ZECOTEK PHOTONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS
ENDED APRIL 30, 2011 AND 2010

Zecotek Photonics Inc.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Zecotek Photonics Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As at April 30, 2011 and July 31, 2010

	April 30, 2011 (Unaudited)	**July 31, 2010 (Audited)**
Assets		
Current Assets		
Cash and cash equivalents	$ 4,206,593	$ 81,010
Accounts receivable	1.365	1,483
Goods and services tax recoverable	65,607	34,828
Advances to employees *(note 9(f))*	50,378	-
Prepaid expenses	14,084	14,790
	4,338,027	132,111
Restricted short term investments	15,000	15,000
Deposits	63,482	54,950
Property and equipment (net)	77,334	112,491
Equipment under capital lease (net)	12,931	16,684
Patent costs (net)	158,298	177,442
	$ 4,665,072	$ 508,678
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 639,675	$ 2,206,366
Customer deposit	26,415	-
Current portion of obligations under capital lease	8.217	7,282
Share subscription received	-	650,000
	674,307	2,863,648
Obligations under capital lease *(note 8)*	9,090	15,263
Shareholders' Equity		
Share capital *(note 5(b))*	38,878,798	32,702,057
Contributed surplus *(note 5(f))*	9,455,006	6,902,220
Deficit	(44,352,129)	(41,974,510)
	3,981,675	(2,370,233)
Nature of Business and Going Concern Uncertainty *(note 1)*		
Commitments *(note 6)*		
Contingencies *(note 10)*		
Total Liabilities and Shareholders' Equity	$ 4,665,072	$ 508,678

Approved, on behalf of the Board:

"Faouzi Zerrouk"
Director

"David Toyoda"
Director

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)
(Unaudited)
Nine Months ended April 30, 2011 and 2010

	Three Months ended April 30		Nine Months ended April 30	
	2011	**2010**	**2011**	**2010**
Revenue	$ 2,037	$ 961	$ 29,217	$ 75,572
Cost of sales	387	611	5,552	41,760
Gross profit	1,650	350	23,665	33,812
Expenses				
Operating, general and administrative	747,606	599,700	1,052,080	2,205,664
Research and development *(note 11)*	(117,514)	779,307	33,032	1,998,758
Stock-based compensation *(note 5(e))*	286,165	200,911	1,252,715	610,547
Financing costs	-	-	-	135,460
Foreign exchange loss (gain)	18,671	10,251	4,484	54,061
Amortization of property and equipment	13,325	62,699	39,827	182,469
Amortization for patent cost	6,382	7,000	19,146	23,510
	954,635	1,659,868	2,401,284	5.210,469
Net loss and comprehensive loss for the period	(952,985)	(1,659,518)	(2,377,619)	(5,176,657)
Deficit, Beginning of Period	(43,399,144)	(38,580,108)	(41,974,510)	(35,062,969)
Deficit, End of Period	$(44,352,129)	$(40,239,626)	$(44,352,129)	$(40,239,626)
Loss per common share – basic and diluted	$(0.01)	$(0.03)	$(0.04)	$(0.10)
Weighted average number of common shares outstanding – basic and diluted *(note 5(f))*	66,907,307	53,214,478	58,711,062	50,793,277

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)
Nine Months ended April 30, 2011 and 2010

	Three Months ended April 30		Nine Months ended April 30	
	2011	2010	2011	2010
Operating activities:				
Net loss for the year	$(952,985)	$ (1,659,518)	$(2,377,619)	$(5,176,657)
Adjustments for items not involving cash:				
Amortization–property and equipment	13,325	62,699	39,827	182,469
Amortization for patent cost	6,382	7,000	19,146	23,510
Financing cost	-	-	-	135,460
Stock-based compensation	286,165	200,911	1,252,715	610,547
	(647,113)	(1,388,908)	(1,065,931)	(4,224,671)
Changes in non-cash working capital:				
Accounts receivable	6,091	902	118	(15,020)
Goods and services tax recoverable	(6,891)	(7,237)	(30,779)	(16,271)
Prepaid expenses	5,456	2,010	706	(13,644)
Accounts payable and accrued liabilities	(906,100)	351,290	(1,566,691)	47,885
Customer deposit	26,415	-	26,415	-
Net cash used in operating activities	(1,522,142)	(1,041,943)	(2,636,162)	(4,221,721)
Investing activities:				
Deposits received (paid)	(6,908)	(1,754)	(8,532)	(235,803)
Acquisition of property and equipment	(919)	-	(919)	(19,156)
Net cash used in investing activities	(7,827)	(1,754)	(9,451)	(254,959)
Financing activities:				
Proceeds from shares issued, net of issuance cost	6,083,619	710,458	7,476,812	4,147,349
Shares subscriptions received	(1,353,090)	-	(650,000)	-
Obligations under capital lease	(2,112)	(2,339)	(5,238)	(5,783)
Advances to employees	(50,378)	-	(50,378)	-
Advances from related parties	-	25,795	-	11,285
Deposits for share subscriptions	-	300,000	-	300,000
Net cash used in financing activities	4,678,039	1,033,915	6,771,196	4,452,852
Increase (decrease) in cash and cash equivalents	3,148,070	(9,783)	4,125,583	(23,828)
Cash and cash equivalents, beginning of period	1,058,523	67,385	81,010	81,430
Cash and cash equivalents, end of period	$ 4,206,593	$ 57,602	$ 4,206,593	$ 57,602

See accompanying Notes to Consolidated Financial Statements.

1. Basis of presentation

Zecotek Photonics Inc. (the "Company") is a public company which was incorporated on November 25, 1983 under the laws of the Province of British Columbia, Canada. The Company changed its name from Zecotek Medical Systems Inc. on November 26, 2007.

These interim financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which presumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. The Company has incurred significant losses since its inception. These factors, among others, raise uncertainty about the ability of the Company to continue as a going concern. The continued operations of the Company are dependent upon the ability of the Company to obtain further equity financing, the support of its principal shareholders and achieving profitable operations sufficient to meet all obligations, the outcome of which cannot be predicted at this time.

These financial statements do not give effect to adjustments, if any that 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.

Certain information and disclosure normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended July 31, 2010 The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended July 31, 2010.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. New accounting pronouncements

International financial reporting standards ("IFRS")

Effective for fiscal years beginning on or after January 1, 2011, IFRS will replace GAAP for Canadian publicly accountable enterprises. The Company will implement these standards on August 1, 2011. In accordance with IFRS, the Company will be required to report its results commencing with its fiscal year ending July 31, 2012 with the quarter ending October 31, 2011 being the first set of consolidated financial statements prepared under IFRS. Comparative figures for the quarter ended October 31, 2010 also need to be presented, including an opening balance sheet as at August 1, 2010 reconciled from current Canadian GAAP to IFRS. For the year ending July 31, 2011 and comparative year ended July 31, 2010, the Company will continue to report its results in accordance with Canadian GAAP.

Conceptual framework of IFRS is similar to that of Canadian GAAP; however, there are some significant differences on recognition, measurement and disclosure that are being addressed during the Company's planning stages. Most adjustments required on transition to IFRS will be made by the Company retrospectively against opening retained earnings on August 1, 2010. Transitional adjustments relating to those standards, where restatement of comparative figures is not required, will be made on the first day of the fiscal year of adoption being 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 to its financial position or results of its operations.

3. 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.

Financial instruments of the Company include cash and cash equivalents, short term and restricted short term investments, trade and interest receivables, due from related parties, refundable deposits, accounts payable, obligations under capital lease, and liabilities of discontinued operations.

Credit risk

Financial instruments that potentially subject the Company to concentration of credit risks include cash and short term investments. The Company places its cash and 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.

Foreign currency risk

The Company uses financial instruments to manage fluctuations in foreign currency exchange rates. In accordance with CICA Section 3855 the Company accounts for all derivative financial instruments using the fair value accounting method.

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 April 30, 2011, the Company had cash balances of $340,560 United States dollars ($322,315 Canadian dollars), $734,177 Singapore dollars ($569,354 Canadian dollars), 175 Swiss Francs ($192 Canadian dollars) and Malaysian Ringgit 1,551 ($497 Canadian dollars), and accounts payable balances of $186,280 United States dollars ($210,540 Canadian dollars), $192,210 Singapore dollars ($149,060 Canadian dollars), 24,234 Euros ($26,519 Canadian dollars) and 0 Malaysian Ringgits ($0 Canadian dollars), such amounts representing exposure to foreign exchange risk.

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.

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 from cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities.

(Expressed in Canadian Dollars)

4. 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 April 30, 2011, the Company had a capital balance of $(1,423,230).

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.

5. 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 **$**
Balance July 31, 2008	**45,455,838**	**$ 28,985,958**
Private placement (i)	1,003,333	424,815
Balance July 31, 2009	**46,459,171**	**$ 29,410,773**
Private placement (iv)	5,925,000	2,458,270
Exercise of warrants (v)	1,020,833	833,014
Balance July 31, 2010	**53,405,004**	**$ 32,702,057**
Private placement (vi)	2,773,584	1,200,397
Private placement (vii)	12,273,000	4,976,344
Balance April 30, 2011	**68,451,588**	**$ 38,878,798**

5. Share capital (continued)

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

(i) On January 13, 2009 the Company completed a private placement of 1,003,333 units issued at $0.60 per unit, resulting in gross proceeds of $602,000. 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 eighteen months at a price of $0.70 per share. The warrant's exercise period will automatically accelerate if the common shares of the Company trade above $1.00 for a period of 10 consecutive days. The Company paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares ($42,140) and issued to the agent non-transferable warrants to purchase common shares equal in number to 6% of the units sold (60,200) under the private placement with the same terms. The estimated fair value of agents' warrants granted was determined to be $9,194 (approximately $0.15 per warrant), using the Black-Scholes option pricing model (note 5(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 5(d).

(ii) On February 26, 2009, the Company amended the terms of the 781,500 warrants issued to subscribers. The exercise price of the warrants was reduced from $2.00 to $0.75 per common share. The expiry date for the warrants was extended by twelve months from March 6, 2009 to March 6, 2010. 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 $56,753 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 5(d)). The amount was considered a financing expense and charged to operations for the 2009 year.

(iii) 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 5(d)). The amount was considered a financing expense and charged to operations in the first quarter of 2010.

(iv) 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 will 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 5(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 5(d).

(v) 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.

5. Share capital (continued)

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

(vi) 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 at anytime on or before the 24 month anniversary of the closing of the offering. The estimated fair value of common share purchase warrants granted was determined to be $174,313, using the Black-Scholes option pricing model (note 5(d)). The warrants' exercise period will automatically accelerate 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 a portion of the gross proceeds of the sale of the shares and issued 124,811 non-transferable finder's warrants. Legal and other costs amounted to $29,557. The estimated fair value of agents' warrants granted was determined to be $18,483 (approximately $0.15 per warrant), using the Black-Scholes option pricing model (note 5(d)). Each finder's warrant entitles the holder to purchase one share at $0.70 for a period of 24 months after the date the private placement closes. All shares and warrants are subject to a four-month hold period expiring on March 3, 2011.

(vii) 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, whereby, 3,373,000 units of the Company were sold 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 at anytime on or before the 24 month anniversary of the closing of the offering. The warrants' exercise period will automatically accelerate 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 tranche respectively, using the Black-Scholes option pricing model (note 5(d)). Pursuant to the financing, the Company paid a finder's fee in the amount of $282,416 and $95,241 for the first and second tranche respectively. At the same time the Company issued 621,670 and 209,650 non-transferable finder's warrants for the first and second tranche respectively. Each finder's warrants will entitle the holder to purchase one share at $0.70 for a period of 24 months after the date the private placement closes. The estimated fair value of agents' warrants granted was determined to be $163,748 and $52,350 for the first and second tranche respectively, using the Black-Scholes option pricing model (note 5(d)). Legal and other costs amounted to $43,414. All shares and warrants are subject to a four-month hold period. For the shares and warrants issued in the first tranche the four month holding period expires on June 9, 2011 and for those issued on the second tranche of the private placement the four month holding period expires on June 18, 2011.

(Expressed in Canadian Dollars)

5. Share capital (continued)

(c) Common share purchase warrants

	Number of warrants	Weighted average exercise price
Balance, July 31, 2008	**1,859,650**	**2.06**
Warrants granted (note 5(b)(i))	1,003,333	0.70
Warrants repriced (note 5(b)(ii))		(1.25)
Balance, July 31, 2009	**2,862,983**	**$ 1.24**
Warrants granted (note 5(b)(iv))	5,925,000	1.00
Warrants repriced (note 5(b)(iii))		(1.35)
Warrants exercised (note 5(b)(v))	(1,020,833)	(0.70)
Warrants expired	(1,842,150)	(0.75)
Balance, July 31, 2010	**5,925,000**	**$ 1.00**
Warrants granted (note 5(b)(vi))	1,386,792	0.70
Warrants granted (note 5(b)(vii))	6,136,500	0.70
Balance, April 30, 2011	**13,448,292**	**$ 0.83**

At April 30, 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**

(Expressed in Canadian Dollars)

5. Share capital (continued)

(d) Agent's warrants and options

	Number of warrants	Weighted average exercise price
Balance, July 31, 2008	**442,134**	**$1.33**
Agents' warrants granted in private placement	60,200	0.70
Agents' warrants expired	(291,193)	1.20
Balance, July 31, 2009	**211,141**	**$1.34**
Agents' warrants granted in private placement	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**
Agents' warrants granted in private placement	124,811	0.70
Agents' warrants granted in private placement	831,320	0.70
Balance, April 30, 2011	**1,311,631**	**$0.78**

At April 30, 2011 the agents' 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 fair value of agents' and common share purchase warrants has been estimated at the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	2011	2010
Annualized stock volatility	62.7%	81.8%
Risk-free interest rate	1.7%	1.4%
Expected option/warrant life	2.0 years	1.5 years
Dividend payments	0.0%	0.0%

(Expressed in Canadian Dollars)

5. Share capital (continued)

(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% - six months after grant date
25% - twelve months after grant date
25% - eighteen months after grant date

As of April 30, 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 955,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2008	**4,609,000**	**$ 1.25**
Options granted	2,925,000	0.65
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	(1,049,000)	(0.85)
Balance, April 30, 2011	**10,280,000**	**$ 0.90**

At April 30, 2011 7,075,000 options had vested, which have a weighted average exercise price of $1.01. The estimated fair value of options granted to employees, directors, officers and consultants is amortized to expense over the vesting period of the options, resulting in compensation expense and addition to contributed surplus of $286,165 for the third quarter ended April 30, 2011 (2010 – $200,911). The weighted average fair value of stock options granted during the period ended January 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)

5. Share capital (continued)

(e) Stock options (continued)

Options outstanding at April 30, 2011 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$0.65	2,660,000	2,660,000	3.00
$0.65	45,000	45,000	3.00
$0.71	820,000	615,000	3.73
$0.80	60,000	60,000	0.71
$1.05	160,000	160,000	0.27
$1.10	300,000	300,000	0.73
$1.20	100,000	100,000	0.75
$1.30	100,000	100,000	1.45
$1.55	240,000	240,000	0.10
$1.76	1,635,000	1,635,000	0.03
$1.79	160,000	160,000	1.58
$0.64	4,000,000	1,000,000	4.72
	10,280,000	7,075,000	2.99

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

	April 30, 2011	July 31, 2010
Balance, beginning of period	$ 6,902,220	$ 5,099,237
Stock-based compensation expense	1,252,715	811,458
Agents’ warrants granted (notes 5(b)(vi) and (vii))	234,581	94,581
Warrants issued (notes 5(b)(vi) and (vii))	1,065,490	884,040
Warrants amended	-	135,460
Warrants exercised	-	(122,556)
Balance, end of period	$ 9,455,006	$ 6,902,220

(Expressed in Canadian Dollars)

6. Commitments

	Rental Leases	Research Contracts	Total
2012	$ 143,118	$ 635,487	$ 778,605
2013	39,630	16,000	55,630
2014	-	31,000	31,000
2015	-	41,000	41,000
2016		41,000	41,000
	$ 182,748	$ 764,487	$ 947,235

Rental leases relate to the Company and its subsidiaries commitments under operating leases for rental of properties. Research Contract commitments relate to contractual obligations entered into by the Company and its subsidiaries for research and development.

7. 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	$ 29,217	$ -	$ -	$ 29,217
Property and equipment	$ 60,311	$ 5,916	$ 11,107	$ 77,334
Equipment under capital lease	$ 12,931	$ -	$ -	$ 12,931
Patent costs	$ 158,298	$ -	$ -	$ 158,298

2010	Asia	Europe	North America	Total
Revenue	$ 3,795	$ 71,777	$ -	$ 75,572
Property and equipment	$ 598,106	$ 7,395	$ 14,085	$ 619,586
Equipment under capital lease	$ 18,471	$ -	$ -	$ 18,471
Patent costs	$ 200,953	$ -	$ -	$ 200,953

(Expressed in Canadian Dollars)

8. Obligations under capital leases:

Future minimum lease payments for obligations under capital leases as at April 30, 2011 are as follows:

2011	$	10,761
2012		10,761
2013		2,690
		24,212
Less: interest at a rate of 6.45% per annum		(6,905)
Less: current portion of principal payments		(8,217)
Long term portion	$	9,090

9. 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) The Company incurred $45,000 (2010 - $45,000) for consulting services to Dr. Zerrouk 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 amounting to $96,000 (2010 - $70,020) for the quarter.

(b) During the quarter ended April 30, 2011, the Company incurred $9,414 (2010 - $7,045) 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.

(c) During the quarter, the Company paid $22,500 for accounting and related services to a company controlled by the Corporate Secretary of the Company.

(d) On January 18, 2011, the Company granted 4,000,000 stock options to directors, employees and consultants for their contribution to the Company. The exercise price of the options is set at $0.64 and they will expire in five years.

(e) During the quarter ended April 30, 2011, the Company paid Director’s fees amounting to $15,500.

(f) During the quarter ended April 30, 2011, the Company advanced $38,775 (SGD 50,000) to the Executive Vice-President, Operations. The loan bears no interest and is repayable at $1,939 (SGD 2,500) per month for 12 months. The balance of the outstanding amount at the end of the 12 months would be paid in a lumpsum.

10. Contingencies

In March 2011, the Company entered into agreements with its consultants, directors and employees (the "individuals"). Pursuant to the agreements, the individuals will waive their fees and salaries owed to them as of January 31, 2011 in good faith. The total of the salaries and fees waived amounts to $1,050,664 as of January 31, 2011. The reversal of salaries and fees has resulted in the operating, general and administrative expenses for the quarter to be significantly lower. Furthermore, individuals will be entitled to bonuses in the amount of salaries and fees waived. However, the entitlement to bonuses is conditional upon the Company selling all or substantially all of the asset of the Company or any of its subsidiaries, the transfer or sale of more than 50% of the issued and outstanding shares of the Company or any of its subsidiaries to a third party, the commercialization of any of its technologies, the listing of any of its subsidiaries on a stock exchange or quotation system. The receipt by the Company or any of its subsidiaries of at least $3,000,000 in cash in any three month period, including from the issuance of securities, the settlement or award from any litigation or proposed litigation, revenue from operations or any other source of cash (collectively, a "Trigger").

In the event that the proceeds from anyone Trigger is not sufficient to cover the bonus amount when combined with respect to amounts to be paid to the individuals who have entered into similar agreements, the individual will be paid a pro rata proportion of his bonus amount. Any unpaid bonus amount will remain outstanding and will be payable upon the occurrence of another Trigger.

As of April 30, 2011, the management is uncertain about the occurrence of any Trigger and measurement of bonuses that eventually become payable to the individuals.

11. Research and development ("R&D")

During the nine months ended April 30, 2011, the Company reversed certain R&D expenses including research contracts expenses incurred with respect to The University of Washington ("UOW") research contract. The research project in works was put on hold by UOW beginning fiscal year 2011; however, this fact became apparent to the management only recently. Consequently, amounts accrued previously to UOW in the fiscal year 2011 under the old agreement have been reversed. In the third quarter of 2011, a new contract was negotiated with UOW for $280,000 USD. The first payment of the contract was made on May 20, 2011 for $93,000 USD. Subsequent payments for the remaining $187,000 USD amount will be made in 2012 as outlined in note 7, Commitments.