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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2008**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-27372**

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**StockerYale, Inc.**

*(Exact name of registrant as specified in its charter)*

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**Massachusetts**  
*(State or other jurisdiction of  
incorporation or organization)*

**32 Hampshire Road**  
**Salem, New Hampshire**  
*(Address of principal executive offices)*

**04-2114473**  
*(I.R.S. Employer  
Identification No.)*

**03079**  
*(Zip Code)*

**Registrant's telephone number: (603) 893-8778**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 5, 2008, there were 40,652,297 shares of the registrant's common stock outstanding.

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**STOCKERYALE, INC.**

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**Item 1. Financial Statements.**

STOCKERYALE, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 In thousands except share and per share data  
 Unaudited

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents.....	\$ 847	\$ 1,577
Restricted cash.....	18	18
Accounts receivable less allowances of \$73 at June 30, 2008 and \$62 at December 31, 2007.....	4,550	4,535
Inventories.....	4,382	4,180
Prepaid expenses and other current assets.....	559	465
<b>Total current assets</b> .....	<u>10,356</u>	<u>10,775</u>
Net property, plant and equipment.....	9,450	10,464
Goodwill.....	8,063	8,069
Acquired intangible assets, net.....	3,143	3,777
Other long-term assets.....	2,106	953
<b>Total assets</b> .....	<u>\$ 33,118</u>	<u>\$ 34,038</u>
<b>Current liabilities:</b>		
Revolving lines of credit.....	\$ 4,520	\$ —
Current portion of long-term debt, net of unamortized discount of \$589 at June 30, 2008 and \$607 at December 31, 2007.....	1,543	1,308
Current portion of capital lease obligations.....	164	158
Current portion of financing lease obligations.....	444	447
Accounts payable.....	3,729	3,590
Accrued expenses.....	2,560	2,766
<b>Total current liabilities</b> .....	<u>12,960</u>	<u>8,269</u>
Long-term debt, net of unamortized discount of \$770 at June 30, 2008 and \$954 at December 31, 2007..	8,578	11,864
Capital lease obligations, net of current portion.....	197	275
Financing lease obligations, net of current portion.....	3,212	3,200
Deferred income taxes.....	806	931
<b>Total liabilities</b> .....	<u>25,753</u>	<u>24,539</u>
<b>Stockholders' equity:</b>		
Common stock, par value \$0.001; shares authorized 100,000,000; 40,634,289 shares issued and outstanding at June 30, 2008 and 38,555,618 at December 31, 2007.....	41	39
Paid-in capital.....	102,070	99,698
Accumulated other comprehensive income.....	2,972	3,029
Accumulated deficit.....	(97,718)	(93,267)
<b>Total stockholders' equity</b> .....	<u>7,365</u>	<u>9,499</u>
<b>Total liabilities and stockholders' equity</b> .....	<u>\$ 33,118</u>	<u>\$ 34,038</u>

*See notes to unaudited condensed consolidated financial statements.*

STOCKERYALE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<b>In thousands except per share data</b>			
Revenue .....	\$ 8,547	\$ 6,950	\$ 16,609	\$ 14,426
Cost of sales .....	5,643	4,658	11,246	9,562
<b>Gross profit</b> .....	<b>2,904</b>	<b>2,292</b>	<b>5,363</b>	<b>4,864</b>
Operating expenses:				
Selling expenses .....	920	969	2,055	1,986
General and administrative .....	2,397	1,496	4,158	2,974
Research and development .....	827	814	1,587	1,584
Amortization of intangibles .....	295	310	625	617
Asset Impairment .....	36	—	36	—
Loss from operations .....	(1,571)	(1,297)	(3,098)	(2,297)
Other expense, net .....	83	105	230	259
Amortization of debt discount and financing costs .....	392	555	646	822
Interest expense .....	303	288	622	599
Loss from continuing operations before income tax benefit .....	(2,349)	(2,245)	(4,596)	(3,977)
Income tax benefit .....	(62)	(53)	(122)	(136)
Loss from continuing operations .....	(2,287)	(2,192)	(4,474)	(3,841)
Income from discontinued operations, net of tax .....	2	42	23	62
Net loss .....	<u>\$ (2,285)</u>	<u>\$ (2,150)</u>	<u>\$ (4,451)</u>	<u>\$ (3,779)</u>
Basic and diluted net loss per share from continuing operations .....	\$ (0.06)	\$ (0.06)	\$ (0.12)	\$ (0.11)
Basic and diluted net income per share from discontinued operations .....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Basic and diluted net loss per share .....	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.12)</u>	<u>\$ (0.11)</u>
Basic and diluted weighted average shares outstanding: .....	<u>37,585</u>	<u>34,266</u>	<u>37,156</u>	<u>34,156</u>

*See notes to unaudited condensed consolidated financial statements.*

STOCKERYALE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Unaudited

	Six Months Ended June 30,	
	2008	2007
In thousands		
<b>Operations</b>		
Net loss.....	\$ (4,451)	\$ (3,779)
Income from discontinued operations, net of tax.....	23	62
Loss from continuing operations.....	(4,474)	(3,841)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation.....	563	205
Depreciation and amortization.....	1,661	1,565
Asset Impairment.....	36	—
Amortization of debt discount and financing costs.....	646	822
Non cash interest expense.....	143	152
Provision for inventories.....	17	96
Provision for bad debts.....	34	6
Deferred income taxes.....	(123)	(138)
Other change in assets and liabilities:		
Accounts receivable.....	(65)	(492)
Inventories.....	(246)	(382)
Prepaid expenses and other current assets.....	(96)	(148)
Accounts payable.....	354	(422)
Accrued expenses.....	(196)	(74)
Other assets and liabilities.....	14	(326)
<b>Net cash used in continuing operations.....</b>	<b>(1,732)</b>	<b>(2,977)</b>
Net cash provided by (used in) discontinued operations.....	(5)	59
<b>Net cash used in operating activities.....</b>	<b>(1,737)</b>	<b>(2,918)</b>
<b>Investing</b>		
Payments of financing obligation.....	(127)	(169)
Purchases of plant and equipment.....	(105)	(252)
<b>Net cash (used in) continuing operations.....</b>	<b>(232)</b>	<b>(421)</b>
Net cash provided by discontinued operations.....	28	35
<b>Net cash (used in) investing activities.....</b>	<b>(204)</b>	<b>(386)</b>
<b>Financing</b>		
Net proceeds from sale of common stock.....	—	2,330
Exercise of stock options.....	—	96
Restricted cash related to credit facilities.....	—	(6)
Proceeds from issuance of notes payable.....	500	2,318
Borrowings / (Repayments) of revolving credit facilities - U.S.....	483	(90)
Borrowings of revolving credit facilities - U.K.....	1,195	—
Principal repayment of long-term debt.....	(995)	(1,005)
Debt issuance costs.....	(11)	(117)
<b>Net cash provided by financing activities.....</b>	<b>1,172</b>	<b>3,430</b>
Net cash provided by (used in) discontinued operations.....	—	—
<b>Net cash provided by financing activities.....</b>	<b>1,187</b>	<b>3,430</b>
Effect of exchange rate on cash.....	39	756
Net change in cash and equivalents.....	(730)	882
Cash and equivalents, beginning of period.....	1,577	1,366

	Six Months Ended June 30,	
	2008	2007
<b>Cash and equivalents, end of period</b> .....	\$ 847	\$ 2,248
<b>In thousands</b>		
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest .....	\$ 584	\$ 603
Issuance of restricted stock .....	114	169
Common stock issued with financing .....	1,012	429
Fair value of warrant modifications (in connection with financing) .....	477	—
Issuance of warrants in connection with financing .....	—	—
Common stock issued to settle accounts payable .....	202	—

*See notes to unaudited condensed consolidated financial statements.*

## STOCKERYALE, INC.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### (1) ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by StockerYale, Inc. (the "Company") and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of (i) the results of operations for the three and six month periods ended June 30, 2008 and 2007, (ii) the financial position at June 30, 2008 and December 31, 2007, and (iii) the cash flows for the six month periods ended June 30, 2008 and 2007. These interim results are not necessarily indicative of results for a full year or any other interim period.

The accompanying consolidated financial statements and notes are condensed as permitted by Form 10-Q and do not contain certain information included in the annual financial statements and notes of the Company. These statements are prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow to meet its obligations on a timely basis through improved operations and/or additional financing. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

The Company took certain actions in 2007 to reduce its overall cost structure and will continue to implement such actions throughout 2008. In addition, the Company intends to focus on increasing the pace with which operational improvements are able to improve its financial performance and the consistency of its results. The Company intends to identify additional opportunities to lower its costs and manage the business more efficiently.

The Company is considering different ways to raise additional capital including through offerings of debt securities, the sale of its equity securities, or borrowings from financial institutions.

On June 16, 2008 the Company announced its intention to acquire all issued and outstanding common shares of Virtek Vision International Inc. ("Virtek") of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc., representing a total purchase price of approximately Cdn \$27 million, at a price of \$0.80 per share. The financing of the proposed acquisition is in place and available for payment to Virtek's shareholders. The Company has incurred cash expenses of approximately \$307,000 in connection with the proposed transaction. However, there is no certainty that the transaction will close.

Certain amounts reported for prior periods have been reclassified to be consistent with the current period presentation.

#### (2) LOSS PER SHARE

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share*, basic and diluted net loss per common share for the three and six months ended June 30, 2008 and 2007, respectively, is calculated by dividing the net loss applicable to common stockholders by the weighted average number of vested common shares outstanding. Common stock equivalents that were outstanding as of June 30, 2008 and 2007, but were considered anti-dilutive securities and excluded from the diluted net income per share calculations, were as presented below:

	June 30,	
	2008	2007
Options outstanding .....	4,338,976	2,521,532
Warrants outstanding .....	6,712,979	7,589,057
Unvested restricted stock grants .....	1,862,978	1,228,365
Total potentially dilutive common stock equivalents .....	12,914,933	11,338,954

#### (3) REVENUE RECOGNITION

The Company recognizes revenue from sales of standard and non-standard products and funded research and development and product development for commercial companies and government agencies. The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") as updated by SAB No. 104, *Revenue Recognition* and Emerging Issues Task Force ("EITF") 00-21, *Revenue Arrangements with Multiple Deliverables*, and Statement of Position ("SOP") 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.

The Company recognizes revenue from product sales at the time of shipment and when persuasive evidence of an arrangement exists, performance of the Company's obligation is complete, the price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company's non-standard products are limited to components supplied to original equipment manufacturers and produced in accordance with a customer-approved design. Non-standard product revenue is recognized when the criteria for acceptance has been met. Title to the product generally passes upon shipment, as products are generally shipped FOB shipping point. In certain limited situations, distributors have the right to return products. Such rights of return have not precluded revenue recognition because the Company has a long history with such returns and accordingly is able to estimate a reserve for their cost.

Revenue from funded research and development and product development is recognized based on contractual arrangements, which may be based on cost reimbursement or fixed fee-for-service models. Revenue from reimbursement contracts is recognized as services are performed and collectability is reasonably assured. On fixed-price contracts, revenue is generally recognized on a percentage-of-completion basis based on the proportion of costs incurred to the total estimated costs of the contract. When the current estimates of total contract revenue and contract costs indicate a loss, a provision for the entire loss on the contract is recorded.

If a contract involves the provision of multiple elements and the elements qualify for separation under EITF 00-21, total estimated contract revenue is allocated to each element based on the relative fair value of each element provided. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above.

#### (4) WARRANTY

The Company provides warranties on most of its products for periods of between one to two years. The warranty is limited to the cost of the product and the Company will repair or replace the product as required. The Company monitors the actual warranty repair costs and trends versus the reserve as a percent of sales. The Company periodically adjusts the warranty provision based on the actual experience and for any particular occurrences.

Warranty Reserves:

Six Months Ended June 30	2008	2007
	<u>In thousands</u>	
Balance at December 31.....	\$ 302	\$ 261
Charges to costs and expenses.....	98	84
Account write-offs and other deductions.....	(73)	(73)
Balance at June 30.....	<u>\$ 327</u>	<u>\$ 272</u>

#### (5) INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market and include materials, labor and overhead. Inventories are as follows:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
	<u>In thousands</u>	
Finished goods.....	\$ 945	\$ 1,066
Work-in-process.....	576	665
Raw materials.....	2,861	2,449
Net inventories.....	<u>\$ 4,382</u>	<u>\$ 4,180</u>

Management performs quarterly reviews of inventory and disposes of items not required by their manufacturing plan and reduces the carrying cost of inventory to the lower of cost or market.

#### (6) STOCK BASED COMPENSATION PLANS AND STOCK-BASED COMPENSATION EXPENSE

The Company has stock-based compensation plans for its employees, officers, and directors. The plans permit the grant of a variety of awards with various terms and prices as determined by the Governance, Nominating and Compensation Committee ("GNCC") of the Company's Board of Directors. Generally the grants vest over terms of two to four years and are priced at fair market value, or in certain circumstances, 110% of the fair market value, of the common stock on the date of the grant. The options are generally exercisable after the period specified in the option agreement, but no option may be exercised after 10 years from the date of grant.



Additionally, in the case of incentive stock options, the exercise price may not be less than 100% of the fair market value of the Company's common stock on the date of grant. However, there is an exception in the case of a grant to an employee who owns or controls more than 10% of the combined voting power of all classes of the Company's stock or the stock of any parent or subsidiary. In that case, the exercise price shall not be less than 110% of the fair market value on the date of grant. In the case of non-qualified stock options, the exercise price shall not be less than 85% of the fair market value of the Company's common stock on the date of grant, except in the case of a grant to an independent director, in which case the exercise price shall be equal to fair market value determined by reference to market quotations on the date of grant.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, ("SFAS 123(R)") and SEC SAB No. 107, *Share Based Payments*, ("SAB 107"). SFAS 123(R) establishes accounting for stock-based awards issued for employee services, while SAB 107 provides guidance regarding the interaction of SFAS 123(R) and certain SEC rules and regulations. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company previously applied Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). The Company elected to adopt the modified prospective application method as provided by SFAS 123(R), and, accordingly, the Company recorded compensation costs as the requisite service was rendered for the unvested portion of previously issued awards that remain outstanding at the initial date of adoption and any awards issued, modified, repurchased, or cancelled after the effective date of SFAS 123(R). Periods prior to adoption have not been restated.

In March 2005, the SEC issued SAB 107, which provides guidance regarding the interaction of SFAS 123(R) and certain SEC rules and regulations. The new guidance includes the SEC's view on the valuation of share-based payment arrangements for public companies and clarifies some of SFAS 123(R)'s implementation for registrants. The Company adopted the provisions of SAB 107 on January 1, 2006.

### Stock Option Awards

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company's stock, at the time of the award. The average expected option term was estimated at 5 years. The risk-free interest rate is based on U.S. Treasury zero-coupon issues assumed at the date of grant and no dividends were assumed in the calculation. The compensation expense recognized for all equity-based awards is net of estimated forfeitures for the six months ending June 30, 2008 and 2007. Forfeitures are estimated based on the historical trends. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model.

On March 17, 2008, the GNCC adopted a stock option incentive program for 2008. The GNCC adopted a policy of granting performance-based options to purchase shares of the Company's common stock to various executive officers and key employees. All options shall vest and become exercisable on the date the Company publicizes its earnings press release regarding fiscal 2008 results, if the stated performance goals are met. If the performance goals are not met, the options immediately terminate. Options to purchase a total of 1,522,300 shares of common stock were granted under this performance-based program on March 17, 2008.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The weighted average assumptions for grants during the six months ended June 30, 2008 were as follows:

	<u>Six Months Ended June 30, 2008</u>
Volatility.....	98.88%
Expected option life .....	5.65
Interest rate (risk free) .....	2.54%
Dividends.....	None
Weighted average grant date fair value .....	\$ 0.42

A summary of option activity as of June 30, 2008 and changes during the first quarter is presented below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2007 .....	2,422,617	\$ 4.76	4.16	\$ 185
Granted .....	2,046,572	0.53	—	—
Exercised.....	—	—	—	—
Cancelled .....	(130,213)	3.64	—	—
Balance at June 30, 2008.....	4,338,976	\$ 2.80	6.43	\$ 159
Vested and Exercisable at June 30, 2008 .....	2,279,385	\$ 4.82	3.04	—

As of June 30, 2008, there was a total unrecognized compensation cost of approximately \$597,000 related to non-vested stock options granted. The cost is expected to be recognized over the next 4 years. There were no options exercised in the six months ended June 30, 2008.

### Restricted Share Awards (“RSAs”)

The Company has awarded to a number of key employees restricted shares of the Company’s common stock. The RSAs vest in equal annual installments over a period of four years, assuming continued employment, with some exceptions. The fair market value of the RSAs is based on the fair market value per share of the Company’s common stock on the date of grant and is amortized over the vesting period. During the quarter ended June 30, 2008, no shares of restricted stock were issued and 102,273 shares of restricted stock vested. During the six months ended June 30, 2008, 165,000 shares of restricted stock were issued and 195,000 shares of restricted stock vested.

On June 30, 2007, the GNCC approved the StockerYale, Inc. Management Incentive Plan. The Management Incentive Plan is designed to recognize and reward the achievement of financial, business and management goals that are essential to the success of StockerYale and its subsidiaries. The Management Incentive Plan covers certain executive and senior employees of StockerYale, as determined by the GNCC.

Upon satisfaction and achievement of financial targets, as determined by the Board of Directors, or the GNCC, and based on the financial results of the target period, each participant shall receive a grant of fully-vested shares of the Company’s common stock, \$.001 par value per share. As of December 31, 2007 certain executives are eligible to receive up to 1,404,000 shares of StockerYale’s common stock under the Management Incentive Plan. As of June 30, 2008, no shares have been earned or issued related to the Management Incentive Plan. The Management Incentive Plan and all grants and awards made under the plan shall be made under the terms of the Company’s 2007 Stock Incentive Plan.

A summary of the status of the Company’s RSAs as of June 30, 2008 and changes during the first six months is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at December 31, 2007.....	2,057,998	\$ 1.22
Granted .....	165,000	0.69
Vested .....	(195,020)	1.12
Cancelled .....	(165,000)	1.29
Non-vested at June 30, 2008 .....	1,862,978	\$ 1.18

As of June 30, 2008, there was a total unrecognized compensation cost of approximately \$1,953,000 related to non-vested RSAs. The Company expects to recognize the costs over the next 2.9 years.

### (7) COMPREHENSIVE LOSS

SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's total comprehensive loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	In thousands			
Net loss .....	\$ (2,285)	\$ (2,150)	\$ (4,451)	\$ (3,779)
Other comprehensive income (loss): .....	—	—	—	—
Cumulative translation adjustment.....	40	587	(56)	647
Comprehensive loss .....	<u>\$ (2,245)</u>	<u>\$ (1,563)</u>	<u>\$ (4,507)</u>	<u>\$ (3,132)</u>

#### (8) INTANGIBLE ASSETS

Intangible assets consist of trademarks, acquired patents and patented technologies, distributor and customer relationships and related contracts, trade and brand names and associated logos, technology design and programs, non-compete agreements and other intangible assets. There are no intangible assets with indefinite lives. Acquired patented technologies and trademarks are amortized over their estimated useful lives of between 10–16 years.

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of June 30, 2008 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
	(in thousands)		
Acquired patents, patented technology and purchased technology .....	\$ 3,353	\$ (3,066)	\$ 287
Trademarks.....	471	(471)	—
Acquired trade name.....	603	(125)	478
Acquired customer contracts and relationships .....	2,452	(843)	1,609
Acquired non-compete agreement .....	794	(441)	353
Acquired technology design and programs .....	415	(87)	328
Other .....	143	(55)	88
Total.....	<u>\$ 8,231</u>	<u>\$ (5,088)</u>	<u>\$ 3,143</u>

Gross carrying amounts and accumulated amortization of intangible assets were as follows as of December 31, 2007 for each intangible asset class.

	Gross Carrying Amount	Accumulated Amortization	Carrying Value
	(in thousands)		
Acquired patents, patented technology and purchased technology .....	\$ 3,354	\$ (2,900)	\$ 454
Trademarks.....	471	(471)	—
Acquired trade name.....	604	(88)	516
Acquired customer contracts and relationships .....	2,454	(591)	1,863
Acquired non-compete agreement .....	795	(309)	486
Acquired technology design and programs .....	415	(61)	354
Other .....	143	(39)	104
Total.....	<u>\$ 8,236</u>	<u>\$ (4,459)</u>	<u>\$ 3,777</u>

Amortization of intangible assets was approximately \$295,000 and \$310,000 for the three months ended June 30, 2008 and 2007, and approximately \$625,000 and \$617,000 for the six months ended June 30, 2008 and 2007.

As of June 30, 2008, the estimated future amortization expense of intangible assets, in thousands, is as follows:

	Estimated Future Expense In thousands					2013 & thereafter
	2008	2009	2010	2011	2012	
Amortization expense of intangible assets.....	\$ 518	\$ 961	\$ 562	\$ 413	\$ 232	\$ 457

#### (9) USE OF ESTIMATES

The preparation of financial statements in conformity with 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 as of the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results in the future could vary from the amounts derived from management's estimates and assumptions.

#### (10) RECENT ACCOUNTING PRONOUNCEMENTS

##### *SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles*

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect SFAS 162 to have a material effect on the Company's financial statements.

##### *SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. The provisions of SFAS 161 will be adopted in 2009. The Company does not expect SFAS 161 to have a material impact on its consolidated financial statements.

##### *SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"), an amendment of ARB 51, *Consolidated Financial Statements*. SFAS 160 provides guidance for the accounting, reporting and disclosure of noncontrolling interests, also called minority interest. A minority interest represents the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The provisions of SFAS 160 will be adopted in 2009. The Company expects SFAS 160 will have an impact on accounting for business combinations once adopted, but the impact is dependent upon acquisitions at that time.

##### *SFAS No. 141(R), Business Combinations*

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS No. 141, *Business Combinations*. SFAS 141(R) (i) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their acquisition-date fair values, (ii) changes the recognition of assets acquired and liabilities assumed arising from contingencies, (iii) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, requires changes in fair value to be recognized in earnings until settled, (iv) requires companies to revise any previously issued post-acquisition financial information to reflect any adjustments as if they had been recorded on the acquisition date, (v) requires the reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties to be recognized in earnings, and (vi) requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination to enhance financial statement users' understanding of the nature and financial impact of the business combination. SFAS 141(R) applies prospectively to business combinations for

which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with the exception of accounting for changes in a valuation allowance for acquired deferred tax assets and the resolution of uncertain tax positions accounted for under FIN 48, which is effective on January 1, 2009 for all acquisitions. The Company expects SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the impact is dependent upon acquisitions at that time.

*SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (“SFAS 159”). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, *Defining Fair Value Measurements*. The Company adopted this statement on January 1, 2008 and it did not have an effect on the Company’s consolidated financial statements, as they did not make any fair value elections under this standard.

*SFAS No. 157, Defining Fair Value Measurements, and FASB Staff Position 157-2*

In September 2006, the FASB issued SFAS No. 157, *Defining Fair Value Measurements* (“SFAS 157”). The objective of SFAS 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. However, FASB Staff Position No. 157-2 delayed the adoption date until January 1, 2009 for certain nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 on January 1, 2008 with respect to the Company’s financial assets and liabilities did not have a material impact on the Company’s consolidated financial statements.

(11) DEBT

A summary of the Debt Obligations of the Company is as follows:

	June 30, 2008	December 31, 2007
	In thousands	
	\$	\$
Acquired note payable to Barclay’s Bank, maturing on November 16, 2009 and having an interest rate of 2.5% above Barclay’s base rate (7.50% at June 30, 2008 and 7.5% at December 31, 2007). .....	44	60
Borrowings under Confidential Invoice Discounting Agreement with Barclay’s Bank Sales Financing maturing February 5, 2011 with an interest rate of 1% above Barclay’s base rate (6.00% as of June 30, 2008).....	1,210	—
Borrowings under Line of Credit Agreement with Laurus Master Fund, Ltd. maturing on June 28, 2009. \$500,000 is due on March 31, 2009. The interest rate is the prime rate plus 1% (6.00% at June 30, 2008 and 8.25% at December 31, 2007).....	3,310	2,838

	June 30, 2008	December 31, 2007
In thousands		
Note Payable to Laurus Master Fund, Ltd. maturing on December 30, 2011, with an interest rate of prime plus 2%, (8.00% at June 30, 2008 and 9.25% at December 31, 2007) net of unamortized discount of \$279 at June 30, 2008 and \$371 at December 31, 2007.	3,021	3,379
Note Payable to Laurus Master Fund, Ltd. maturing on December 30, 2011, with an interest rate of 10.5%, net of unamortized discount of \$93 at June 30, 2008 and \$139 at December 31, 2007. ....	741	861
Note Payable to a private investor, maturing on January 15, 2008, with an interest rate of 10.25%.....	—	35
Senior Fixed Rate Secured Bond payable to a private investor, maturing on October 31, 2011, with an interest rate of 10%, net of unamortized discount of \$988 at June 30, 2008 and \$1,052 at December 31, 2007.....	3,915	3,599
Bonds payable to the former stockholders of Photonic Products Ltd., maturing on October 31, 2009, with an interest rate of LIBOR plus 1% (3.68% at June 30, 2008 and 5.75% at December 31, 2007).....	2,400	2,400
Sub-total debt.....	14,641	13,172
Less – revolving debt.....	(4,520)	—
Less – current portion of long-term debt.....	(1,543)	(1,308)
Total long-term debt.....	<u>\$ 8,578</u>	<u>\$ 11,864</u>

#### **Laurus Master Fund, Ltd.**

##### Line of Credit Agreement:

On June 28, 2006 the Company entered into a Security and Purchase Agreement with Laurus Master Fund, Ltd. (“Laurus”). Under the Security and Purchase Agreement, a three-year revolving line of credit was established. The Security and Purchase Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of \$4 million and grants a security interest in and lien upon all of the Company’s assets in favor of Laurus. The Company may borrow a total amount at any given time up to \$4,000,000, limited to qualifying receivables and inventories (as defined).

The Company began making monthly payments to Laurus of accrued interest only on August 1, 2006. The outstanding principal under the note accrues interest at an annual rate of 1% above the prime rate. The interest rate was 6.00% as of June 30, 2008. The Company may elect to prepay the note at any time, in whole or in part, without penalty or premium. All unpaid principal plus accrued but unpaid interest is due and payable on June 28, 2009.

On March 31, 2008, Laurus granted the Company the ability to borrow up to \$500,000 over the limit defined by qualified receivables and inventory for one year, expiring March 31, 2009. In consideration, the Company issued and sold to Laurus 100,000 shares of its common stock at a per share purchase price of \$.01, for an aggregate purchase price of \$1,000, and extended the term of all outstanding warrants issued to Laurus for an additional 5 years. The Company recorded debt acquisition costs relating to the line of credit for cash fees paid of approximately \$21,000 and an additional amount as debt acquisition costs of approximately \$528,000 representing the fair market value of the stock issued and the warrant modification. The debt acquisition charges are being amortized over the one year life of the overadvance agreement. The Company used the Black-Scholes model to calculate the impact of the warrant modification. There were a total of 1,820,000 warrants affected. The factors used were as follows: (i) warrant exercise prices ranged from \$0.80 to \$3.12, (ii) the years ranged from 2.5 to 9 years, (iii) volatility rates ranged from 73.79% to 98.55%, (iv) the risk free interest rates ranged from 1.62% to 3.45% and (v) no dividends were assumed. The value of the warrant modifications was calculated at approximately \$477,000.

There was \$3,310,000 outstanding under the line of credit as of June 30, 2008, which has been classified as short term debt under revolving lines of credit and \$2,838,000 outstanding as of December 31, 2007, which was classified as long-term debt.

### Financing for Offer to Purchase:

On June 27, 2008, StockerYale Waterloo Acquisition Inc., a wholly-owned subsidiary of the Company filed an Offer to Purchase and Circular with Canadian securities regulatory authorities, relating to an offer to purchase all of the outstanding common shares of Virtek upon the terms and subject to the conditions set forth in the Offer to Purchase and Circular.

In connection with the offer, StockerYale arranged for financing of up to \$27 million from Valens Offshore SPV II, Corp., an affiliate of Laurus, and its affiliates ("Valens") in order to fund the acquisition of all of the outstanding common shares of Virtek. However, the financing is subject to customary conditions to closing. In addition, Valens' offer and commitment to provide the loans under the financing will expire on August 31, 2008 unless StockerYale elects to extend the commitment. StockerYale is not obligated to complete the financing with Valens, as StockerYale has the option to arrange financing from a different lender.

In addition to the terms and conditions described in Note 12, "Unregistered Sales of Equity Securities," the Company's variable rate line of credit and term loans with Laurus will convert from the rates stated in the above table to a fixed rate of 1% above prime at the time of exercise.

### **Barclay's Bank, PLC**

On February 6, 2008, the Company's Photonic Products subsidiary entered into a Confidential Invoice Discounting Agreement with Barclay's Bank Sales Financing ("Barclay's"). Under the Discounting Agreement, a three-year revolving line of credit was established. The Discounting Agreement provides for a revolving line of credit not to exceed an aggregate principal amount of £700,000 (\$1,400,000) and grants a security interest in and lien upon all of Photonic Products' trade receivables in favor of Barclay's. The Company may borrow a total amount at any given time up to \$1,400,000, limited to qualifying receivables as defined. The proceeds from this line of credit were used to pay in full the outstanding amount under the overdraft facility between Photonic Products and Barclay's Bank, PLC.

The facility requires the maintenance of certain financial covenants including annual sales and minimum tangible net worth. Barclay's also reserves the right to review the facility in the event of losses in any 3-month rolling period. The Company began making monthly payments to Barclay's of accrued interest only on February 29, 2008. The outstanding principal under the note accrues interest at an annual rate of 1% above Barclay's base rate. The interest rate was 6.00% as of June 30, 2008. The Company may elect to prepay the note at any time, in whole or in part, without penalty or premium upon 3 months notice. All unpaid principal plus accrued but unpaid interest is due and payable on February 5, 2011.

At June 30, 2008, \$1,209,492 was outstanding under the facility, all of which was classified as short term debt under revolving lines of credit.

### **Private Investor Notes and Bond**

On August 16, 2007, the Eureka Interactive Fund Ltd. (Eureka) agreed to transfer the promissory notes and bonds listed below, as well as all of the unexercised warrants previously issued to Eureka, to a private investor.

### Photonic Products Ltd., Financing

On October 31, 2006, StockerYale (UK) Ltd. issued a 10% Senior Fixed Rate Secured Bond to The Eureka Interactive Fund Ltd. in the original principal amount of US\$4,750,000 secured by all of the equity interests of Photonic Products Ltd. owned by the Company and StockerYale (UK) Ltd. The bond is due on October 31, 2011. StockerYale (UK) Ltd. agreed to make payments of principal and interest over the term. The outstanding principal on the bond accrues interest at an annual rate of 10%. During the first twelve months of the term of the bond, only accrued interest was required to be paid. Principal payments began November 7, 2007 and an amount equal to 50% of the original principal sum of US\$4,750,000 was being paid on October 31, 2011. StockerYale (UK) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company used the net proceeds to make the cash payment for the acquisition of Photonic Products Ltd. The remaining proceeds will be used for transaction fees and working capital.

In connection with the issuance of the bond on October 31, 2006, the Company issued a Common Stock Purchase Warrant to Eureka to purchase 2,375,000 shares of its common stock for a purchase price of \$1.15 per share. The warrant expires on the tenth anniversary of the date of issuance. The aggregate purchase price of the bond and warrants of \$4,750,000 was allocated between the bond and the common stock warrants based upon their relative fair market value. The purchase price allocated to the bond was \$3,255,349 and the purchase price allocated to the common stock warrants was \$1,494,651. The difference between the aggregate face amount of the bond of \$4,750,000 and the aggregate purchase price of the bond was recorded as a debt discount of \$1,494,651 and will be amortized over the life of the bond. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.61%; an expected life of ten years; and an expected volatility of 102% with no dividend yield.

## Amendment to the Senior Fixed Rate Secured Bond

On May 30, 2008 the private investor agreed to increase the principal amount of the bond to \$4,903,646 and to advance an additional \$500,000 to the Company under the bond. In connection with the amendment the Company issued a Common Stock Purchase Warrant to the private investor to purchase 269,663 shares of the Company's common stock at a purchase price of \$0.60 per share under substantially the same terms as the original warrant. The Company used the Black-Scholes Model to calculate the fair value of the warrants. The underlying assumptions included in the Black-Scholes Model were: a risk-free interest rate of 4.08%; an expected life of ten years; and an expected volatility of 98% with no dividend yield. At the same time, the Company revalued the original warrant under the new assumptions. The total value of the warrants was recorded as a debt discount of \$119,373 and will be amortized over the life of the bond.

At June 30, 2008, \$4,903,646 remained outstanding under the bond, which has been classified as \$801,760 short-term debt and \$4,101,291 long-term debt and reported, net of \$988,073 of unamortized debt discount, which has been reported as \$365,961 short-term debt and \$622,112 long-term debt.

At December 31, 2007, \$4,651,041 was outstanding under the bond, which was classified as \$593,750 short-term debt and \$4,057,291 long-term debt and reported, net of \$1,051,725 of unamortized debt discount, which was reported as \$345,984 as short-term and \$705,741 as long-term.

## (12) UNREGISTERED SALES OF EQUITY SECURITIES

On May 30, 2008, in connection with the private investor agreeing to increase the principal amount of the bond to \$4,903,646 and advancing \$500,000 to the Company under the amended bond, the Company issued a Common Stock Purchase Warrant to the private investor to purchase 269,663 shares of the Company's common stock at a purchase price of \$0.60 per share. The warrant expires on the tenth anniversary of the date of issuance.

On June 27, 2008, the Company's wholly-owned subsidiary, StockerYale Waterloo Acquisition Inc., filed an Offer to Purchase and Circular with Canadian securities regulatory authorities, relating to an offer to purchase all of the outstanding common shares of Virtek upon the terms and subject to the conditions set forth in the Offer to Purchase and Circular.

In connection with the offer, StockerYale arranged for financing of up to \$22.0 million from Valens in order to fund the acquisition of all of the outstanding common shares of Virtek. On June 30, 2008, in connection with the commitment of Valens to provide the financing, StockerYale issued an aggregate of 1,628,664 shares of common stock of StockerYale to Valens. In addition, the terms of the provision by Valens of the loans under the financing call for (i) the issuance of a warrant with a nominal exercise price to Valens to purchase shares of common stock of StockerYale in an aggregate amount equal to 12% of the amount of the loans provided to StockerYale under the financing, based on a share price of \$0.5219 and (ii) the repricing of all warrants previously issued to Valens to an exercise price of \$0.5219. Furthermore, should StockerYale borrow more than \$18.5 million from Valens under the financing, StockerYale will issue an additional warrant with a nominal exercise price to Valens to purchase shares of common stock of StockerYale in an aggregate amount equal to 3% of the amount of the loans provided to StockerYale based on a share price of \$0.5219. Should StockerYale Waterloo Acquisition Inc. not complete the acquisition of at least 66<sup>2</sup>/<sub>3</sub>% of the common shares of Virtek, and, therefore, not borrow funds from Valens, StockerYale will not issue any warrants to Valens, nor will it reprice the warrants previously issued to Valens. In the event StockerYale Waterloo Acquisition Inc. does complete the acquisition of at least 66<sup>2</sup>/<sub>3</sub>% of the common shares of Virtek, but less than \$22.0 million is borrowed from Valens, the number of warrants that may become issuable to Valens in connection with the financing will be reduced based on the amount funded by Valens.

The Company has recorded a deferred expense on the balance sheet of \$960,912 as the fair value of the 1,628,664 shares of common stock issued to Valens on June 30, 2008. The amount shall be deferred until the commitment expires, at which time it will be expensed or, if the commitment is exercised, the deferred expense will be amortized over the life of the loan.

## (13) STOCK AND WARRANT PURCHASE AGREEMENT

On January 26, 2007, the Company entered into a Securities Purchase Agreement with Smithfield Fiduciary LLC, a fund that is managed by Highbridge Capital Management, LLC. Under the terms of the agreement, the Company sold and issued to Smithfield Fiduciary LLC for an aggregate purchase price of \$2,300,000, (i) 2,000,000 shares of common stock of the Company at a per share purchase price of \$1.15 (a discount to the 30 day trading average) and (ii) a warrant to purchase 1,000,000 shares of common stock of the Company at an exercise price of \$1.72 per share. The warrant expires on the tenth anniversary of the date of issuance.

The Company and Smithfield Fiduciary LLC also entered into a Registration Rights Agreement under which the Company agreed, at its sole expense, to file a registration statement within seven business days to register for resale under the Securities Act of 1933, as amended, the shares issuable upon exercise of the warrant and the shares of common stock issued and sold to Smithfield Fiduciary LLC under the Securities Purchase Agreement. The Company filed a registration statement that was declared effective on February 14, 2007.



## (14) DISCONTINUED OPERATIONS

During 2005, the Company's management and the Board of Directors made a decision to discontinue its Singapore operation as well as its fiber optic illumination and galvanometer businesses.

During 2006, the Company completed the divestitures of these three businesses in exchange for aggregate consideration of up to \$525,000 in cash and notes receivable and a 5% royalty on future sales of a specific product royalty up to a maximum of \$35,000.

The Company recorded \$7,000 in income and \$5,000 of costs which was reported as \$2,000 net income from discontinued operations for the second quarter of 2008 and \$28,000 in income and \$5,000 of costs from discontinued operations for the six months ended June 30, 2008, which was reported as \$23,000 net income from discontinued operations. For the second quarter of 2007, \$14,000 was included in income from discontinued operations and \$35,000 for the six months ended June 30, 2007. The amounts are additional cash consideration received under certain notes receivable. As of June 30, 2008, the Company is due up to an additional \$62,000 under the notes.

## (15) COMMITMENTS AND CONTINGENCIES

### **Lease obligation treated as financing**

On December 30, 2005, the Company closed a sale-leaseback transaction on the Company's Salem, New Hampshire headquarters with 55 Heritage LLC. The terms of the Real Estate Purchase Agreement dated November 29, 2005, as amended on December 22, 2005, between the Company and the buyer were that (i) the Company agreed to sell the property to the buyer for \$4,700,000, and (ii) the Company agreed to lease from the new owner (a) approximately 32,000 square feet of the property for an initial term of five years with a rental rate during the term of \$192,000 per year in base rent and (b) approximately 63,000 square feet of the property for an initial term of five years with rental rates ranging from approximately \$220,500 to \$315,000 per year in base rent, plus a pro rata share of all operating costs of the property. The Company plans to sublease all or part of the 63,000 square foot block of space. The lease agreement grants the Company the option to extend the initial term for a period of five years. Because the transaction did not qualify as a sale for Generally Accepted Accounting Principles (GAAP) reporting purposes under SFAS No. 66, *Accounting for Sales of Real Estate* and SFAS No. 98, *Accounting for Leases* ("SFAS 98"), the net proceeds were classified as a financing obligation. The Company continues to carry the value of the building on its balance sheet and record depreciation expense until the criteria to record a sale are met and accounts for the financing lease in accordance with the provisions of SFAS 98.

During the quarter ended June 30, 2008, the Company recorded \$71,000 as non-cash interest expense and \$8,000 as an increase of the lease obligation due to a reduction in the deposit amount left with the landlord of \$47,500 during the first quarter of 2008. For the six months ended June 30, 2008, the Company recorded \$143,000 as non-cash interest expense and \$16,000 as an increase of the lease obligation. At June 30, 2008, \$3,656,000 was recorded on the balance sheet as a financing lease obligation, of which \$444,000 was classified as short-term obligation and \$3,212,000 was classified as long-term obligation.

At December 31, 2007, \$3,640,000 was recorded on the balance sheet as a financing lease obligation, of which \$444,000 was classified as short-term obligation and \$3,196,000 was classified as long-term obligation.

### **Other obligations**

On June 12, 2008, StockerYale (IRL) Ltd. entered into a commitment to a new lease of approximately 10,000 square feet for its operations in Cork. The lease term is expected to begin on August 22, 2008 for a term of five years with rent and service charges of €8,500 per month.

StockerYale Canada Inc. conducts research and development, manufacturing, sales and administration from a property located at 275 Kesmark Street, Montreal, Quebec, Canada. StockerYale Canada leases 59,433 square feet of the Montreal property from the owner for an initial term of ten years. StockerYale Canada paid a security deposit in the amount of Cdn \$502,915. The rent during the ten-year term ranges from approximately Cdn \$416,000 to Cdn \$470,000 per year plus all operating costs. StockerYale Canada has an option to extend the initial term of the lease for an additional term of five years.

On May 1, 2006, StockerYale Canada signed a sub-lease agreement with PyroPhotonics Lasers, Inc. for approximately 3,000 square feet of its Montreal facility at a rate of Cdn \$12.58 per square foot, or for Cdn \$3,146 per month. On January 23, 2007 the Company revised and signed a sub-lease agreement with PyroPhotonics Lasers, Inc. for approximately 9,000 square feet of its Montreal facility at a rate of Cdn \$11.89 per square foot, or for Cdn \$8,916.67 per month. The commencement date of the revised lease is February 1, 2007, and the term is eight years and nine months.

## (16) LITIGATION

The Company is party to various legal proceedings generally incidental to its business. Although the disposition of any legal proceedings cannot be determined with certainty, it is the Company's opinion that any currently pending or threatened litigation will not have a material adverse effect on the Company's results of operations, cash flow or financial condition.

## (17) SEGMENT INFORMATION

SFAS No. 131 ("SFAS 131"), *Disclosures about Segments of an Enterprise and Related Information*, requires financial and supplementary information to be disclosed on an annual and interim basis of each reportable segment of an enterprise. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-maker is the Chief Executive Officer. The Company's accounting policies and method of presentation for segments is consistent with that used throughout the consolidated financial statements.

The Company operates in three segments: illumination, optical components and Photonic Products. In the illumination segment the Company acts as an independent designer and manufacturer of advanced illumination products, consisting of lasers, light emitting diodes and florescent lighting products for the inspection, machine vision, medical and military markets. The Company is a developer and manufacturer of specialty optical fiber ("SOF") and diffractive optics such as phase masks used primarily in the telecommunications, defense, and medical markets by original equipment manufacturers. The Photonic Products segment distributes Laser diodes and designs and manufactures custom laser diodes modules for industrial, commercial and medical applications. The policies relating to segments are the same as the Company's corporate policies.

The Company evaluates performance and allocates resources based on revenues and operating income (loss). The operating loss for each segment includes selling, research and development and expenses directly attributable to the segment. In addition, the operating loss includes amortization of acquired intangible assets, including any impairment of these assets and of goodwill. Certain of the Company's indirect overhead costs, which include corporate general and administrative expenses, are allocated between the segments based upon an estimate of costs associated with each segment. Segment assets include accounts receivable, inventory, machinery and equipment, goodwill and intangible assets directly associated with the product line segment.

All revenues and costs associated with our discontinued businesses have been eliminated from segment reporting, so that the net effect is to report results from continuing operations only.

	Three Months Ended June 30, 2008				Three Months Ended June 30, 2007			
	In thousands				In thousands			
	Illumination	Optical Components	Photonic Products	Total	Illumination	Optical Components	Photonic Products	Total
Net sales.....	\$ 5,026	\$ 807	\$ 2,714	\$ 8,547	\$ 4,167	\$ 715	\$ 2,068	\$ 6,950
Gross profit.....	2,030	197	677	2,904	1,336	244	712	2,292
Operating loss.....	(1,094)	(289)	(188)	(1,571)	(995)	(196)	(107)	(1,297)
	Six months Ended June 30, 2008				Six months Ended June 30, 2007			
	In thousands				In thousands			
	Illumination	Optical Components	Photonic Products	Total	Illumination	Optical Components	Photonic Products	Total
Net sales.....	\$ 9,141	\$ 1,721	\$ 5,747	\$ 16,609	\$ 8,320	\$ 1,520	\$ 4,586	\$ 14,426
Gross profit.....	3,415	484	1,464	5,363	2,970	547	1,347	4,864
Operating loss.....	(2,040)	(582)	(476)	(3,098)	(1,519)	(354)	(424)	(2,297)

	June 30, 2008 In thousands					December 31, 2007 In thousands				
	Illumination	Optical Components	Photonic Products	Corporate	Total	Illumination	Optical Components	Photonic Products	Corporate	Total
Total current assets.....	\$ 6,177	\$ 617	\$ 2,731	\$ 831	\$10,356	\$ 5,357	\$ 683	\$ 3,110	\$ 1,625	\$ 10,775
Property, plant & equipment, net.....	\$ 2,567	\$ 2,343	\$ 776	\$ 3,764	\$ 9,450	\$ 2,984	\$ 2,668	\$ 845	\$ 3,967	\$ 10,464
Acquired intangible assets, net.....	\$ 85	202	\$ 2,856	—	\$ 3,143	\$ 206	247	\$ 3,324	—	\$ 3,777
Goodwill.....	\$ 2,677	8	\$ 5,378	—	\$ 8,063	\$ 2,677	8	\$ 5,384	—	\$ 8,069
Other long-term assets.....	\$ 339	—	—	\$ 1,767	\$ 2,106	\$ 362	—	—	\$ 591	\$ 953
Total.....	\$ 11,845	\$ 3,170	\$ 11,741	\$ 6,362	\$33,118	\$ 11,586	\$ 3,606	\$12,663	\$ 6,183	\$ 34,038

The Company's sales by geographic region are denominated in U.S. dollars. These sales are as follows:

Sales by region	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Domestic – United States.....	\$ 3,915	\$ 3,127	\$ 7,572	\$ 6,600
Canada.....	511	569	1,078	1,152
Europe.....	3,033	2,433	5,904	4,766
Asia.....	844	431	1,711	1,250
Other.....	244	390	344	658
Total.....	\$ 8,547	\$ 6,950	\$ 16,609	\$ 14,426

#### (18) SUBSEQUENT EVENT

##### Senior Fixed Rate Secured Bonds

On July 24, 2008, StockerYale (IRL) Ltd. issued a three-year 12% Senior Fixed Rate Secured Bond to a private investor in the original principal amount of €935,000 (\$1,472,905) secured by all of the assets of StockerYale (IRL) Ltd. The bond matures on July 30, 2011. StockerYale (IRL) Ltd. agreed to make payments of principal and interest of approximately €31,000 (\$48,890) over the term beginning August 30, 2008. The outstanding principal on the bonds accrue interest at an annual rate of 12%. StockerYale (IRL) Ltd. may prepay the bond at any time, in whole or in part, without penalty or premium. The Company will use the net proceeds for transaction fees relating to the offer to purchase the outstanding shares of Virtek and for working capital.

In connection with the issuance of the bond, the Company issued a Common Stock Purchase Warrant to the private investor to purchase 636,404 shares of its common stock for a purchase price of \$0.45 per share. The warrant expires on the tenth anniversary of the date of issuance.

##### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion of the consolidated financial condition and results of operations of the Company should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the following discussion, as well as other information in this report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the "safe harbor" created by those sections. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "could," "seek," "intends," "plans," "estimates," "anticipates" or other comparable terms. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. We urge you to consider the risks and uncertainties described in "Risk Factors" in this report and in our annual report on Form 10-KSB for the year ended December 31, 2007. We undertake no obligation to update our forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.*

## Overview

StockerYale, Inc. is an independent designer and manufacturer of structured light lasers, LED systems, fluorescent lighting products, and specialty optical fibers and phase masks for industry-leading original equipment manufacturers (OEMs), as well as a specialist distributor of visible, infrared and blue violet laser diodes. Our illumination products include the Lasiris and Photonic Products brands of laser diode modules, extremely bright light emitting diode (LED) illuminators and fluorescent lighting products for the machine vision, industrial inspection, defense, telecommunications, sensors, and medical markets. Our products are sold to over 1,500 customers, primarily in North America, Europe and the Pacific Rim. We sell directly to, and work with, a group of distributors and machine vision integrators to sell their specialized illumination products.

## RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and with our audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2007.

StockerYale continued to introduce new products in 2007 including a line of erbium-doped fibers in its specialty fiber segment, its Lasiris<sup>(TM)</sup> Hi-Pointing Stability Laser and its COBRA 2 LED Linescan illuminator. In addition, the Company's October 2007 acquisition of Spectrode LLC included fiber laser intellectual property that it expects to enhance strategic initiatives in both the specialty optical fiber and the laser business units and to allow us to pursue applications in the medical and defense industries. The Company also made key investments last year in medical product research and development to support its strategic move into medical and bio-medical markets. Sales to the medical vertical increased from less than 5% of StockerYale's total revenues in 2006 to approximately 12% of total revenue in 2007 to approximately 8% of total revenue in the quarter ending June 30, 2008. The Company expects its medical strategy to be a catalyst for greater revenues across all three product lines in 2008. Medical sales are targeted to grow to approximately 20% of 2008 revenues given existing customer relationships and multiple sales initiatives under way.

Management intends to employ a series of actions to improve the financial condition of the Company. These initiatives include revenue growth, cost reductions, raising capital, and pursuing appropriate business initiatives, which we expect to improve our profitability. The Company took certain actions in 2007 to reduce the overall cost structure of the Company and intends to continue to implement such actions throughout 2008. In addition, the Company intends to focus on increasing the pace with which operational improvements are able to improve its financial performance and the consistency of its results. The Company intends to identify additional opportunities to lower its costs and manage the business more efficiently.

The Company is considering different ways to raise additional capital including through the sale of its equity securities, through offerings of debt securities, or through borrowings from financial institutions.

On June 16, 2008, the Company announced its intention to acquire all issued and outstanding Common Shares of Virtek Vision International Inc. ("Virtek") of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc. representing a total purchase price of approximately Cdn \$27 million. The financing of the proposed acquisition is in place and available for payment to Virtek's shareholders. As of June 30, 2008 the Company has incurred \$307,000 of cash expenses in connection with the proposed transaction. However, there is no certainty that the transaction will close.

## CALENDAR QUARTERS ENDED JUNE 30, 2008 AND 2007

### Net Sales

Net sales were \$8.6 million for the three months ended June 30, 2008, a 23% increase over \$7.0 million for the second quarter of 2007. The increase in sales was due to a revenue increase for lasers, in both the Montreal and Photonic Products locations totaling \$1.5 million and an increase in LED products totaling \$0.2 million over the three months ended June 30, 2007.

### Gross Profit

Gross profit was \$2.9 million for the three months ended June 30, 2008. This represents an increase of 27% from \$2.3 million for the second quarter of 2007. During the three months ended June 30, 2008, gross margin was 34% compared with 33% in the second quarter of 2007, primarily related to the volume increase. Gross profit and margin were unfavorably impacted by one-time expenses of \$84,000 related to the closing of our machine shop in Montreal and by \$66,000 related to the change in foreign currency exchange rates.

### Operating Expenses

Operating expenses totaled \$4.5 million for the second quarter of 2008, increasing 25% over \$3.6 million in the second quarter of 2007. The increase in operating expenses over the second quarter of 2007 was primarily due to a 60% increase in general and administrative costs. These additional expenses include approximately \$307,000 third party costs related to the tender offer for Virtek. Non-cash share-based compensation expense increased \$182,000 compared to the second quarter of 2007. The Company was also negatively impacted \$125,000 due to foreign currency exchange rate fluctuations. Compared to the second quarter of 2007, sales and marketing expenses decreased approximately \$50,000 and research and development expenses were flat.

Operating loss was \$1.6 million compared with operating loss of \$1.3 million for the second quarter of 2007.

### Non-Operating Expenses

Other expenses, which are comprised primarily of non-cash debt discount and financing costs, decreased by 18% to \$778,000 for the three months ended June 30, 2008, versus \$948,000 in the three months ended June 30, 2007. The decrease relates to interest rate changes and debt refinancing.

### Net Income (Loss)

Net loss including discontinued operations was \$2.3 million or \$0.06 per share. This compares to a net loss of \$2.2 million or \$0.06 per share for the second quarter of 2007.

### Provision (Benefit) for Income Taxes

Our historical operating losses raise doubt about our ability to realize the benefits of our deferred tax assets. As a result, we provide a valuation allowance for the net deferred tax assets that may not be realized. We recorded a deferred tax benefit of approximately \$62,000 in the period ended June 30, 2008, related to one of our non-U.S. based subsidiaries.

## SIX MONTHS ENDED JUNE 30, 2008 AND 2007

### Net Sales

Net sales were \$16.6 million for the six months ended June 30, 2008, a 15% increase over \$14.4 million for the second quarter of 2007. The increase in sales was mainly due to Photonic Products' sales revenue increase of \$1.1 million over the six months ended June 30, 2008. Laser sales overall increased 17% and LED sales increased by 15%.

### Gross Profit

Gross profit was \$5.4 million for the six months ended June 30, 2008. This represents an increase of 10% from \$4.9 million for the first six months of 2007. During the six months ended June 30, 2008, gross margin was 32% compared with 34% in the comparable period of 2007, primarily related to product mix attributable to Photonic Products increased volume of lower margin product sales and a negative impact from foreign currency exchange rates of approximately \$300,000.

### Operating Expenses

Operating expenses totaled \$8.5 million for the six months ended June 30, 2008, increasing 18% over \$7.2 million in the same period of 2007. The increase in operating expenses was primarily due to the change in foreign currency exchange rates of approximately \$400,000, an increase in non-cash share-based compensation expense under SFAS 123(R) of \$358,000, and approximately \$307,000 related to third party costs associated with the Virtek acquisition. Sales and marketing expenses increased by approximately \$69,000, or 4%, partially due to the changes in the foreign currency exchange rates, but also due to the investment in sales personnel for our LED, Fiber and Laser divisions. Research and development expenses were flat at \$1.6 million compared to the same period of 2007. General and administrative expense increased 40%, or \$1.2 million due to non-cash share-based compensation expense, foreign currency exchange rates, approximately \$307,000 related to the tender offer for Virtek, and investments in personnel, compared to \$3.0 million during the six months ended June 30, 2007.

Operating loss was \$3.1 million compared with operating losses of \$2.3 million for the same period of 2007.

## Non-Operating Expenses

Other expenses, which are comprised primarily of non-cash debt discount and financing costs, decreased by 11% to \$1.5 million for the six months ended June 30, 2008, versus \$1.7 million during the six months ended June 30, 2007. The decrease relates to interest rate changes and debt refinancing.

## Net Income (Loss)

Net loss including discontinued operations was \$4.5 million or \$0.12 per share. This compares to net loss of \$3.8 million or \$0.11 per share for the first six months of 2007.

## Provision (Benefit) for Income Taxes

Our historical operating losses raise doubt about our ability to realize the benefits of our deferred tax assets. As a result, we provide a valuation allowance for the net deferred tax assets that may not be realized. We recorded a deferred tax benefit of approximately \$122,000 for the six months ended June 30, 2008, related to one of our non-U.S. based subsidiaries.

## LIQUIDITY AND CAPITAL RESOURCES

Our cash balance declined by \$730,000 to \$847,000 at June 30, 2008 from \$1.6 million at December 31, 2007. During the six month period, we had new borrowings totaling approximately \$2.2 million comprised of approximately \$1.2 million from the February 26, 2008 Confidential Invoice Discounting Agreement between Barclay's Bank Sales Financing and Photonic Products, a \$0.5 million amendment to the Photonic Products financing by a private investor on May 30, 2008 and the March 31, 2008 \$0.5 million overadvance agreement with Laurus Master Fund, Ltd. Operations used \$1.7 million in cash and principle and interest payments totaled \$1.6 million.

As of June 30, 2008, our net accounts receivable balance was \$4.5 million compared to \$4.5 million at year end. Our day's sales outstanding at June 30, 2008, decreased from 54 days at December 31, 2007, to 49 days at June 30, 2008.

Inventory increased approximately \$0.2 million to \$4.4 million from \$4.2 million at December 31, 2007, primarily in raw materials.

Capital spending for the quarter ending June 30, 2008 was \$79,000. The Company has no material contingent capital expenditure commitments as of June 30, 2008 but has plans to purchase approximately \$350,000 of capital items between July 1, 2008 and December 31, 2008, of which we expect approximately \$186,000 to be financed through capital leases.

On June 16, 2008, the Company announced its intention to acquire all issued and outstanding Common Shares of Virtek Vision International Inc. ("Virtek") of Waterloo, Ontario, Canada, through its newly formed acquisition subsidiary, StockerYale Waterloo Acquisition Inc., representing a total purchase price of approximately Cdn \$27 million. The financing of the proposed acquisition is in place and available for payment to Virtek's shareholders. As of June 30, 2008 the Company has incurred \$307,000 of cash expenses in connection with the proposed transaction. However, there is no certainty that the transaction will close.

Subsequent to the quarter ended June 30, 2008, the Company entered into a three year Senior Fixed Rate Secured Bond with a private investor in amount of €935,000 (\$1,472,905), which bears interest at the rate of 12%. Management estimates that it has sufficient capital for operations through September 30, 2008 and possibly beyond. Management is continuing its efforts to raise additional capital so that the Company can meet its obligations and sustain operations through the sale of its equity securities, through offerings of debt securities, or through borrowings from financial institutions. The pursuit of these financings will be opportunistic and the Company cannot be sure of the timing or terms of any borrowing arrangements or equity offerings, or that it will be able to consummate one or more of these options.

## OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements, including derivative instruments that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Foreign Currency Exchange Rate Risk**

The Company has operations in various countries and currencies throughout the world and its operating and financial position are subject to exposure from significant fluctuations in foreign currency exchange rates. At various times, we have entered into forward foreign currency exchange rate contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. This program is not designed for trading or speculative purposes. We do not enter into financial instruments for trading purposes. In accordance with SFAS No. 133, we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. These forward contracts are not accounted for as hedges and, therefore, changes in the fair value of these instruments are recorded as interest income and other income or expense, net. There were no open forward contracts as of June 30, 2008, or at December 31, 2007.

On December 6, 2006, the Company entered into a forward foreign currency exchange rate contract with Anglo-Irish bank to convert \$500,000 U.S. dollars per month into Canadian dollars at a strike rate with a bottom end range of \$1.09 Canadian dollar to the U.S. dollar, and 100% upside flexibility to market rates in excess of the \$1.09 strike rate. This arrangement began on March 1, 2007 and continued until December 31, 2007. The Company paid a premium of \$61,500 U.S. to the bank on this date.

The notional principal of the Company's forward contracts to purchase Canadian dollars with foreign currencies was \$0 at December 31, 2007. The fair value of the Company's open forward contracts was \$0 at December 31, 2007.

The net gain recorded on forward contracts in the accompanying condensed consolidated statement of operations during the year ended December 31, 2007 was \$24,768. There was no gain or loss recorded in the quarters ended June 30, 2008 and 2007.

Management has determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of the subsidiaries. Primary currencies include Canadian dollars, Euros and British pounds. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars using the foreign currency exchange rate prevailing at the balance sheet date, while income and expense accounts are translated at average exchange rates during the year. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency-denominated transactions results in increased revenues and operating expenses for our international operations. Similarly, our revenue and operating expenses will decrease for our international operations when the U.S. dollar strengthens against foreign currencies. The Company's operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries, as a result of our transactions in these foreign markets. We estimate operating income for the six months ended June 30, 2008 was negatively impacted due to the change in foreign currency versus the six months ended June 30, 2007 by approximately \$0.6 million predominately due to the U.S. dollar weakening against the Canadian dollar, as we invoice primarily in U.S. dollars, while the expenses are mostly in local currency.

#### **Interest Rate Risk**

We are exposed to market risk from changes in interest rates, which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities. We are exposed to interest rate risk primarily through our borrowings under the Laurus Master Fund, Ltd. line of credit of \$3,310,000 million with an interest rate of prime plus 1%, the Laurus Master Fund, Ltd. term note of \$3,021,000 with an interest rate prime plus 2%, the Laurus Master Fund, Ltd. term note of \$741,000 with an interest rate of 10.5% and our private investor term note of \$4,904,000 at an interest rate of 10% all net of debt discount costs. As of June 30, 2008, the fair market value of our outstanding debt approximates our carrying value due to the short-term maturities and variable interest rates. Our interest rate risk at June 30, 2008 was limited mainly to fluctuations in the prime rate on our outstanding term loans and on our line of credit with Laurus Master Fund, Ltd.

### **Item 4. Controls and Procedures.**

#### *Evaluation of disclosure controls and procedures.*

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2008. Based on that evaluation, as a result of the material weakness in our internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective, as of June 30, 2008, in ensuring that the information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis, and that this information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

## **Internal Control Over Financial Reporting**

During the preparation of the financial statements of the Company for the quarter ended March 31, 2008, alternative substantive tests and analysis indicated that a material weakness in internal controls exists at one subsidiary, which could result in revenue to be recorded in the wrong period. The weakness relates to the possibility that goods could be invoiced in one period but shipped in another period with a lack of compensating or direct controls to ensure proper accounting and reporting. Nevertheless, based on a number of factors, including the performance of additional procedures performed by management designed to ensure the reliability of our financial reporting, our Chief Executive Officer and Chief Financial Officer believe that the consolidated financial statements included with this quarterly report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

## **Management's Plan for Remediation**

As of the date of this filing, the Company has initiated, among other actions, substantive controls at its operations to ensure that adequate controls are in place and functioning as designed. In addition, management is reviewing its systems to automate the control processes and procedures relating to shipments.

## **Changes in Internal Control Over Financial Reporting**

Except as described above, there was no change in our internal control over financial reporting during the quarter ended June 30, 2008, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on our business, results of operation or financial condition.

### **Item 1A. Risk Factors.**

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risk factor discussed below and the risk factors previously disclosed in the "Risk Factors" section of our annual report on Form 10-KSB for the fiscal year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described below and in our annual report on Form 10-KSB for the fiscal year ended December 31, 2007 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Other than with respect to the risk factor below, there have been no material changes from the risk factors disclosed in our annual report on Form 10-KSB for the fiscal year ended December 31, 2007. The risk factor below was disclosed on our annual report on Form 10-KSB and is being updated as set forth below.

### **Our common stock price may be negatively impacted if it is delisted from the Nasdaq Capital Market.**

On December 28, 2007, the Company received a notice from The Nasdaq Stock Market indicating that it was not in compliance with Nasdaq Marketplace Rule 4450(a)(5) (the "Minimum Bid Price Rule") because, for 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum \$1.00 per share. In accordance with Nasdaq Marketplace Rule 4450(e)(2), the Company was provided 180 calendar days, or until June 25, 2008, to regain compliance with the Minimum Bid Price Rule.

The Company did not regain compliance with the Minimum Bid Price Rule by June 25, 2008 and, accordingly, on June 26, 2008, the Company received written notification (the "Staff Determination") from The Nasdaq Stock Market stating that the Company's common stock would be subject to delisting as a result of the deficiency unless the Company requests a hearing before a Nasdaq Listing Qualifications Panel (the "Panel"). The Staff Determination has no effect on the listing of the Company's common stock at this time.

On July 3, 2008, the Company requested a hearing before the Panel to address the minimum bid price deficiency, which stayed any action with respect to the Staff Determination until the Panel renders a decision subsequent to the hearing. At the hearing, which has been set for August 14, 2008, the Company intends to present a plan to regain compliance with the minimum bid price requirement. In addition, at the Company's 2008 Special Meeting in Lieu of Annual Meeting of Shareholders, the Company's shareholders approved a proposal to authorize the Board of Directors of the Company, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its shareholders, to amend the Company's Articles of Organization to effect a reverse stock split of the Company's issued and outstanding common stock by a ratio of between 1-for-2 and 1-for-8, inclusive, without further approval or authorization of the Company's shareholders, which means the Company may effect a reverse stock split without delay or uncertainty. There can be no assurance that the Panel will grant the Company's request for continued listing or that the Company will regain compliance with the minimum bid price requirement and our common stock may ultimately be delisted from the Nasdaq Capital Market.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On May 30, 2008, StockerYale (UK) Limited, a wholly owned subsidiary of the Company, entered into Amendment to Instrument Constituting \$US4,750,000 10% Senior Fixed Rate Secured Bond (the "Amendment") with Mark Hawtin ("Hawtin"). Under the Amendment, Hawtin agreed to increase the original principal amount of the bond from \$4,750,000 to \$4,903,646. In connection with the Amendment, on May 30, 2008, the Company issued a Common Stock Purchase Warrant to Hawtin to purchase 269,663 shares of common stock of the Company at a purchase price of \$0.60 per share. The warrant expires on the tenth anniversary of the date of issuance.

On July 24, 2008, StockerYale (IRL) Ltd., a wholly owned subsidiary of the Company, issued a 12% Senior Fixed Rate Secured Bond (the "July Bond") to Mark Hawtin, in the original principal amount of €935,000. In connection with the July Bond, on July 24, 2008, the Company issued a Common Stock Purchase Warrant to Hawtin to purchase 636,404 shares of common stock of the Company at a purchase price of \$0.45 per share. The warrant expires on the tenth anniversary of the date of issuance.

The issuance of the securities described above in this Item 2 was effected without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder, as a sale by the Company not involving a public offering. No underwriters were involved with the issuance and sale of such securities.

## Item 4. Submission of Matters to a Vote of Security Holders.

At our Special Meeting in lieu of the 2008 Annual Meeting of Shareholders (the "Annual Meeting") held on May 23, 2008, the following proposals were voted upon by our shareholders:

1. To fix the number of directors comprising the Board of Directors of the Company at seven;
2. To elect seven directors to serve until the next Annual Meeting of Shareholders and until their successors are duly elected and qualified;
3. To approve the reincorporation of the Company from Massachusetts to Delaware;
4. To amend the Company's 2000 Employee Stock Purchase Plan;
5. To authorize the Board of Directors, in its discretion, to effect a 1-for-2 to 1-for-8, inclusive, reverse stock split without further approval or authorization of the Company's shareholders; and
6. To ratify the appointment of Vitale, Caturano & Company, Ltd. as the Company's independent registered public accounting firm for the current fiscal year.

The number of shares of Common Stock issued, outstanding and eligible to vote as of the record date of March 26, 2008 was 38,855,407. The results of the voting on each of the matters presented to shareholders at the Annual Meeting are set forth below.

	<u>VOTES FOR</u>	<u>VOTES WITHHELD</u>	<u>VOTES AGAINST</u>	<u>ABSTENTIONS</u>	<u>BROKER NON- VOTES</u>
1. Fix the number of directors at seven .....	33,195,721	NA	441,313	27,896	0
2. Election of seven directors:					
Mark W. Blodgett .....	32,842,478	822,452	NA	NA	NA
Robert J. Drummond.....	32,938,668	726,262	NA	NA	NA
Dietmar Klenner .....	32,943,548	721,382	NA	NA	NA
Ben Levitan .....	32,944,448	720,482	NA	NA	NA
Raymond J. Oglethorpe.....	32,942,116	722,814	NA	NA	NA
Parviz Tayebati.....	32,944,328	720,602	NA	NA	NA
Patrick J. Zilvitis.....	32,931,556	733,374	NA	NA	NA
3. Reincorporation of the Company from Massachusetts to Delaware .....	23,848,626	NA	679,860	30,954	9,105,490
4. Amend the Company's 2000 Employee Stock Purchase Plan .....	23,824,140	NA	624,418	110,882	9,105,490
5. Authorize the Board of Directors, to effect a reverse stock split.....	23,018,236	NA	1,508,056	33,148	9,105,490
6. Ratification of Vitale, Caturano & Company, Ltd. ..	33,177,848	NA	358,091	128,991	0

All of the proposals were approved at the Annual Meeting, except for the proposal to reincorporate the Company's state of incorporation from the Commonwealth of Massachusetts to the State of Delaware.

**Item 5. Other Information.**

During the quarter ended June 30, 2008, we made no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

**Item 6. Exhibits.**

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with, or incorporated by reference in, this report.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**STOCKERYALE, INC.**

Date: August 14, 2008

By: /s/ MARK W. BLODGETT

\_\_\_\_\_  
Mark W. Blodgett  
President, Chief Executive Officer and Chairman of the Board

Date: August 14, 2008

By: /s/ TIMOTHY P. LOSIK

\_\_\_\_\_  
Timothy P. Losik  
Chief Operating Officer and Chief Financial Officer

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
10.1	Amendment to Instrument Constituting US\$4,750,000 10% Senior Fixed Rate Secured Bond, dated as of May 30, 2008, by and between Mark Hawtin and StockerYale (UK) Limited.
10.2	Common Stock Purchase Warrant, dated as of May 30, 2008, issued by StockerYale, Inc. to Mark Hawtin.
10.3	Instrument Constituting Euro 935,000 12% Senior Fixed Rate Secured Bond, dated as of July 24, 2008, issued by StockerYale (IRL) Ltd. to Mark Hawtin.
10.4	Common Stock Purchase Warrant, dated as of July 24, 2008, issued by StockerYale, Inc. to Mark Hawtin.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**AMENDMENT TO  
INSTRUMENT CONSTITUTING US\$4,750,000 10% SENIOR FIXED RATE  
SECURED BOND**

THIS AMENDMENT TO INSTRUMENT CONSTITUTING US\$4,750,000 10% SENIOR FIXED RATE SECURED BOND (this "Amendment") is entered into as of May 30, 2008 by and between Mark Hawtin ("Hawtin"), as assignee of The Eureka Interactive Fund Limited ("Eureka"), and StockerYale (UK) Limited, a corporation organized under the laws of England and Wales (the "Company").

**BACKGROUND**

On October 31, 2006, the Company issued that certain Instrument Constituting US\$4,750,000 10% Senior Fixed Rate Secured Bond (as amended, restated, modified and/or supplemented from time to time, the "Bond") in the original principal amount of \$4,750,000 to Eureka, and in connection therewith, (i) the Company and StockerYale, Inc., a Massachusetts corporation ("StockerYale") granted Eureka a security interest in all of the shares of Photonic Products Limited held by the Company and StockerYale pursuant to that certain Charge Over Shares dated as of October 31, 2006 by and among the Company, StockerYale and Eureka (the "Charge Over Shares") and (ii) StockerYale issued a Common Stock Purchase Warrant dated as of October 31, 2006 (the "Warrant") to Eureka to purchase 2,375,000 shares of common stock of StockerYale for a purchase price of \$1.15 per share.

Eureka subsequently assigned all of its rights in and to the Bond, the Charge Over Shares and the Warrant to Hawtin together with the attendant liens, rights, claims, title, assignments and interests (including security interests), pertaining to or arising from the Bond, the Charge Over Shares, the Warrant and the other agreements, documents and instruments executed and/or delivered in connection therewith (collectively, the "Transaction Documents").

Hawtin has agreed to increase the principal amount of the Bond to \$4,903,646 and to advance an additional \$500,000 to the Company under the Bond. In connection therewith, the Company and Hawtin have agreed to amend the Bond on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Bond.

2. Amendments to the Bond. Subject to satisfaction of the conditions of effectiveness set forth in Section 4 below, the Bond is hereby amended as follows:

(a) By deleting all references to "US\$4,750,000" in the Bond in their entirety and substituting in lieu thereof "US\$4,903,646".

(b) By deleting Schedule A in its entirety and substituting in lieu thereof Schedule A attached hereto.

3. Amendment Warrant. Subject to satisfaction of the conditions of effectiveness set forth in Section 4 below, StockerYale shall issue to Hawtin a Common Stock Purchase Warrant to purchase 269,663 shares of the common stock of StockerYale for a purchase price of \$0.60 per share (the "Amendment Warrant"). The Amendment Warrant shall have substantially the same terms and conditions as the Warrant and shall be in substantially the same form as the Warrant.

4. Conditions of Effectiveness. This Amendment shall become effective upon satisfaction of the following conditions precedent: Hawtin and the Company shall have received (a) a copy of this Amendment duly executed by Hawtin and the Company, (b) an executed copy of the Certificate made by the Company in favor of Hawtin in the original principal amount of \$4,903,646 amended and restated as of the date hereof and effective as of October 31, 2006, and (c) an executed copy of the Amendment Warrant issued by StockerYale in favor of Hawtin.

5. Effect on the Bond and the Transaction Documents.

(a) Upon the effectiveness of this Amendment, each reference in the Bond to "Bond(s)," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Bond as amended hereby.

(b) Except as specifically amended herein, the Bond and each Transaction Document shall remain in full force and effect and are hereby ratified and confirmed. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Hawtin, nor constitute a waiver of any provision of the Bond or any Transaction Document.

6. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of England.

7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

8. Counterparts; Signatures. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile or electronic transmission shall be deemed to be an original signature hereto.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first written above.

**STOCKERYALE (UK) LIMITED**

By: /s/ Mark Blodgett

Name: Mark Blodgett

Title: Director

By: /s/ Mark Hawtin

Mark Hawtin

**THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ITS  
EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON  
TRANSFER SET FORTH IN SECTION 4 OF THIS WARRANT**

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Date of Issuance: May 30, 2008

Number of Shares: 269,663  
(subject to adjustment)

StockerYale, Inc.

Common Stock Purchase Warrant

(Void after May 30, 2018 (the "Expiration Date"))

StockerYale, Inc., a Massachusetts corporation (the "Company"), for value received, hereby certifies that Mark Hawtin, or his registered assigns (the "Registered Holder"), is entitled, subject to the terms and conditions set forth below, to purchase from the Company, at any time or from time to time on or after the date of issuance and on or before 5:00 p.m. (Boston time) on May 30, 2018, an aggregate of 269,663 nonassessable shares of Common Stock, \$0.001 par value per share, of the Company, at a purchase price of \$0.60 per share. The shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Shares" and the "Purchase Price," respectively.

1. Exercise.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit I duly executed by the Registered Holder or by the Registered Holder's duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise.

(b) The Registered Holder may, at its option, elect to pay some or all of the Purchase Price payable upon an exercise of this Warrant by cancelling a portion of this Warrant exercisable for such number of Warrant Shares as is determined by dividing (i) the total Purchase Price payable in respect of the number of Warrant Shares being purchased upon such exercise by (ii) the excess of the Fair Market Value per share of Common Stock (as defined below) as of the Exercise Date (as defined in subsection 1(c) below) over the Purchase Price per share. If the Registered Holder wishes to exercise this Warrant pursuant to this method of payment with respect to the maximum number of Warrant Shares purchasable pursuant to this method, then the number of Warrant Shares so purchasable shall be equal to the total number of Warrant Shares, minus the product obtained by multiplying (x) the total number of Warrant Shares by (y) a fraction, the numerator of which shall be the Purchase Price per share and the denominator of which shall be the Fair Market Value per share of Common Stock as of the Exercise Date. The Fair Market Value per share of Common Stock shall be determined as follows:

(i) If the Common Stock is listed on a national securities exchange, the Nasdaq Capital Market or another nationally recognized trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the average of the high and low reported sale prices per share of Common Stock thereon on the trading day immediately preceding the Exercise Date (provided that if no such price is reported on such day, the Fair Market Value per share of Common Stock shall be determined pursuant to clause (ii)).

(ii) If the Common Stock is not listed on a national securities exchange, the Nasdaq Capital Market or another nationally recognized trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the amount most recently determined by the Board of Directors to represent the fair market value per share of the Common Stock (including without limitation a determination for purposes of granting Common Stock options or issuing Common Stock under an employee benefit plan of the Company); and, upon request of the Registered Holder, the Board of Directors (or a representative thereof) shall promptly notify the Registered Holder of the Fair Market Value per share of Common Stock. Notwithstanding the foregoing, if the Board of Directors has not made such a determination within the three-month period prior to the Exercise Date, then (A) the Board of Directors shall make a determination of the Fair Market Value per share of the Common Stock within 15 days of a request by the Registered Holder that it do so, and (B) the exercise of this Warrant pursuant to this subsection 1(b) shall be delayed until such determination is made.

(c) Notwithstanding anything to the contrary herein, each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on such day which is 61 days subsequent to the date on which this Warrant shall have been surrendered to the Company as provided in subsection 1(a) above (such subsequent day the "Exercise Date"). On the Exercise Date

and not before, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in subsection 1(d) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates. Prior to the Exercise Date such person or persons shall continue to be deemed to be owners of this Warrant and not of any corresponding underlying Warrant Shares. Provided this Warrant is surrendered on or prior to the Expiration Date, this Warrant may be exercised in accordance with the terms and conditions herein notwithstanding the fact that the Exercise Date may be later than the Expiration Date. This Section 1(c) shall survive the termination or voiding of this Warrant and continue in full force and effect.

(d) As soon as practicable after the exercise of this Warrant in full or in part on the Exercise Date, and in any event within 3 business days thereafter, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of full Warrant Shares to which the Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which the Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 3 hereof; and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the sum of (a) the number of such shares purchased by the Registered Holder upon such exercise and paid for in cash pursuant to subsection 1(a) (if any) plus (b) the number of Warrant Shares (if any) covered by the portion of this Warrant cancelled in payment of the Purchase Price payable upon such exercise pursuant to subsection 1(b) above.

## 2. Adjustments.

(a) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the date on which this Warrant was first issued (the "Original Issue Date") effect a subdivision of the outstanding Common Stock, the Purchase Price then in effect immediately before that subdivision shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Purchase Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(b) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Purchase Price then in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Purchase Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Purchase Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Purchase Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions.

(c) Adjustment in Number of Warrant Shares. When any adjustment is required to be made in the Purchase Price pursuant to subsections 2(a) or 2(b), the number of Warrant Shares purchasable upon the exercise of this Warrant shall be changed to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(d) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property (other than cash out of earnings or earned surplus, determined in accordance with generally accepted accounting principles), then and in each such event provision shall be made so that the Registered Holder shall receive upon exercise hereof, in addition to the number of shares of Common Stock issuable hereunder, the kind and amount of securities of the Company and/or cash and other property which the Registered Holder would have been entitled to receive had this Warrant been exercised into Common Stock on the date of



such event and had the Registered Holder thereafter, during the period from the date of such event to and including the Exercise Date, retained any such securities receivable, giving application to all adjustments called for during such period under this Section 2 with respect to the rights of the Registered Holder.

(e) Adjustment for Mergers or Reorganizations, etc. If there shall occur any reorganization, recapitalization, consolidation or merger involving the Company in which the Common Stock is converted into or exchanged for securities, cash or other property (other than a transaction covered by subsections 2(a), 2(b) or 2(d)), or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, following any such reorganization, recapitalization, consolidation or merger, the Registered Holder shall receive upon exercise hereof the kind and amount of securities, cash or other property which the Registered Holder would have been entitled to receive if, immediately prior to such reorganization, recapitalization, consolidation or merger, the Registered Holder had held the number of shares of Common Stock subject to this Warrant. In any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Registered Holder, to the end that the provisions set forth in this Section 2 (including provisions with respect to changes in and other adjustments of the Purchase Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities, cash or other property thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume, by written instrument executed and mailed or delivered to the Holder at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets (including cash) as, in accordance with the foregoing provisions, the Holder may be entitled to receive.

(f) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Purchase Price pursuant to this Section 2, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to the Registered Holder a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property for which this Warrant shall be exercisable and the Purchase Price) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of the Registered Holder, furnish or cause to be furnished to the Registered Holder a certificate setting forth (i) the Purchase Price then in effect and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the exercise of this Warrant.

3. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the Fair Market Value per share of Common Stock, as determined pursuant to subsection 1(b) above.

#### 4. Requirements for Transfer.

(a) This Warrant and the Warrant Shares shall not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (ii) the Company first shall have been furnished with an opinion of legal counsel, reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Act.

(b) Notwithstanding the foregoing, no registration or opinion of counsel shall be required for (i) a transfer by a Registered Holder which is a corporation to a wholly owned subsidiary of such corporation, a transfer by a Registered Holder which is a partnership to a partner of such partnership or a retired partner of such partnership or to the estate of any such partner or retired partner, or a transfer by a Registered Holder which is a limited liability company to a member of such limited liability company or a retired member or to the estate of any such member or retired member, provided that the transferee in each case agrees in writing to be subject to the terms of this Section 4, or (ii) a transfer made in accordance with Rule 144 under the Act.

(c) Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred, pledged or hypothecated unless and until such securities are registered under such Act or an opinion of counsel satisfactory to the Company is obtained to the effect that such registration is not required."

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(k) under the Act.

5. No Impairment. The Company will not, by amendment of its charter or through reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

6. Notices of Record Date, etc. In the event:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(b) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon the exercise of this Warrant) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up. Such notice shall be mailed at least ten days prior to the record date or effective date for the event specified in such notice.

7. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other securities, cash and/or property, as from time to time shall be issuable upon the exercise of this Warrant.

8. Exchange of Warrants. Upon the surrender by the Registered Holder, properly endorsed, to the Company at the principal office of the Company, the Company will, subject to the provisions of Section 4 hereof, issue and deliver to or upon the order of such Holder, at the Company's expense, a new Warrant or Warrants of like tenor, in the name of the Registered Holder or as the Registered Holder (upon payment by the Registered Holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock (or other securities, cash and/or property) then issuable upon exercise of this Warrant.

9. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

10. Transfers, etc.

(a) The Company will maintain a register containing the name and address of the Registered Holder of this Warrant. The Registered Holder may change its or his address as shown on the warrant register by written notice to the Company requesting such change.

(b) Subject to the provisions of Section 4 hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant with a properly executed assignment (in the form of Exhibit II hereto) at the principal office of the Company.

(c) Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder as the absolute owner hereof for all purposes; provided, however, that if and when this Warrant is properly assigned in blank, the Company may (but shall not be obligated to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

11. Mailing of Notices, etc. All notices and other communications from the Company to the Registered Holder shall be mailed by first-class certified or registered mail, postage prepaid, to the address last furnished to the Company in writing by the Registered Holder. All notices and other communications from the Registered Holder or in connection herewith to the Company shall be mailed by first-class certified or registered mail, postage prepaid, to the Company at its principal office at 32 Hampshire Road, Salem, New Hampshire 03079, Attn: Chief Financial Officer. If the Company should at any time change the location of its principal office to a place other than as set forth above, it shall give prompt written notice to the Registered Holder and thereafter all references in this Warrant to the location of its principal office at the particular time shall be as so specified in such notice.

12. No Rights as Stockholder. Until the exercise of this Warrant, the Registered Holder shall not have or exercise any rights by virtue hereof as a stockholder of the Company. Notwithstanding the foregoing, in the event (i) the Company effects a split of the Common Stock by means of a stock dividend and the Purchase Price of and the number of Warrant Shares are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), and (ii) the Registered Holder exercises this Warrant between the record date and the distribution date for such stock dividend, the Registered Holder shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

13. Change or Waiver. Any term of this Warrant may be changed or waived only by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

14. Section Headings. The section headings in this Warrant are for the convenience of the parties and in no way alter, modify, amend, limit or restrict the contractual obligations of the parties.

15. Governing Law. This Warrant will be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts (without reference to the conflicts of law provisions thereof).

EXECUTED as of the Date of Issuance indicated above.

STOCKERYALE, INC.

By: /s/ Mark Blodgett

Title: President and Chief Executive Officer

**DATED**

**July 24, 2008**

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**STOCKERYALE (IRL) LTD.**

**INSTRUMENT CONSTITUTING EURO 935,000 12% SENIOR FIXED RATE SECURED BOND**

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**THIS INSTRUMENT** is made on July 24, 2008 by **STOCKERYALE (IRL) LTD.**, a corporation organized under the laws of Ireland (Company Number 218133) (“**the Company**”)

## **BACKGROUND**

- (A) The Company has, by resolution of a duly appointed committee of its board of directors passed on July 24, 2008, created Euro 935,000 of 12% Senior Fixed Rate Secured Bonds and determined to constitute them in the following manner.

## **AGREED TERMS**

### **1. INTERPRETATION**

- 1.1 The definitions and rules of interpretation in this clause apply in this instrument.

**Articles:** the articles of association from time to time of the Company.

**Bonds:** the Senior Fixed Rate Secured Bonds of the Company constituted by this instrument, and references to any Bonds as **outstanding** mean that they are in issue, unredeemed and uncanceled.

**Bondholders:** the one or several persons from time to time entered in the Register as the holders of the Bonds, and any references to a **holder's Bonds** mean Bonds in respect of which he is so registered.

**Business Day:** any day (except Saturdays and Sundays) when clearing banks are open for business in London.

**Certificates:** the certificates in respect of Bonds.

**Conditions:** the conditions referred to in clause 2 and set out in Schedule 1.

**Directors:** the board of directors of the Company from time to time, or a duly authorised committee of that board.

**Extraordinary Resolution:** a resolution passed at a meeting of the Bondholders (duly convened and held in accordance with the provisions of Schedule 3) by a majority consisting of not less than three-quarters of the persons voting upon a show of hands and, if a poll is demanded, by a majority consisting of not less than three-quarters of the votes given on the poll.

**Interest Date and Interest Period:** have the meanings given in Condition 1.1.

**Redemption Notice:** a notice substantially in the form set out in Schedule 1.

**Register:** the register of the Bonds (provisions relating to which are set out in Schedule 2).

**Security:** has the meaning given in Section 6.

- 1.2 Any phrase introduced by the terms **including, include** or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.
- 1.3 The schedules to this instrument form part of (and are incorporated into) this instrument.
- 1.4 A **person** includes an individual, corporation, partnership, limited partnership, limited liability company and any other unincorporated body.
- 1.5 Words in the singular include the plural and in the plural include the singular.
- 1.6 A reference to a clause or a schedule is (unless expressly stated otherwise) a reference to a clause of, or schedule to, this instrument.
- 1.7 Clause and schedule headings do not affect the interpretation of this instrument.
- 1.8 A reference to one gender includes a reference to the other gender.
- 1.9 A reference to a document being “in the agreed form” (or similar language) shall be a reference to a document a copy of which is attached hereto and initialled by the Company secretary for identification.
- 1.10 Expressions defined in the Companies Act 1985 shall be read as if defined in that way in this clause.

### **2. CONSTITUTION OF THE BONDS**

- 2.1 The principal amount of the Bonds constituted by this instrument is limited to Euro 935,000. The Bonds may be issued in denominations of any amount and shall be transferable in whole or (in amounts and integral multiples of Euro 50,000) in part, as provided in Schedule 2.
- 2.2 This instrument shall operate for the benefit of all Bondholders, each of whom may sue for the performance or observance of its provisions in his own right so far as his holding of Bonds is concerned, and for all persons claiming through or under them. The Company shall comply with the terms of the Bonds and the Conditions, and the Bonds shall be held subject to the Conditions. The Conditions and Schedules shall be deemed to be incorporated in this instrument and shall be binding on the Company, the Bondholders and all persons claiming through or under them.

- 2.3 Until such time as his Bonds are redeemed or repurchased in accordance with the provisions of this instrument, the Company shall pay to each Bondholder interest (without deduction or withholding for any taxes) on the principal amount of his outstanding Bonds in Euros and in immediately available funds, at such rate, at such intervals and in such manner as is provided in the Conditions.
- 2.4 Bonds may be issued whenever, to whomever and on whatever terms and conditions the Directors please. When issued, and while they are outstanding, the Bonds shall be secured obligations of the Company, senior in priority to all of the Company's unsecured indebtedness and entitled to the benefits of the Security with respect to all obligations in connection with the Bonds.
- 2.5 No application shall be made to any investment exchange (whether in Great Britain or elsewhere) for permission to deal in, or for an official or other listing or quotation, in respect of the Bonds.
- 2.6 All payments under the Bonds shall be made without set-off or counterclaim and be free and clear and without any deduction or withholding for any taxes or fees of any nature whatever, unless the obligation to make such deduction or withholding is imposed by law. The Company shall pay and save the holder of the Bonds harmless from all liabilities with respect to or resulting from any delay or omission to make any such deduction or withholding required by law.
- 2.7 Principal and interest shall be paid in immediately available funds in Euros as set forth in Schedule A attached hereto; provided that if StockerYale, Inc. should issue new equity for cash, the principal and interest shall be paid in immediately available funds in Euros within 3 Business Days.
- 2.8 No reference herein to the Security shall impair the obligation of the Company, which is absolute and unconditional, to pay all amounts under the Bonds strictly in accordance with their terms.
- 2.9 The Company agrees to pay on demand all costs of collection, including reasonable attorneys' fees, incurred by the holder in enforcing the obligations of the Company under the Bonds.
- 2.10 No delay or omission on the part of the holder in exercising any right under the Bonds or the Security shall operate as a waiver of such right or of any other right of such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Company and every indorser or guarantor of the Bonds regardless of the time, order or place of signing waives presentment, demand, protest and notices of every kind and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral, and to the addition or release of any other party or person primarily or secondarily liable.

### **3. REDEMPTION OF BONDS**

- 3.1 All amounts owing with respect to the Bonds not previously repaid or repurchased by the Company shall be repaid at par in immediately available funds, together with accrued interest (without deduction or withholding for any taxes), on July 30, 2011.
- 3.2 Notwithstanding any other provisions of this instrument, each Bondholder shall be entitled to demand immediate redemption of all amounts owing with respect to his outstanding Bonds at par together with accrued interest (without deduction or withholding for any taxes) on them in any of the following events:
- (a) the Company fails to pay when due any principal, interest or other obligation payable on any of his Bonds when due; or
  - (b) the occurrence of any event of default under the Security; or
  - (c) the failure at any time of the pledge of the collateral under the Security to be a first priority perfected security interest free and clear of all liens, security interests or other encumbrances of any nature; or
  - (d) an order is made or an effective resolution is passed for the winding up of the Company, or the Company stops or threatens to stop payment of its debts, or the Company ceases or threatens to cease to carry on its business; or
  - (e) proceedings are initiated against the Company under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or if the Company initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or
  - (f) a receiver, administrative receiver or similar official is appointed in respect of the whole or a substantial part of the undertaking and assets of the Company; or
  - (g) any distress or execution (or other similar process) is levied upon or enforced against all or a substantial part of the assets or property of the Company; or
  - (h) any process or event with an effect analogous to any of those referred to in clause 3.2(a) to clause 3.2(g) (inclusive) happens to the Company in a jurisdiction outside Ireland; or

- (i) The Company makes default for more than 14 days (after notification to the Company of any such default has been received from any Bondholder) in the performance of, observance of or compliance with any undertakings contained in this instrument other than those specified in this clause 3.2, provided, that, solely with respect to matters described in this clause 3.2(i), a written demand specifying the event is received by the Company while the event is continuing.

3.3 All Bonds repaid or purchased pursuant to any of the provisions of this instrument shall be automatically and immediately cancelled and shall not be re-issued.

#### **4. UNDERTAKING**

From and after the date of this instrument, and so long as any amount is payable by the Company in respect of the Bonds, the Company undertakes to duly perform and observe its obligations under this instrument so that the provisions of this instrument shall inure for the benefit of all Bondholders.

#### **5. CERTIFICATES**

The Certificates shall be issued under the Seal of the Company (or executed by the Company in any other manner authorised by the Companies Act 1985) and shall be in the form or substantially the form set out in Schedule 1. Each shall refer to this Instrument and bear a denoting number and have the Conditions endorsed on it or attached to it, together with a form of Redemption Notice in the form (or substantially in the form) set out in that schedule.

#### **6. SECURITY**

Concurrent with the execution by the Company of the Bonds hereunder, it hereby grants a security interest in all of the assets of the Company, whether now owned or hereafter acquired (the "Security") to Mark Hawtin ("Hawtin") to secure all obligations in connection with the Bonds. Hawtin shall act as security trustee for all Bondholders. The Company covenants with each Bondholder to observe and perform all the provisions of the Security for so long as any Bond is outstanding.

#### **7. THE COMPANY'S POWERS**

Without prejudice to all other powers of the Company, however arising, nothing in this instrument shall prevent the Company from:

- (a) exercising its borrowing powers in any way upon such terms as to interest, redemption and otherwise as the Directors think fit, provided that the Bonds shall rank senior in priority and right of repayment to any other indebtedness of the Company; or
- (b) disposing of, granting security over or dealing in any other way with any of its business and assets in whole or in part, so long as any security over its business and assets is subordinate to the Security and so long as Hawtin consents to the disposing of the business and assets; or
- (c) procuring or permitting any of its subsidiaries to exercise such subsidiaries' borrowing powers in any way, or to dispose of, grant security over or deal in any other way with any of such subsidiaries' business or assets in whole or in part, or to change the nature of such subsidiaries' business in any way.

#### **8. THIS INSTRUMENT**

- 8.1 Subject to clause 8.2, the Company may from time to time (by deed expressed to be supplemental to this instrument) amend any provisions of this instrument (including the Conditions) solely if the amendment is previously sanctioned by an Extraordinary Resolution.
- 8.2 No modification to this instrument and no modification, abrogation or compromise of the rights of the Bondholders shall be permitted which would have the effect of decreasing the liability of the Company in respect of the Bonds without an Extraordinary Resolution.
- 8.3 The Company shall at all times allow any holder of outstanding Bonds to inspect a copy of this instrument during normal business hours on reasonable notice and (provided the Company's reasonable expenses in doing so are paid) shall on request supply any Bondholder as soon as reasonably practicable with a copy of this instrument.

#### **9. SET-OFF**

Every Bondholder shall be recognised by the Company as entitled to his Bonds free from any equity, defence, set-off or cross-claim on the part of the Company against the original, or any intermediate holder, of his Bonds.



**10. MEETINGS**

Any meeting of Bondholders shall (subject to the provisions contained in Schedule 3) be convened, conducted and held in all respects as nearly as possible in the same way as is provided in the Articles for general meetings of the Company.

**11. THIRD PARTY RIGHTS**

Nothing in this instrument is intended to confer on any person any right to enforce any term of this instrument which that person would not have but for the Contracts (Rights of Third Parties) Act 1999.

**12. GOVERNING LAW AND JURISDICTION**

12.1 This instrument and the Bonds shall be governed by and construed in accordance with the laws of England.

12.2 The courts of England shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this instrument. Accordingly, any proceedings relating to or in connection with this instrument or the Bonds may be brought in such courts.

This instrument has been entered into on the date stated at the beginning of it.

**Schedule 1 Certificate**

**Part 1. Certificate**

No [CERTIFICATE NUMBER]

StockerYale (IRL) Ltd. (Company)

Issue of Euro 935,000 12% Senior Fixed Rate Secured Bonds.

Issued pursuant to the memorandum and articles of association of the Company and created by a resolution of the board of directors passed on July 24, 2008.

This is to certify that Mark Hawtin and his successors and assigns is the registered holder of Euro 935,000 of the above-mentioned 12% Senior Fixed Rate Secured Bonds constituted by an instrument dated July 24, 2008 (**Instrument**). Such Bonds are issued with the benefit of, and subject to, the provisions contained in the Instrument and the conditions endorsed on this certificate.

Principal and interest calculated in accordance with Condition 1 is payable on the Bonds represented by this Certificate monthly beginning in August 2008 as set forth in Schedule A.

Issued this day of [DATE].

The common seal of StockerYale (IRL) Ltd. was affixed to this deed in the presence of: [COMMON SEAL]

[SIGNATURE] Director

Please note:

The Bonds are secured obligations of the Company, senior in priority to all of the Company's unsecured indebtedness and entitled to the benefits of the Security with respect to all obligations in connection with the Bonds.

The Bonds are transferable and repayable in whole or in part (in amounts and integral multiples of Euro 50,000).

No transfer of any part of the Bonds represented by this certificate shall be registered unless it is accompanied by this certificate, which must be surrendered before any transfer (whether for all or some only of the Bonds) can be registered and a new certificate issued in exchange.

The definitions and rules of interpretation in the Instrument apply in this certificate.

**Part 2. Redemption notice: notice of exercise of redemption rights**

To: The directors of StockerYale (IRL) Ltd.

I, the registered holder of the Bonds represented by this Certificate, give notice of my desire to exercise my right to require repayment by the Company of the whole/Euro of the principal amount of such Bonds in accordance with the Conditions, together with accrued interest (without withholding or deduction for any taxes), on the Interest Date (as defined in the Conditions) next following the date of this notice.

I authorise the despatch of:

- (a) wire transfer of immediately available funds payable in my favour in respect of the principal moneys and interest due to me in accordance with the attached wire transfer instructions; and
- (b) (in the case of a redemption of part of the principal moneys represented by this Certificate) either this Certificate duly endorsed with a memorandum of the amount and date of the redemption, or a fresh Certificate in my/our name(s) for the balance of the principal moneys not repayable on this occasion to:

(Name) \_\_\_\_\_

(Address) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Signature(s) of Bondholder(s)

\_\_\_\_\_

\_\_\_\_\_

In the case of joint holdings, all Bondholders must sign. In the case of a corporation, this form must either be under the common seal or under the hand of some officer or attorney of the corporation duly authorised on their behalf.

Dated this day of [DATE]

\* Delete or complete as appropriate. If this space is left blank, the notice shall be treated as a request for repayment of the whole of the principal amount of Bonds represented by this Certificate.

**Part 3. The conditions**

**1. INTEREST**

- 1.1 Until the Bonds are repaid in full in accordance with the provisions of the instrument or these Conditions, the Company shall pay to the Bondholders appearing on the Register interest (less any applicable taxes) on the principal amount of the Bonds in arrears in immediately available funds in Euros as set forth in Schedule A.
- 1.2 Interest on the Bonds shall accrue daily and be calculated on the basis of a 360-day year and shall be payable at the rate of 12% per year, subject to Section 1.3 below (such rate, as applicable, the Interest Rate).
- 1.3 If the Company fails to pay any Bondholder any amount (whether principal or interest) due on his Bonds on the date on which such amount is expressed to be due and payable pursuant to these Conditions, the Company shall (without prejudice to all other rights and remedies of the Bondholder in respect of such failure) pay to that Bondholder compound interest at a rate which is 3% per annum higher than the rate which applies (or would apply if it were principal) in accordance with Condition 1.2 on such overdue amount from the date of such failure up to the date of actual payment (after as well as before judgment), calculated and accruing on a daily basis for so long as the amount remains unpaid.

**2. REDEMPTION**

- 2.1 Unless previously purchased or redeemed as provided below, all amounts owing in connection with the Bonds shall be repaid at par together with all accrued interest (without any withholding or deduction with respect to any taxes) on July 30, 2011.

- 2.2 The Company may at any time purchase the Bonds by private treaty, by tender (available to all Bondholders alike) or by any other means at any price agreed to by such Bondholders.
- 2.3 All Bonds redeemed or purchased by the Company in accordance with the Conditions shall be cancelled and the Company shall not be at liberty to keep them subsisting for the purposes of re-issue, to re-issue them or to issue any other Bonds in their place.
- 2.4 Interest on any Bonds becoming liable to redemption shall cease to accrue as from the due date for redemption of such Bonds unless the Company (having become obliged to do so) fails to make payment in full of such redemption moneys and any accrued interest, in which event interest shall continue to accrue at the rate specified in Condition 1.3 on the amount which remains unpaid until actual payment in full of such redemption moneys and accrued interest is made.
- 2.5 In the case of redemption of part only of a Bondholder's Bonds, the relevant Certificate(s) shall be either endorsed with a memorandum of the nominal amount of the Bonds so redeemed and the date of such redemption, or cancelled and (without charge) replaced by a fresh Certificate for the balance of the principal moneys not then repayable.
- 2.6 The Company shall not be obliged to make any payment to any Bondholder by way of redemption of his Bonds except insofar as it receives his Certificate(s) (or, if lost, an indemnity in a form reasonably acceptable to the Company) together with the Redemption Notice duly completed. If any Bondholder fails or refuses to deliver up the Certificate for his Bonds to the Company at its registered office at the time for their redemption, or fails or refuses to accept payment of the redemption moneys or any accrued interest payable in respect of them, the moneys payable to such Bondholder shall be set aside by the Company and paid into a separate bank deposit account. Such setting aside shall be deemed for all the purposes of these Conditions to be a payment to such Bondholder and the Company shall, by doing so, be discharged from all obligations in connection with such Bonds. If the Company places those moneys on deposit at a bank, the Company shall not be responsible for the safe custody of such moneys or for interest on them except such interest (if any) as the moneys may earn whilst on deposit (less any expenses incurred by the Company in connection with them).

### **3. PAYMENTS**

- 3.1 Payment of principal and interest for the time being owing on the Bonds shall be made in immediately available funds in Euros by wire transfer to the account specified by the holder of such Bonds, in accordance with such holder's instructions.
- 3.2 Whenever any payment (including interest) due on any Note becomes due on a day which is not a business day, payment shall be made on the next succeeding business day, but (in the case of interest) no adjustment shall be made to the amount of interest payable and the Bondholder shall not be entitled to any other payment in respect of any such delay.

### **4. MISCELLANEOUS**

- 4.1 So long as the Bonds remain in issue, the Company shall send to each Bondholder a copy of every notice, circular, accounts or other document required by law to be sent by the Company generally to the holders of its ordinary share capital at the same time as they are sent to such shareholders.
- 4.2 Any amounts unclaimed, set aside or retained in accordance with these Conditions in respect of any Note may (without constituting the Company a trustee in relation to them) be deposited or invested by the Company as the Directors see fit until they are validly claimed (the claimant having provided the Company with such evidence of his entitlement as the Directors may require) and, if not so claimed within 12 years of first falling due for payment by the Company, shall then belong to the Company to the exclusion of all further claims by, under or through any Bondholder.

## **Schedule 2 The register**

### **1. REGISTER**

- 1.1 The Company shall keep the Register at its registered office or (subject to the provisions of section 190 of the Companies Act 1985) at the offices of the Registrar of the Company in one or more books and enter in the Register:
  - (a) the issue and all transfers and changes of ownership of the Bonds, including the names and addresses of the Bondholders for the time being of the Bonds;
  - (b) the amount of the Bonds held by every registered holder and the principal moneys paid up on them;
  - (c) the first date or dates of issue of the Bonds and the date on which the name of every such registered holder is entered in respect of the Bonds standing in his name; and
  - (d) the serial number of each Certificate issued and the date of its issue.

Any change of name or address on the part of any Bondholder shall immediately be notified to the Company and, on receipt, the Register shall be altered accordingly. The Bondholders or any of them and any person authorised in writing by any of them shall be at liberty at all reasonable times during office hours to inspect the Register and to take copies of it or of extracts from

it. The Register may nevertheless be closed by the Company for such periods and at such times as the Company may think fit, provided that it is not closed for more than 30 days in any one year.

- 1.2 The Company shall recognise the registered holder of any Bonds as the absolute owner of them and shall not be bound to take notice or see to the execution of any trust (whether express, implied or constructive) to which any Note may be subject. The receipt of the Bondholder for the time being of any Bonds, or (in the case of joint Bondholders) the receipt of any of them, of the interest from time to time accruing due in respect of the Bonds, or for any other moneys payable in respect of them, shall be a good discharge to the Company notwithstanding any notice it may have (whether express or otherwise) of the right, title, interest or claim of any other person to or in such Bonds, interest or moneys. No notice of any trust (express, implied or constructive) shall be entered on the Register in respect of any Bonds.

## **2. TRANSFERS AND TRANSMISSION**

- 2.1 The Bonds are transferable in whole or (in amounts and integral multiples of Euro 50,000) in part by instrument in writing in the usual common form or such other form as the Directors may approve.
- 2.2 Every such instrument of transfer shall be signed by the transferor, or (where the transferor is a corporation) given under its common seal, or executed in any other manner authorised by the Companies Act 1985. The transferor shall be deemed to remain the owner of the Bonds to be transferred until the name of the transferee is entered in the Register in respect of them.
- 2.3 Every instrument of transfer shall be lodged for registration at the place where the Register is kept for the time being, and shall be accompanied by the Certificate for the Bonds to be transferred and such other evidence, if any, as the Company may require to prove the title of the transferor or his right to transfer the Bonds (and, if such instrument is executed by some other person on his behalf, the authority of that person to do so). Where some only of the Bonds comprised in a Certificate are transferred, the Certificate shall be cancelled and a single new Certificate for the balance of such Bonds issued in lieu without charge. Except as provided in this instrument, every instrument of transfer completed and lodged in accordance with this instrument shall be entered in the Register and the name of the transferee shall be entered in the Register as the new holder of the Bonds transferred to him.
- 2.4 All instruments of transfer which are registered shall be retained by the Company.
- 2.5 No transfer of Bonds shall be registered when the Register is closed. In addition, the Directors may in their absolute discretion refuse to register the transfer of any Bonds if:
- (a) it is not in favour of four or fewer transferees; or
  - (b) it is in favour of a minor, bankrupt or person of mental ill-health; or
  - (c) in the Directors' opinion, registration of the transfer would contravene the law in any jurisdiction.

If the Directors refuse to register a transfer they shall, within two months after the date on which the transfer was lodged, send the transferee(s) notice of the refusal.

- 2.6 The executors or administrators of a deceased Bondholder (not being one of several joint Bondholders) and, in the case of the death of one or more of several joint Bondholders, the survivor or survivors of them, shall be the only persons recognised by the Company as having any title to such Bonds.
- 2.7 Any person becoming entitled to Bonds in consequence of the death or bankruptcy of the holder of such Bonds may, upon producing such evidence of his capacity or of his title as the Company deems sufficient, be registered himself as the holder of such Bonds or (subject to the preceding paragraphs as to transfer) may transfer such Bonds. The Company may retain the interest payable upon any Bonds which any person is entitled to transfer under this condition until such person is registered as holder or shall duly transfer the Bonds.
- 2.8 No fee shall be charged by the Company in respect of the registration of any instrument of transfer, or other document relating to or affecting the title to any Bonds, or otherwise for making any entry in the Register affecting title to any Bonds.

## **3. NOTICES**

- 3.1 Any notice may be given to any Bondholder by sending it by first-class post in a pre-paid letter addressed to such Bondholder at his registered address. In the case of joint Bondholders, a notice given to the Bondholder whose name stands first on the Register in respect of such Bonds shall be sufficient notice to all the joint Bondholders.
- 3.2 Any notice given by post shall be deemed to have been served on the day following the day on which it was posted, and in proving such service, it shall be sufficient to prove that the envelope containing the notice was properly addressed, stamped and posted.

- 3.3 A person entitled to any Bonds in consequence of the death or bankruptcy of a Bondholder or otherwise by operation of law shall be entitled, upon producing to the Company such evidence as the Company may reasonably require to show his title to the Bonds, and upon giving the Company an address within the United Kingdom for the service of notices, to have served upon or delivered to him at such address any notice or document to which the Bondholder would have been entitled, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such notice or document on all persons interested (whether jointly with or as claiming through or under him) in such Bonds. Otherwise, any notice or document delivered or sent by post to, or left at the address of, any Bondholder in pursuance of these provisions shall, notwithstanding that such Bondholder be then dead, bankrupt or in liquidation, and whether or not the Company has notice of his death, bankruptcy or liquidation, be deemed to have been duly served or delivered in respect of any Bonds registered in the name of such Bondholder as sole or first-named joint holder.

#### **4. REPLACEMENT OF CERTIFICATES**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the registered office of the Company upon payment by the claimant of the Company's expenses in connection with replacing it and on such terms as to evidence, indemnity, security or otherwise as the Company may reasonably require. Mutilated or defaced Certificates shall be surrendered before replacements are issued.

#### **Schedule 3 Meetings of Bondholders**

1. The Company may at any time convene a meeting within the United Kingdom of the Bondholders and, in addition, shall do so upon a request in writing (specifying the business of the meeting in reasonable detail) signed by the Bondholders of not less than one-tenth in nominal value of the outstanding Bonds.
2. At least 14 days' notice (exclusive of the day on which the notice is served, or deemed to be served, and of the day for which notice is given) of every meeting shall be given to the Bondholders. The notice shall specify the place, date and time of the meeting and the general nature of the business to be transacted, but it shall not be necessary to specify in the notice the terms of any resolution to be proposed. The accidental omission to give notice to, or the non-receipt of notice by, any of the Bondholders shall not invalidate the proceedings at any such meeting.
3. A Director, or a Bondholder nominated by the Company for such purpose, shall be entitled to take the chair at every such meeting and, if no such nomination is made or if at any meeting the person nominated is not present within 15 minutes after the time appointed for holding the meeting, the Bondholders present shall choose one of their number present to be chairman. The Directors, the secretary and the solicitors of the Company, and any other person authorised in that behalf by the Directors, may attend and speak at any such meeting.
4. At any such meeting convened for any purpose other than the passing of an Extraordinary Resolution, persons holding or representing by proxy one-tenth in nominal value of the Bonds for the time being outstanding shall form a quorum for the transaction of business. At any meeting convened for the purpose of passing an Extraordinary Resolution, persons holding or representing by proxy a clear majority in nominal value of the outstanding Bonds (at least two in number) shall form a quorum. No business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.
5. If, within 15 minutes from the time appointed for any meeting of the Bondholders, a quorum is not present the meeting shall, if convened upon the requisition of the Bondholders, be dissolved. In any other case it shall stand adjourned to such day and time (being not less than seven days later) and to such place as may be appointed by the chairman. At such adjourned meeting, the Bondholder or Bondholders present in person or by proxy and entitled to vote (regardless of the nominal value of the outstanding Bonds held by them) shall form a quorum, and shall have power to pass an Extraordinary Resolution or other resolution, and to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place.
6. Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the manner provided in this instrument and shall state that the Bondholders present in person or by proxy at the adjourned meeting will form a quorum.
7. The chairman may, with the consent of any meeting at which a quorum is present (and shall, if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

8. At any meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded by the chairman or by one or more Bondholders present in person or by proxy and holding or representing at least one-twentieth in nominal value of the outstanding Bonds. Unless a poll is so demanded, a declaration by the chairman that a resolution has been carried, carried unanimously or by a particular majority, not carried by a particular majority or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
9. If a poll is duly demanded, it shall be taken in such manner as the chairman may reasonably direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
10. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Bondholder.
11. A poll demanded on an election of a chairman or on a question of adjournment shall be taken immediately. A poll demanded on any other question shall be taken at such time and place as the chairman reasonably directs.
12. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded. The demand for a poll may be withdrawn.
13. On a show of hands every Bondholder, who (being an individual) is present in person or (being a corporation) is present by its duly authorised representative or by one of its officers as its proxy, shall have one vote. On a poll every Bondholder, who is present in person or by proxy, shall have one vote for every 1 Euro nominal value of outstanding Bonds of which he is the holder.
14. On a poll, votes may be given either personally or by proxy and a Bondholder entitled to more than one vote need not (if he votes) use all his votes or cast all the votes he uses in the same way.
15. In the case of joint registered Bondholders, the vote of the senior who tenders a vote (whether in person or by proxy and whether on a show of hands or on a poll) shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.
16. The instrument appointing a proxy shall be in the usual common form, or such other form as the Company may approve, and shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or (if the appointor is a corporation) either under its common seal or under the hand of an officer or attorney duly authorised. Such instrument shall be deemed to confer authority to demand or join in demanding a poll and (unless it states otherwise) to vote as the proxy sees fit on any resolution, amendment or other business properly put to the meeting or meetings for which the instrument is given.
17. A person appointed to act as a proxy need not be a Bondholder.
18. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the registered office of the Company or such other place as the Company shall reasonably direct not less than 48 hours before the time appointed for holding the meeting or adjourned meeting or for the taking of the poll at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution.
19. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, provided that no intimation in writing of such death, insanity or revocation has been received by the Company before the commencement of the meeting, adjourned meeting or taking of the poll at which the proxy is used.
20. No modification, variation or abrogation of the terms, conditions and provisions contained in this instrument, or the rights of the Bondholders, shall be made by the Company unless a meeting of the Bondholders has assented to any such modification, variation or abrogation by Extraordinary Resolution. The Bondholders shall, in addition to all other powers, have the following powers exercisable by Extraordinary Resolution:
  - (a) power to sanction any proposals for any modification, variation, abrogation or compromise of, or arrangement in respect of, the rights of the Bondholders against the Company, whether such rights arise under this instrument or otherwise;
  - (b) power to sanction any scheme or proposal for the exchange or sale of the Bonds for, or the conversion of the Bonds into or the cancellation of the Bonds in consideration of, shares, stock, Bonds, bonds, debentures, debenture stock and/or other obligations and/or other securities of the Company or any other company formed or to be formed, or for, into or in consideration of cash, or partly for, into or in consideration of any such shares, stock, Bonds, bonds, debentures, debenture stock and/or other obligations and/or securities and partly for or into or in consideration of cash;

- (c) power to assent to any modification of the provisions contained in this instrument, including the Conditions, which is proposed by the Company; and
- (d) power to modify the date fixed for final redemption of the Bonds, to reduce or cancel the principal payable on the Bonds, or to reduce the amount payable or modify the method of calculating the amount payable, or modify the date or dates for payment in respect of, any interest on the Bonds,

provided always that no modification to this instrument and no modification, abrogation or compromise of the rights of the Bondholders which would have the effect of increasing the liability of the Company or the Guarantor in respect of the Bonds, or which would be prejudicial to the rights of the Guarantor against, or to the security interests granted to the Guarantor by, the Company shall be made without the written consent of the Guarantor having first been given.

- 21. An Extraordinary Resolution shall be binding upon all the Bondholders (whether or not present at the meeting passing such Extraordinary Resolution) and each of the Bondholders shall be bound to give effect to it accordingly. The passing of any such resolution shall be conclusive evidence that the circumstances justify passing it (the intention being that it shall rest with the meeting to determine without appeal whether or not the circumstances justify passing it).
- 22. Subject always to compliance with the proviso to paragraph 20 of this Schedule 3 a resolution in writing signed by the holders of 95% in nominal amount of the outstanding Bonds who are for the time being entitled to receive notice of meetings shall for all purposes be as valid and effectual as an Extraordinary Resolution. Such resolution in writing may be contained in one document or in several documents in like form, each signed by one or more Bondholders.
- 23. Minutes of all resolutions and proceedings at every meeting of Bondholders shall be made and duly entered in books to be from time to time provided for that purpose by the Company and any such minutes, if purporting to be signed by the chairman of the meeting, shall be conclusive evidence of the matters stated in them and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been made and signed shall be deemed to have been duly held and convened, and all resolutions passed at the meeting to have been duly passed.

Executed as a deed by **STOCKERYALE (IRL) LTD.** acting by its two directors.

/s/ Mark Blodgett

Director

/s/ Marianne Molleur

Director/Secretary

**THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ITS  
EXERCISE ARE SUBJECT TO THE RESTRICTIONS ON  
TRANSFER SET FORTH IN SECTION 4 OF THIS WARRANT**

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Date of Issuance: July 24, 2008

Number of Shares: 636,404  
(subject to adjustment)

StockerYale, Inc.

Common Stock Purchase Warrant

(Void after July 24, 2018 (the "Expiration Date"))

StockerYale, Inc., a Massachusetts corporation (the "Company"), for value received, hereby certifies that Mark Hawtin, or his registered assigns (the "Registered Holder"), is entitled, subject to the terms and conditions set forth below, to purchase from the Company, at any time or from time to time on or after the date of issuance and on or before 5:00 p.m. (Boston time) on July 24, 2018, an aggregate of 636,404 nonassessable shares of Common Stock, \$0.001 par value per share, of the Company, at a purchase price of \$0.45 per share. The shares purchasable upon exercise of this Warrant, and the purchase price per share, each as adjusted from time to time pursuant to the provisions of this Warrant, are hereinafter referred to as the "Warrant Shares" and the "Purchase Price," respectively.

1. Exercise.

(a) This Warrant may be exercised by the Registered Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit I duly executed by the Registered Holder or by the Registered Holder's duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate, accompanied by payment in full, in lawful money of the United States, of the Purchase Price payable in respect of the number of Warrant Shares purchased upon such exercise.

(b) The Registered Holder may, at its option, elect to pay some or all of the Purchase Price payable upon an exercise of this Warrant by cancelling a portion of this Warrant exercisable for such number of Warrant Shares as is determined by dividing (i) the total Purchase Price payable in respect of the number of Warrant Shares being purchased upon such exercise by (ii) the excess of the Fair Market Value per share of Common Stock (as defined below) as of the Exercise Date (as defined in subsection 1(c) below) over the Purchase Price per share. If the Registered Holder wishes to exercise this Warrant pursuant to this method of payment with respect to the maximum number of Warrant Shares purchasable pursuant to this method, then the number of Warrant Shares so purchasable shall be equal to the total number of Warrant Shares, minus the product obtained by multiplying (x) the total number of Warrant Shares by (y) a fraction, the numerator of which shall be the Purchase Price per share and the denominator of which shall be the Fair Market Value per share of Common Stock as of the Exercise Date. The Fair Market Value per share of Common Stock shall be determined as follows:

(i) If the Common Stock is listed on a national securities exchange, the Nasdaq Capital Market or another nationally recognized trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the average of the high and low reported sale prices per share of Common Stock thereon on the trading day immediately preceding the Exercise Date (provided that if no such price is reported on such day, the Fair Market Value per share of Common Stock shall be determined pursuant to clause (ii)).

(ii) If the Common Stock is not listed on a national securities exchange, the Nasdaq Capital Market or another nationally recognized trading system as of the Exercise Date, the Fair Market Value per share of Common Stock shall be deemed to be the amount most recently determined by the Board of Directors to represent the fair market value per share of the Common Stock (including without limitation a determination for purposes of granting Common Stock options or issuing Common Stock under an employee benefit plan of the Company); and, upon request of the Registered Holder, the Board of Directors (or a representative thereof) shall promptly notify the Registered Holder of the Fair Market Value per share of Common Stock. Notwithstanding the foregoing, if the Board of Directors has not made such a determination within the three-month period prior to the Exercise Date, then (A) the Board of Directors shall make a determination of the Fair Market Value per share of the Common Stock within 15 days of a request by the Registered Holder that it do so, and (B) the exercise of this Warrant pursuant to this subsection 1(b) shall be delayed until such determination is made.

(c) Notwithstanding anything to the contrary herein, each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on such day which is 61 days subsequent to the date on which this Warrant shall have been surrendered to the Company as provided in subsection 1(a) above (such subsequent day the "Exercise Date"). On the Exercise Date



and not before, the person or persons in whose name or names any certificates for Warrant Shares shall be issuable upon such exercise as provided in subsection 1(d) below shall be deemed to have become the holder or holders of record of the Warrant Shares represented by such certificates. Prior to the Exercise Date such person or persons shall continue to be deemed to be owners of this Warrant and not of any corresponding underlying Warrant Shares. Provided this Warrant is surrendered on or prior to the Expiration Date, this Warrant may be exercised in accordance with the terms and conditions herein notwithstanding the fact that the Exercise Date may be later than the Expiration Date. This Section 1(c) shall survive the termination or voiding of this Warrant and continue in full force and effect.

(d) As soon as practicable after the exercise of this Warrant in full or in part on the Exercise Date, and in any event within 3 business days thereafter, the Company, at its expense, will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of full Warrant Shares to which the Registered Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which the Registered Holder would otherwise be entitled, cash in an amount determined pursuant to Section 3 hereof; and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of Warrant Shares equal (without giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the sum of (a) the number of such shares purchased by the Registered Holder upon such exercise and paid for in cash pursuant to subsection 1(a) (if any) plus (b) the number of Warrant Shares (if any) covered by the portion of this Warrant cancelled in payment of the Purchase Price payable upon such exercise pursuant to subsection 1(b) above.

## 2. Adjustments.

(a) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the date on which this Warrant was first issued (the "Original Issue Date") effect a subdivision of the outstanding Common Stock, the Purchase Price then in effect immediately before that subdivision shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Purchase Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(b) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Purchase Price then in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Purchase Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Purchase Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Purchase Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions.

(c) Adjustment in Number of Warrant Shares. When any adjustment is required to be made in the Purchase Price pursuant to subsections 2(a) or 2(b), the number of Warrant Shares purchasable upon the exercise of this Warrant shall be changed to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(d) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property (other than cash out of earnings or earned surplus, determined in accordance with generally accepted accounting principles), then and in each such event provision shall be made so that the Registered Holder shall receive upon exercise hereof, in addition to the number of shares of Common Stock issuable hereunder, the kind and amount of securities of the Company and/or cash and other property which the Registered Holder would have been entitled to receive had this Warrant been exercised into Common Stock on the date of

such event and had the Registered Holder thereafter, during the period from the date of such event to and including the Exercise Date, retained any such securities receivable, giving application to all adjustments called for during such period under this Section 2 with respect to the rights of the Registered Holder.

(e) Adjustment for Mergers or Reorganizations, etc. If there shall occur any reorganization, recapitalization, consolidation or merger involving the Company in which the Common Stock is converted into or exchanged for securities, cash or other property (other than a transaction covered by subsections 2(a), 2(b) or 2(d)), or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, following any such reorganization, recapitalization, consolidation or merger, the Registered Holder shall receive upon exercise hereof the kind and amount of securities, cash or other property which the Registered Holder would have been entitled to receive if, immediately prior to such reorganization, recapitalization, consolidation or merger, the Registered Holder had held the number of shares of Common Stock subject to this Warrant. In any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Registered Holder, to the end that the provisions set forth in this Section 2 (including provisions with respect to changes in and other adjustments of the Purchase Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities, cash or other property thereafter deliverable upon the exercise of this Warrant. The Company will not effect any consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume, by written instrument executed and mailed or delivered to the Holder at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets (including cash) as, in accordance with the foregoing provisions, the Holder may be entitled to receive.

(f) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Purchase Price pursuant to this Section 2, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to the Registered Holder a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property for which this Warrant shall be exercisable and the Purchase Price) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of the Registered Holder, furnish or cause to be furnished to the Registered Holder a certificate setting forth (i) the Purchase Price then in effect and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the exercise of this Warrant.

3. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the Fair Market Value per share of Common Stock, as determined pursuant to subsection 1(b) above.

#### 4. Requirements for Transfer.

(a) This Warrant and the Warrant Shares shall not be sold or transferred unless either (i) they first shall have been registered under the Securities Act of 1933, as amended (the "Act"), or (ii) the Company first shall have been furnished with an opinion of legal counsel, reasonably satisfactory to the Company, to the effect that such sale or transfer is exempt from the registration requirements of the Act.

(b) Notwithstanding the foregoing, no registration or opinion of counsel shall be required for (i) a transfer by a Registered Holder which is a corporation to a wholly owned subsidiary of such corporation, a transfer by a Registered Holder which is a partnership to a partner of such partnership or a retired partner of such partnership or to the estate of any such partner or retired partner, or a transfer by a Registered Holder which is a limited liability company to a member of such limited liability company or a retired member or to the estate of any such member or retired member, provided that the transferee in each case agrees in writing to be subject to the terms of this Section 4, or (ii) a transfer made in accordance with Rule 144 under the Act.

(c) Each certificate representing Warrant Shares shall bear a legend substantially in the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be offered, sold or otherwise transferred, pledged or hypothecated unless and until such securities are registered under such Act or an opinion of counsel satisfactory to the Company is obtained to the effect that such registration is not required."

The foregoing legend shall be removed from the certificates representing any Warrant Shares, at the request of the holder thereof, at such time as they become eligible for resale pursuant to Rule 144(b) under the Act.

5. No Impairment. The Company will not, by amendment of its charter or through reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

6. Notices of Record Date, etc. In the event:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(b) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon the exercise of this Warrant) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up. Such notice shall be mailed at least ten days prior to the record date or effective date for the event specified in such notice.

7. Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, such number of Warrant Shares and other securities, cash and/or property, as from time to time shall be issuable upon the exercise of this Warrant.

8. Exchange of Warrants. Upon the surrender by the Registered Holder, properly endorsed, to the Company at the principal office of the Company, the Company will, subject to the provisions of Section 4 hereof, issue and deliver to or upon the order of such Holder, at the Company's expense, a new Warrant or Warrants of like tenor, in the name of the Registered Holder or as the Registered Holder (upon payment by the Registered Holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock (or other securities, cash and/or property) then issuable upon exercise of this Warrant.

9. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

10. Transfers, etc.

(a) The Company will maintain a register containing the name and address of the Registered Holder of this Warrant. The Registered Holder may change its or his address as shown on the warrant register by written notice to the Company requesting such change.

(b) Subject to the provisions of Section 4 hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant with a properly executed assignment (in the form of Exhibit II hereto) at the principal office of the Company.

(c) Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder as the absolute owner hereof for all purposes; provided, however, that if and when this Warrant is properly assigned in blank, the Company may (but shall not be obligated to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

11. Mailing of Notices, etc. All notices and other communications from the Company to the Registered Holder shall be mailed by first-class certified or registered mail, postage prepaid, to the address last furnished to the Company in writing by the Registered Holder. All notices and other communications from the Registered Holder or in connection herewith to the Company shall be mailed by first-class certified or registered mail, postage prepaid, to the Company at its principal office at 32 Hampshire Road, Salem, New Hampshire 03079, Attn: Chief Financial Officer. If the Company should at any time change the location of its principal office to a place other than as set forth above, it shall give prompt written notice to the Registered Holder and thereafter all references in this Warrant to the location of its principal office at the particular time shall be as so specified in such notice.

12. No Rights as Stockholder. Until the exercise of this Warrant, the Registered Holder shall not have or exercise any rights by virtue hereof as a stockholder of the Company. Notwithstanding the foregoing, in the event (i) the Company effects a split of the Common Stock by means of a stock dividend and the Purchase Price of and the number of Warrant Shares are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), and (ii) the Registered Holder exercises this Warrant between the record date and the distribution date for such stock dividend, the Registered Holder shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

13. Change or Waiver. Any term of this Warrant may be changed or waived only by an instrument in writing signed by the party against which enforcement of the change or waiver is sought.

14. Section Headings. The section headings in this Warrant are for the convenience of the parties and in no way alter, modify, amend, limit or restrict the contractual obligations of the parties.

15. Governing Law. This Warrant will be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts (without reference to the conflicts of law provisions thereof).

EXECUTED as of the Date of Issuance indicated above.

STOCKERYALE, INC.

By: /s/ Mark Blodgett

Title: President and Chief Executive Officer

## CERTIFICATION

I, Mark Blodgett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StockerYale, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ Mark W. Blodgett

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Mark W. Blodgett  
President and Chief Executive Officer

## CERTIFICATION

I, Timothy P. Losik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StockerYale, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ Timothy P. Losik

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Timothy P. Losik  
Chief Operating Officer and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of StockerYale, Inc. (the "Company") for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Blodgett, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark W. Blodgett

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Mark W. Blodgett  
President and Chief Executive Officer

August 14, 2008

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of StockerYale, Inc. (the "Company") for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy P. Losik, Chief Operating Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Timothy P. Losik

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Timothy P. Losik  
Chief Operating Officer and Chief Financial Officer

August 14, 2008