation, options to purchase Common Shares, provided that the number of Common Shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding Common Shares exercisable for a period of up to five (5) years. The Board of Directors determines the price per Common Share and the number of Common Shares that may be allotted to each director, officer, employee or other key personnel of the Corporation and all other terms and conditions of the options granted under the Stock Option Plan.

On November 19, 2008, the Company granted options to directors and officers of the Company to purchase an aggregate of up to 1,375,000 common shares at a price of \$0.15 per share, exercisable for a period of five years. The options vest over a period of 24 months in eight equal installments with one-eighth of the options vesting on the effective date, and each additional one-eighth of the options vesting quarterly thereafter.

**ISEE3D, INC.****Notes to Financial Statements (unaudited)**

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**6. Stock Based Compensation (Continued)**

In the quarter ended March 31, 2009, the Company recorded a total stock-based compensation of \$30,987, related to the vesting of the 171,875 options.

The fair value of the options granted were determined using the Black and Scholes option pricing model using the following weight average assumptions:

|                         |          |
|-------------------------|----------|
| Risk-free interest rate | 1.50%    |
| Expected volatility     | 210%     |
| Expected life in years  | 5 years  |
| Strike price            | \$ 0.15  |
| Grant date fair value   | \$ 0.088 |

On April 17, 2009, the Company granted options to an officer of the Company to purchase 75,000 common shares at a price of \$0.15 per share, exercisable for a period of two years. The options vest over twenty-four months in eight equal installments with one-eighth of the options vesting on the effective date, and each additional one-eighth of the options vesting quarterly thereafter. The fair value of the options granted were determined using the Black and Scholes option pricing model using the following weight average assumptions:

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 0.25%     |
| Volatility              | 172.59%   |
| Expected life in years  | 2 years   |
| Strike price            | \$ 0.15   |
| Grant date fair value   | \$ 0.1618 |

In the quarter ended June 30, 2009, the Company recorded total stock-based compensation of \$11,625, related to the vesting of the 181,250 options.

As of June 30, 2009, the following stock options are outstanding:

|                                  | Number           | Weighted<br>average<br>exercise<br>price | Expiry Date       |
|----------------------------------|------------------|--|-------------------|
| Outstanding, beginning of period | 1,375,000        | \$ 0.15                                  | November 19, 2013 |
| Granted                          | 75,000           | \$ 0.15                                  | April 17, 2011    |
| Expired                          | (112,500)        |  |                   |
| Cancelled                        | (187,500)        |  |                   |
| Outstanding, end of period       | <u>1,150,000</u> |  |                   |
| Amount exercisable               | <b>412,500</b>   |  |                   |

**ISEE3D, INC.****Notes to Financial Statements (unaudited)**

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**7. Contributed Surplus**

Changes in contributed surplus were as follows:

|                                      | <u>2009</u>       | <u>2008</u>       |
|--------------------------------------|-------------------|-------------------|
| Balance, beginning of period         | \$ 495,448        | \$ 332,390        |
| Warrants issued for finders fee      | 35,385            | -                 |
| Stock based compensation             | 42,612            | -                 |
| Warrants issued with debt settlement | -                 | 130,579           |
| Balance, end of period               | <u>\$ 573,445</u> | <u>\$ 462,969</u> |

**8. Transactions with Related Parties**

The financial results for the quarter ended June 30, 2009 include the following related party transactions;

- a) Amounts paid or accrued to directors or officers of the Company, and companies with directors or officers in common or in which a director is a partner or associate are as follows:

|  | <u>2009</u>       | <u>2008</u>      |
|--|-------------------|------------------|
| Consulting fees                                    | \$ 59,000         | \$ 14,450        |
| Consulting and severance fees to a former director | 85,000            | -                |
| Interest on notes payable                          | -                 | 25,067           |
|  | <u>\$ 144,000</u> | <u>\$ 39,517</u> |

- b) Included in accounts payable and accrued liabilities as of June 30, 2009 are \$15,000 (2008-nil) due to the CFO of the Company and \$30,000 (2008-nil) due to a former Director of the Company.
- c) On June 29, 2009, the Company signed a debt settlement agreement with a director to settle \$46,868.70 in debt by issuing 312,457 common shares. These shares were issued on July 10, 2009.

**9. Commitments**

- a) The Company is obligated under a Research and Development Services Agreement to make certain payments upon presentation of invoices at various milestones. The estimated balance of these payments is US\$198,500.
- b) The company is also obligated under two operating leases, one for an office premise and one for a vehicle. These leases expire in November 2009 and April 2011 respectively. Annual lease commitments are as follows:

|      |                  |
|------|------------------|
| 2009 | \$ 9,925         |
| 2010 | 8,810            |
| 2011 | 2,937            |
|      | <u>\$ 21,672</u> |

## **ISEE3D, INC.**

### **Notes to Financial Statements (unaudited)**

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#### **9. Commitments (Continued)**

- c) On June 1, 2009, the Company signed an amended consulting agreement with the CFO of the Company, requiring the payment of \$8,000 per month.
- d) On June 1, 2009, the Company entered into a consulting agreement with a consultant, requiring the payment of \$3,500 per month for the duration of the consulting period. Pursuant to the agreement, the consultant will be granted 75,000 stock options at market price at the time of regulatory approval. These options have not yet been granted.
- e) On June 1, 2009, the Company entered into a Custom Software Development Agreement with a company. Pursuant to the agreement, the Company is committed to pay \$3,000 biweekly for a total of \$12,000 over two months.

#### **10. Capital Management**

The Company defines capital to include cash and cash equivalents, long term debt and shareholder's equity. The Company manages its capital in order to maintain flexibility and respond to changes in economic and/or marketplace conditions. In order to increase shareholder value, the Company may adjust its capital structure by issuing new shares, purchasing shares for cancellation or raising debt. For the three months ending June 30, 2009, the Company has not distributed dividends to its shareholders. There were no changes in the Company's approach to capital management during the period ending on June 30, 2009.

#### **11. Financial Instruments**

The Company's financial instruments consist of cash, receivables, and amounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise notes.

#### **12. Segmented Disclosure**

The Company currently has operating activities only in Canada and does not have any segmented information.

#### **13. Subsequent Events**

- a) On July 24, 2009, the Company settled a total of \$15,000 in outstanding debt through issuing 88,235 shares at a deemed price of \$0.17 per share to an officer of the Company.
- b) On July 24, 2009, the Company issued 60,000 finder's shares for the private placement closed on May 12, 2009.

## **ISEE3D, INC.**

### **Notes to Financial Statements (unaudited)**

June 30, 2009 and 2008

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#### **13. Subsequent Events (Continued)**

- c) On August 4, 2009, the Company entered into an agreement with its CTO and a company controlled by its CTO to acquire a series of patent applications and proposed patent applications in connection with certain aspects of the Company's existing patented technology to potentially broaden and strengthen its existing 3D capture patent portfolio. The Company plans to file these patents in strategic countries in the future.

As part of the agreement, subject to regulatory approval, the Company will issue 1,000,000 common shares of the Company at a deemed price of \$0.22 per share. The shares will be subject to a hold period of four months and one day from the date of issuance. In addition, pursuant to the terms of the acquisition agreement, the shares will be escrowed and releasable as to 400,000 shares upon the expiry of the holding period, and a further 75,000 shares per month thereafter over a period of eight months.

- d) On August 14, 2009, the Company announced its intention to grant up to a total of 1,475,000 incentive stock options, exercisable for a period of five years at a price of \$0.27, to various officers, directors, employees and consultants of the Company. The issuance of the options is subject to regulatory approval.
- e) On August 14, 2009, the Company entered into an agreement with a company for investor relations and communication services. Under the term of the agreement, the Company will pay a monthly retainer fee of \$3,000 for its service. The Company will also be issuing 200,000 stock options subject to regulatory approval. The contract terms are for twelve months.