Consolidated Financial Statements
(Expressed in Canadian dollars)

ZECOTEK PHOTONICS INC.

Years ended July 31, 2018 and 2017

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, 2018, and the consolidated statements of comprehensive loss, changes in deficiency and cash flows for the year then ended, and 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 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our 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 financial position of Zecotek Photonics Inc. as at July 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw our attention to Note 1(b) in the consolidated financial statements which states that Zecotek Photonics Inc. incurred significant operating losses from operations, negative cash flows and has an accumulated deficit. This, along with other matters described in Note 1(b), indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The consolidated financial statements as at and for the year ended July 31, 2017 were audited by another auditor who expressed an unmodified opinion on these statements in their report dated November 28, 2017.

Vancouver, British Columbia

November 28, 2018

MNP LLP
Chartered Professional Accountants

ZECOTEK PHOTONICS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at July 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 2,422,542	$ 862,370
Trade receivables	256	250
Restricted investments	20,000	20,000
Goods and services taxes recoverable	41,422	18,152
Advances to employees	40,343	3,492
Inventory	2,920	7,631
Prepaid expenses	26,752	76,039
Total current assets	2,554,235	987,934
Non-current assets:		
Deposits	14,190	3,029
Property and equipment (Note 4)	6,186	53,592
Patent (Note 5)	-	9,817
Long-term prepayments	1,679,141	-
Total non-current assets	1,699,517	66,438
Total assets	$ 4,253,752	$ 1,054,372
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Trade and other payables (Notes 10 and 14)	$ 1,972,306	$ 5,315,474
Customer deposits	1,809,762	1,926,563
Short term loan (Note 14(c))	-	20,041
Total liabilities	3,782,068	7,262,078
Shareholders' equity:		
Share capital (Note 6)	69,227,855	62,974,717
Share subscription received	-	215,971
Contributed surplus	17,251,223	15,251,233
Non-controlling interest (Note 17)	3,792,493	-
Deficit	(89,535,426)	(84,588,934)
Accumulated other comprehensive loss	(264,461)	(60,693)
Total shareholders' equity	471,684	(6,207,706)
Nature of business and going concern uncertainty (Note 1)		
Commitments (Note 8)		
Total liabilities and shareholders' equity	$ 4,253,752	$ 1,054,372

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Faouzi Zerrouk" Director *"Erich Sager"* Director

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended July 31, 2018 and 2017

	2018	2017
Revenue	$ 202,330	$ 466,874
Cost of sales	244,295	406,378
Gross margin	(41,965)	60,496
Expenses		
Operating, general and administrative (Note 15)	5,984,320	3,628,518
Research and development (Note 16)	573,905	1,283,907
	6,558,225	4,912,425
Other income (expenses)		
Recovery of government grant (Note 9)	-	1,431,018
Debt forgiveness (Note 10)	1,664,858	-
Loss on disposal of property and equipment	(37,348)	-
Net loss	(4,972,680)	(3,420,911)
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods (net of tax)		
Exchange (loss) gain on translation of foreign operations	(203,087)	397,511
Net comprehensive loss	$ (5,175,767)	$ (3,023,400)
Net loss attributable to:		
Common shareholders	$ (4,946,492)	$ (3,023,400)
Non-controlling interests (Note 17)	(26,188)	-
	$ (4,972,680)	$ (3,023,400)
Net comprehensive loss attributable to:		
Common shareholders	$ (5,150,260)	$ (3,023,400)
Non-controlling interests (Note 17)	(25,507)	-
	$ (5,175,767)	$ (3,023,400)
Net loss per common share – basic and diluted	$ (0.03)	$ (0.03)
Weighted average number of common shares outstanding - basic and diluted	152,762,343	131,091,846

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

Years ended July 31, 2018 and 2017

	Number of shares	Share capital	Share subscription received	Contributed surplus	Non-controlling interest	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	14,498,602	4,349,581	-	-	-	-	-	4,349,581
Issue costs	-	(310,571)	-	-	-	-	-	(310,571)
Issuance of warrants	-	(608,939)	-	608,939	-	-	-	-
Issuance of finder's warrants	-	(62,639)	-	62,639	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	397,511	-	397,511
Net loss	-	-	-	-	-	-	(3,420,911)	(3,420,911)
Share subscription received	-	-	215,971	-	-	-	-	215,971
at July 31, 2017	138,841,798	$ 62,974,717	$ 215,971	$ 15,251,233	$ -	$ (60,693)	$ (84,588,934)	$ (6,207,706)
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)	-	-	-	-	5,871,434
Issuance of warrants	-	(856,188)	-	856,188	-	-	-	-
Issuance of finder's warrants	-	(23,310)	-	23,310	-	-	-	-
Issue costs	-	(272,555)	-	-	-	-	-	(272,555)
Share issuance on debt settlement	5,799,527	1,333,891	-	-	-	-	-	1,333,891
Issue costs	-	(16,105)	-	-	-	-	-	(16,105)
Non-controlling interest - capital injection	-	-	-	-	3,818,000	-	-	3,818,000
Cumulative translation adjustment	-	-	-	-	681	(203,768)	-	(203,087)
Net loss	-	-	-	-	(26,188)	-	(4,946,492)	(4,972,680)
Stock based compensation	-	-	-	1,120,492	-	-	-	1,120,492
at July 31, 2018	164,932,675	$ 69,227,855	$ -	$ 17,251,223	$ 3,792,493	$ (264,461)	$ (89,535,426)	$ 471,684

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended July 31, 2018 and 2017

	2018	2017
Cash flows provided by (used in):		
Operating activities:		
Loss for the year	$ (4,972,680)	$ (3,420,911)
Adjustments for items not involving cash:		
Depreciation of property and equipment	15,116	18,768
Amortization of patent	10,131	28,015
Stock based compensation	1,120,492	-
Unrealized foreign exchange (gain) loss	-	89,678
EDB waiver	-	(1,431,018)
Debt forgiveness (Note 10)	1,664,858	-
Loss (gain) on disposal of property and equipment	37,348	(28,018)
	(2,124,735)	(1,322,575)
Changes in non-cash operating working capital:		
Trade receivables	4	168,279
Short term investment	-	38,840
Goods and services taxes recoverable	(23,233)	26,544
Advances to employees	(36,654)	9,231
Inventory	4,936	(7,631)
Prepaid expenses	50,870	100,454
Trade and other payables	(3,810,004)	1,184,592
Customer deposit	(202,401)	(405,604)
Loans payable	(20,681)	(30,082)
Share subscription received	(215,971)	-
Net cash flows used in operating activities	(6,377,869)	(3,658,863)
Investing activity:		
Disposal (addition) of property and equipment	(2,305)	20,202
Long-term prepayments	(1,724,000)	-
Net cash flows provided (used in) by investing activity	(1,726,305)	20,202
Financing activities:		
Proceeds from shares and units issued	6,087,405	4,349,581
Share subscription received	-	215,971
Share issuance costs	(288,660)	(310,571)
Capital injection from non-controlling interest	3,920,000	-
Net cash flows provided by financing activities	9,718,745	4,254,981
Effects of exchange rate changes on cash	(54,399)	4,792
Increase in cash and cash equivalents	1,560,172	621,112
Cash and cash equivalents, beginning of year	862,370	241,258
Cash and cash equivalents, end of year	$ 2,422,542	$ 862,370

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 subsidiary, Zecotek Photonics Singapore Pte. Ltd. ("ZPS") which holds 100% ownership interests in Zecotek Display Systems Pte. Ltd. ("ZDS"), Zecotek Imaging Systems Pte. Ltd. ("ZIS") and a 100% ownership interest in Zecotek Optronics Systems Pte. Ltd. ("ZOS"), (formerly Zecotek Laser Systems Pte. Ltd.). ZIS holds 100% ownership interest in Zecotek Shanghai Ltd. ("ZSL") and a 93.33% joint venture interest in Zecotek Imaging China Limited ("ZICL"). These subsidiaries all have principal activities of research and development (and eventual exploitation) of imaging and 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 July 31, 2018, the Company had limited operating revenue, a working capital deficiency of $1,227,833 (2017 – $6,274,144), shareholders' equity of $471,684 (2017 – ($6,207,706)) and negative operating cash flows of $6,377,869 (2017 – $3,658,863). The Company's current revenue is not sufficient to sustain operations. These factors, among others, represent material uncertainties which cast significant doubt on the Company's ability 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 however, 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 consolidated 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 materially from those shown in the consolidated 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"). Our accounting policies outlined in Note 3 have been applied in preparing our consolidated financial statements as at and for the years ended July 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 November 28, 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 and warrants 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.

The determination of income tax expense and the composition of deferred tax assets and liabilities involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of tax laws. The Company is subject to assessments by tax authorities who may interpret the tax law differently.

Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated 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.

2. Basis of presentation (continued):

Changes in these interpretation, judgements and estimates may materially affect the final amount of current and deferred tax provisions, deferred income tax assets and liabilities, and results of operations.

The Company is subject to assessments by Singapore local taxation authority and by China local taxation authority in which its subsidiaries operate, and the taxation authority may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

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 July 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 that have maturities of less than 12 months and pledged as security for various rental leases or otherwise subject to restricted liquidity and are recorded at fair market value.

3. Significant accounting policies:

(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.

(e) Patents:

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 years ended July 31, 2018 and 2017, no costs have been capitalized.

3. Significant accounting policies (continued):

(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.

(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. ZPS, ZDS, and ZOS have functional currency of Singapore Dollar (SGD); ZIS has functional currency of US Dollar (USD); ZSL and ZICL have Chinese Yuan (RMB).

(*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).

3. Significant accounting policies (continued):

(h) Foreign currency translation (continued):

(*iii*) Transactions in foreign currency:

Transactions conducted in currency other than an entity's functional currency ("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.

(i) 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 is has 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.

(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 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, restricted investments and refundable deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Trade and other payables 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

3. Significant accounting policies (continued):

(k) Stock-based compensation (continued):

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:

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares, including warrants, are recognized as a reduction of equity, net of tax. For compound financial instruments, the relative fair value method is used to separate the components where the Corporation issues common shares and warrants as part of its equity financing activities. The Corporation has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placements units. The relative fair value method allocates value to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another. The Corporation considers the market value of the common shares issued as fair value, and measures the fair value of the warrant component of the unit using the Black-Scholes option pricing model. The unit value is then allocated, pro-rata, between the two components, with the fair value attributed to the warrants being recorded as contributed surplus.

(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.

(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 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 tax liabilities are generally recognized for all taxable temporary differences. Deferred 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.

3. Significant accounting policies (continued):

(n) Income taxes (continued):

The carrying amount of deferred 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 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 by customers, 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.

(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, 2018, have not been applied in preparing the consolidated 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

3. Significant accounting policies (continued):

(i) IFRS 9 - Financial Instruments (continued):

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. Management assessed its financial instrument and does not expect to see any significant impact to its consolidated financial statements from the adoption of this standard.

(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, 2018 and is available for early adoption.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on August 1, 2018. Management assessed its revenue stream and does not expect to see any significant impact to its consolidated financial statements from the adoption of this standard.

(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 2017 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.

(Expressed in Canadian dollars)

4. Property and equipment:

Costs	Equipment	Furniture	Leasehold Improvements	Vehicle	Total
August 1, 2016	$ 312,484	$ 55,087	$ 481,104	$ 77,081	$ 925,756
Additions	1,911	-	-	-	1,911
Disposal	-	-	-	(77,081)	(77,081)
Foreign Exchange Impact	(13,625)	(1,899)	(25,071)	-	(40,595)
July 31, 2017	$ 300,770	$ 53,188	$ 456,033	$ -	$ 809,991
August 1, 2017	$ 300,770	$ 53,188	$ 456,033	$ -	$ 809,991
Additions	2,305	-	-	-	2,305
Disposal	(259,287)	(35,886)	(456,033)	-	(751,206)
Foreign Exchange Impact	9,667	1,346	-	-	11,013
July 31, 2018	$ 53,455	$ 18,648	$ -	$ -	$ 72,103

Accumulated depreciation:

	Equipment	Furniture	Leasehold Improvements	Vehicle	Total
August 1, 2016	$ 244,740	$ 49,326	$ 481,104	$ 74,437	$ 849,607
Depreciation	17,635	1,133	-	(74,437)	(55,669)
Foreign Exchange Impact	(10,768)	(1,700)	(25,071)	-	(37,539)
July 31, 2017	$ 251,607	$ 48,759	$ 456,033	$ -	$ 756,399
August 1, 2017	$ 251,607	$ 48,759	$ 456,033	$ -	$ 756,399
Disposal	(224,406)	(33,164)	(456,033)	-	(713,603)
Depreciation	13,083	911	-	-	13,994
Foreign Exchange Impact	7,906	1,221	-	-	9,127
July 31, 2018	$ 48,190	$ 17,727	$ -	$ -	$ 65,917

(Expressed in Canadian dollars)

4. Property and equipment (continued):

	Equipment	Furniture	Leasehold Improvements	Vehicle	Total
Carrying amount:					
July 31, 2018	$ 5,265	$ 921	$ -	$ -	$ 6,186
July 31, 2017	$ 49,163	$ 4,429	$ -	$ -	$ 53,592

5. Patent:

Costs:	
August 1, 2016	$ 323,232
Effect of movements in exchanges rates	(14,938)
July 31, 2017	$ 308,294
August 1, 2017	308,294
Effect of movements in exchange rates	10,598
July 31, 2018	$ 318,892
Accumulated Amortization:	
August 1, 2016	$ 284,209
Amortization	28,015
Effect of movements in exchange rates	(13,747)
July 31, 2017	$ 298,477
August 1, 2017	$ 298,477
Amortization	10,131
Effect of movements in exchange rates	10,284
July 31, 2018	$ 318,892
Carrying amount:	
July 31, 2018	$ -
July 31, 2017	$ 9,817

6. Share capital:

(a) Authorized:

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

6. Share capital (continued):

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

(*i*) On April 12, 2018, the Company completed debt settlement agreements. Under the agreements, 5,799,527 common shares of the Company were issued at a price of $0.23 per share, towards settlement of accounts payable of $2,974,620 (Note 10). All the shares are subject to a four-month hold period expiring on August 12, 2018.

(*ii*) 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 $167,998 and issued non-transferable finder's warrants to purchase 329,993 Common Shares at $0.43 per share before January 29, 2020. All shares and warrants are subject to a four-month hold period expiring on May 30, 2018.

(*iii*) 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 150,335 Common Shares at $0.43 per share before August 14, 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 before July 31, 2017 and was recorded as Share Subscription Received.

(*iv*) 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 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.

6. Share capital (continued):

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

(v) 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.

(vi) 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.

(vii) 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.

(viii) On November 18, 2016, the Company completed the first tranche of share subscription agreements for the financing announced on November 7, 2016. Under the agreements, the subscribers purchased 1,000,000 units of the Company at a price of $0.30 per unit, for gross proceeds of $300,000. 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 $21,000 and issued 70,000 non-transferable finder's warrants.

(Expressed in Canadian dollars)

6. Share capital (continued):

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

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 18, 2018. All shares and warrants are subject to a four-month hold period expiring on March 19, 2017.

(ix) On August 26, 2016, the Company completed the share subscription agreements for the financing announced on August 12, 2016. Under the agreements, the subscribers purchased 2,761,935 units of the Company at a price of $0.30 per unit, for gross proceeds of $828,581. 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 $57,161 and issued non-transferable finder's warrants to purchase 190,535 Common Shares at $0.30 per share before August 29, 2018. All shares and warrants are subject to a four-month hold period expiring on December 30, 2016.

(c) Warrants:

(*i*) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2016	25,128,105	$ 0.49
Warrants granted	14,498,602	0.43
Balance, July 31, 2017	39,626,707	$ 0.47
Balance, July 31, 2017	39,626,707	$ 0.47
Warrants granted	20,291,350	0.43
Warrants expired	(6,551,219)	(0.46)
Balance, July 31, 2018	53,366,838	$ 0.46

(Expressed in Canadian dollars)

6. Share capital (continued):

(c) Warrants (continued):

(*i*) Common share purchase warrants (continued):
Common share purchase warrants outstanding at July 31, 2018 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.50	13,060,213	0.30
$ 0.53	5,516,673	1.33
$ 0.43	34,789,952	1.04
	53,366,838	0.89

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.

(*ii*) Finder’s warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2016	1,838,226	$ 0.46
Warrants granted	951,353	0.36
Warrants expired	(886,312)	(0.50)
Balance, July 31, 2017	1,903,267	$ 0.39
Balance, July 31, 2017	1,903,267	$ 0.39
Warrants granted	480,328	0.43
Warrants expired	(951,914)	(0.44)
Balance, July 31, 2018	1,431,681	$ 0.39

(Expressed in Canadian dollars)

6. Share capital (continued):

(c) Warrants (continued):

(*ii*) Finder's warrants (continued):

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

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.30	490,602	0.32
$ 0.43	941,079	1.06
	1,431,681	0.75

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	49.05% - 51.96%	59.10%
Risk-free interest rate	1.21% - 1.82%	0.84%
Expected option/warrant life	2.0 years	2.0 years
Dividend payments	0.0%	0.0%

(d) Stock options:

On December 30, 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:

50%	on grant date
25%	3 months after grant date
25%	6 months after grant date

As of July 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 8,921,000 were available for future issuance.

(Expressed in Canadian dollars)

6. Share capital (continued):

(d) Stock options (continued):

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	(4,825,000)	(0.58)
Balance, July 31, 2017	5,835,000	$ 0.69
Balance, July 31, 2017	5,835,000	$ 0.69
Options granted	15,200,000	0.36
Options expired	(1,350,000)	(0.43)
Balance, July 31, 2018	19,685,000	$ 0.45

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

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$ 0.70	1,785,000	1,785,000	0.77
$ 0.82	2,700,000	2,700,000	0.47
$ 0.36	15,200,000	11,400,000	4.44
$ 0.45	19,685,000	15,885,000	3.56

During the year ended July 31, 2018, the Company recorded $1,120,492 (2017 - $nil) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus. 15,200,000 stock options were granted during the year ended July 31, 2018 (2017 - nil) at exercise price of $0.36 per share with an expiry date of January 5, 2023. Each option has vesting schedule as 50% exercisable immediately, 25% on or after July 5, 2018 and 25% on or after October 5, 2018.

The fair values of the stock options are measured using the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on the range of historical volatility), expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government bonds).

(Expressed in Canadian dollars)

6. Share capital (continued):

(d) Stock options (continued):

	2018
Expected volatility	45.92% - 59.59%
Risk-free interest rate	2.03% - 2.22%
Expected option life	4.43 – 4.70 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, 2018.

8. Commitments:

Commitments:

July 31,	Rental leases	Total
2019	258,330	258,330
2020	248,138	248,138
2021	138,408	138,408
	$ 640,876	$ 640,876

Rental leases relate to the Company and its subsidiaries commitments under operating leases for rental of properties.

9. Government grant:

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; it was determined that these conditions were not met. The Company received correspondence from the EDB in August 2010 in which the EDB required repayment of the grants received by the Company not meeting all original conditions of the grant. The amount was recognized as a liability, in trade and other payables, as at July 31, 2015 and 2016. The Company 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 July 31, 2018 $nil (2017 - $nil) was included in trade and other payables in relation to this grant.

10. Debt forgiveness:

During the year ended July 31, 2018, the Company entered into agreements with certain of its consultants, directors and employees (the "individuals"). Under these agreements, the Company issued 5,799,527 common shares to settle accounts payable balance of $2,974,620. A gain of $1,640,729 was recorded as debt forgiveness. The remaining balance of the debt forgiveness was resulted from the waiving of salary payable balance of some officers and directors.

11. Financial instruments:

(a) Fair value:

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

(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.

(Expressed in Canadian dollars)

11. Financial instruments:

(b) Financial risk management (continued):

(*ii*) Foreign currency risk:

The Company is exposed to foreign exchange rate when the Company undertakes transactions and hold assets and liabilities in currencies other than its functional currencies. The Company currently does not use derivative instruments to hedge its exposure to those risks. As at July 31, 2018, a 10% strengthening (weakening) of the US dollars would have decreased (increased) deficiency and comprehensive loss by approximately $35,000.

(*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.

12. Joint venture:

During the year, ZIS established a joint venture company, ZICL, in Shanghai, China with a non-arm's length party, Jilin Yuyang Technology Development Co., Ltd ("Jilin Yuyang"). As at July 31, 2018, ZICL has received capital injection of RMB 20,000,000 (CAD 3,818,000) from Jilin Yuyang. In return, Jilin Yuyang owns 6.67% interest in ZICL. In addition, ZICL signed a service agreement with Jilin Yuyang, Jilin Yuyang's capital contribution in ZICL and its 6.67% share of the net loss in ZICL are recorded in non-controlling interest (Note 17).

13. Segmented information:

The Company has principal operations in Canada and Asia (Singapore and China) 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, 2018	Asia	Europe	North America	Total
Revenue	$ 196,200	$ -	$ 6,130	$ 202,330
Property and equipment	-	-	6,186	6,186
Patent	-	-	-	-

(Expressed in Canadian dollars)

13. Segmented information (continued):

July 31, 2017	Asia	Europe	North America	Total
Revenue	$443,629	$17,993	$ 5,252	$ 466,874
Property and equipment	48,409	-	5,183	53,592
Patent	9,817	-	-	9,817

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 $43,184 (2017 - $56,127) 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, 2018, $3,062 (2017 - $47,335) was outstanding and included in trade and other payables. The Company incurred director fees of $30,000 (2017 - $30,000) to the director. During the year, the Company has entered into a debt settlement agreement with the director of which 262,266 of shares was issued and $55,950 was forgiven to settle the outstanding payable balance related to director fees and bonuses (refer to Note 10). At July 31, 2018, $2,500 of employee advance was included in prepaid expenses. At July 31, 2018, $nil (2017 - $87,500) was unpaid and included in trade and other payables.

(b) The Company incurred fees of $180,000 (2017 - $180,000) during the year for consulting services provided by the chief financial officer ("CFO").

During the year, the Company has entered into a debt settlement agreement with CFO of which 178,229 of shares was issued to settle consulting fee payable balance with companies controlled by CFO, and $38,022 was forgiven to settle the outstanding payable balance related to bonuses (refer to Note 10). At July 31, 2018, $nil (2017 - $121,818) of the fees was unpaid and included in trade and other payables.

(c) During the year, the Company incurred salaries of $35,144 (2017 - $210,822) for the director and former Executive Vice President, Operations. At July 31, 2018, $nil (2017 - $155,302) of the salaries was unpaid and included in trade and other payables. The Company also incurred director fees of $18,997 (2017 - $nil) for director services provided by him during the year. At July 31, 2018, $17,604 of employee advance was included in prepaid expenses. During the year, the Company has entered into a debt settlement agreement with the director of which 388,382 of shares was issued and $82,855 was forgiven to settle the outstanding payable balance related to salaries, director fees and bonuses (refer to Note 10). The loan payable to the former Executive Vice President is fully paid off as at July 31, 2018 (2017 - $20,041).

(Expressed in Canadian dollars)

14. Related party transactions (continued):

(d) During the year, the Company incurred salaries and benefits of $195,918 (2017 - $207,278) for the President and Chief Executive Officer (“CEO”) and fees of $494,373 (2017 - $483,649) for consulting services to a company controlled by the President and CEO. During the year, the Company has entered into a debt settlement agreement with the CEO of which 703,338 of shares was issued and $150,045 was forgiven to settle the outstanding payable balance related to salaries and bonuses. The Company also has entered into a debt settlement agreement with a company controlled by CEO. 523,044 of shares was issued and $111,583 was forgiven to settle the outstanding consulting fees payable balance (refer to Note 10). At July 31, 2018, $32,037 (2017- $111,083) of the salaries and benefits; and $123,717 (2017 – $442,825) of the fees were unpaid and included in trade and other payables.

(e) The Company incurred fees of $34,000 (2017 - $48,000) during the year for directors’ services of two directors. During the year, a Company controlled by a director provided consulting services to the Company for $12,000. The Company has also entered into a debt settlement agreement with two directors of which 235,102 and 168,750 of shares was issued respectively, and $50,155 and $36,000 was forgiven to settle the outstanding payable balance related to salaries, director fees and bonuses respectively (refer to Note 10). At July 31, 2018, $12,000 (2017 - $160,000) was unpaid and included in trade and other payables. At July 31, 2018, $2,988 of employee advance to one of the directors was included in prepaid expenses.

(f) The Company incurred fees of $163,000 (2017 - $120,000) during the year for accounting and related services provided by the Corporate Secretary. At July 31, 2018, $nil (2017 - $10,500) was unpaid and included in trade and other payables.

(g) During the year, the Company incurred salaries of $23,039 (2017 - $nil) for the President of subsidiaries located in China. The Company incurred consulting fees of 74,400 (2017 - $nil) for consulting services provided by the President. During the year, the Company has entered into a debt settlement agreement with the director of which 99,248 of shares was issued and $21,173 was forgiven to settle the outstanding payable balance related to salaries, director fees and bonuses (refer to Note 10). At July 31, 2018, $13,681 (2017 - $nil) of employee advance was included in prepaid expenses.

(h) The following table summarizes the compensation of the Company’s key management:

	July 31 2018	July 31, 2017
Employee salary and benefits	$ 924,291	$ 1,347,656
Stock based compensation	$ 551,911	$ -

(Expressed in Canadian dollars)

15. Operating, general and administrative expenses:

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

	July 31 2018	July 31, 2017
Professional fees	$ 3,675,028	$ 1,839,340
Insurance	29,481	17,195
Marketing and promotion	47,246	39,911
Office and miscellaneous	90,180	301,061
Rent	207,790	129,897
Salaries and benefits	577,775	909,433
Travel	359,444	213,218
Foreign exchange loss (gain)	(54,181)	167,999
Depreciation of property and equipment	8,467	10,464
Stock based compensation	1,043,090	-
Total	$ 5,984,320	$ 3,628,518

16. Research and development expenses:

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

	July 31 2018	July 31, 2017
Consulting fees	$ 169,699	$ 640,462
Overhead costs	46,121	176
Supplies	23,567	19,736
Salaries and benefits	180,552	269,669
Patent costs	59,784	317,545
Depreciation of property and equipment	6,649	8,304
Amortization of patent costs	10,131	28,015
Stock based compensation	77,402	-
Total	$ 573,905	$ 1, 283,907

(Expressed in Canadian dollars)

17. Non-controlling interests:

The non-controlling interests consist of the non-controlling investor's capital contribution in ZICL and its share of ZICL's loss during the year ended July 31, 2018 (Note 12):

Name	Principal place of business/ Country of incorporation	Ownership interests held by NCI 2018	2017
Zecotek Imaging China Limited	China	6.67%	0%

The following is summarised financial information for ZICL, prepared in accordance with IFRS.
The information is before inter-company eliminations.

Amount in CAD	**2018**	**2017**
		-
Net loss	(392,629)	-
Net loss attributable to NCI	(26,188)	-
Other comprehensive income (loss)	10,216	-
Total comprehensive income (loss)	(382,413)	-
Total comprehensive income (loss) attributable to NCI	(25,507)	-
Current assets	1,818,423	-
Non-current assets	3,506,140	-
Current liabilities	(70,553)	-
Non-current liabilities	-	-
Net assets	5,254,010	-
Cash flow from (used in) operating activities	(325,229)	-
Cash flow from (used in) investing activities	(1,676,263)	-
Cash flow from (used in) financing activities	3,818,000	-
Net increase in cash and cash equivalents	1,816,508	-
Dividends paid to NCI during the year	-	-

(Expressed in Canadian dollars)

18. Income taxes:

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statement of operations and comprehensive loss for the years ended July 31, 2018 and 2017:

	2018	2017
	$	$
Net loss before tax	(4,972,680)	(3,420,911)
Statutory tax rate	26.58%	26.00%
Expected income tax (recovery)	(1,321,904)	(889,437)
Non-deductible items	289,128	820,437
Foreign tax rate difference	(23,582)	161,000
Change in deferred tax asset not recognized	1,056,358	(92,000)
Total income tax expense (recovery)	-	-

The statutory tax rate increased from 26% to 26.58% due to increase in the British Columbia tax rate on January 1, 2018. The tax rate for Singapore remains 17%.

The unrecognized deductible temporary differences as at July 31, 2018 and 2017 are comprised of the following:

	2018	2017
	$	$
Non-capital losses carryforwards (Canada)	28,268,354	23,005,281
Non-capital losses carryforwards (Singapore)	39,847,566	37,686,293
Non-capital losses carryforwards (China)	459,378	-
Capital loss (Canada)	56,181	56,181
Financing Costs	710,852	615,035
Fixed assets	599,541	518,341
Total unrecognized deductible temporary differences	69,941,872	61,881,131

(Expressed in Canadian dollars)

18. Income taxes (continued):

The Company has non-capital loss carryforwards of approximately $28,268,354 (2017: $23,005,000) which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	$
2026	1,939,812
2027	2,185,348
2028	1,846,913
2029	1,298,270
2030	1,293,531
2031	1,039,286
2032	793,254
2033	1,539,470
2034	4,574,935
2035	4,107,528
2036	2,368,590
2037	1,943,942
2038	3,337,475
Total	28,268,354

For Singapore tax purposes, the Company has losses of SGD 41,668,478 (2017: SGD $40,945,000) to carry forward indefinitely.

For China tax purposes, the Company has losses of CNY 2,406,380 (2017: nil) which may be carried forward to apply against future income, subject to final determination by taxation authorities, expiring in the year 2023.

19. Subsequent events:

(a) On August 29, 2018; 190,535 finder warrants and 2,761,935 shareholders warrants expired.

(b) On November 6, 2018; 3,828,570 and on November 12, 2018; 4,228,570 shareholders warrants expired.

(c) On November 18, 2018; 105,000 and on November 25, 2018; 345,101 finder warrants expired.

(d) On November 18, 2018, 1,000,000 and on November 25, 2018, 3,620,000 shareholders warrants expired.

(e) On November 28, 2018; 5,003,073 shareholders warrants expired.

(f) ZIS is willing to offer a 2% equity interest in ZIS in exchange for USD 1.5 million. This transaction has been closed subsequent to July 31, 2018.

(g) Subsequent to the year end, Zecotek Holdings Singapore Pte. Ltd., of which Dr. Zerrouk is a majority shareholder, converted its preferred shares in ZPS, ZDS, ZIS and ZOS to 10% of the issued common shares of each subsidiary, pursuant to a Share Purchase Agreement in 2006.