Consolidated Financial Statements
(Expressed in Canadian Dollars)

ZECOTEK PHOTONICS INC.

Years ended July 31, 2012 and 2011

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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 statements of financial position as at July 31, 2012, July 31, 2011 and August 1, 2010, the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years ended July 31, 2012 and July 31, 2011, 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 International Financial Reporting Standards, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 our 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, we consider 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 audits 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 consolidated financial position of Zecotek Photonics Inc. as at July 31, 2012, July 31, 2011 and August 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1(b) in the consolidated financial statements which indicates that Zecotek Photonics Inc. does not earn sufficient revenue to fund its expenses. This condition, along with other matters as set forth in note 1(b) in the consolidated 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.

KPMG LLP (signed)

Chartered Accountants

November 28, 2012
Vancouver, Canada

ZECOTEK PHOTONICS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	July 31, 2012	July 31, 2011	August 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 126,999	$ 2,857,820	$ 81,010
Trade receivables	10,777	7,396	1,483
Goods and services taxes recoverable	26,985	46,925	34,828
Advances to employees (notes 14(e), (f) and (g))	23,331	39,627	-
Prepaid expenses	172,866	37,325	14,790
Total current assets	360,958	2,989,093	132,111
Non-current assets:			
Restricted investments (note 3(d))	52,204	20,000	15,000
Deposits	30,707	57,943	54,950
Property and equipment (note 4)	141,478	93,500	129,175
Patent costs (note 5)	137,571	162,630	177,442
Total non-current assets	361,960	334,073	376,567
Total assets	$ 722,918	$3,323,166	$ 508,678
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities:			
Trade and other payables (notes 11 and 14)	$ 3,153,900	$ 2,644,888	$ 3,383,022
Deferred revenue	25,001	23,845	-
Current portion of finance liability (note 6)	7,951	7,827	7,282
Loans payable (note 7)	655,000	-	650,000
Total current liabilities	3,841,852	2,676,560	4,040,304
Finance lease liability (note 6)	1,079	8,889	15,263
Total Liabilities	3,842,931	2,685,449	4,055,567
Shareholders' equity:			
Share capital (note 8(b))	38,878,798	38,878,798	32,702,057
Contributed surplus	11,139,649	9,723,348	6,875,769
Deficit	(53,242,337)	(48,080,249)	(43,124,715)
Accumulated other comprehensive income	103,877	115,820	-
Total shareholders' equity (deficiency)	(3,120,013)	637,717	(3,546,889)
Nature of business and going concern:			
Uncertainty (note 1)			
Commitments and contingencies (note 10)			
Subsequent events (note 18)			
Total liabilities and shareholders' equity (deficiency)	$ 722,918	$ 3,323,166	$ 508,678

Approved on behalf of the Board:

"Faouzi Zerrok" Director **"David Toyoda"** Director

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)
Years ended July 31, 2012 and 2011

	2012	2011
Revenue	$ 36,535	$ 57,659
Expenses:		
Operating, general and administrative	3,955,688	3,981,716
Research and development	1,242,935	1,031,477
	5,198,623	5,013,193
Net loss	(5,162,088)	(4,955,534)
Other comprehensive gain (loss):		
Exchange gain (loss) on translation of foreign operations	(11,943)	115,820
Comprehensive loss	$ (5,174,031)	$ (4,839,714)
Net loss per common share - basic and diluted	$ (0.08)	$ (0.08)
Weighted average number of common shares outstanding - basic and diluted	68,451,588	61,166,209

ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)
Years ended July 31, 2012 and 2011

July 31, 2011	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders equity (deficiency)
As at August 1, 2010	53,405,004	$ 32,702,057	$ 6,875,769	$ -	$ (43,124,715)	$ (3,546,889)
Share issuance:						
Private placement	15,046,584	7,974,690	-	-	-	7,974,690
Issue costs	-	(497,878)	-	-	-	(497,878)
Issuance of warrants	-	(1,065,490)	1,065,490	-	-	-
Issuance of agents' warrants	-	(234,581)	234,581	-	-	-
Comprehensive loss	-	-	-	115,820	(4,955,534)	(4,839,714)
Stock-based compensation	-	-	1,547,508	-	-	1,547,508
As at July 31, 2011	68,451,588	$ 38,878,798	$ 9,723,348	$ 115,820	$ (48,080,249)	$ 637,717

July 31, 2012	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders equity (deficiency)
As at August 1, 2011	68,451,588	$ 38,878,798	$ 9,723,348	$ 115,820	$ (48,080,249)	$ 637,717
Comprehensive loss	-	-	-	(11,943)	(5,162,088)	(5,174,031)
Stock-based compensation	-	-	1,416,301	-	-	1,416,301
As at July 31, 2012	68,451,588	$ 38,878,798	$ 11,139,649	$ 103,877	$ (53,242,337)	$ (3,120,013)

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended July 31, 2012 and 2011

	2012	2011
Cash flows provided by (used in):		
Operating activities:		
Net loss	$ (5,162,088)	$ (4,955,534)
Adjustments for items not involving cash:		
Amortization of property and equipment	43,969	45,373
Amortization of patent costs	27,216	25,529
Exchange (gain) / loss on translation	(11,943)	99,010
Stock-based compensation	1,416,301	1,547,508
	(3,686,545)	(3,238,114)
Changes in non-cash operating items:		
Trade receivables	(3,381)	(5,913)
Goods and services taxes recoverable	19,940	(12,097)
Advances to employees	16,296	(39,627)
Prepaid expenses	(135,541)	(22,535)
Trade and other payables	509,012	(738,134)
Deferred revenue	1,156	23,845
Net cash flows used in operating activities	(3,279,063)	(4,032,575)
Investing activities:		
Deposits received	27,236	(2,993)
Short term investment	(32,204)	(5,000)
Acquisition of property and equipment	(94,104)	(3,605)
Net cash flows used in investing activities	(99,072)	(11,598)
Financing activities:		
Proceeds from shares and units issued	-	7,974,690
Share issuance costs	-	(497,878)
Repayments of obligations under finance lease liability	(7,686)	(5,829)
Proceeds from (repayments of) loans payable	655,000	(650,000)
Net cash flows from (used in) financing activities	647,314	6,820,983
Increase (decrease) in cash and cash equivalents	(2,730,821)	2,776,810
Cash and cash equivalents, beginning of period	2,857,820	81,010
Cash and cash equivalents, end of period	$ 126,999	$ 2,857,820

(Expressed in Canadian dollars)

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 head office for the Company is located at: Unit 1120 - 21331 Gordon Way, Richmond, BC, 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 two significant wholly owned subsidiaries as follows:

Subsidiary	Main current or planned activity
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 all have principal activities of research and development (and eventual exploitation) of medical laser technologies. 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 the same principal activity.

(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 consolidated financial statements have been prepared on the 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 July 31, 2012, the Company had very limited operating revenue, and a cumulative deficit of $53,242,337. 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.

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

(b) Going concern uncertainty (continued):

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. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and are in compliance with IFRS 1 *First-time Adoption of International Financial Reporting Standards.* Certain comparative information has been reclassified to conform to the current period's presentation.

Our accounting policies outlined in note 3 have been applied in preparing our consolidated financial statements as at and for the period ended July 31, 2012, the comparative information presented as at and for the period ended July 31, 2011 and in the preparation of our opening IFRS balance sheet at August 1, 2010. Note 17 provide details on the transition adjustments on adoption to IFRS.

These consolidated financial statements were approved by the Board of Directors on November 28, 2012.

(b) Basis of measurement:

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

(c) Significant judgments and estimates:

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect application of accounting policies and the reported amounts of assets, liabilities at the date of the year-end consolidated financial statements and reported amounts of revenue and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Significant items subject to such estimates and assumptions include the recoverable amount of equipment, and intangible assets, and valuation allowances for receivables, and assumptions used in determining the fair value of options and warrants.

2. Basis of presentation (continued):

(c) Significant judgments and estimates (continued):

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements includes the application of the going concern assumption and the determination of related parties.

3. Summary of significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at July 31, 2012 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 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.

(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.

3. Summary of significant accounting policies (continued):

(e) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated 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:

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

Depreciation rates and salvage values are reviewed annually.

(f) 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.

(g) Research and development expenditures:

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. For the periods ended July 31, 2012 and 2011, no costs have been capitalized.

3. Summary of significant accounting policies (continued):

(h) Impairment:

(*i*) Non-financial assets:

The carrying amounts of non-current assets, including property and equipment, and patent costs 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 loss 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 significant 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.

(i) 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.

3. Summary of significant accounting policies (continued):

(i) Foreign currency translation (continued):

(*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 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.

(j) 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.

(k) 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.

(l) 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 financial assets; and (5) fair value through profit or loss.

3. Summary of significant accounting policies (continued):

(l) Financial instruments (continued):

Subsequent measurement is based on either fair value or amortized cost, depending upon the classification. Financial assets at fair value through profit or loss are measured at fair value with changes in the fair value 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. The Company's financial instruments are classified as follows:

- Cash and cash equivalents, and restricted investments are classified as loans and receivable, which as measured at amortized cost using the effective interest method.
- 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.
- Trade and other payables, finance lease liability and loans payable are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(m) 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.

3. Summary of significant accounting policies (continued):

(n) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 8(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.

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.

(o) 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.

(p) 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.

(q) 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.

3. Summary of significant accounting policies (continued):

(q) Income taxes (continued):

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.

(r) 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.

(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 a 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.

3. Summary of significant accounting policies (continued):

(u) Future changes in accounting standards:

On May 12, 2011, the International Accounting Standards Board (IASB) issued IFRS 10, Consolidated Financial Statements, which is a replacement of IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation - Special Purpose Entities. Concurrent with the issuance of IFRS 10, the IASB also issued:

- IFRS 11, Joint Ventures;
- IFRS 12, Disclosures of Involvement with Other Entities;
- IAS 27, Separate Financial Statements (revised 2011), has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28, Investments in Associates and Joint Ventures (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards in the above 'package of five' has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards in the package of five is also early applied. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. IFRS 10 also requires a continuous assessment of control of an investee. The adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 applies to all transactions and balances for which IFRSs require or permit fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 Share-based Payment and leasing transactions within the scope of IAS 17 Leases. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

On June 16, 2011, the IASB issued amendment to IAS 1, Presentation of Financial Statements, revising how certain items are presented in other comprehensive income (OCI). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

(Expressed in Canadian dollars)

3. Summary of significant accounting policies (continued):

(u) Future changes in accounting standards (continued):

On December 16, 2011, the IASB issued amendments to IFRS 9 Financial Instruments which moved the mandatory effective date to annual periods beginning on or after January 1, 2015, with earlier application permitted. IFRS 9 is a first phase in an ongoing project to replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's consolidated financial statements.

4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2010	$ 180,974	$ 60,996	$ 302,831	$ 57,227	$ 602,028
Additions	2,719	-	-	-	2,719
Effect of movements in exchange rates	8,903	7,198	3,521	5,684	25,306
July 31, 2011	$ 192,596	$ 68,194	$ 306,352	$ 62,911	$ 630,053
Additions	1,921	3,584	87,115	-	92,620
Effect of movements in exchange rates	1,653	(2,533)	5,527	1,000	5,647
July 31, 2012	$ 196,170	$ 69,245	$ 398,994	$ 63,911	$ 728,320

(Expressed in Canadian dollars)

4. Property and equipment (continued):

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2010	$ 119,824	$ 36,213	$ 276,273	$ 40,543	$ 472,853
Depreciation	17,884	5,777	18,608	5,503	47,772
Effect of movements in exchange rates	5,294	3,089	3,518	4,027	15,928
July 31, 2011	$ 143,002	$ 45,079	$ 298,399	$ 50,073	$ 536,553
Depreciation	13,555	5,081	22,487	3,913	45,036
Effect of movements in exchange rates	1,274	(1,560)	4,744	795	5,253
July 31, 2012	$ 157,831	$ 48,600	$ 325,630	$ 54,781	$ 586,842
Carrying amount:					
August 1, 2010	$ 61,150	$ 24,783	$ 26,558	$ 16,684	$ 129,175
July 31, 2011	49,594	23,115	7,953	12,838	93,500
July 31, 2012	38,339	20,645	73,364	9,130	141,478

5. Patent costs:

	Patent
Costs:	
August 1, 2010	$ 255,270
Effect of movements in exchanges rates	15,266
July 31, 2011	270,536
Effect of movements in exchange rates	3,720
July 31, 2012	$ 274,256
Accumulated depreciation:	
August 1, 2010	$ 77,828
Depreciation	27,053
Effect o movements in exchange rates	3,025
July 31, 2011	107,906
Depreciation	27,425
Effect of movements in exchange rates	1,354
July 31, 2012	$ 136,685
Carrying amount:	
August 1, 2010	$ 177,442
July 31, 2011	162,630
July 31, 2012	137,571

(Expressed in Canadian dollars)

6. Finance lease liability:

Future minimum lease payments for obligations under capital leases are as follows:

	July 31, 2012	July 31, 2011
2012	$ -	$ 9,520
2013	9,670	9,520
	9,670	19,040
Less: interest at a rate of 6.45% per annum	(640)	(2,324)
Less: current portion of principal payments	(7,951)	(7,827)
Long term portion	$ 1,079	$ 8,889

7. Loans payable:

During the year ended July 31, 2012, the Company obtained a loan from a consultant that is non-interest bearing and payable upon demand.

As at August 1, 2010, the Company received a deposit of $650,000 pursuant to which shares were issued under a share subscription agreement dated October 7, 2010.

8. Share capital:

(a) Authorized:

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

8. Share capital (continued):

(b) Issued and outstanding common shares:

(*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 8(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.

(*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 ten 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 8(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)

8. Share capital (continued):

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

(*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. The warrants expired on April 23, 2012.

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, August 1, 2010	5,925,000	$ 1.00
Warrants granted (note 8(b)(*i*))	1,386,792	0.70
Warrants granted (note 8(b)(*ii*))	6,136,500	0.70
Balance, July 31, 2011	13,448,292	$ 0.83
Warrants expired (note 8(b)(*iii*))	(5,925,000)	(0.65)
Balance, July 31, 2012	7,523,292	$ 0.70

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

	Number of warrants	Weighted average exercise price
Balance, August 1, 2010	355,500	$ 1.00
Warrants granted (note 8(b)(*i*))	124,811	0.70
Warrants granted (note 8(b)(*ii*))	831,320	0.70
Balance, July 31, 2011	1,311,631	$ 0.78
Warrants expired (note 8(b)(*iii*))	(355,500)	(1.00)
Balance, July 31, 2012	956,131	$ 0.70

(Expressed in Canadian dollars)

8. Share capital (continued):

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

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:

	July 31, 2011
Annualized stock volatility	62.7%
Risk-free interest rate	1.7%
Expected option/warrant life	2.0 years
Dividend payments	0.0%

(e) Stock options:

On December 28, 2011, 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, 2012 the Company has reserved 13,690,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 505,000 were available for future issuance.

(Expressed in Canadian dollars)

8. Share capital (continued):

(e) Stock options (continued):

Stock option transaction and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, August 1, 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	5,640,000	0.65
Options expired	(860,000)	(0.96)
Balance, July 31, 2012	13,185,000	$ 0.63

Options outstanding at July 31, 2012 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$ 0.45	2,250,000	562,500	4.92
$ 0.57	1,135,000	846,250	4.50
$ 0.64	3,920,000	2,940,000	3.47
$ 0.65	2,550,000	2,550,000	1.74
$ 0.65	45,000	45,000	1.74
$ 0.65	2,255,000	1,127,500	4.15
$ 0.71	770,000	770,000	2.47
$ 1.30	100,000	100,000	0.19
$ 1.79	160,000	160,000	0.32
	13,185,000	9,101,250	3.46

(Expressed in Canadian dollars)

8. Share capital (continued):

(e) Stock options:

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:

	July 31, 2012	July 31, 2011
Annualized stock volatility	70.49%	78.75%
Risk-free interest rate	1.20%	2.34%
Expected option life	5 years	5 years
Dividend payments	0.00%	0.00%

During the year ended July 31, 2012, the Company recorded $1,416,301 (2011 - $1,547,508) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus.

9. 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.

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.

10. Commitments and contingencies:

(a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2013	$ 128,595	$ 45,942	$ 174,537
2014	68,898	50,942	119,840
2015	28,707	60,942	89,649
2016	-	60,942	60,942
	$ 226,200	$ 218,768	$ 444,968

10. Commitments and contingencies (continued):

(a) Commitments (continued):

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.

(b) Litigation:

Zecotek Imaging Systems Pte Ltd., a wholly owned subsidiary has filed legal action in United States Federal District Court in Los Angeles against defendants Saint-Gobain Corporation and Philips for infringement of Zecotek's U.S. Patent Number 7,132,060. The patent covers the substances and chemical formulations used to grow lutetium fine silicate (LFS) scintillation crystals which are characterized by their combined high light yield and ultra-fast decay times and are typically used in medical scanning devices. The lawsuit alleges that Saint-Gobain's LYSO crystals infringe Zecotek's patent, and that Philips infringes by using those crystals in the PET scanners it sells. Upon resolution of the litigation, any settlement proceeds and the related costs will be recorded in the consolidated statement of comprehensive loss.

11. 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"). 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 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.

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 August 1, 2010, July 31, 2011 and 2012. 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. In May 2012, EDB requested the Company to provide a fresh update on all the grant conditions to better evaluate the Company's appeal for changes to the grant conditions in order to reduce the repayment to EDB. As at the end of September 2012, EDB has yet to review the information provided by the Company.

(Expressed in Canadian dollars)

12. Financial instruments:

(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 exchange risk:

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rate.

The Company has significant operations in Singapore, which gives rise to significant foreign currency translation risks from fluctuations and volatility of foreign exchange rate between the Canadian dollar and the Singapore dollar (SGD). A significant change in the currency exchange rates between the SGD relative to the Canadian dollar could have an effect on the Company's financial performance, financial position and cash flows. The Company does not use derivative instruments to reduce its exposure to exchange rate risk.

The Company's financial instruments subject to exchange rate risk are listed below.

SGD	July 31, 2012	July 31, 2011	August 1, 2010
Financial assets:			
Cash and cash equivalents	$ 17,693	$ 223,849	$ (33,240)
Trade receivables	13,357	9,333	1,959
Restricted investments	40,000	-	-
Financial liabilities:			
Trade and other payables	(3,367,655)	(2,906,546)	(2,385,103)
Gross financial position exposure	$ (3,296,605)	$ (2,673,364)	$ (2,416,384)
Canadian dollar equivalents	$ (2,654,097)	$ (2,118,641)	$ (1,828,719)

(Expressed in Canadian dollars)

12. Financial instruments (continued):

(b) Foreign exchange risk (continued):

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended July 31, 2012 and 2011:

SGD	July 31, 2012	July 31, 2011
Canadian dollar		
Average rate	1.25	1.27
Closing rate	1.24	1.26

A 10% strengthening (weakening) of the Canadian dollar against SGD would have increased (decreased) equity and comprehensive income by the amounts below. This analysis assumes all other variables, such as interest rates, remain constant.

	July 31, 2012	July 31, 2011
Canadian dollar	$ 293,736	$ 257,381

The Company also has subsidiaries in Malaysia and Switzerland, but the operations in those countries have not been significant; therefore, the Company is not exposed to significant foreign exchange risk between Canadian dollar and Malaysian ringgit or Swiss franc.

(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. Trade and other payables and Loans payable have contractual maturity of 6 months or less.

(Expressed in Canadian dollars)

13. 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:

July 31, 2012	Asia	Europe	North America	Total
Revenue	$ 30,319	$ 2,715	$ 3,501	$ 36,535
Property and equipment	125,715	8,385	7,378	141,478
Patent costs	127,571	-	10,147	137,571

July 31, 2011	Asia	Europe	North America	Total
Revenue	$ 3,273	$ 20,882	$ 33,504	$ 57,659
Property and equipment	75,398	7,958	0,144	93,500
Patent costs	162,630	-	-	162,630

August 1, 2010	Asia	Europe	North America	Total
Property and equipment	$ 109,281	$ 6,960	$ 12,934	$129,175
Patent costs	177,442	-	-	177,442

14. 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 $25,870 (2011 - $38,516) in legal fees to Boughton Law Corporation, legal counsel to the Company, for legal services rendered during the year. A director of the Company is an Associate Counsel of Boughton Law Corporation. At July 31, 2012, $3,823 (July 31, 2011 - $365; August 1, 2010 - $5,234) was outstanding and included in trade and other payables.

(b) The Company incurred fees of $110,000 (2011 - $94,000) during the year for accounting and related services to a company controlled by the Corporate Secretary. At July 31, 2012, $8,400 (July 31, 2011 - nil; August 1, 2010 - $16,275) of these fees was unpaid and included in trade and other payables.

(Expressed in Canadian dollars)

14. Related party transactions (continued):

(c) During the year, the Company incurred fees of $84,023 (2011 - $28,635) to Calypso Enterprises Holding Corporation ("Calypso") for consulting services. A director of the Company is a director of Calypso.

(d) The Company incurred fees of $84,000 (2011 - $71,500) during the year for consulting services to the chief financial officer. At July 31, 2012, $23,520 (July 31, 2011 - $84,988; August 1, 2010 - nil) of the fees was unpaid and included in trade and other payables.

(e) The balance of the interest free loan to the Executive Vice-President, Operations at the end of July 31, 2012 was $8,051 (SGD 10,000) (July 31, 2011 - $31,700 (SGD 40,000) and August 1, 2010 - nil). Balance of the travelling allowance as at July 31, 2012 was $1,800 (July 31, 2011 - nil; August 1, 2010 - nil).

(f) During the year, the Company incurred salaries & allowances of $564,000 (2011 - $245,028) for the President and CEO. At July 31, 2012, $92,580 (July 31, 2011 - $265,449; August 1, 2010 - $144,808) of the salaries and allowances were unpaid and included in trade and other payables. The advances to the President and CEO amount to $9,158 as at July 31, 2012 (July 31, 2011 - nil; August 1, 2010 - nil).

(g) During the year company incurred salaries of $155,935 (2011 - $79,516) for the Executive Vice President, Operations. At July 31, 2012, $30,456 (July 31, 2011 - nil; August 1, 2010 - nil) of these salaries was unpaid and included in trade and other payables. The advances to the Executive Vice President, Operations amount to $3,962 as at July 31, 2012 (July 31, 2011 - nil; August 1, 2010 - nil).

(h) The Company incurred fees of of $78,000 (2011 - $43,500) during the year for directors' services. At July 31, 2012, $39,000 (July 31, 2011 - $2,500; August 1, 2010 - nil) of these fees was unpaid and included in trade and other payables.

(i) During the year, the Company granted options to certain directors and officers to acquire shares of the Company; 1,290,000 shares at a price of $0.65 per share until September 23, 2016; 210,000 shares at a price of $0.57 per share until January 30, 2017 and 950,000 shares at a price of $0.45 per share until July 2, 2017.

(j) The following table summarizes the compensation of the Company's key management:

	July 31, 2012	July 31, 2011
Short term employee salary and benefits	719,935	324,544
Post employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	576,800	589,677
Share based payments	-	-

(Expressed in Canadian dollars)

15. General and administrative expenses:

The following table presents the Company's general and administrative expenses according to their nature:

	July 31, 2012	July 31, 2011
Professional fees	$ 897,705	$ 745,688
Insurance	48,233	51,876
Marketing and promotion	42,668	11,078
Office	155,922	101,067
Rent	186,905	415,654
Salaries and benefits	1,114,108	1,071,084
Travel	229,734	184,072
Foreign exchange gain	17,999	139,215
Amortization of property and equipment	39,268	39,081
Stock-based compensation	1,223,146	1,222,901
Total	$ 3,955,688	$ 3,981,716

16. Income taxes:

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

	July 31, 2012		July 31, 2011	
	Canada	Singapore	Canada	Singapore
Statutory income tax rate	(25.7%)	(17.0%)	(27.3%)	(17.0%)
Tax losses not recognized	25.7%	17.0%	27.3%	17.0%
Effective tax rate	-	-	-	-

(b) Deferred tax assets have not been recognized in respect of the following items:

	July 31, 2012		July 31, 2011	
	Canada	Singapore	Canada	Singapore
Operating losses	$ 3,200,700	$ 3,573,700	$ 2,898,900	$ 4,041,900
Intangible assets	6,600	30,300	30,300	(23,500)
Share issuance costs	119,800	-	108,300	-
Property and equipment	17,300	60,000	29,100	29,900
Total	$ 3,344,400	$ 3,644,000	$ 3,066,600	$ 4,048,300

(Expressed in Canadian dollars)

16. Income taxes (continued):

(c) As at July 31, 2012, 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	1,039,417
2032	1,062,335
	$ 12,782,620

Operating losses for Singapore tax purposes of approximately $21,000,000 may be carried forward indefinitely, subject to certain restrictions.

17. Transition to 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 2. The Company has elected to prospectively apply IFRS 3, *Business Combinations*, from the Transition Date, rather than retrospectively restating all business combinations that have occurred prior to the Transition Date.

(b) Share-based payment transactions - The Company has elected to apply IFRS 2, *Share-based Payments*, to all equity instruments granted after November 7, 2002 that had not vested as of the Transition Date and elected not to apply the standard to any equity instruments issued prior to this date.

(c) Cumulative translation adjustment - The Company elected to transfer the balance of cumulative translation differences, recognized as a separate component of equity, to deficit at August 1, 2010.

17. Transition to IFRS (continued):

(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.

(e) Reconciliations between IFRS and Canadian GAAP:

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.

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 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:

- Statement of financial position as at August 1, 2010;
- Statement of financial position as at July 31, 2011; and
- Statement of comprehensive loss for the year ended July 31, 2011.

Reconciliations for the statement of cash flows have not been provided as the impact to the statement was minimal.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and explanatory notes:

(*i*) Classification of expenses:

Under IFRS, the Company has chosen to present its expenses based on the function of each expense.

(*ii*) 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, the Company has chosen to present its expenses based on the function of each expense rather than the nature of each expense. Accordingly, 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 comprehensive loss. There is no impact on the Company's net loss or comprehensive loss as a result of these reclassifications.

17. Transition to IFRS (continued):

(e) Reconciliations between IFRS and Canadian GAAP (continued):

(*iii*) Revaluation of stock-based compensation:

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. 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.

(*iv*) Foreign currency translation:

Under Canadian GAAP, the Company's assessment of its foreign operations as integrated operations required that non-monetary items be translated at historical exchange rates and monetary assets and liabilities were translated to the reporting currency at current rates of exchange, with the effect of the translation reported as a foreign exchange gain or loss. Under IFRS, the currency of the primary economic environment of the Company's foreign operations was determined to be the applicable local currency. Consequently, under IFRS, all assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as other comprehensive income or loss.

(Expressed in Canadian dollars)

17. Transition to IFRS (continued):

(e) Reconciliations between IFRS and Canadian GAAP (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)	17(e)(*iii*)	6,875,769
Deficit	(43,151,166)	26,451	17(e)(*iii*)	(43,124,715)
Total shareholders' equity	(3,546,889)	-		(3,546,889)
Total liabilities and shareholders' equity	$ 508,678	$ -		$ 508,678

(Expressed in Canadian dollars)

17. Transition to IFRS (continued):

(e) Reconciliations between IFRS and Canadian GAAP (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	17(e)(*iv*)	80,662
Equipment under capital lease	11,679	1,159	17(e)(*iv*)	12,838
Patent costs	151,915	10,715	17(e)(*iv*)	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	17(e)(*iii*)	9,723,348
Deficit	(47,726,709)	(353,540)	17(e)(*iii*)(*iv*)	(48,080,249)
Accumulated other comprehensive income	-	115,820	17(e)(*iv*)	115,820
	620,907	16,810		637,717
Total liabilities and shareholders' equity	$ 3,306,356	$ 16,810		$ 3,323,166

(Expressed in Canadian dollars)

17. Transition to IFRS (continued):

(e) Reconciliations between IFRS and Canadian GAAP (continued):

Reconciliation of Statement of Comprehensive Loss from Canadian GAAP to IFRS for year ended July 31, 2011:

	Canadian GAAP	Effect of transition to IFRS	Note	IFRS
Revenue	$ 57,659	$		$ 57,659
Expenses:				
Operating, general and administrative	2,579,913	1,401,803	17(e)(*i*)	3,981,716
Research and development	676,274	355,203	17(e)(*i*)	1,031,477
Stock-based compensation	1,266,527	(1,266,527)	17(e)(*i*)(*iii*)	-
Foreign exchange loss	39,586	(39,586)	17(e)(*ii*)	-
Amortization of property and equipment	45,373	(45,373)	17(e)(*ii*)	-
Amortization of patent costs	25,529	(25,529)	17(e)(*ii*)	-
	4,633,202	379,991		5,013,193
Net loss	(4,575,543)	(379,991)		(4,955,534)
Other comprehensive gain (loss):				
Exchange gain (loss) on translation of foreign operations	-	115,820	17(e)(*iv*)	115,820
Total 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

18. Subsequent events:

The Company completed the first tranche of share subscription agreements on September 18, 2012. Under the agreements, the subscribers purchased 4,280,000 units of the Company at a price of $0.36 per unit, for gross proceeds of $1,540,800. 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 $0.50 per share for a period of 24 months. 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 of the sales of the shares and issued 299,600 non-transferable finder's warrants. Each finder's warrant is to entitle the holder to purchase one share at a price of $0.50 for a period of 24 months after the date that the private placements closed. All shares and warrants are to be subject to a four-month hold period.

On October 12, 2012, the Company announced that it has increased the non-brokered private placement by 666,666 units which will result in additional gross proceeds of $240,000.

1,386,792 common share purchase warrants exercisable at $0.70 per share and 124,811 finder's warrants exercisable at $0.70 per share were expired on November 3, 2012.