

ISEE3D INC.

Financial Statements

December 31, 2008 and 2007

ISEE3D, INC.
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S.E.N.C.R.L. – L.L.P.

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Auditors' Report

To the Shareholders of
I See 3D Inc.

We have audited the balance sheet of **I See3D Inc.** as at December 31, 2008 and December 31, 2007 and the statements of loss and comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Montreal, Quebec
April 23, 2009

¹ By Sheldon W. Krakower, CA

**ISEE3D INC.
BALANCE SHEET**

As At December 31, 2008 and 2007

	2008	2007
ASSETS		
Current assets		
Cash	\$ 18,690	\$ 16,009
Sales tax and other receivables	10,796	12,166
Prepaid expenses	12,952	1,250
	<u>42,438</u>	<u>29,425</u>
Property and equipment (Note 5)	<u>48,318</u>	<u>47,776</u>
TOTAL ASSETS	\$ <u>90,756</u>	\$ <u>77,201</u>
 LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 255,015	\$ 374,574
Dividend payable	7,463	7,009
Promissory notes payable (Note 7)	-	285,000
	<u>262,478</u>	<u>666,583</u>
TOTAL LIABILITIES	<u>262,478</u>	<u>666,583</u>
Shareholders' deficiency		
Preferred shares (Note 8)	5,045	5,045
Common shares (Note 8)	22,581,235	21,598,083
Contributed surplus (Note 10)	495,448	322,390
Deficit	<u>(23,253,450)</u>	<u>(22,514,900)</u>
	<u>(171,722)</u>	<u>(589,382)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	\$ <u>90,756</u>	\$ <u>77,201</u>
<i>See accompanying notes.</i>		

Approved on Behalf of the Board:

"Dwight Romanica" Director

"Ilya Sorokin" Director

ISEE3D INC.
STATEMENT OF LOSS AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2008 and 2007

	2008	2007
EXPENSES		
Consulting and management	216,900	175,006
General and administrative	102,971	162,708
Amortization	16,958	3,273
Bank charges and interest	1,702	1,580
Filing fees	49,734	44,293
Interest on promissory note	37,130	29,667
Professional fees	43,831	103,818
Stock based compensation	42,479	-
Travel	104,668	117,332
	<u>616,373</u>	<u>637,677</u>
LOSS BEFORE UNDERNOTED ITEMS	<u>(616,373)</u>	<u>(637,677)</u>
Gain on settlement of debts	(25,133)	(128,469)
Reactivation expenses (Note 11)	129,749	211,961
	<u>104,616</u>	<u>83,492</u>
NET LOSS AND COMPREHENSIVE INCOME	<u>(720,989)</u>	<u>(721,169)</u>
Basic and diluted loss per share	<u>(0.06)</u>	<u>(0.09)</u>
Weighted average number of shares outstanding for the year	<u>\$ 11,997,347</u>	<u>\$ 7,925,048</u>

See accompanying notes.

ISEE3D INC.
STATEMENT OF DEFICIT

For the Years Ended December 31, 2008 and 2007

	2008	2007
DEFICIT, BEGINNING OF YEAR	\$ (22,514,900)	\$ (21,755,893)
Net loss for the year	(720,989)	(721,169)
Share issue costs	(17,107)	(37,260)
Dividend on preferred shares	<u>(454)</u>	<u>(578)</u>
DEFICIT, END OF YEAR	\$ <u>(23,253,450)</u>	\$ <u>(22,514,900)</u>

See accompanying notes.

ISEE3D INC.
STATEMENT OF CASH FLOWS
(Unaudited)

For the Year Ended December 31, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Net loss for the year	\$ (720,989)	\$ (721,169)
Add items not involving cash:		
Amortization of property, plant and equipment	16,958	3,273
Stock based compensation	42,479	-
Changes in non-cash working capital items		
Sales taxes receivable	1,370	(11,739)
Prepaid expenses and deposits	(11,702)	-
Accounts payables and accrued liabilities	(119,559)	120,370
	<u>(791,443)</u>	<u>(609,265)</u>
INVESTING ACTIVITIES		
Acquisition of property and equipment	<u>(17,500)</u>	<u>(48,212)</u>
	<u>(17,500)</u>	<u>(48,212)</u>
FINANCING ACTIVITIES		
Proceeds from loans payable	653,231	235,000
Net proceeds on issuance of shares	175,500	500,000
Share capital returned to treasury	-	(37,500)
Share issue costs	(17,107)	(27,600)
	<u>811,624</u>	<u>669,900</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,681	12,423
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>16,009</u>	<u>3,586</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 18,690</u>	<u>\$ 16,009</u>

See accompanying notes.

ISEE3D, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008 and 2007

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 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 application in a great number of markets including the home entertainment industry, consumer electronics and imaging devices including microscopes, endoscopes and sophisticated medical imaging systems.

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 December 31, 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 December 31, 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 Summary of significant accounting policies

Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years may be significant.

Key areas of estimation, where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include certain accrued liabilities, the ability to use income tax loss carryforwards and other future income tax assets and liabilities, useful lives of depreciable assets and estimates for stock based compensation.

Basic and Diluted loss Per Share

Basic loss per common share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The treasury stock method is used to compute the dilutive effect of stock options, warrants and similar instruments. The computation of diluted loss per common share is equal to the basic loss per common share due to the anti-dilutive effect of the stock options and warrants.

Financial instruments

The Company has classified all of its financial assets as being either: (i) held for trading, (ii) loans and receivables or (iii) held-to-maturity and has classified its financial liabilities as being either (i) held for trading or (ii) other financial liabilities. All financial assets and liabilities are initially measured at fair value and are subsequently measured as follows:

<u>Financial Asset / Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liability	Amortized cost
Loan payable	Other financial liability	Amortized cost

Stock-based compensation

The Company follows the fair value method of accounting for stock based compensation and other stock based payments. Under this method, the fair value of options granted to directors, officers, employees and technical consultants, is recognized over the applicable vesting period, based on the estimated fair value of the options on the grant date determined using an option-pricing model. The expense is charged to stock option compensation expense with a corresponding credit to contributed surplus. When the options are exercised, capital stock is credited by the sum of the consideration paid, together with the related portion previously recorded as contributed surplus. Details of the Company's stock option plan and related disclosures are detailed in Note 9.

Note 3 Summary of significant accounting policies (Continued)

Cash and cash equivalents

It is the Company's policy to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and highly liquid investments with a maturity period of three months or less from the date of acquisition.

Property and equipment

Property and equipment is recorded at cost. Amortization is provided on the various classes of assets principally at rates designed to write-off the cost of the assets over their estimated useful lives as follows:

Computer	30%
Office furniture	30%

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on the difference between the carrying amounts and tax basis of assets and liabilities and are measured using enacted tax rates and laws in effect as at the date of the financial statements. Changes in these balances are charged to income of the year in which they arise. Future tax assets are accounted for only if it is believed that it is more likely than not that they will be realized.

Issue costs

Issue costs are charged against the deficit in the year incurred.

Note 4 Recent accounting pronouncements

General standards of financial statement

On January 1st, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") handbook section 1400, General Standards of Financial Statement Presentation, which provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have any impact on the financial statements.

Capital disclosures

On January 1st, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") handbook section 1535, Capital Disclosures which establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing its capital. The adoption of this new standard did not have any effect on how the Company's accounts for its transactions. The Company's 1535 disclosures are presented in note 15.

Note 4 Recent accounting pronouncements (continued)

Financial instruments – Presentation and Disclosure

On January 1st, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") handbook sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation. Sections 3862 and 3863 replace section 3861 - Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements in certain areas and carrying forward unchanged its presentation requirements. The objective of the standards is to enable users to evaluate the significance of financial instruments on the Company's financial position and performance. The new sections place increased emphasis on disclosures and the nature and extent of risks arising from financial instruments and how the Company manages those risks. Where the disclosure requirements of the new standards did not change from the previous standard and where there have been no significant updates from the disclosures in the prior years' financial statements, no additional disclosure has been provided. The Company's financial instrument disclosures are presented in note 16.

Future accounting policy changes

International financial reporting standards ("IFRS")

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS-IASB"). The changeover date is effective for interim and annual financial reporting for fiscal year ends beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures which the Company must address. The Company is currently developing its IFRS conversion plan and evaluating the effect of these new standards on its financial statements. Determination of the key differences between IFRS and the Company's accounting policies will progress with an evaluation of the main potential impact on its business practices, systems and internal controls over financial reporting.

Goodwill and intangible assets

In January 2008, the Canadian Institute of Chartered Accountants ("CICA") issued a new standard, Section 3064 - Goodwill and Intangible Assets, which replaced Section 3062 - Goodwill and Other Intangible Assets, and will result in the withdrawal of Section 3450 - Research and Development Costs, as well as Emerging Issues Committee (EIC) 27 - Revenues and Expenditures During the Pre-Operating Period, and Accounting Guideline (AcG 11) - Enterprises in the Development Stage. This standard provides a guideline on the recognition of intangible assets according to the definition of an asset, application of the matching costs against revenues, whether these assets were acquired or developed internally. This section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of this new standard on the financial statements.

Note 5 Property and Equipment

	2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Computer Equipment	\$ 49,737	\$ 18,247	\$ 31,490
Office Furniture	<u>20,688</u>	<u>3,860</u>	<u>16,828</u>
	<u>\$ 70,425</u>	<u>\$ 22,107</u>	<u>\$ 48,318</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 6 Credit Facility

On February 12, 2008 the Company entered into a Credit Facility Agreement with AG Solutions Ltd. whereby the lender made available \$100,000 (the credit limit) to the Company for general working capital purposes. The credit facility provides for a fee in the amount of 20% of the credit limit disbursed. The principle and fee accrued under the credit facility are due 100 days following the first advance under this credit facility. The Credit facility holds a general assignment over the assets of the Company.

Note 7 Promissory Notes Payable

The Company had promissory notes payable balance of \$285,000 which were bearing interest at 12% per annum. The notes were due between February and May 2009 of which \$150,000 was due to a related party. During the year, these notes were settled by issuing 3,192,000 units of common shares valued at \$0.10 per shares of the Company. 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 (refer to note 8 vi).

Note 8 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.

Note 8 Share Capital (Continued)

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 December 31, 2008, the preferred shares had dividends declared but in arrears of \$7,463 (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.

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, 2007	6,258,539	21,285,583	6	5,045
Issued for cash – private placement (i)	700,000	147,000	-	-
Issued for cash – private placement (ii)	966,667	203,000		
Common shares returned to treasury (iv)	(25,000)	(37,500)	-	-
Balance, January 1, 2008	7,900,206	\$21,598,083	6	\$ 5,045
Issued for settlement of debt (v)	294,333	88,300	-	-
Issued for settlement of debt (vi)	5,660,000	435,420	-	-
Issued for private placement (vii)	975,000	175,500		
Issued for settlement of debt (viii)	1,577,400	283,932		
Balance, December 31, 2008	16,406,939	\$22,581,235	6	\$ 5,045

Year-ended December 31, 2007:

- i) On July 26, 2007, the Company completed a private placement of 700,000 units at \$0.30 per unit for aggregate proceeds of \$210,000. Each unit is comprised of one common share and one common share purchase warrant entitling the purchaser to acquire an additional common share at \$0.50 per share for one year from the date of acquisition. The Corporation, reserves the right, to redeem for cancellation all warrants issued under this Private Placement (for a redemption price of \$0.001 per warrant) at any time after the Corporation's listed common shares have been trading above a daily close of \$0.60 for fifteen (15) consecutive trading days and only after the four-month hold period has expired. The warrants issued were valued using the Black Scholes pricing model at a valuation of \$0.09 per warrant (note 6) Accordingly, \$63,000 of the proceeds received were attributed to Contributed surplus representing the aggregate warrant valuation and the residual \$147,000 was attributed to share capital issued. Share issue costs aggregating \$17,010 were incurred related to this private placement comprised of \$12,600 in cash and \$4,410 in warrant consideration comprised of 49,000 warrants to acquire common shares in the Company at a price of \$0.30 per share, valued utilizing the Black Scholes pricing model (note 6). Also see note 11 below.

Note 8 Share Capital (Continued)

- ii) On September 10, 2007, the Company completed a private placement of 966,667 units at \$0.30 per unit for aggregate proceeds of \$290,000. Each unit is comprised of one common share and one common share purchase warrant entitling the purchaser to acquire an additional common share at \$0.50 per share for one year from the date of acquisition. The Corporation, reserves the right, to redeem for cancellation all warrants issued under this Private Placement (for a redemption price of \$0.001 per warrant) at any time after the Corporation's listed common shares have been trading above a daily close of \$0.60 for fifteen (15) consecutive trading days and only after the four-month hold period has expired. The warrants issued were valued using the Black Scholes pricing model at a valuation of \$0.09 per warrant (note 6)
- iii) Accordingly, \$87,000 of the proceeds received were attributed to Contributed surplus representing the aggregate warrant valuation, and the residual \$203,000 was attributed to share capital issued. Share issue costs aggregating \$20,250 were incurred related to this private placement comprised of \$15,000 in cash and \$5,250 in warrant consideration comprised of 58,333 warrants to acquire common shares in the Company at a price of \$0.30 per share, valued utilizing the Black Scholes pricing model.
- iv) In November 2007 a corporation controlled by a director of the Company returned 25,000 common shares to the treasury for cash consideration of \$37,500. These shares were originally issued pursuant a shares for debt arrangement for aggregate proceeds of \$37,500.

Year-ended December 31, 2008:

- v) On May 27, 2008, the Company issued 294,333 common shares at \$0.30 per share as a settlement of loan of \$88,300 from two former directors.
 - vi) 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 fair value of the warrants was determined using the Black Scholes option pricing model as described in note 9 resulting in valuation of \$0.09228 per warrant which was recorded in contributed surplus (refer to Note 10)
 - vii) 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 year.
 - viii) 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 are subject to a hold period of four months from the date of issuance.
- d) Warrants Issued and Outstanding

During the year, the Company issued warrants in conjunction with common shares for settlement of debts (note 8 c vi). The warrants issued and outstanding as at December 31, 2008 are as follows:

Note 8 Share Capital (Continued)

	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
Warrants expired	(1,774,000)	(0.47)	-	-
Outstanding, end of year	1,415,000	0.15	1,774,000	0.47

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:

	2008	2007
Risk-free interest rate	2.69%	3.50%
Volatility	162.32%	117%
Expected life in years	1 year	1 year
Strike price	\$ 0.15	\$ 0.30

Note 9 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 and 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.

In the year ended December 31, 2008, the Company recorded total stock-based compensation of \$42,479.

Note 9 Stock Based Compensation (Continued)

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

	<u>2008</u>
Risk-free interest rate	1.50%
Expected volatility	210%
Expected life in years	5 years
Dividend yield	0%
Grant date fair value	\$0.088

Common share purchase options outstanding, exercisable and granted to directors and officers of the Company are summarized as follows:

<u>Number of Options Outstanding</u>	<u>Number of Options Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,375,000	171,875	\$0.15	November 2013

Changes in outstanding options were as follows:

	2008		2007	
	Common shares	Weighted average exercise price	Common shares	Weighted average exercise price
Outstanding, beginning of year	33,334	\$ 1.50	336,667	\$ 1.50
Cancelled	(33,334)	\$ 1.50	(303,333)	\$ 1.50
Granted	1,375,000	\$ 0.15	-	\$ -
Outstanding, end of year	1,375,000	\$ 0.15	33,334	\$ 1.50
Amount exercisable	171,875	\$ 0.15	33,334	\$ 1.50

On February 25, 2008, the Company cancelled the remaining 33,334 incentive stock options previously issued to directors, officers and employees of the company.

Note 10 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 8 c) vi)	130,579	-
Stock based compensation – see note 9	42,479	-
Balance, end of year	\$ 495,448	\$ 322,390

Note 11 Reactivation Expenses

During the year, the Company incurred costs aggregating \$129,749 (2007 - \$211,961) 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 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 12 Income Taxes

a) *Reconciliation of income taxes:*

The impact of differences between the company's reported income tax recovery on operating loss and the expense that would otherwise result from the application of statutory rate is as follows:

	<u>2008</u>		<u>2007</u>	
	\$	%	\$	%
Income tax recovery at the combined basic federal and provincial tax rates	\$ (222,757)	31%	\$ (223,707)	31%
Non-deductible stock options	13,126	(2%)	-	-
Future income taxes resulting from change in tax rates	156,372	(22%)	-	-
Other	(26,261)	4%	(1,808)	-
Valuation allowance	75,920	(11%)	225,515	(31%)
Effective tax expense	\$ -	-	\$ -	-

b) *The significant components of the Corporation's future income tax assets are as follows:*

	<u>2008</u>	<u>2007</u>
Property and equipment	\$ (512,477)	\$ (554,495)
Non-capital losses carried forward	(1,060,456)	(1,223,739)
Share issued costs	(18,840)	(13,899)
Cumulative eligible capital	(62,729)	(68,515)
Valuation allowance	1,654,502	1,860,648
Effective tax expense	\$ -	\$ -

Note 12 Income Taxes (Continued)

The Company has accumulated losses of approximately \$3,734,000 for income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

2009	1,026,000
2013	419,000
2014	267,000
2015	535,000
2026	90,000
2027	727,000
2028	670,000
	<u>\$ 3,734,000</u>

During the year, loss carry forwards in the amount of approximately \$881,000 (2007 - \$3,336,000) expired.

In addition, the Company has approximately \$1,300,000 and \$640,000 of scientific research and development expenditures that are available to reduce Federal and Provincial taxable income respectively in future years. These expenditures are available indefinitely.

The Company also has research tax credits of approximately \$150,000 to reduce future Federal taxes payable, the benefit of which has not been recorded in the financial statements. These tax credits expire between 2009 and 2012

The Company has accumulated \$46,042 of share issue costs which can be used to reduce future years' taxable income. These share issue costs will be deductible over the next four years.

The potential benefit of the above items has not been reflected in the financial statements.

Note 13 Related Parties Transactions

During the year, the Company has transactions and balances with related parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are summarized as follows:

Transactions with Directors:

	<u>2008</u>	<u>2007</u>
Consulting fees	\$ 78,000	\$ 174,065
Reactivation expenses	50,000	-
Travel expenses	91,619	39,685
Interest	-	5,750
Rent expense	-	7,500
Debt settlement	273,800	-
Balances due to directors		
- included in accounts payable subject to normal trade forms	8,075	-
Promissory notes payable	-	\$150,000

Note 14 Commitments

The company is obligated under operating leases for office premises and for a vehicle which expire in November 2009 and April 2011 respectively. Annual lease commitments are as follows:

2009	\$ 18,805
2010	7,805
2011	<u>2,602</u>
	<u>\$ 29,212</u>

Note 15 Capital Management

The Company's objectives when managing capital are to maintain a strong capital base in order to advance the Company's corporate strategies to create long term value for its stake holders and sustain the Company's operations in economic cycles.

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. At this time, the Company utilizes debt as part of its capital management strategy. For the year ending December 31, 2008, the Company has not distributed dividends to its shareholders. There were no changes in the Company's approach to capital management during the year ending on December 31, 2008.

Note 16 Financial Instruments

Fair value

Cash, receivables and accounts payable and accrued liabilities are all short term in nature and as such, their carrying values approximate fair values.

Liquidity risk

The Company's approach to managing liquating risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2008, the Company has approximately \$30,000 of assets to settle approximately \$230,000 of current liabilities. The Company is closely monitoring the situation and will adjust its capital as needed to meet its obligations.

Note 17 Segment Disclosure

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

Note 18 Comparative Figures

Some prior year's comparative figures have been restated in order to conform to current year presentation.

Note 19 Subsequent Events

On February 19, 2009, the Company announced that it will issue up to 3,333,333 units of shares at \$0.15 per share for gross proceeds of up to \$500,000.00 under a private placement. Each unit consists of one common share and one-half of one warrant. One full warrant entitles the holder to acquire an additional common share at a price of \$0.20 for a period of six months from the closing date.

On March 4, 2009, the Company closed the first tranche of the above announced private placement for proceeds of \$94,950.00 by issuance of 633,000 units at a price of \$0.15 per unit. The Company paid a finders fee of \$4,500.00 in connection with monies raised in the private placement,

On March 25, 2009, the Company closed the final tranche of the above announced private placement for proceeds of \$165,406.00 by issuance of 1,102,706 units at a price of \$0.15 per unit. The Company paid aggregate finders fees in the amount 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 the final tranche of the private placement.

On April 1, 2009 the Company entered into an agreement with The Battelle Institute of Columbus Ohio, for the development of a "state of the art" 3D capture and display system which converts a conventional 2D HD video camera to 3D capability utilizing the ISEE3D patented single lens 3D capture technology. The Battelle Institute is the largest not for profit Research and Development facility in the world, conducting \$5.2 Billion USD in global R&D annually.

On April 2, 2009, the Company announced that it will issue up to 6,000,000 units of shares at \$0.15 per share for gross proceeds of up to \$900,000.00 under a private placement. Each unit consists of one common share and one warrant. One full warrant entitles the holder to acquire an additional common share at a price of \$0.20 for a period of twenty-four months from the closing date.

Note 20 Contingencies

In September 2008, a supplier instituted a claim against the Company for \$81,950 representing unpaid fees and various expenses incurred on behalf of the Company. In response, the Company made a cross-claim against the supplier aggregating \$500,000 for damages. Management has, in order to be conservative, recorded \$45,500 as a potential liability related to this claim even though it is strongly denying the merits of the lawsuit.