Consolidated Financial Statements of

ZECOTEK PHOTONICS INC.

Years ended July 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zecotek Photonics Inc.

We have audited the accompanying consolidated financial statements of Zecotek Photonics Inc., which comprise the consolidated balance sheet as at July 31, 2011 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zecotek Photonics Inc., as at July 31, 2011, and its consolidated results of operations and its consolidated cash flows the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to note 1(b) to the financial statements which indicates that the Company does not earn sufficient revenue to fund its expenses. This condition along with other matters as set forth in note 1(b) to the financial statements indicates the existence of a material uncertainty that may cast significant doubt about Zecotek Photonics Inc.'s ability to continue as a going concern.

Comparative Information

Without modifying our opinion, we draw attention to note 21 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended July 31, 2010 has been restated.

The consolidated financial statements of Zecotek Photonics Inc. as at and for the year ended July 31, 2010, excluding the restatement described in note 21 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those statements on November15, 2010.

As part of our audit of the consolidated financial statements as at and for the year ended July 31, 2011, we audited the restatement described in note 21 to the consolidated financial statements that was applied to restate the comparative information as at and for the year ended July 31, 2010. In our opinion, the restatement is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the consolidated financial statements as at and for the year ended July 31, 2010 other than with respect to the restatement described in note 21 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as at and for the year ended July 31, 2010 taken as a whole.

KPMG LLP (signed)

Chartered Accountants

November 28, 2011
Vancouver, Canada

ZECOTEK PHOTONICS INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

As at July 31, 2011 and 2010

	2011	2010 (Restated - note 21)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,857,820	$ 81,010
Trade receivables	7,396	1,483
Goods and services tax recoverable	46,925	34,828
Advances to employees (note 12(h))	39,627	-
Prepaid expenses	37,325	14,790
	2,989,093	132,111
Restricted short term investments (note 5)	20,000	15,000
Deposits	57,943	54,950
Property and equipment (note 6)	75,726	112,491
Equipment under capital lease (note 7)	11,679	16,684
Patent costs (note 8)	151,915	177,442
	$ 3,306,356	$ 508,678
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (notes 12, 14 and 21)	$ 2,644,888	$ 3,383,022
Customer deposits	23,845	-
Current portion of obligations under capital leases (note 11)	7,827	7,282
Share subscription received	-	650,000
	2,676,560	4,040,304
Obligations under capital leases (note 11)	8,889	15,263
Shareholders' equity:		
Share capital (note 9(b))	38,878,798	32,702,057
Contributed surplus (note 9(f))	9,468,818	6,902,220
Deficit (note 21)	(47,726,709)	(43,151,166)
	620,907	(3,546,889)
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (notes 13 and 14)		
Subsequent events (note 20)		
	$ 3,306,356	$ 508,678

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Faouzi Zerrouk" Director **"David Toyoda"** Director

ZECOTEK PHOTONICS INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian dollars)

Years ended July 31, 2011 and 2010

	2011	2010
		(Restated - note 21)
Revenue	$ 57,659	$ 67,848
Expenses:		
Operating, general and administrative (notes 12 and 21)	2,579,913	2,938,873
Research and development (notes 13(b),15 and 21)	676,274	3,236,432
Stock-based compensation (note 9(f))	1,266,527	811,458
Financing	-	135,460
Foreign exchange loss	39,586	117,667
Amortization of property and equipment	45,373	241,435
Amortization of patent costs	25,529	28,000
	4,633,202	7,509,325
Loss before interest and other costs	(4,575,543)	(7,441,477)
Other income (note 10)	-	53,254
Impairment of property and equipment (notes 6 and 21)	-	(683,463)
Impairment of patent costs (note 8)	-	(16,511)
Net loss and comprehensive loss	(4,575,543)	(8,088,197)
Deficit, beginning of year		
As previously reported	(41,974,510)	(35,062,969)
Prior period adjustment (note 21)	(1,176,656)	-
As restated	(43,151,166)	(35,062,969)
Deficit, end of year	$ (47,726,709)	$ (43,151,166)
Net loss per common share - basic and diluted	$ (0.07)	$ (0.13)
Weighted average number of common shares outstanding - basic and diluted (note 9(b))	61,166,209	51,487,197

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended July 31, 2011 and 2010

	2011	2010
		(Restated - note 21)
Cash provided by (used in):		
Operating activities:		
Net loss and comprehensive loss	$ (4,575,543)	$ (8,088,197)
Items not involving cash:		
Amortization of property and equipment	45,373	241,435
Amortization of patent costs	25,529	28,000
Stock-based compensation	1,266,527	811,458
Impairment of property and equipment	-	683,463
Impairment of patent costs	-	16,511
Financing costs - non-cash	-	135,460
Other income - non-cash	-	(53,254)
	(3,238,114)	(6,225,124)
Changes in non-cash working capital:		
Interest receivable	-	298
Trade receivables	(5,913)	633
Goods and services tax recoverable	(12,097)	(19,417)
Prepaid expenses	(22,535)	2,394
Customer deposit	23,845	-
Accounts payable and accrued liabilities	(738,134)	1,436,546
	(3,992,948)	(4,804,670)
Investing activities:		
Acquisition of short term investments	(5,000)	-
Deposits recovered (paid)	(2,993)	18,644
Acquisition of property and equipment	(3,605)	(19,155)
	(11,598)	(511)
Financing activities:		
Proceeds from shares and units issued	7,324,690	4,542,789
Share issuance costs	(497,878)	(395,440)
Share subscriptions received	-	650,000
Repayments of obligations under capital lease	(5,829)	(6,998)
Advances to related parties	-	14,410
Advances to employees	(39,627)	-
	6,781,356	4,804,761
Increase (decrease) in cash and cash equivalents	2,776,810	(420)
Cash and cash equivalents, beginning of year	81,010	81,430
Cash and cash equivalents, end of year	$ 2,857,820	$ 81,010

Supplemental cash flow information (note 18)

See accompanying notes to consolidated financial statements.

1. Nature of business and going concern uncertainty:

(a) Nature of business:

Zecotek Photonics Inc. (the "Company") was incorporated on November 25, 1983 under the laws of the Province of British Columbia, Canada.

The activities of the Company are focused on the creation of advanced materials and integrated optoelectronic devices for high resolution medical imaging, optical precision surgery and biopharmaceutical research.

The Company has five wholly owned subsidiaries as follows:

Subsidiary	Main current or planned activity
Zecotek Crystals Inc.	Inactive
Zecotek Lasers Inc.	Inactive
Zecotek 3D Inc.	Inactive
Zecotek Photonics Singapore Pte. Ltd.	Holding company for Singapore subsidiaries
Zecotek Medical Systems AG	Swiss company for certification of medical technologies

Zecotek Photonics Singapore Pte. Ltd. holds 100% ownership interests in Zecotek Display Systems Pte. Ltd., and Zecotek Imaging Systems Pte. Ltd., and a 90% ownership interest in Zecotek Laser Systems Pte. Ltd. These subsidiaries have principal activities described as follows:

Subsidiary	Main current or planned activity
Zecotek Display Systems Pte. Ltd.	Research and development (and eventual exploitation) of 3D imaging technologies
Zecotek Imaging Systems Pte. Ltd.	Research and development (and eventual exploitation) of medical imaging technologies
Zecotek Laser Systems Pte. Ltd.	Research and development (and eventual exploitation) of medical laser technologies

1. Nature of business and going concern (continued):

(a) Nature of business (continued):

Zecotek Imaging Systems Pte. Ltd. holds a 100% ownership interest in Zecotek Imaging Systems (Malaysia) SDN BHD (“ZISM”) which was incorporated on June 24, 2008 with principal activity described as follows:

Subsidiary	Main current or planned activity
Zecotek Imaging Systems (Malaysia) SDN BHD	Research and development (and eventual exploitation) of medical imaging technologies

Four other wholly owned subsidiaries of the Company, O-Tooz Energie Group Inc., FilmIndustry.com Inc., DJscene.com Media, Inc. and OnlineConsortium.com Inc., have been inactive since August of 2001 (see note 10).

(b) Going concern uncertainty:

The Company’s ability to continue to operate and meet its obligations as they come due is dependent upon the ability of the Company to obtain further equity financing as necessary, retain the support of its principal shareholders, and to successfully bring its technologies to market and achieve future profitable operations. The ultimate outcomes of these matters cannot presently be determined because they are contingent on future events.

These financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) on a going concern basis, which presumes that the Company will be able to realize assets and discharge its liabilities in the normal course of business for the foreseeable future. As at July 31, 2011, the Company had very limited operating revenue, and a cumulative deficit of $47,726,709. The Company’s current revenue generated is not sufficient to sustain operations. These factors, among others, create substantial doubt as to the ability of the Company to continue as a going concern.

Management of the Company believes that it will be successful in meeting its business objectives, and that the going concern assumption remains appropriate.

These financial statements do not give effect to adjustments, if any, which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements of the Company are prepared in accordance with Canadian GAAP. The consolidated financial statements include the accounts of the Company and it's wholly and majority owned subsidiaries as identified in note 1(a). All significant inter-company accounts and transactions are eliminated upon consolidation.

No recognition is made of the share of a loss of a non-controlling interest in a subsidiary which would result in an asset to the Company.

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand, balances on deposit with banks and highly liquid market investments with original terms of maturity of less than ninety days at time of acquisition, intended for use in current operations, and is reported at fair value.

(d) Restricted short term investments:

Restricted short term investments, which consist of financial instruments purchased with an original maturity of greater than ninety days and less than one year, are short term investments recorded at estimated market value. The restricted short term investments are pledged as security or otherwise subject to restricted liquidity.

(e) Property and equipment:

Property and equipment are recorded at cost.

Amortization is provided on the following bases:

Asset	Basis	Rate
Equipment	Declining balance	20% to 33%
Furniture	Declining balance	20% to 30%
Leasehold improvements	Straight-line	3 years
Vehicle	Declining balance	30%

2. Significant accounting policies (continued):

(f) Intangible assets:

The purchase cost of technologies from third parties is initially capitalized as an asset.

The cost of intangible assets which are determined to have an indefinite life is not amortized, but is tested for impairment on an annual basis, based on a comparison of the fair value of the intangible asset with its carrying amount. The carrying amount is adjusted for impairment as necessary and any excess of the carrying amount over the fair value of the intangible asset is charged to earnings in the current period.

Intangible assets which acquired from third parties are determined to have a finite useful life are amortized on a systematic basis over the estimated remaining useful life.

(g) Patents and trademarks

Product registration costs related to efforts by the Company to acquire legal protections for its proprietary products, such as trademarks and patents, are capitalized if the Company believes that obtaining the trademark or patent, and recovery of the costs from future related revenues is reasonably assured, otherwise the costs are expensed. Capitalized costs are amortized on a straight-line basis over 5 to 20 years. The amortization period is determined based on the anticipated duration of legal protection, an assessment of the period of time over which the Company is able to generate revenues from the related product, and expected obsolescence.

(h) Research and development costs:

Research costs are expensed in the year incurred.

Development costs include all expenditures considered directly attributable to efforts by the Company to develop, and bring to commercial production, a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized.

(i) Impairment of long-lived assets:

The Company reviews for the impairment of long-lived assets, including property and equipment and intangible assets with finite life, held for use, whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected future cash flows. The assessment of recoverability is made based on projected undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying amount and the fair value of the impaired assets, and is presented as an impairment loss in the current period.

2. Significant accounting policies (continued):

(j) Foreign currency translation:

The Company follows the temporal method of foreign currency translation for consolidation of its foreign subsidiaries' operations. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at each year-end date. Non-monetary assets and liabilities and related depreciation and amortization expenses are translated at the historical exchange rate. Revenue and expenses, other than depreciation and amortization, are translated at the average exchange rate for the year. The resulting exchange gains or losses on translation are included in operations for the year.

(k) Leases:

Leases are classified as capital or operating leases. The asset and the related obligations under capital leases are recorded at the present value of the minimum future lease payments, discounted at the rate implicit in the lease. The capitalized cost is amortized annually. Lease payments under operating leases are expensed in accordance with the terms of the lease agreements.

(l) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 9(e). The fair value method of accounting for stock-based compensation transactions is used. The fair value of stock options is generally estimated at the date of grant using the Black-Scholes Option Pricing Model and is amortized over the vesting terms of the options.

The fair value of stock-based payments to non-employees is periodically remeasured, until the earliest of the completion of services, a firm commitment to complete services, and the vesting date.

(m) Warrants and unit issuances:

Proceeds from issuances by the Company of units consisting of shares and warrants are generally allocated based on the relative estimated fair market values of the shares and the warrants. Warrants are valued using the Black-Scholes Option Pricing Model.

(n) Share issue costs:

Professional, agent and regulatory fees as well as other costs directly attributable to specific financing transactions are reported as deferred financing costs until the transactions are completed, if successful completion is considered reasonably assured. Share issue costs are charged to capital stock when the related shares are issued. Costs relating to financing transactions that are not completed or for which completion is considered unlikely, are charged to net income.

2. Significant accounting policies (continued):

(o) Income taxes:

The Company accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(p) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized based on the use of proceeds that could be obtained upon exercise of such options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation generally produces an anti-dilutive effect for loss years.

(q) Tenant inducements:

Inducements received by the Company from landlords with respect to leased premises are deferred and recognized as a reduction of rent expense evenly over the term of the lease.

(r) Asset retirement obligations:

The Company recognises the fair value of any liability for an asset retirement obligation in the period in which it is incurred by increasing the carrying amount of the related asset by the same amount as the liability that is recorded. The asset retirement cost is amortized over the asset's estimated useful life and charged to operations.

(s) Revenue recognition:

Revenue is recognized when the Company's product is shipped, the title is transferred to the customer and collection of the amount billed is considered reasonably assured.

(t) Government assistance:

Government grants are recognized when there is reasonable assurance that the Company has complied with the conditions of the grant. Such grants are accounted for as reduction of the related expense or asset, or as income, as appropriate. When circumstances arise that indicate repayment is likely or when there is a formal demand for repayment, government grants previously recorded as a reduction of related expenditures or expenses is recorded as a liability in the year the condition for repayment arises.

2. Significant accounting policies (continued):

(u) Financial instruments:

Financial assets and liabilities are measured at fair value upon their initial recognition. Subsequent measurement is based on either fair value or amortized cost, depending upon the classification. All financial instruments have been classified into one of the following five categories: (1) held-to-maturity; (2) loans and receivables; (3) other financial liabilities; (4) available-for-sale; and (5) held-for-trading.

- Cash and cash equivalents, and restricted short term investments are classified as held-for-trading and are measured at fair value with changes in fair value recognized in net income.
- Trade receivables, advances to employees and refundable deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Accounts payable, obligations under capital lease and share subscriptions received are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(v) Comprehensive income:

Comprehensive income is the change in equity of the Company during a period consisting of net income from operations and other comprehensive income (“OCI”). OCI includes unrealized gains and losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The Company does not have any items that required separate recognition outside of net income.

3. New and future accounting pronouncements:

Effective for fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace GAAP for Canadian publicly accountable enterprises. The Company will implement these standards effective August 1, 2011.

The conceptual framework of IFRS is similar to that of Canadian GAAP; however, there are some significant differences in respect to recognition, measurement and disclosure which are being addressed by the Company. Most adjustments required on transition to IFRS will be made by the Company retrospectively to opening retained earnings as at August 1, 2010. Transitional adjustments relating to those standards, where restatement of comparative figures is not required, will be made effective August 1, 2011.

Differences between Canadian GAAP and IFRS may have a significant impact on the Company’s consolidated financial statements; however, the Company has not yet quantified the impact on its financial position or results of its operations.

(Expressed in Canadian dollars)

4. Financial instruments and risks:

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The Company's financial instruments as at July 31, 2011 include cash and cash equivalents, restricted short term investments, trade receivables, advances to employees, refundable deposits, accounts payable, share subscriptions received, and obligations under capital leases. The carrying amounts of these financial instruments approximate their respective fair values except where otherwise noted

Under the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, *Financial Instruments - Disclosures*, the Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Company's fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of cash and restricted short term investment were determined using Level 1 inputs.

The following table presents the carrying amounts of each category of financial assets and liabilities:

	2011	2010
Financial assets:		
Held-for-trading financial assets	$ 2,877,820	$ 96,010
Loans and receivables	104,966	56,433
	$ 2,982,786	$ 152,443
Financial liabilities:		
Other financial liabilities	$ 2,661,604	$ 4,055,567

4. Financial instruments and risks (continued):

(a) Credit risk:

Financial instruments that potentially subject the Company to concentration of credit risks include cash and restricted short term investments. The Company places its cash and restricted short term investments with high credit quality financial institutions. Short term investments are generally held in fixed rate securities. Concentration of credit risks with respect to receivables is limited.

(b) Foreign currency risk:

The Company uses financial instruments to manage fluctuations in foreign currency exchange rates.

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies including Singapore dollars, United States dollars, Euros, and Swiss Francs. Most of the transactions in the Company's Singapore operations are undertaken in Singapore dollars. The Company monitors fluctuations in rates and takes action, if deemed necessary, to mitigate its risks.

At July 31, 2011, the Company had cash balances of $514,881 (2010 - $3,033) United States dollars ($491,969 (2010 - $3,129) Canadian dollars), $223,849 (2010 - $(33,240)) Singapore dollars ($177,404 (2010 - $(25,154)) Canadian dollars), $79 (2010 - $108) Swiss Francs ($96 (2010 - $173) Canadian dollars), 1,191 (2010 - 1,151) Malaysian Ringgits ($383 (2010 - $502) Canadian dollars), advances to employees balances of $46,596 (2010 - nil) Singapore dollars ($36,928 (2010 - nil) Canadian dollars), and accounts payable balances of $154,557 (2010 - $930,234) United States dollars ($147,679 (2010 - $953,468) Canadian dollars), $1,624,500 (2010 - $2,245,045) Singapore dollars ($1,287,447 (2010 - $1,699,050) Canadian dollars), 8,519 (2010 - 24,009) Euros ($10,311 (2010 - $32,285) Canadian dollars), and nil (2010 - 82,920) Malaysian Ringgits (nil (2010 - $26,825) Canadian dollars), such amounts representing exposure to foreign exchange risk.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Short-term investments with fixed interest rates include guaranteed investment certificates with original maturities of greater than three months, exposing the Company to interest rate risk. The Company does not use financial instruments to mitigate this interest rate risk.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company currently settles its financial obligations using cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. As at July 31, 2011, the Company had sufficient cash and cash equivalents to satisfy its short-term obligations (see note 1(b)).

(Expressed in Canadian dollars)

5. Restricted short term investments:

A Guaranteed Investment Certificate in the amount of $20,000 (2010 - $15,000) with an interest rate of Prime minus 2.75% has been pledged as collateral for the Company's corporate credit cards and is presented on the balance sheet as restricted short term investments.

6. Property and equipment:

2011	Cost	Accumulated Amortization	Amortized Cost
Equipment	$ 184,581	$ 136,906	$ 47,675
Furniture	60,996	41,169	19,827
Leasehold improvements	302,831	294,607	8,224
	$ 548,408	$ 472,682	$ 75,726

2010	Cost	Accumulated Amortization	Amortized Cost
Equipment	$ 180,974	$ 119,824	$ 61,150
Furniture	60,996	36,213	24,783
Leasehold improvements	302,831	276,273	26,558
	$ 544,801	$ 432,310	$ 112,491

An amount of $683,463 was recognized as an impairment loss for the 2010 year as the recoverability of certain costs of equipment used in the laser segment of the Company (note 16) was considered doubtful.

7. Equipment under capital lease:

2011	Cost	Accumulated Amortization	Amortized Cost
Vehicle	$ 57,227	$ 45,548	$ 11,679

2010	Cost	Accumulated Amortization	Amortized Cost
Vehicle	$ 57,227	$ 40,543	$ 16,684

(Expressed in Canadian dollars)

8. Patent costs:

2011	Cost	Accumulated Amortization	Amortized Cost
Patent costs	$ 255,270	$ 103,355	$ 151,915

2010	Cost	Accumulated Amortization	Amortized Cost
Patent costs	$ 255,270	$ 77,828	$ 177,442

An amount of $16,511 was recognized as an impairment loss for the 2010 year as the recoverability of certain patent costs related to the laser segment of the Company (note 16) was considered doubtful.

9. Share capital:

(a) Authorized:

The authorized share capital of the Company is an unlimited number of common voting shares with no par value.

(b) Issued and outstanding common shares:

	Number of shares	Amount
Balance July 31, 2009	46,459,171	$ 29,410,773
Private placement (*ii*)	5,925,000	2,458,270
Exercise of warrants (*iii*)	1,020,833	833,014
Balance July 31, 2010	53,405,004	32,702,057
Private placement (*iv*)	2,773,584	1,200,397
Private placement (*v*)	12,273,000	4,976,344
Balance July 31, 2011	68,451,588	$ 38,878,798

9. Share capital (continued):

(b) Issued and outstanding common shares (continued):

(*i*) On August 5, 2009, the Company amended the terms of the 1,078,150 warrants issued to subscribers of a private placement which closed on December 20, 2007. The exercise price of the warrants was reduced from $2.10 to $0.75 per common share with no change to the expiry date of December 20, 2009. The exercise period of the amended warrants is to be accelerated if certain conditions are met. The estimated fair value of the warrants increased by $135,460 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 9(d)). The amount was considered a financing expense and charged to operations for the 2010 year.

(*ii*) On October 23, 2009, the Company completed a non-brokered private placement of 5,925,000 units issued at $0.63 per unit, resulting in gross proceeds of $3,732,750. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of twenty four months at a price of $1.00 per common share. The exercise period of the warrants is to be accelerated if certain conditions are met. The Company paid a finder's fee equal to 7% of the gross proceeds ($261,293) and issued to the agent non-transferable warrants to purchase common shares equal in number to 6% of the units sold (355,500) under the private placement with the same terms. Legal and other costs amounted to $34,570. The estimated fair value of agents' warrants granted was determined to be $94,581 (approximately $0.27 per warrant), using the Black-Scholes option pricing model (note 9(d)).

The amounts assigned to the share and warrant portions of the units have been allocated proportionately based on the share price at the issuance date and the warrant value determined using the Black-Scholes option pricing model with the assumptions detailed in note 9(d).

(*iii*) On February 4 and 23, 2010, 170,000 and 833,333 common share purchase warrants were exercised respectively at $0.70 per share for total cash proceeds of $702,333. On February 16 and March 5, 2010, 12,500 and 5,000 common share purchase warrants were exercised respectively at $0.75 per share for total cash proceeds of $13,125.

9. Share capital (continued):

(b) Issued and outstanding common shares (continued):

(iv) On November 3, 2010, the Company completed a non-brokered private placement of 2,773,584 units of the Company at a price of $0.53 per unit for gross proceeds of $1,470,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.70 per share for a period of 24 months after the date of the private placement. The estimated fair value of common share purchase warrants granted was determined to be $174,313, using the Black-Scholes option pricing model (note 9(d)). The exercise period automatically accelerates if the common shares of the Company trade above $1.25 for a period of 10 consecutive trading days. Pursuant to the financing, the Company paid finder's fee amounting to $47,250, equal to 5% of gross proceeds of the units placed by the finder and issued 124,811 non-transferable finder's warrants. Legal and other costs amounted to $29,557. The estimated fair value of finders' warrants granted was determined to be $18,483 (approximately $0.15 per warrant), using the Black-Scholes option pricing model (note 9(d)). Each finder's warrant entitles the holder to purchase one common share at a price of $0.70 for a period of 24 months after the date of the private placement. All shares and warrants were subject to a four-month hold period which expired on March 3, 2011.

(v) On February 9, 2011, the Company completed the first tranche of a non-brokered private placement of 8,900,000 units of the Company at a price of $0.53 per unit for gross proceeds of $4,717,000. The second tranche of the private placement was completed on February 17, 2011, in which, 3,373,000 units of the Company were issued at a price of $0.53 per unit for gross proceeds of $1,787,690. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.70 per share for a period of 24 months after the date of private placement. The exercise period automatically accelerates if the common shares of the Company trade above $1.25 for a period of 10 consecutive trading days. The estimated fair value of common share purchase warrants granted was determined to be $647,427 and $243,750 for the first and second tranches respectively, using the Black-Scholes option pricing model (note 9(d)). Pursuant to the financing, the Company paid finder's fees in the amounts of $282,416 and $95,241 for the first and second tranches respectively. The Company issued 621,670 and 209,650 non-transferable finder's warrants for the first and second tranches respectively. Each finder's warrants entitles the holder to purchase one common share at a price of $0.70 for a period of 24 months after the date of private placement. The estimated fair value finders' warrants granted was determined to be $163,748 and $52,350 for the first and second tranches respectively, using the Black-Scholes option pricing model (note 9(d)). Legal and other costs amounted to $43,414. All shares and warrants were subject to a four-month hold periods.

(Expressed in Canadian dollars)

9. Share capital (continued):

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2009	2,862,983	$ 1.24
Warrants granted (note 9(b)(*ii*))	5,925,000	1.00
Warrants repriced (note 9(b)(*i*))	-	(1.35)
Warrants exercised (note 9(b)(*iii*))	(1,020,833)	(0.70)
Warrants expired	(1,842,150)	(0.75)
Balance, July 31, 2010	5,925,000	1.00
Warrants granted (note 9(b)(*iv*))	1,386,792	0.70
Warrants granted (note 9(b)(*v*))	6,136,500	0.70
Balance, July 31, 2011	13,448,292	$ 0.83

At July 31, 2011 the share purchase warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
5,925,000	$ 1.00	October 23, 2011
1,386,792	$ 0.70	November 3, 2012
4,450,000	$ 0.70	February 9, 2013
1,686,500	$ 0.70	February 17, 2013

(d) Agent's and finder's warrants and options:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2009	211,141	$ 1.34
Agents' warrants granted (note 9(b)(*ii*))	355,500	1.00
Agents' warrants expired	(150,941)	(1.60)
Agents' warrants expired	(60,200)	(0.70)
Balance, July 31, 2010	355,500	1.00
Finders' warrants granted (note 9(b)(*iv*))	124,811	0.70
Finders' warrants granted (note 9(b)(*v*))	831,320	0.70
Balance, July 31, 2011	1,311,631	$ 0.78

(Expressed in Canadian dollars)

9. Share capital (continued):

(d) Agent's and finder's warrants and options (continued):

At July 31, 2011 the agents' and finders' warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
355,500	$ 1.00	October 23, 2011
124,811	$ 0.70	November 3, 2012
621,670	$ 0.70	February 9, 2013
209,650	$ 0.70	February 17, 2013

The weighted average fair value of agents', finders' and common share purchase warrants issued during the year ended July 31, 2011 has been estimated at the date of grant using the Black-Scholes option pricing model as $0.25 (2010 - $0.27) per warrant using the following weighted average assumptions:

	2011	2010
Annualized stock volatility	62.7%	81.6%
Risk-free interest rate	1.7%	1.4%
Expected option/warrant life	2.0 years	2.0 years
Dividend payments	0.0%	0.0%

(e) Stock options:

On December 29, 2010, the Board of Directors approved a new stock option plan. Under the plan, the Company may grant options to purchase common shares in the Company to employees, directors, officers, and consultants of the Company. The exercise price of the options is to be determined by the Board of Directors but generally will be equal to or greater than the market price of the shares at the grant date. Options will vest according to the following schedule:

25%	-	on grant date
25%	-	6 months after grant date
25%	-	12 months after grant date
25%	-	18 months after grant date

As of July 31, 2011 the Company has reserved 11,235,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 2,830,000 were available for future issuance.

(Expressed in Canadian dollars)

9. Share capital (continued):

(e) Stock options (continued):

Stock option transaction and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2009	7,534,000	$ 1.02
Options granted	820,000	0.71
Options expired	(1,025,000)	(0.67)
Balance, July 31, 2010	7,329,000	1.03
Options granted	4,000,000	0.64
Options expired	(2,924,000)	(1.41)
Balance, July 31, 2011	8,405,000	$ 0.71

At July 31, 2011 6,405,000 options had vested, which have a weighted average exercise price of $0.73.

The estimated fair value of options granted to employees, directors, officers and consultants is amortized to expense over the vesting period of the options. Compensation expense, and addition to contributed surplus of $1,538,880 was recognized for the year ended July 31, 2011 (2010 - $811,458). The weighted average fair value of stock options granted during the year ended July 31, 2011 has been estimated at the date of grant using the Black-Scholes option pricing model as $0.48 (2010 - $0.46) per share using the following weighted average assumptions:

	2011	2010
Annualized stock volatility	78.75%	79.0%
Risk-free interest rate	2.34%	2.3%
Expected option life	5 years	5 years
Dividend payments	0.00%	0.00%

(Expressed in Canadian dollars)

9. Share capital (continued):

(e) Stock options (continued):

Options outstanding at July 31, 2011 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$0.64	4,000,000	2,000,000	4.47
$0.65	2,660,000	2,660,000	2.75
$0.65	45,000	45,000	2.75
$0.71	820,000	820,000	3.47
$0.80	60,000	60,000	0.46
$1.05	160,000	160,000	0.02
$1.10	300,000	300,000	0.48
$1.20	100,000	100,000	0.50
$1.30	100,000	100,000	1.19
$1.79	160,000	160,000	1.33
	8,405,000	6,405,000	3.42

The Black-Scholes model, used by the Company to calculate option values, was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price, volatility, and expected time until exercise, which greatly affect the calculated values.

(f) Contributed surplus:

	2011	2010
Balance, beginning of year	$ 6,902,220	$ 5,099,237
Stock-based compensation expense	1,266,527	811,458
Agents' and finders' warrants granted (notes 9(b)(*ii*),(*iv*) and (*v*))	234,581	94,581
Warrants granted (notes 9(b)(*ii*),(*iv*) and (*v*))	1,065,490	884,040
Warrants amended	-	135,460
Warrants exercised	-	(122,556)
Balance, end of year	$ 9,468,818	$ 6,902,220

(Expressed in Canadian dollars)

10. Discontinued operations:

In the 2002 year, the Company's subsidiary, O-Tooz Energie Group Inc. ("O-Tooz"), disposed of its two healthy fast food outlets in Vancouver. The discontinued operation resulted in the default of lease agreement liabilities of approximately $108,000.

In January of 2005, the Company abandoned O-Tooz along with its other inactive subsidiaries, Djscene.com Media Inc., Online Consortium.com Inc. and FilmIndustry.com Inc. As at July 31, 2009, the remaining liabilities, net of assets, of these discontinued operations were segregated in the consolidated balance sheet. During the 2010 year, the Company received a legal opinion that the lease liability had exceeded the statute of limitation period, consequently the liability has been reversed and the resulting gain recognized as other income.

11. Obligations under capital leases:

Future minimum lease payments for obligations under capital leases as at July 31, 2011 are as follows:

2012	$	9,520
2013		9,520
		19,039
Less: interest at a rate of 6.45% per annum		(2,323)
Less: current portion of principal payments		(7,827)
Long term portion	$	8,889

12. Related party transactions:

The Company undertook the following transactions with related parties. These transactions were measured at the exchange amounts which are the amounts of consideration established and agreed upon by the related parties.

(a) During the 2011 year, the Company incurred $100,000 (2010 - $180,000) for consulting services to Dr. Faouzi Zerrouk ("Dr. Zerrouk"), the Chairman of the Board of Directors, President, and Chief Executive Officer of the Company, and a company controlled by Dr. Zerrouk. The Company also provided Dr. Zerrouk, as part of his compensation package, a school, transport and housing allowance totalling $145,028 (2010 - $276,989). At July 31, 2011, $120,421 (2010 - $47,908) of the consulting fees and $145,028 (2010 - $96,900) of the school, transport and housing allowance was unpaid and included in accounts payable and accrued liabilities.

(b) During the 2011 year, the Company incurred $38,516 (2010 - $56,235) in legal fees to Boughton Law Corporation, legal counsel to the Company, for legal services rendered. A director of the Company is an Associate Counsel of Boughton Law Corporation. At July 31, 2011, $365 (2010 - $5,234) of these fees was unpaid and included in accounts payable and accrued liabilities.

12. Related party transactions (continued):

(c) During the 2011 year, the Company incurred fees of $94,000 (2010 - $87,685) for accounting and related services from a company controlled by the Corporate Secretary of the Company. At July 31, 2011, no fees (2010 - $16,275) were unpaid and included in accounts payable and accrued liabilities.

(d) During the 2011 year, the Company granted options to directors to acquire 950,000 shares of the Company at a price of $0.64 per share until January 18, 2016 (2010 - 640,000 shares at $0.71 per share until January 19, 2015).

(e) During the 2011 year, the Company granted options to officers to acquire 680,000 shares of the Company at a price of $0.64 per share until January 18, 2016 (2010 - 20,000 shares at $0.71 per share until January 19, 2015).

(f) During the 2011 year, the Company paid fees of $28,635 to Calypso Enterprises Holding Corporation ("Calypso") for consulting services in respect to potential investments of the Company. A director of the Company is a director of Calypso.

(g) During the 2011 year, the Company incurred fees of $71,500 for consulting services to the chief financial officer and a company controlled by the chief financial officer. At July 31, 2011, $84,988 (2010 - $62,228) of these fees was unpaid and included in accounts payable and accrued liabilities

(h) During the 2011 year, the Company advanced $39,625 (SGD 50,000) to the Executive Vice-President, Operations. The loan is unsecured, bears no interest and is repayable at $1,981 (SGD 2,500) per month for 12 months. The balance at the end of July 31, 2011 was $31,700 (SGD 40,000). The remaining balance of $15,850 (SGD 20,000) at the loan maturity date of April 8, 2012 is to be paid as a lump sum.

(i) During the 2010 year, the Company paid research and development fees totalling $245,000 to PlanB Media AG, a Swiss corporation with a director in common with the Company, in respect to development of certain software technology.

13. Commitments and agreements:

(a) Effective February 27, 2006, the Company completed an exclusive license agreement with a third party for the use of the patents, technical data and know-how of its proprietary LFS scintillation crystal technology. Under the agreement, the Company is to receive a royalty of a fixed percentage of the gross selling price for each unit of licensed product delivered, sold, or leased to a third party during the twenty-year term of the agreement. Under the agreement, the Company has not received any revenues to date. This agreement has now been mutually terminated by both parties.

(Expressed in Canadian dollars)

13. Commitments and agreements (continued):

(b) Effective June 27, 2006, Zecotek Photonics Singapore Pte. Ltd. ("ZPS") entered into a Collaborative Research Agreement, which was subsequently amended, with the University of Washington ("UW") for joint development of a proprietary technology for use in medical imaging systems. Pursuant to the agreement, the Company was to pay a total of USD$2,429,597 to UW for the development project, as billed by UW. During the 2011 year, the agreement was terminated. Amounts totalling $630,957 (USD$606,974) accrued previously as owing to UW under the agreement have been reversed and recorded as recovery of research and development expense. A new contract was negotiated with UW for total payments of USD$280,000. The first payment under the new contract was made on May 20, 2011 in the amount of USD$93,000. Remaining payments under the contract totalling USD$187,000 are to be made during the year ending July 31, 2012.

(c) Effective May 1, 2006, ZPS entered into an employment agreement with Dr. Zerrouk in respect to the positions of Chairman, President and Chief Executive Officer of the Company and its subsidiaries. The agreement provides for annual compensation totalling $486,000 Singapore dollars (approximately $363,965 Canadian dollars) and is for an indefinite term. In order to terminate the agreement, the Company must provide not less than twelve months notice, pay severance equal to twenty-four month's salary and maintain all stock options held by Dr. Zerrouk.

(d) The Company has entered into office leases for its Vancouver and Singapore offices. The Company also has entered into an apartment lease for certain employees in Singapore. Minimum required lease payments under these agreements are as follows:

2012	$ 145,566
2013	42,795
2014	3,566

(e) Effective August 24, 2006, the Company entered into a Collaborative Research Agreement with the University of British Columbia ("UBC") to jointly develop advanced light sources and optical systems for medical imaging products for the period from September 1, 2006 to December 31, 2009. As at July 31, 2011, a total of $53,600 remains outstanding and included in accounts payable and accrued liabilities.

(f) Effective October 24, 2008, the Company completed an amended Research and Development Agreement with Inversion Fibre Co. Ltd. ("Inversion"). Pursuant to the agreement, Inversion is to assist in the development of certain types of lasers. Under the agreement, the Company was required to make payments totalling USD$380,000, of which USD$76,000 has been paid by the Company. The agreement has been terminated by mutual agreement.

13. Commitments and agreements (continued):

(g) Effective March 28, 2007 the Company's Singapore subsidiary, Zecotek Laser Systems Pte. Ltd. ("ZLS") completed two asset purchase agreements to acquire certain laser technologies from Inversion and Tekhnoscan JS Company ("Tekhnoscan"). Inversion and Tekhnoscan each received 5% of the issued common shares of ZLS.

The asset purchase agreements also include provisions for an assignment of convertibility rights to the common shares of ZLS by which the ZLS shares could be exchanged for shares of the Company, once a market value of the shares of ZLS can be established.

As conditions of the asset purchase agreements, ZLS entered into Manufacturing Agreements with Inversion and Tekhnoscan. The manufacturing agreements appoint Inversion and Tekhnoscan as non-exclusive manufacturers of the laser systems for ZLS. Under these agreements, Inversion and Tekhnoscan are to manufacture laser systems at cost, as defined under the agreements.

(h) Effective June 1, 2008, the Company entered into a Patent Licensing Agreement with the University of British Columbia ("UBC") whereby UBC grants to the Company a worldwide, exclusive license to use and sublicense a patent related to methods of making certain optical structures of for a term of 20 years or until the last patent licensed under the agreement expires. Pursuant to the agreement, the Company paid to UBC a minimum royalty of $5,000 in 2011 and is to pay a further minimum royalty of $10,000 in 2012 and royalty of $20,000 each year thereafter until the end of the term. The Company is also to pay an annual maintenance fee of $500 during the term, and was required to pay an upfront license fee of $5,000. In addition to the minimum amounts, the Company must pay royalties based on specified percentages of sales and sublicense revenues.

(i) Effective January 26, 2010, the Company entered into a Patent Licensing Agreement with the University of Washington ("UW") whereby UW grants to the company a worldwide, exclusive license to use and sublicense certain patents related to a magnetic resonance system design for a term of 20 years or until the last patent licensed under the agreement expires. Pursuant to the agreement, the Company paid to UW an annual maintenance fee of $10,000 in 2011 and is to pay a minimum royalty of $20,000 in 2012 and of $20,000 per annum thereafter until the end of the term. The Company was also required to pay an upfront license fee of USD$30,000. In addition to the minimum amounts, the Company must pay royalties based on a specified percentage of net sales.

(Expressed in Canadian dollars)

13. Commitments and agreements (continued):

(j) Effective May 15, 2010, the Company entered into a Patent Licensing Agreement with the University of British Columbia ("UBC") whereby UBC grants to the company a worldwide, exclusive license to use and sublicense a patent related to a new active medium for solid state lasers for a term of 20 years or until the last patent licensed under the agreement expires. Pursuant to the agreement, the Company is to pay UBC a minimum royalty of $5,000 in 2013, a minimum royalty of $10,000 in 2014 and of $20,000 thereafter until the end of the term. The Company is also to pay an annual maintenance fee of $500 during the term, and was required to pay an upfront license fee of $10,000. In addition to the minimum amounts, the Company must pay royalties based on specified percentages of sales and sublicense revenues.

(k) On January 12, 2010, the Company and JSC Centr-Telco entered into an agreement in respect to the manufacturing and investigation of optical elements for applications in medical devices. Under the agreement, the Company was required to make payments totalling USD$220,000. This agreement was completed during the 2011 year.

The future commitments described in note 13 are summarized as follows:

2012	$ 354,355
2013	87,905
2014	53,676
2015	60,110
2016	60,110
	$ 616,156

14. Contingencies

In March of 2011, the Company entered into agreements with certain of its consultants, directors and employees (the "individuals"). Under these agreements, the individuals waived salaries and fees owed to them totalling $1,113,455 in favour of bonus payments of the same amounts, which are to be paid upon certain triggering events, including a sale of substantially all of the assets of the Company, or the shares of the Company, commercialization of any of the technologies of the Company, a public listing of shares of a subsidiary of the Company, or cash inflows exceeding $3,000,000 in any three month period.

The liability for this compensation will remain included in accounts payable and accrued liabilities until such time as it can be determined that the liability is legally extinguished y.

(Expressed in Canadian dollars)

15. Government grants:

The Company has received grants from the Government of Singapore - Economic Development Board ("EDB") and the Government of Malaysia - Industrial Development Authority ("MIDA"). The EDB grant is contingently repayable should the Company not meet certain requirements in respect to local employment, expenditures and production. As at July 31, 2010, certain of these conditions were not met in respect to the EDB grant. During the 2009 year, the Company received Singapore dollars $1,554,778 (Canadian dollars $1,232,162) and recorded this as a reduction in expenditures and expenses as management believed there was reasonable assurance that the amounts would not have to be repaid.

The Company received correspondence from the EDB in August 2010 in which the EDB required repayment of cumulative grants received by the Company in the amount of Singapore dollars $1,554,778 (Canadian dollars $1,232,162), referring to the Company's not meeting all original conditions of the grant. The amount has been recognized as a liability as at July 31, 2010 and 2011 (note 21). The Company disputes the repayment requirement, believes the EDB had previously waived or postponed some conditions, and is in discussion with the EDB seeking to eliminate the amount owing by the Company. The Company has not received any further communications from the EDB since the Company's legal counsel responded to the EDB correspondence in September 2010.

During the 2010 year, the Company received additional salary cost assistance from the Government of Singapore totalling $15,514 which was reported as a reduction of research and development costs.

16. Segmented information:

The Company has principal operations in Canada and Singapore (Asia) and is organized into three sales geographic areas consisting of Asia, Europe, and North America. Reporting information by geographic area is as follows:

2011	Asia	Europe	North America	Total
Revenue (a)	$ 3,273	$ 20,882	$ 33,504	$ 57,659
Property and equipment	60,015	5,568	10,143	75,726
Equipment under capital lease	11,679	-	-	11,679
Patent costs	151,915	-	-	151,915

(Expressed in Canadian dollars)

16. Segmented information (continued):

2010		Asia		Europe		North America		Total
Revenue (a)	$	20,774	$	47,074	$	-	$	67,848
Property and equipment		92,597		6,960		12,934		112,491
Equipment under capital lease		16,684		-		-		16,684
Patent costs		177,442		-		-		177,442

(a) Revenues are attributed to countries based on location of customer.

The Company is a photonics technology company developing and commercializing laser systems and components, high-performance crystals, solid-state photo detectors, optical imaging and 3D display technologies.

The Company defines its operating segments based on the type of products it is developing and commercializing. The Company's operating segments include lasers, imaging and display systems. The laser systems segment includes laser systems and components and high-performance RFO Vanadate crystal. The imaging systems segment includes photo detectors and LFS scintillation crystals. The Display systems segment includes 3D display technologies.

Reporting information by operating segment is as follows:

2011		Lasers		Imaging		Display		Total
Revenue	$	20,465	$	37,194	$	-	$	57,659

2010		Lasers		Imaging		Display		Total
Revenue	$	-	$	67,848	$	-	$	67,848

During the 2011 year, revenue of the Company from four customers represented 92.4% of total revenue. Revenue from each of the four customers totalled $20,551, $20,465, $6,323, and $5,946 respectively.

During the 2010 year, revenue of the Company from two customers represented 94.0% of total revenue. Revenue from one customer totalled $47,074 and from the other customer totalled $16,676.

(Expressed in Canadian dollars)

17. Income taxes:

(a) A reconciliation of the Canadian and Singapore statutory tax rates to the effective rates for the Company is as follows:

	2011		2010	
	Canada	Singapore	Canada	Singapore
Statutory income tax rate	(27.3%)	(17.0%)	(29.1%)	(17.0%)
Tax losses not recognized	27.3%	17.0%	29.1%	17.0%
Effective tax rate	-	-	-	-

(b) At July 31, 2011 and 2010, the tax effects of temporary differences that give rise to the Company's future income tax assets are as follows:

	2011		2010	
	Canada	Singapore	Canada	Singapore
Operating losses	$ 2,898,900	$ 4,041,900	$ 2,675,200	$ 3,811,600
Intangible assets	30,300	(23,500)	29,400	(27,200)
Share issuance costs	108,300	-	106,000	-
Property and equipment	29,100	29,900	28,200	24,900
	3,066,600	4,048,300	2,838,800	3,809,300
Less: valuation allowance	(3,066,600)	(4,048,300)	(2,838,800)	(3,809,300)
	$ -	$ -	$ -	$ -

The valuation allowance reflects the Company's estimate that the benefit of the tax assets, more likely than not, will not be realized.

(c) As at July 31, 2011, the Company and its subsidiaries have operating losses carried forward for Canadian and Singapore income tax purposes, available to reduce taxable income of future years, subject to certain restrictions. The Canadian tax losses expire commencing in the 2015 year as follows:

2015	$ 1,478,231
2026	2,426,535
2027	2,254,153
2028	1,846,998
2029	1,298,391
2030	1,376,560
2031	898,592
	$ 11,579,460

Operating losses for Singapore tax purposes of approximately $22,800,000 may be carried forward indefinitely, subject to certain restrictions.

(Expressed in Canadian dollars)

18. Statement of cash flows - supplementary information:

(a) Cash paid for income taxes and interest is summarized as follows:

		2011		2010
Cash paid for income taxes	$	-	$	-
Cash paid for interest	$	2,576	$	2,069

(b) Significant non-cash transactions occurring during the 2011 and 2010 years were as follows:

(*i*) On February 9 and 17, 2011, the Company granted finders' warrants at an estimated fair value of $216,098, as described in note 9(b)(*v*).

(*ii*) On November 3, 2010 the Company granted finders' warrants at an estimated fair value of $18,483, as described in note 9(b)(*iv*).

(*iii*) On October 23, 2009, the Company granted agents' warrants at an estimated fair value of $94,851, as describe in note 9(b)(*ii*).

(*iv*) On August 5, 2009, the Company amended the terms of 1,078,150 warrants resulting in the recognition of expense of $135,460 as described in note 9(b)(*i*).

19. Capital disclosures:

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes shareholders' equity and long-term debt in the definition of capital. At July 31, 2011, the Company had a capital balance of $629,796.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or undertake other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended July 31, 2010.

(Expressed in Canadian dollars)

20. Subsequent events:

(a) On September 23, 2011, the Company amended the terms of 5,925,000 warrants issued to subscribers of a private placement which closed on October 23, 2009. The Company re-priced the exercise price of the subscriber warrants to $0.65 per common share from the initial exercise price of $1.00, and extended the expiry date from October 23, 2011 to April 23, 2012. The amended warrants contain an acceleration provision, such that, if, for a period of ten consecutive trading days, the closing price of the Company's shares is $0.80 per share or higher, the warrant exercise period will be shortened to a period of 30 days.

(b) On September 23, 2011, the Company granted 2,255,000 stock options to directors, employees, and consultants of the Company. The exercise price is $0.65 and the options have a term of five years.

21. Prior period adjustment:

The Company made an adjustment to the 2010 comparative figures.

It was determined that accounts payable and accrued liabilities was understated by $1,176,656 in respect to amounts claimed by the EDB to be owing as at July 31, 2010, as described in note 15.

The resulting adjustments to the 2010 comparative balance sheet and statement of operations figures was as follows:

	Increase
Balance sheet:	
(*i*) Accounts payable and accrued liabilities	$1,176,656
(*ii*) Deficit	$1,176,656
Statement of operations:	
(*i*) Operating, general and administrative	$26,556
(*ii*) Research and development	$919,062
(*iii*) Impairment of property and equipment	$231,038

22. Comparative figures:

The comparative figures for the year ended July 31, 2010 were audited by another firm of chartered accountants.