



ZECOTEK PHOTONICS INC.

Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars)
(Unaudited)

October 31, 2011

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED 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 condensed 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 condensed interim 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.

Condensed Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

As at October 31, 2011, July 31, 2011 and August 1, 2010

	October 31, 2011	July 31, 2011	August 1, 2010
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,750,370	\$ 2,857,820	\$ 81,010
Trade receivables	7,755	7,396	1,483
Goods and services tax recoverable	56,129	46,925	34,828
Advances to employees	43,067	39,627	-
Prepaid expenses	88,476	37,325	14,790
Total Current Assets	1,945,797	2,989,093	132,111
Non-Current Assets			
Restricted short term investments	20,000	20,000	15,000
Deposits	86,620	57,943	54,950
Property and equipment	74,536	80,662	112,491
Equipment under finance lease	11,895	12,838	16,684
Patent costs	156,101	162,630	177,442
Total Non-Current Assets	349,152	334,073	376,567
Total Assets	\$ 2,294,949	\$ 3,323,166	\$ 508,678
Liabilities And Shareholders' Equity (Deficiency)			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 2,666,385	\$ 2,644,888	\$ 3,383,022
Deferred revenue	23,845	23,845	-
Current portion of finance liability (note 9)	7,840	7,827	7,282
Share subscription received	-	-	650,000
Total Current Liabilities	2,698,070	2,676,560	4,040,304
Finance lease liability (note 9)	7,037	8,889	15,263
Total Liabilities	2,705,107	2,685,449	4,055,567
Shareholders' Equity			
Share capital (note 4(b))	38,878,798	38,878,798	32,702,057
Contributed surplus	10,086,231	9,723,348	6,875,769
Deficit	(49,402,979)	(48,033,186)	(43,124,715)
Accumulated other comprehensive income	27,792	68,757	-
Total Shareholders' Equity (Deficiency)	(410,158)	637,717	(3,546,889)
Nature of Business and Going Concern			
Uncertainty (note 1)			
Commitments (note 6)			
Total Liabilities and Shareholders' Equity	\$ 2,294,949	\$ 3,323,166	\$ 508,678

Approved, on behalf of the Board:

"Faouzi Zerrouk"
Director

"David Toyoda"
Director

See accompanying Notes to the Condensed Interim Consolidated Financial Statements.

ZECOTEK PHOTONICS INC.

Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

Three months ended October 31, 2011 and 2010

	2011	2010
Revenue	\$ 1,761	\$ -
Expenses		
Operating, general and administrative	939,064	562,775
Research and development	432,490	329,111
	1,371,554	891,886
Net loss	(1,369,793)	(891,886)
Other comprehensive gain (loss)		
Exchange gain (loss) on translation of foreign operations	(40,965)	4,990
Net comprehensive loss	\$(1,410,758)	\$(886,896)
Net loss per common share – basic and diluted	\$(0.02)	\$(0.02)
Weighted average number of common shares outstanding - basic and diluted	68,451,588	53,405,004

See accompanying Notes to the Condensed Interim Consolidated Financial Statements.

ZECOTEK PHOTONICS INC.

Condensed Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian Dollars)

(Unaudited)

Three months ended October 31, 2011 and 2010

For the three months ended October 31, 2010					
	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity (Deficiency)
	\$	\$	\$	\$	\$
As at August 1, 2010	32,702,057	6,875,769	-	(43,124,715)	(3,546,889)
Net loss and comprehensive loss	-	-	4,990	(891,886)	(886,896)
Stock-based compensation	-	88,631	-	-	88,631
As at October 31, 2010	32,702,057	6,964,400	4,990	(44,016,601)	(4,345,154)

For the three months ended October 31, 2011					
	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity (Deficiency)
	\$	\$	\$	\$	\$
As at August 1, 2011	38,878,798	9,723,348	68,757	(48,033,186)	637,717
Net loss and comprehensive loss	-	-	(40,965)	(1,369,793)	(1,410,758)
Stock-based compensation	-	362,883	-	-	362,883
As at October 31, 2011	38,878,798	10,086,231	27,792	(49,402,979)	(410,158)

See accompanying Notes to the Condensed Interim Consolidated Financial Statements.

ZECOTEK PHOTONICS INC.

Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)
Three months ended October 31, 2011 and 2010

	2011	2010
Cash flows provided by (used in):		
Operating Activities:		
Net loss for the period	\$ (1,410,758)	\$ (886,696)
Adjustments for items not involving cash:		
Amortization of property and equipment	6,433	15,767
Amortization of patent costs	6,382	6,382
Foreign exchange (gain) / loss	783	(18,790)
Stock-based compensation	362,883	88,631
	(1,034,277)	(794,906)
Changes in non-cash working capital:		
Accounts receivables	(359)	(56)
Goods and services tax recoverable	(9,204)	10,052
Prepaid expenses	(51,151)	(22,612)
Accounts payable and accrued liabilities	21,497	321,176
Net cash flows used in operating activities	(1,073,494)	(486,346)
Investing Activities:		
Deposits paid	(28,677)	(1,777)
Net cash flows used in investing activities	(28,677)	(1,777)
Financing Activities:		
Share subscription received	-	520,000
Repayments of obligations under capital lease	(1,839)	(1,679)
Repayments from employees	(3,440)	-
Net cash flows from/(used in) financing activities	(5,279)	518,321
Increase (decrease) in cash and cash equivalents	(1,107,450)	30,198
Cash and cash equivalents, beginning of period	2,857,820	81,010
Cash and cash equivalents, end of period	\$ 1,750,370	\$ 111,208

See accompanying Notes to the Condensed Interim Consolidated Financial Statements.

ZECOTEK PHOTONICS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited)
Three months ended October 31, 2011 and 2010

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

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1. Nature of business and going concern uncertainty (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.

(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 interim consolidated financial statements have been prepared on a basis of accounting principles applicable to a going concern, 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 October 31, 2011, the Company had very limited operating revenue, and a cumulative deficit of \$49,175,221. 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.

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2. Basis of presentation:

(a) Statement of compliance:

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. As these are the Company's first condensed interim consolidated financial statements presented in accordance with IFRS, they have been prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The notes presented in these interim consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with our most recent annual audited consolidated financial statements. Certain comparative figures have been reclassified to conform to the current period's presentation. The significant accounting policies below are consistent with the policies the Company expects to adopt for its July 31, 2012 annual consolidated financial statements.

Our accounting policies outlined in Note 3 have been applied in preparing our consolidated financial statements as at and for the period ended October 31, 2011, the comparative information presented as at and for the period ended October 31, 2010 and in the preparation of our opening IFRS balance sheet at August 1, 2010. Note 11 provides details on the transition adjustments on adoption to IFRS.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes below.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes below.

These condensed interim consolidated financial statements were approved by the Board of Directors on January 30, 2012.

(b) Basis of measurement:

The condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are recorded at fair value.

3. Summary of significant accounting policies:

(a) Basis of consolidation:

The interim consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at October 31, 2011 and the results of all its subsidiaries for the period then ended. Subsidiaries are all those entities which the Company controls, (i.e. has the power to govern

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3. Summary of significant accounting policies (continued):

(a) Basis of consolidation (continued):

the financial and operating policies) generally accompanying an equity holding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company. Inter-entity transactions, balances and unrealized gains on consolidated group are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company's accounting policies are applied consistently throughout the organization.

(b) 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.

(c) Short Term Investments:

Short term investments, which consist of financial instruments purchased with an original maturity of greater than ninety days and less than one year, are recorded at fair market value.

(d) Restricted Short Term Investments:

Restricted short term investments are short term investments pledged as security or otherwise subject to restricted liquidity, and are recorded at fair market value.

(e) Critical accounting estimates and judgements:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenue and expenses during the years. Significant items subject to such estimates and assumptions include the recoverable amount of equipment, deferred development costs and intangible assets, and valuation allowances for receivables and inventory and assumptions used in determining the fair value of options and warrants.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below

(f) Property and Equipment:

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided primarily on the declining balance basis at the following annual rates:

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3. Summary of significant accounting policies (continued):

(f) Property and Equipment (continued):

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

(g) Intangible Assets:

The purchase cost of technologies 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 are determined to have a finite useful life are amortized on a systematic basis over the estimated remaining useful life. If the useful life cannot be estimated then a useful life of 10 years is used.

(h) 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 may be able to generate revenues from the related product, and expected obsolescence.

(i) Research and Development Costs:

Research costs are expensed in the year as 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.

(j) Classification of Expenses:

Under IFRS, the Company has chosen to present its expenses based on the function of each expense rather than the nature of each expense. As a result, stock based compensation,

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3. Summary of significant accounting policies (continued):

(j) Classification of Expenses (continued):

depreciation of capital assets, and foreign currency gains and losses are no longer separately presented on the statement of loss and comprehensive loss. There is no impact on our net loss or comprehensive loss as a result of these classifications.

(k) Impairment:

(i) Non-financial assets:

The carrying amounts of non-current assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in net earnings if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(ii) Financial assets:

Financial assets not carried at fair value through earnings are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If impairment has occurred, the carrying amount of the asset is reduced, with the amount of the loss recognized in earnings.

(l) Foreign Currency Translation:

(i) Functional and presentation currency:

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Canadian dollar, which is the functional and presentation currency of the Company.

(ii) Translation of accounts of foreign subsidiaries:

On consolidation, the financial statements of foreign operations, are translated into Canadian dollar using exchange rate at the end of reporting period for the financial position and average exchange

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3. Summary of significant accounting policies (continued):

(l) Foreign Currency Translation (continued):

(ii) Translation of accounts of foreign subsidiaries (continued):

rate over the reporting period for the income statement. Foreign currency translation differences are recognized in other comprehensive income.

(iii) Transactions in foreign currency:

Transactions made in a foreign currency are translated using the currency rate at the time of the translation. Monetary assets and liabilities in foreign currency are measured at the currency rate at the closing date and the translation differences are charged in profit and loss continuously.

(m) Provisions:

A provision is recognized on the basis of a legal or constructive obligation arising from a past event, if there is a more likely than not outflow of resources and the amount can be estimated reliably. Where the effect of discounting is material, the expected future cash flows associated with a provision are discounted at a pre-tax rate that reflects current market assessments of the time value of money. The unwinding of the discount is recognized as a finance cost.

(n) Employee compensation costs:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability when we have a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) Financial instruments:

Financial assets and liabilities are measured at fair value upon their initial recognition. 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.

Subsequent measurement is based on either fair value or amortized cost, depending upon the classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. For other financial liability, subsequent adjustments to expected cash flows are recorded if and when they occur through adjustments to the related expense.

- 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.

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3. Summary of significant accounting policies (continued):

(p) Leases:

Leases where the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in net earnings for the period on a straight line basis over the period of the lease.

(q) Stock-Based Compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in Note 4(e). The fair value method of accounting for stock-based compensation transactions is used. Management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. The fair value of stock options is generally estimated at the date of grant using the Black-Scholes Option Pricing Model. For graded vested share options, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value. Upon transition to IFRS, the Company recalculated the share based compensation expense using the attribution method.

The fair value of stock-based payments to non-employees is based on fair value of the goods or services received, when these can be measured reliably. In the event that no reliable measurement can be made, the fair value of the options granted will be used.

(r) Warrants:

Proceeds from issuances by the Company of units consisting of shares and warrants are generally allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants. In circumstances where agent warrants are issued coincidentally with a unit offering, both the agent warrants and the warrant portion of the unit offering are valued using the Black-Scholes option pricing model.

(s) 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

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3. Summary of significant accounting policies (continued):

(s) Share Issue Costs (continued):

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.

(t) Income Taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

Current income tax is the expected tax payable (recoverable) on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable (recoverable) in respect of previous years.

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(u) 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.

(v) 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.

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3. Summary of significant accounting policies (continued):

(w) 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.

4. 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, August 1, 2010	53,405,004	\$ 32,702,057
Issued pursuant to private placement (i)	2,773,584	1,200,397
Issued pursuant to private placement (ii)	12,273,000	4,976,344
<u>Balance, July 31, 2011 and October 31, 2011</u>	<u>68,451,588</u>	<u>\$ 38,878,798</u>

- (i) 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. 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 4(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.

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4. Share capital (continued):

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

- (ii) 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. 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 entitle 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 4(d)). Legal and other costs amounted to \$43,414. All shares and warrants were subject to a four-month hold periods.
- (iii) 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.

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2010	5,925,000	1.00
Warrants granted (note 4(b)(i))	1,386,792	0.70
Warrants granted (note 4(b)(ii))	6,136,500	0.70
Balance, July 31, 2011	13,448,292	\$ 0.83
Warrants repriced (note 4(b)(iii))	-	(0.65)
Balance, October 31, 2011	13,448,292	\$ 0.68

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4. Share capital (continued):

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

	Number of warrants	Weighted average exercise price
Balance, July 31, 2010	355,500	\$1.00
Finders' warrants granted (note 4(b)(i))	124,811	0.70
Finders' warrants granted (note 4(b)(ii))	831,320	0.70
Balance, July 31, 2011	1,311,631	\$0.78
Agents' warrants expired	(355,500)	(1.00)
Balance October 31, 2011	956,131	\$0.70

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	50.2%	81.8%
Risk-free interest rate	1.1%	1.3%
Expected option/warrant life	0.5 years	1.5 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 October 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 785,000 were available for future issuance.

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4. Share capital (continued):

(e) Stock options (continued):

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
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
Options granted	2,255,000	0.65
Options expired	(210,000)	(0.97)
Balance, October 31, 2011	10,450,000	\$ 0.69

2,255,000 stock options were granted during the three months ended October 31, 2011 (2010 – Nil).

Options outstanding at October 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	4.22
\$0.65	2,660,000	2,660,000	2.49
\$0.65	45,000	45,000	2.49
\$0.65	2,255,000	563,750	2.49
\$0.71	770,000	770,000	3.22
\$0.80	60,000	60,000	0.21
\$1.10	300,000	300,000	0.23
\$1.20	100,000	100,000	0.25
\$1.30	100,000	100,000	0.94
\$1.79	160,000	160,000	1.07
	10,450,000	6,758,750	3.08

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model using the following weighted average assumptions:

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4. Share capital (continued):

(e) Stock options (continued):

	2011	2010
Annualized stock volatility	75.8%	79.0%
Risk-free interest rate	1.21%	2.3%
Expected option life	5 years	5 years
Dividend payments	0.00%	0.00%

During the three months ended October 31, 2011, the Company recorded \$362,883 (2010 - \$88,631) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus.

5. 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 October 31, 2011, the Company had a capital balance of \$(410,158).

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, 2011.

6. Commitments:

Years ending July 31	Rental Leases	Research Contracts	Total
2012 (balance of year)	\$ 83,806	\$ 77,779	\$ 161,585
2013 to 2016	3,572	218,736	222,308
	\$ 87,378	\$ 296,515	\$ 383,893

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.

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7. 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, under accounts payable, as at July 31, 2010 and 2011. 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.

8. 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	\$ 1,761	\$ -	\$ -	\$ 1,761
Property and equipment	\$ 59,922	\$ 5,290	\$ 9,324	\$ 74,536
Equipment under finance lease	\$ 11,895	\$ -	\$ -	\$ 11,895
Patent costs	\$ 156,101	\$ -	\$ -	\$ 156,101

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8. Segmented information (continued):

2010	Asia	Europe	North America	Total
Revenue	\$ -	\$ -	\$ -	\$ -
Property and equipment	\$ 86,266	\$ 6,612	\$ 12,045	\$ 104,923
Equipment under capital lease	\$ 16,821	\$ -	\$ -	\$ 16,821
Patent costs	\$ 181,514	\$ -	\$ -	\$ 181,514

9. Finance lease liability:

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

2012	9,535
2013	9,535
	19,070
Less: interest at a rate of 6.45% per annum	(4,193)
Less: current portion of principal payments	(7,840)
Long term portion	\$7,037

10. 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.

- The Company incurred \$7,102 (2011 -\$ 5,234) in legal fees to Boughton Law Corporation, legal counsel to the Company, for legal services rendered during the quarter. A director of the Company is an Associate Counsel of Boughton Law Corporation.
- The Company incurred fees of \$28,500 (2011 - \$ 22,500) during the quarter for accounting and related services from a company controlled by the Corporate Secretary of the Company.
- During the quarter, the Company paid fees of \$28,873 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.
- During the quarter, the Company granted options to directors and officers to acquire 1,425,000 shares of the Company at a price of \$0.65 per share until September 23, 2016.

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10. Related party transactions (continued):

- (e) The Company incurred fees of \$21,000 during the quarter for consulting services to the chief financial officer and a company controlled by the chief financial officer.
- (f) The balance of the interest free loan to the Executive Vice-President, Operations at the end of October 31, 2011 was \$25,798 (SGD 32,500).

11. Transition to IFRS:

These are the Company's first condensed interim consolidated financial statements prepared in accordance with IFRS. The Company's transition date to IFRS was August 1, 2010.

IFRS 1 - *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Certain optional exemptions and mandatory exceptions were utilized in preparing the opening IFRS Statement of financial position. The optional exemptions and mandatory exceptions which have been applied to the opening Statement of financial position dated August 1, 2010 are outlined below:

Optional exemptions applied:

- (a) Business Combinations - IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 - *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occurred on or after August 1, 2010.
- (b) Share-based payment transactions - IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 - *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to August 1, 2010.
- (c) Cumulative translation adjustment – The Company elected to transfer the cumulative translation differences, recognized as a separate component of equity, to deficit at August 1, 2010.
- (d) Property, plant and equipment – IFRS 1 provides the option to measure property, plant and equipment at deemed cost being the fair value of the asset on the date of transition. The Company elected not to apply fair valuation.

All remaining optional exemptions available under IFRS 1 are not applicable to the Company.

All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of Canadian GAAP in those areas.

Reconciliations between IFRS and Canadian GAAP:

Although IFRS employs a conceptual framework that is similar to previous Canadian GAAP, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the

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11. Transition to IFRS (continued):

Company's reported financial position and financial performance. In order to allow the users of the financial statements to better understand these changes, the following reconciliations have been provided:

- The Company's statement of financial position as at August 1, 2010.
- The Company's statement of financial position as at July 31, 2011.
- The Company's equity position as at October 31, 2010.
- The Company's statement of income and total comprehensive income for the three months ended October 31, 2010
- The Company's statement of loss and comprehensive loss for the year ended July 31, 2011.

Reconciliations for the Statement of Cash flows has not been provided as the impact to the statement was minimal.

Presentation reclassifications in the Statements of Loss and Comprehensive Loss:

- (i) Reclassification of amortization of property and equipment, amortization of patent costs, stock-based compensation and foreign currency gains and losses:

Under Canadian GAAP, these items are separately presented whereas Under IFRS, we have chosen to present our expenses based on the function of each expense rather than the nature of each expense. As a result, stock based compensation, amortization of property and equipment, amortization of patent costs, and foreign currency gains and losses are no longer separately presented on the statement of loss and comprehensive loss. There is no impact on our net loss or comprehensive loss as a result of these classifications.

- (ii) Revaluation of stock-based compensation:

Under IFRS, each tranche of employee stock options granted with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective tranches. Under Canadian GAAP the fair value of stock options granted with graded vesting was considered one grant and the resulting fair value was recognized on a straight-line basis over the vesting period.

- (iii) Foreign currency translation:

Under GAAP, the Company's assessment of its foreign operations as integrated operations required that non-monetary items be translated at historical exchange rates. IFRS, on the other hand, requires that the translation of foreign operation's assets and liabilities for each balance sheet presented be translated at the closing rate at the date of that balance sheet where the functional currency is different from the parent company's functional currency. Revenue and expense items are translated at the average rate of exchange in the period. The Company recognizes cumulative translation adjustments through other comprehensive income (loss) under IFRS.

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11. Transition to IFRS (continued):

Reconciliation of Statement of Financial Position from Canadian GAAP to IFRS as at August 1, 2010

	Canadian GAAP	Effect of Transition to IFRS	Note	IFRS
Assets				
Current Assets				
Cash and cash equivalents	\$ 81,010	\$ -		\$ 81,010
Trade receivables	1,483	-		1,483
Goods and services tax recoverable	34,828	-		34,828
Prepaid expenses	14,790	-		14,790
Total Current Assets	132,111	-		132,111
Non-Current Assets				
Restricted short term investments	15,000	-		15,000
Deposits	54,950	-		54,950
Property and equipment	112,491	-		112,491
Equipment under capital lease	16,684	-		16,684
Patent costs	177,442	-		177,442
Total Non-Current Assets	376,567	-		376,567
Total Assets	\$ 508,678	-		\$ 508,678
Liabilities And Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 3,383,022	-		\$ 3,383,022
Current portion of finance lease liability	7,282	-		7,282
Share subscription received	650,000	-		650,000
Total Current Liabilities	4,040,304	-		4,040,304
Finance lease liability	15,263	-		15,263
Total Liabilities	4,055,567	-		4,055,567
Shareholders' Equity				
Share capital	32,702,057	-		32,702,057
Contributed surplus	6,902,220	(26,451)	11(ii)	6,875,769
Deficit	(43,151,166)	26,451	11(ii)	(43,124,715)
Total Shareholders' Equity	(3,546,889)	-		(3,546,889)
Total Liabilities and Shareholders' Equity	\$ 508,678	-		\$ 508,678

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11. Transition to IFRS (continued):

Reconciliation of Statement of Financial Position from Canadian GAAP to IFRS as at July 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Note	IFRS
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,857,820	-		\$ 2,857,820
Trade receivables	7,396	-		7,396
Goods and services tax recoverable	46,925	-		46,925
Advances to employees	39,627	-		39,627
Prepaid expenses	37,325	-		37,325
Total Current Assets	2,989,093	-		2,989,093
Non-Current Assets				
Restricted short term investments	20,000	-		20,000
Deposits	57,943	-		57,943
Property and equipment	75,726	4,936	11(ii)	80,662
Equipment under capital lease	11,679	1,159	11(ii)	12,838
Patent costs	151,915	10,715	11(iii)	162,630
Total Non-current assets	317,263	16,810		334,073
Total Assets	\$ 3,306,356	16,810		\$ 3,323,166
Liabilities And Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 2,644,888			\$ 2,644,888
Deferred revenue	23,845			23,845
Current portion of finance lease liability	7,827			7,827
Total Current Liabilities	2,676,560			2,676,560
Finance lease liability	8,889			8,889
Total Liabilities	2,685,449			2,685,449
Shareholders' Equity				
Share capital	38,878,798			38,878,798
Contributed surplus	9,468,818	254,530	11(ii)	9,723,348
Deficit	(47,726,709)	(306,477)	11(ii)(iii)	(48,033,186)
Accumulated other comprehensive income	-	68,757	11(iii)	68,757
	620,907	16,810		637,717
Total Liabilities and Shareholders' Equity	\$ 3,306,356	16,810		\$ 3,323,166

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11. Transition to IFRS (continued):

GAAP to IFRS Reconciliation of Previous Year's Statement of Operations for the three months ended October 31, 2010

	Canadian GAAP	Effect of Transition to IFRS	Note	IFRS
Revenue	\$ -	-		\$ -
Expenses				
Operating, general and administrative	486,182	76,593	11(i)	562,775
Research and development	308,119	20,992	11(i)	329,111
Stock-based compensation	200,911	(200,911)	11(i)(ii)	-
Foreign exchange loss	606	(606)	11(i)	-
Amortization of property and equipment	13,251	(13,251)	11(i)	-
Amortization of patent costs	6,382	(6,382)	11(i)	-
	1,015,451	(123,565)		891,886
Net loss	(1,015,451)	123,565		(891,886)
Other comprehensive loss				
Foreign exchange loss	-	4,990	11(iii)	4,990
Net comprehensive loss	\$(1,015,451)	128,555		\$(886,896)
Net loss per common share – basic and diluted	\$(0.02)			\$(0.02)
Weighted average number of common shares outstanding – basic and diluted	53,405,004			53,405,004

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11. Transition to IFRS (continued):

GAAP to IFRS Reconciliation of the Statement of Loss and Comprehensive Loss for the year ended July 31, 2011

	Canadian GAAP	Effect of Transition to IFRS	Note	IFRS
Revenue	\$ 57,659	-		\$ 57,659
Expenses				
General and administrative	2,579,913	1,354,740	11(i)	3,934,653
Research and development	676,274	355,203	11(i)	1,031,477
Stock-based compensation	1,266,527	(1,266,527)	11(i)(ii)	-
Foreign exchange loss	39,586	(39,586)	11(i)	-
Amortization of property and equipment	45,373	(45,373)	11(i)	-
Amortization of patent costs	25,529	(25,529)	11(i)	-
Total operating expenses	4,633,202	332,928		4,996,130
Net loss	(4,575,543)	(332,928)		(4,908,471)
Other comprehensive loss				
Exchange loss on translation of foreign operations	-	68,757	11(iii)	68,757
Net comprehensive loss	\$(4,575,543)	(264,171)		\$(4,839,714)
Net loss per common share – basic and diluted	\$ (0.07)			\$ (0.08)
Weighted average number of common shares outstanding – basic and diluted	61,166,209			61,166,209