

**ISEE3D INC.**

**Financial Statements**

**September 30, 2008**

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# **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 September 30, 2008 and December 31, 2007

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 156,647	\$ 16,009
Sales tax and other receivables	11,100	12,166
Prepaid expenses	<u>15,905</u>	<u>1,250</u>
	183,652	29,425
<b>Property and equipment (Note 3)</b>	<u>51,871</u>	<u>47,776</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>235,523</u></b>	<b><u>77,201</u></b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 60,757	\$ 374,574
Dividend payable	7,350	7,009
Loan payable	<u>-</u>	<u>285,000</u>
	<u>68,107</u>	<u>666,583</u>
<b>Total liabilities</b>	<u>68,107</u>	<u>666,583</u>
<b>Shareholders' deficiency</b>		
Preferred shares (Note 4)	5,045	5,045
Common shares (Note 4)	22,564,128	21,598,083
Contributed surplus (Note 4)	452,969	322,390
Deficit	<u>(22,854,726)</u>	<u>(22,514,900)</u>
	<u>167,416</u>	<u>(589,382)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>	<b>\$ <u>235,523</u></b>	<b><u>77,201</u></b>

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

For the Three Months and Nine Months Ended September 30, 2008 and 2007

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
<b>REVENUE</b>	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>				
Amortization	4,210	632	12,631	990
Bank charges and interest	2,228	6,438	38,186	25,412
Consulting and management	22,061	-	111,703	-
Filing fees	3,828	-	34,061	-
General and administrative	36,375	459,712	73,571	756,771
Professional fees	3,305	-	3,305	-
Reactivation expenses (Note 5)	19,400	-	63,249	-
Travel	20,324	-	65,911	-
	<u>111,731</u>	<u>466,782</u>	<u>402,617</u>	<u>783,173</u>
<b>LOSS BEFORE UNDERNOTED ITEMS</b>	(111,731)	(466,782)	(402,617)	(783,173)
Gain on settlement of debts	<u>20,500</u>	<u>-</u>	<u>63,132</u>	<u>-</u>
<b>NET LOSS FOR THE PERIOD</b>	<u>(91,231)</u>	<u>(466,782)</u>	<u>(339,485)</u>	<u>(783,173)</u>
<b>Basic and diluted loss per share</b>	<u>(0.01)</u>	<u>(0.06)</u>	<u>(0.03)</u>	<u>(0.10)</u>
<b>Weighted average number of shares outstanding for the period</b>	<u>\$ 14,473,602</u>	<u>\$ 7,925,048</u>	<u>\$ 10,525,260</u>	<u>\$ 7,925,048</u>

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

For the Three Months and Nine Months Ended September 30, 2008 and 2007

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	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September</u> <u>30,</u> <u>2008</u>	<u>September</u> <u>30,</u> <u>2007</u>	<u>September</u> <u>30,</u> <u>2008</u>	<u>September</u> <u>30,</u> <u>2007</u>
<b>DEFICIT, BEGINNING OF PERIOD</b>	\$ (22,763,381)	\$ (22,065,853)	\$ (22,514,900)	\$ (21,749,462)
<b>NET LOSS</b>	(91,231)	(466,782)	(339,485)	(783,173)
<b>DIVIDEND ON PREFERRED SHARES</b>	<u>(114)</u>	<u>-</u>	<u>(341)</u>	<u>-</u>
<b>DEFICIT, END OF PERIOD</b>	\$ <u>(22,854,426)</u>	\$ <u>(22,532,635)</u>	\$ <u>(22,854,726)</u>	\$ <u>(22,532,635)</u>

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

For the Three Months and Nine Months Ended September 30, 2008 and 2007

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>September 30, 2008</b>	<b>September 30, 2007</b>
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (91,231)	\$ (466,782)	\$ (339,485)	\$ (783,173)
Add items not involving cash:				
Amortization of property, plant and equipment	4,210	632	12,631	990
Changes in non-cash working capital items				
Sales taxes receivable	(2,025)	(3,120)	1,066	(17,975)
Prepaid expenses and deposits	(15,905)	(24,803)	(14,655)	(23,544)
Accounts payables and accrued liabilities	(9,267)	60,541	(313,851)	103,819
	<u>(114,184)</u>	<u>(433,532)</u>	<u>(654,260)</u>	<u>(719,893)</u>
<b>INVESTING ACTIVITIES</b>				
Acquisition of property and equipment	-	(12,258)	(16,726)	(12,258)
	<u>-</u>	<u>(12,258)</u>	<u>(16,726)</u>	<u>(12,258)</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from (repayment of) long term debt	-	(65,000)	-	235,000
Issuance of shares	268,537	637,400	811,624	637,400
	<u>289,071</u>	<u>572,400</u>	<u>832,158</u>	<u>827,400</u>
<b>INCREASE (DECREASE) IN CASH</b>	154,353	126,610	140,638	140,249
<b>CASH, BEGINNING OF THE PERIOD</b>	<u>2,294</u>	<u>17,225</u>	<u>16,009</u>	<u>3,586</u>
<b>CASH, END OF THE PERIOD</b>	<u>\$ 156,647</u>	<u>\$ 143,833</u>	<u>\$ 156,647</u>	<u>\$ 143,833</u>

**ISEE3D, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(Unaudited)**  
**September 30, 2008**

Note 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 holds certain patents in the business of "Stereoscopic" (three dimensional) imaging which provide reasonable broad protection in a valuable and highly competitive consumer electronics market. The patents disclose and claim a different and unique approach to stereoscopic imaging, than are currently found in the market today. Specifically, the system claimed in the patents and successfully demonstrated in certain FDA approved apparatus, eliminates the necessity of two separate imaging systems and needs only a single image path between an image and a camera. This permits utilizing two dimensional lens systems such as endoscopes, boreoscopes, microscopes and telescopes. It also permits use of video and film camera with common optical lenses and other energy focusing devices to capture and in turn project high quality three-dimensional imaging. Management of the Company considers this technology to be a catalyst to a significant shift in consumer preference to high quality three- dimensional films, medical devices and scientific apparatus that will significantly enhance the users experience.

Note 2 Basis of Presentation – going concern

These financial statements are prepared on a going concern basis which assume that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because of the Company' historical losses, negative cash flows from operations and working capital and net assets deficiency. At September 30, 2008 and 2007, the Company's committed cash obligations and expected level of expenses for the upcoming twelve months exceed the Company's cash on hand.

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 and other strategies will be sufficient to permit the Company to continue beyond September 30, 2008.

These financial statements do not reflect adjustments that would be necessary of 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.

Note 3 Property and Equipment

	2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Computer Equipment	\$ 49,737	\$ 14,873	\$ 34,864
Office Furniture	<u>19,914</u>	<u>2,907</u>	<u>17,007</u>
	<u>\$ 69,651</u>	<u>\$ 17,780</u>	<u>\$ 51,871</u>

  

	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Computer Equipment	\$ 49,737	\$ 4,751	\$ 44,986
Office Furniture	<u>3,188</u>	<u>398</u>	<u>2,790</u>
	<u>\$ 52,925</u>	<u>\$ 5,149</u>	<u>\$ 47,776</u>

Note 4 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) 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, 2008	7,900,206	\$21,598,083	6	\$ 5,045
Issued for settlement of debt (i)	294,333	88,300	-	-
Issued for settlement of debt (ii)	5,660,000	435,420	-	-
Issued for private placement (iii)	975,000	158,393		
Issued for settlement of debt (iv)	<u>1,577,400</u>	<u>283,932</u>		
Balance, September 30, 2008	<u>16,406,939</u>	<u>\$22,564,128</u>	<u>6</u>	<u>\$ 5,045</u>

Note 4 Share Capital (continued)

- i) On May 27, 2008, the Company issued 294,333 common shares at \$0.30 per share to settle a total loan of \$88,300 from two former directors.
- ii) On June 13, 2008, the Company issued 5,660,000 common shares at \$0.10 per unit to settle loans totaling \$566,000. Each unit is comprised of one common share and one quarter share purchase warrant. One full warrant entitles the purchaser to acquire one additional common share at \$0.15 per share for one year from the date of issuance. The warrants issued were valued using the Black Scholes pricing model at a valuation of \$0.09228 per warrant (note 5 g).
- iii) On August 20, 2008, the Company closed its private placement by issuing 975,000 common shares at \$0.18 per share for gross proceeds of \$175,500. The Company paid a finder's fee of \$17,108 and record net proceeds of \$158,393 for the period.
- iv) On September 19, 2008, the Company issued 1,577,400 common shares at \$0.18 per unit to settle debts totaling \$283,942. All shares issued in the debt settlement will be subject to a hold period of four months from the date of issuance.

c) 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 and other key personnel of the Corporation and all other terms and conditions of the options granted under the Stock Option Plan.

On February 25, 2008, the Company cancelled all of the 33,334 incentive stock options previously issued to directors, officers, employees and consultants of the company and currently has no remaining options outstanding under its incentive stock option plan.

Changes in outstanding options were as follows:

	2008	
	Common shares	Weighted average exercise price
Outstanding, beginning of period	33,334	\$ 1.50
Granted	-	\$ -
Cancelled	(33,334)	\$ (1.50)
Outstanding, end of period	-	\$ -

Note 4 Share Capital (continued)

d) 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 September 30, 2008, the preferred shares had dividends declared but in arrears of \$7,350 (2007 - \$7,009). 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.

e) Warrants Issued and Outstanding

During the year, the Company issued warrants in conjunction with common shares for settlement of debts (note 5 b ii). The warrants issued and outstanding September 30, 2008 are as follows:

	2008		2007	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Outstanding, beginning of year	1,774,000	0.47	-	-
Issued with shares	1,415,000	0.15	1,666,667	0.50
Issued for share issuance costs	-	-	107,333	0.30
Outstanding, end of year (period)	3,189,000	0.33	1,774,000	0.47

f) Contributed Surplus

Changes in contributed surplus were as follows:

	2008	2007
Balance, beginning of year	\$ 322,390	\$ 162,730
Warrants issued with unit offerings	-	150,000
Warrants issued for share issue costs	-	9,660
Warrants issued with debt settlement - see note 6 b) ii)	130,579	-
Balance, end of year (period)	\$ 452,969	\$ 322,390

(g) Warrant Valuation

The fair value of warrants issued in conjunction with the shares issued for settlement of debt in 2008 were determined using the Black Scholes pricing model using the following assumptions:

Risk-free interest rate	2.69%
Volatility	162.32%
Expected life in years	1 year
Strike price	\$ 0.15

Note 5 Reactivation Expenses

During the period, the Company incurred cost aggregating \$63,249 related to the reactivation of the listing of the Company on the TSX. Currently the Company has a Tier III status on the NEX exchange and is recognized as an inactive issuer. The Company has incurred these expenditures in order to achieve a Tier II on the TSX Venture Exchange. On November 11, 2008 the company graduated to the TSX Venture exchange.

Note 6 Related Parties Transactions

The financial results for the quarter ended September 30, 2008 include the following Related Party Transactions;

	<u>2008</u>	<u>2007</u>
Consulting fees	\$ 18,812	\$ 213,750
Interest	1,547	5,750
Rent expense	-	7,500

During the quarter the Company incurred Consulting fees of \$10,187 to AG Solutions Ltd., a Company controlled by Alan Smith. In addition consulting fees of \$8,625 were paid to Panliant Financial Corp., a Company jointly controlled by Alan Smith and Dwight Romanica.

Note 7 Subsequent Events

On October 23, 2008 the Company entered into a lease agreement for an office in Miami, Florida. The agreement has a one year term, with minimum lease payments of \$1,265 per month.

Effective November 11, 2008 the Company's securities were listed and brought to trade on the TSX Venture Exchange under the symbol "ICT " This represents a reactivation of the listing of the Company's securities from the NEX exchange.

On November 12, 2008, the Company granted options to directors, officers, employees and consultants 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.

Note 8 Comparative Figures

Some prior year's figures have been restated for comparative purposes and to conform to current period presentation.