ZECOTEK PHOTONICS INC.

Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

(Unaudited)

January 31, 2018

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited 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.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

	January 31, 2018	July 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 3,106,021	$ 862,370
Trade receivables	6,082	250
Restricted investments (note 3(c))	20,000	20,000
Shares Subscription Receivable	221,000	-
Goods and services taxes recoverable	45,374	18,152
Advances to employees (notes 12(c) and 12(d))	5,678	3,492
Inventory	1,724	7,631
Prepaid expenses	28,365	76,039
Total current assets	3,434,244	987,934
Non-current assets:		
Deposits	2,736	3,029
Property and equipment (note 4)	49,773	53,592
Patent acquisition costs (note 5)	-	9,817
Total non-current assets	52,509	66,438
Total assets	$ 3,486,753	$ 1,054,372
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Trade and other payables (notes 8(c), 9 and 12)	$ 3,644,322	$ 5,315,474
Customer deposits	1,713,266	1,926,563
Short term loan	-	20,041
	5,357,588	7,262,078
Shareholders' deficiency:		
Share capital (note 6)	67,913,671	62,974,717
Share Subscription Received	-	215,971
Contributed surplus	16,196,127	15,251,233
Deficit	(85,808,274)	(84,588,934)
Accumulated other comprehensive income (loss)	(172,359)	(60,693)
Total shareholders' deficiency	(1,870,835)	(6,207,706)
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (note 8)		
Subsequent events (notes 15)		
Total liabilities and shareholders' deficiency	$ 3,486,753	$ 1,054,372

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)
For the three months and six months ended January 31, 2018 and 2017

	Three Months 2018	Three Months 2017	Six Months 2018	Six Months 2017
Revenue	$ 8,257	$ 6,029	$ 197,572	$ 213,675
Cost of sales	8,739	3,219	238,832	180,708
Gross Margin	(482)	2,810	(41,260)	32,967
Expenses				
Operating, general and administrative (note 13)	1,726,574	1,023,001	2,612,683	1,885,192
Research and development (note 14)	144,059	313,318	242,899	655,019
	1,870,633	1,336,319	2,855,582	2,540,211
Other income (note 9)	1,137,465	1,436,926	1,677,502	1,436,926
Net income (loss)	(733,650)	103,417	(1,219,340)	(1,070,318)
Other comprehensive gain (loss)				
Exchange gain (loss) on translation of foreign operations	41,492	254,274	(111,666)	359,160
Net comprehensive loss	$ (692,158)	$ 357,691	$ (1,331,006)	$ (711,158)
Net loss per common share – basic and diluted	$ (0.01)	$ -	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	143,555,246	130,596,000	142,996,781	128,430,272

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Deficiency
(Expressed in Canadian Dollars)
(Unaudited)
Six months ended January 31, 2018 and 2017

	Number of shares	Share capital	Share subscription received	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders equity (deficiency)
As at August 1, 2016	124,343,196	$ 59,607,285	$ -	$ 14,579,655	$ (458,204)	$ (81,168,023)	$ (7,439,287)
Share issuance on private placements (note 6(b)							
Issuance of shares	7,381,935	2,015,581	-	-	-	-	2,015,581
Issue costs	-	(182,629)	-	-	-	-	(182,629)
Issuance of warrants	-	(363,352)	-	363,352	-	-	-
Issuance of finder's warrants	-	(54,456)	-	54,456	-	-	-
Comprehensive loss	-	-		-	1,796,086	(2,507,244)	(711,158)
Share subscription receivable	-	199,000	-	-	-	-	199,000
As at January 31, 2017	131,725,131	$ 61,221,429	$ -	$ 14,997,463	$ 1,337,883	$ (83,675,267)	$ (6,118,493)
As at August 1, 2017	138,841,798	$ 62,974,717	$ 215,971	$ 15,251,233	$ (60,693)	$ (84,588,934)	$ (6,207,706)
Share issuance on private placements (note 6(b)):							
Issuance of shares	20,291,350	6,087,405	(215,971)	-	-	-	5,871,432
Issuance of warrants		(921,584)	-	921,584	-	-	-
Issuance of finder's warrants		(23,310)	-	23,310	-	-	-
Issue costs		(203,557)	-	-	-	-	(203,557)
Comprehensive loss	-	-	-	-	(111,666)	(1,219,340)	(1,331,006)
As at January 31, 2018	159,133,148	$ 67,913,671	$ -	$ 16,196,127	$ (172,359)	$ (85,808,274)	$ (1,870,835)

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)
For the three and six months ended January 31, 2018 and 2017

	Three Months		Six months	
	2018	**2017**	**2018**	**2017**
Cash flows provided by (used in):				
Operating activities:				
Loss for the period	$ (733,650)	$ 103,417	$ (1,219,340)	$ (1,070,318)
Adjustments for items not involving cash:				
Amortization of property and equipment	3,458	4,560	8,209	9,244
Amortization of patent costs	3,144	6,901	9,944	13,997
Foreign exchange loss (gain)	(61,265)	93,817	(79,521)	273,308
Grant and compensation waiver (note 9)	(1,137,465)	(1,436,926)	(1,677,502)	(1,436,926)
	(1,925,778)	(1,228,231)	(2,958,210)	(2,210,695)
Changes in non-cash operating working capital:				
Trade receivables	(5,824)	2,980	(5,824)	(27,732)
Disposal of short term investment	-	-	-	38,840
Goods and services taxes recoverable	(11,095)	24,837	(27,222)	18,440
Advances to employees	(4,689)	19,813	(2,173)	(8,767)
Inventory	6,120	6,139	6,120	(8,520)
Prepaid expenses	4,199	(11,697)	47,674	10,507
Trade and other payables	334,190	126,274	85,871	172,241
Customer deposit	(76,766)	(64,199)	(213,297)	(206,413)
Net cash flows used in operating activities	(1,679,643)	(1,124,084)	(3,067,061)	(2,204,565)
Investing activities:				
Deposits received (paid)	577	1,260	577	1,260
Disposal / (Acquisition) of property and equipment	(1,985)	3,720	(1,985)	33,028
Loans payable	11,690	(1,904)	(20,041)	(4,575)
Net cash flows used in investing activities	10,282	3,076	(21,449)	29,713
Financing activities:				
Proceeds from shares and units issued	4,830,900	1,187,000	5,871,434	2,015,581
Share subscription received	-	186,930	-	186,930
Share issuance costs	(141,871)	(110,795)	(203,557)	(182,629)
Net cash flows provided by financing activities	4,689,029	1,263,135	5,667,877	2,019,882
Effects of exchange rate changes on cash	(199,549)	254,094	(335,716)	288,930
Increase (decrease) in cash and cash equivalents	2,820,119	396,221	2,243,651	133,960
Cash and cash equivalents, beginning of period	285,902	23,455	862,370	285,716
Cash and cash equivalents, end of period	$ 3,106,021	$ 419,676	$ 3,106,021	$ 419,676

See accompanying notes to consolidated financial statements.

1. Nature of business and going concern uncertainty:

(a) Nature of business:

Zecotek Photonics Inc. (the "Company") was incorporated on November 25, 1983 under the laws of the Province of British Columbia, Canada. The 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 one significant wholly owned subsidiaries, Zecotek Photonics Singapore Pte. Ltd. which holds 100% ownership interests in Zecotek Display Systems Pte. Ltd., Zecotek Imaging Systems Pte. Ltd. and a 90% ownership interest in Zecotek Optronics Systems Pte. Ltd.(formerly Zecotek Laser Systems Pte. Ltd.). Zecotek Imaging Systems Pte. Ltd. holds 100% ownership interest in Zecotek Imaging China Limited. These subsidiaries all have principal activities of research and development (and eventual exploitation) of medical laser technologies.

(b) Going concern uncertainty:

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 January 31, 2018, the Company had limited operating revenue, a working capital deficiency of $1,923,344 shareholders' deficiency of $1,870,835 and negative operating cash flows of $3,067,061. The Company's current revenue is not sufficient to sustain operations. These factors, among others, create significant doubt as to the ability of the Company to continue as a going concern.

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.

Management believes the Company will be successful at securing additional equity financing, and if it reaches profitable operations, would continue as a going concern for the foreseeable future. The Company expects to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

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" 34), Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Our accounting policies outlined in note 3 have been applied in preparing our consolidated financial statements as at and for the years ended January 31, 2018 and 2017.

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized to be issued by the Board of Directors on March 31, 2018.

(b) Basis of measurement:

These 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 these 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 assumptions used in determining the fair value of options and warrants. The fair value of stock options granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the option or warrant, expected volatility, actual and expected life of the option or warrant, expected dividends based on the dividend yield at the date of the grant, anticipated forfeiture rate, and the risk-free interest rate. The expected life of the options and warrants is based on historical experience and general option holder behavior. Consequently, the actual stock-based compensation expense may vary from the amount estimated.

Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the application of the going concern assumption. The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

3. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at January 31, 2018 and 2017 and the results of all its subsidiaries for the years then ended. Subsidiaries are all those entities which the Company controls, where control is defined as having the power to govern the financial and operating policies and exposure to variable returns. 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) Restricted investments:

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

(d) 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 (over the shorter of - lease term or useful life)	-

Depreciation rates and salvage values are reviewed annually.

3. Significant accounting policies (continued):

(e) 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.

(f) 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 January 31, 2018 and 2017, no costs have been capitalized.

(g) 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.

3. Significant accounting policies (continued):

(g) Impairment (continued):

(*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.

(h) 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 (CAD), which is the functional and presentation currency of Zecotek Photonics Inc. The functional currency of Zecotek Imaging China Limited is Chinese renminibi (CNY) and all other entities have a functional currency of the Singapore Dollar (SGD).

(*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 statement of financial position and average exchange rate over the reporting period for the income statement. Foreign currency translation differences are recognized in other comprehensive income (loss).

(*iii*) Transactions in foreign currency:

Transactions conducted 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.

(j) 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.

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 in comprehensive income would

3. Significant accounting policies (continued):

(j) Financial instruments (continued):

be recorded in net income. For other financial liabilities, 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, 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, customer deposits, and short-term loans are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(k) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 6(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.

(l) Share Capital:

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and warrants are classified as equity instruments. The fair value of the warrants is estimated using the Black-Scholes option pricing model and the remaining value is assigned to the common shares. In circumstances where finder's warrants are issued coincidentally with a unit offering, the finder's warrants are valued using the Black-Scholes option pricing model.

(m) 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 loss.

3. Significant accounting policies (continued):

(n) 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.

(o) 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. In a loss period, stock options and warrants are anti-dilutive.

(p) Revenue recognition:

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

Customer deposits consist of amounts received in advance from customers who have not had their products shipped. Revenue is recognized as the revenue recognition criteria are met.

3. Significant accounting policies (continued):

(q) 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.

(r) New standards and interpretations not yet adopted:

The following standards and interpretations, that have been issued but are not yet effective as of July 31, 2017, have not been applied in preparing the financial statements.

(i) IFRS 9 - *Financial Instruments*:

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company intends to adopt IFRS 9 for the annual period beginning August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(*ii*) IFRS 15 - Revenue from Contracts with Customers:

In May 2015, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*, which replaces IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and other interpretive guidance associated with revenue recognition. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(*iii*) IFRS 16 - Leases:

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring leases recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has an insignificant value. IFRS 16 was issued January 2016 and will be applicable to the Company's annual financial statements for the year beginning August 1, 2019. The Company is evaluating the impact of this new standard.

(s) Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2016	312,484	55,087	481,104	77,081	926,756
Disposal	-	-	-	(77,081)	(77,081)
Foreign Exchange Impact	(12,602)	(1,756)	(23,188)	-	(37,546)
January 31, 2017	299,882	53,331	457,916	-	811,129
August 1, 2017	300,770	53,188	456,033	-	809,991
Foreign Exchange Impact	7,125	672	8,869	-	16,666
January 31, 2018	$ 307,895	$ 53,860	$ 464,902	$ -	$ 826,657

(Expressed in Canadian dollars)

4. Property and equipment (continued):

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2016	217,904	47,300	472,037	71,922	809,163
Depreciation	10,788	710	-	556	12,054
Foreign Exchange Impact	6,882	1,171	17,837	2,739	28,629
January 31, 2017	235,574	49,181	489,874	75,217	849,846
August 1, 2017	251,607	48,759	456,033	-	756,399
Depreciation	6,577	447	-	-	7,024
Foreign Exchange Impact	3,980	612	8,869	-	13,461
January 31, 2018	$ 262,164	$ 49,818	$ 464,902	$ -	$ 776,884
Carrying amount:					
January 31, 2018	$ 45,731	$ 4,042	$ -	$ -	$ 49,773
January 31, 2017	$ 56,177	$ 4,998	$ -	$ -	$ 61,175

5. Patent costs:

Costs:	
August 1, 2016	$ 323,232
Effect of movements in exchanges rates	(13,816)
January 31, 2017	$ 309,416
August 1, 2017	308,294
Effect of movements in exchange rates	5,284
January 31, 2018	$ 313,578
Accumulated depreciation:	
August 1, 2016	$ 284,209
Depreciation	6,900
Effect of movements in exchange rates	(5,193)
January 31, 2017	$ 285,916

(Expressed in Canadian dollars)

5. Patent costs (continued):

August 1, 2017	298,477
Depreciation	9,944
Effect of movements in exchange rates	5,157
January 31, 2018	$ 313,578
Carrying amount:	
January 31, 2018	$ -
January 31, 2017	$ 23,500

6. 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:

(*i*) On January 29, 2018, the Company completed the share subscription agreements for the financing announced on December 29, 2017. Under the agreements, the subscribers purchased 16,103,000 units of the Company at a price of $0.30 per unit, for gross proceeds of $4,830,900. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $98,998 and issued non-transferable finder's warrants to purchase 329,993 Common Shares at $0.43 per share before January 30, 2020. All shares and warrants are subject to a four-month hold period expiring on May 30, 2018.

(*ii*) On August 14, 2017, the Company completed the share subscription agreements for the financing announced on July 18, 2017. Under the agreements, the subscribers purchased 4,188,350 units of the Company at a price of $0.30 per unit, for gross proceeds of $1,256,505. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $45,100 and issued non-transferable finder's warrants to purchase 150,333 Common Shares at $0.43 per share before August 11, 2019. All shares and warrants are subject to a four-month hold period expiring on December 12, 2017. The Company received $215,971 of the proceeds on July 31, 2017 and was recorded as Share Subscription Received.

(*iii*) On July 26, 2017, the Company completed the share subscription for the financing announced on July 18, 2017. Under the agreements, the subscribers purchased 3,995,000 units of the Company at a price of $0.30 per unit, for gross proceeds of $1,198,500. Each unit consists of

6. Share capital (continued):

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

(iii) (continued) one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $45,195 and issued 150,650 non-transferable finder's warrants to purchase 150,650 Common Shares at $0.43 per share before July 26, 2019. All shares and warrants are subject to a four-month hold period expiring on November 27, 2017.

(iv) On April 27, 2017, the Company completed the share subscription for the financing announced on April 25, 2017. Under the agreements, the subscribers purchased 1,866,667 units of the Company at a price of $0.30 per unit, for gross proceeds of $560,000. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $33,950 and issued 113,167 non-transferable finder's warrants to purchase 113,167 Common Shares at $0.43 per share before April 27, 2019. All shares and warrants are subject to a four-month hold period expiring on August 28, 2017.

(v) On March 17, 2017, the Company completed the third tranche of share subscription agreements for the financing announced on November 7, 2016. Under the agreements, the subscribers purchased 1,255,000 units of the Company at a price of $0.30 per unit, for gross proceeds of $376,500. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $14,070 and issued 46,900 non-transferable finder's warrants to purchase 46,900 Common Shares at $0.43 per share before March 17, 2019. All shares and warrants are subject to a four-month hold period expiring on July 18, 2017.

(*vi*) On November 25, 2016, the Company completed the second tranche of share subscription agreements for the financing announced on November 7, 2016. Under the agreements, the subscribers purchased 3,620,000 units of the Company at a price of $0.30 per unit, for gross proceeds of $1,086,000. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of $69,020 and issued 230,067 non-transferable finder's warrants. Each finder’s warrant is exercisable into units at $0.30 per unit for a 24 month period. Each unit consists of one common share and one half of a share purchase warrant. Each whole warrant is exercisable into one common share at $0.43 per share before November 25, 2018. All shares and warrants are subject to a four-month hold period expiring on March 26, 2017.

(Expressed in Canadian dollars)

6. Share capital (continued):

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2016	25,128,105	0.49
Warrants granted	7,381,935	0.43
Balance, January 31, 2017	32,510,040	$ 0.48
Balance, July 31, 2017	39,626,707	0.47
Warrants granted	20,291,349	0.43
Balance, January 31, 2018	59,918,056	$ 0.46

Common share purchase warrants outstanding at January 31, 2018 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.50	13,060,213	0.79
$ 0.53	6,818,562	1.48
$ 0.43	40,039,281	1.38
	59,918,056	1.27

On November 29, 2017, the Company extended (the "Warrant Extension") by 24 months the term of outstanding share purchase warrants (the "Warrants") exercisable at a price of $0.53 per common share for 3,084,000 common shares of the Company, which were issued pursuant to a private placement which closed on December 15, 2015. The amended Warrants contain an acceleration provision, such that, if, for a period of 10 trading days (the “Premium Trading Days”) the closing price of the Company’s shares is $1.00 per share or higher, the warrant exercise period of the holder’s Warrants will be shortened to a period of 30 days. This 30-day period will commence seven calendar days after the tenth Premium Trading Day.

(Expressed in Canadian dollars)

6. Share capital (continued):

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2016	1,838,226	$ 0.46
Warrants granted	640,636	0.30
Warrants expired	(886,312)	(0.50)
Balance, January 31, 2017	1,592,550	$ 0.39
Balance, July 31, 2017	1,903,267	$ 0.39
Warrants granted	480,328	0.43
Warrants expired	(363,510)	(0.53)
Balance, January 31, 2018	2,020,085	$ 0.38

Finder's warrants outstanding at January 31, 2018 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.30	964,222	0.64
$ 0.43	1,008,139	1.34
$ 0.53	47,724	0.01
	2,020,085	0.98

The fair value of finder's 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:

	2018	2017
Annualized stock volatility	51.35%	59.10%
Risk-free interest rate	1.69%	0.84%
Expected option/warrant life	2.0 years	2.0 years
Dividend payments	0.0%	0.0%

(Expressed in Canadian dollars)

6. Share capital (continued):

(e) Stock options:

On December 29, 2017, 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 generally vest according to the following schedule:

25%	on grant date
25%	3 months after grant date
25%	6 months after grant date
25%	9 months after grant date

As of January 31, 2018, the Company has reserved 28,606,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 22,771,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2016	10,660,000	$ 0.64
Options expired	(3,310,000)	0.64
Balance, January 31, 2017	7,350,000	$ 0.64
Balance, July 31, 2017 and January 31, 2018	5,835,000	$ 0.69

(Expressed in Canadian dollars)

6. Share capital (continued):

(e) Stock options (continued):

Options outstanding at January 31, 2018 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$ 0.43	1,350,000	1,350,000	0.28
$ 0.70	1,785,000	1,785,000	1.27
$ 0.82	2,700,000	2,700,000	0.97
	5,835,000	5,835,000	0.99

During the quarter ended January 31, 2018, the Company recorded $nil (2017 - $nil) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus. There were no stock options granted during the quarter ended January 31, 2018 (2017 - nil).

The fair value of the stock options grants has been estimated at the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions.

2015:	
Expected volatility	57.61%
Risk-free interest rate	1.41%
Expected option life	5.0 years
Dividend payments	0.0%

7. 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 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, 2017.

(Expressed in Canadian dollars)

8. Commitments and contingencies:

(a) Commitments:

January 31,	Rental leases	Research contracts	Total
2018	20,384	41,000	61,384
2019	-	41,000	41,000
2020	-	41,000	41,000
	$ 20,384	$ 123,000	$ 143,384

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.

9. Waiver of grant and Compensation:

(a) In August 2010 Company received correspondence from the EDB in which the EDB required repayment of the grants due to not meeting original conditions of the grant. The company recognized that amount as a liability and included $1,537,209 in trade and other payables as at January 31, 2017. The Company also disputed the repayment requirement.

In May 2012, EDB requested the Company to provide an 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.

EDB has completed reviewing the information provided by the Company and has agreed to waive the recovery of the grants. As at January 31, 2018 $nil was included in trade and other payables in relation to this grant.

(b) Compensation waivers:

In October of 2017, the Company entered into agreements with certain of its consultants, directors and employees (the "individuals"). Under these agreements, the individuals waived salaries and fees owed to them totaling $1,118,772

10. Financial instruments:

(a) Fair value:

The Company's financial instruments consist of cash and cash equivalents, trade receivables, advances to employees, restricted investments, customer deposits, trade and other payables and short-term loan. The fair values of cash and cash equivalents, trade receivable, advances to employees, trade and other payables, and short-term loans payable approximate carrying value because of the short-term nature of these instruments.

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

(*i*) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(*ii*) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices);

(*iii*) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company categorized the fair value measurement of its restricted investments in Level 1 as they are primarily derived directly from reference to quoted (unadjusted) prices in active markets.

(b) Financial risk management:

The Company primarily has exposure to credit risk, foreign exchange rate risk, interest rate risk, and liquidity risk.

(*i*) 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.

(*ii*) 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.

(Expressed in Canadian dollars)

10. Financial instruments:

(b) Financial risk management (Continued):

(*i*) Foreign exchange risk (Continued):

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

SGD		2018		2017
Financial assets:				
Cash and cash equivalents	$	71,851	$	8,156
Financial liabilities:				
Trade and other payables		(3,415,193)		(3,443,554)
Gross financial position exposure	$	(3,343,342)	$	(3,435,398)
Canadian dollar equivalents	$	(3,137,058)	$	(3,174,995)

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended January 31, 2018 and 2017:

SGD		2018		2017
Canadian dollar:				
Average rate	$	1.06	$	1.05
Closing rate		1.07		1.08

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended January 31, 2018 and 2017:

SGD		2018		2017
Canadian dollar:				
Average rate	$	1.05	$	1.05
Closing rate		1.08		1.08

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

		2018		2017
Canadian dollar	$	313,706	$	317,500

(Expressed in Canadian dollars)

10. Financial instruments (continued):

(b) Financial risk management (continued):

(*ii*) Foreign exchange risk (continued):

The Company also has subsidiary in China, but the operations have not been significant; therefore, the Company is not exposed to significant foreign exchange risk between Canadian dollar and Malaysian ringgit.

(*iii*) 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. Restricted investments with fixed interest rates include guaranteed investment certificates with original maturities of greater than three months expose the Company to interest rate risk. The Company does not use financial instruments to mitigate this interest rate risk.

(*iv*) 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 have contractual maturity of 6 months or less.

11. 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:

January 31, 2018	Asia	Europe	America	Total
Revenue	$ 191,555	$ -	$ -	$ 191,555
Property and equipment	45,954	-	3,819	49,773

January 31, 2017	Asia	Europe	America	Total
Revenue	$ 202,829	$ -	$ 10,846	$ 213,675
Property and equipment	56,907	-	4,268	61,175
Patent costs	23,500	-	-	23,500

(Expressed in Canadian dollars)

12. Related party transactions:

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

(a) The Company incurred $16,722 (2017 - $17,844) 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. At January 31, 2018, $41,259 (2017 - $59,778) was outstanding and included in trade and other payables.

(b) The Company incurred fees of $45,000 (2018 - $45,000) during the quarter for consulting services provided by the chief financial officer. At January 31, 2018, $66,818 (2017, $35,608) of the fees was unpaid and included in trade and other payables.

(c) During the quarter, the Company incurred salaries of $nil (2017 - $51,887) for the Executive Vice President, Operations. At January 31, 2018, $134,811 (2017, $113,089) of the salaries was unpaid and included in trade and other payables. The loan payable to the Executive Vice President, Operations amounted to $nil as at January 31, 2018 (2017 - $45,548).

(d) During the quarter, the Company incurred salaries and benefits of $16,958 (2017 - $51,015) for the President and Chief Executive Officer ("CEO") and fees of $118,703 (2017 - $119,035) for consulting services to a company controlled by the President and CEO. At January 31, 2018, $76,057 (2018- $83,244) of the salaries and benefits; and $190,748 (2018 – $367,524) of the fees were unpaid and included in trade and other payables.

(e) The Company incurred fees of of $17,500 (2017 - $19,500) during the quarter for directors' services. At January 31, 2017, $219,670 (2017, $189,000) was unpaid and included in trade and other payables.

(f) The Company incurred fees of $39,000 (2017 - $30,000) during the quarter for accounting and related services provided by the Corporate Secretary. At January 31, 2018, $13,000 (2018 - $10,500) was unpaid and included in trade and other payables.

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

	January 31, 2018	January 31, 2017
Short-term employee salary and benefits	$ 1,111,070	$ 1,221,572
Termination benefits	727,570	659,193

(Expressed in Canadian dollars)

13. General and administrative expenses:

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

	January 31, 2018	January 31, 2017
Consulting and other professional fees	$ 2,134,925	$ 861,153
Insurance	19,023	11,105
Marketing and promotion	38,272	29,858
Office and miscellaneous	49,162	65,599
Rent	72,300	64,915
Salaries and benefits	221,227	473,376
Travel	152,349	100,783
Foreign exchange loss (gain)	(79,521)	273,308
Amortization of property and equipment	4,946	5,095
Total	$ 2,612,683	$ 1,885,192

14. Research and development expenses:

The following table presents the Company's research and development expenses according to their nature:

	January 31, 2018	January 31, 2017
Consulting fees	$ 47,750	$ 332,956
Overhead costs	11,138	3,949
Supplies	23,133	61,625
Salaries and benefits	54,046	138,528
Patent costs	93,625	99,815
Amortization of property and equipment	3,263	4,149
Amortization of patent costs	9,944	13,997
Total	$ 242,899	$ 655,019

15. Subsequent event:

47,724 Finder warrants and 1,301,889 shareholders warrants expired on February 4, 2018.