

ZECOTEK PHOTONICS INC.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED OCTOBER 31, 2008 AND 2007

NOTICE

The interim financial statements of the company have been prepared by and are the responsibility of the company's management and have not been reviewed by the Company's independent auditor.

Zecotek Photonics Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
As At April 30, 2008 and July 31, 2008

	October 31, 2008 (Unaudited)	July 31, 2008 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 448,696	\$ 308,345
Short term investments	350,000	1,340,000
Accounts receivable	78,312	24,437
Interest receivable	8,264	32,106
Goods and services tax recoverable	45,022	67,136
Prepaid expenses	29,950	98,468
	960,244	1,870,492
Restricted short term investments	20,000	20,000
Deposits	77,897	71,817
Property and equipment	1,274,860	1,355,690
Equipment under capital lease	31,496	34,050
Patent costs	226,503	198,891
	\$2,591,000	\$3,550,940
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 854,850	\$ 567,803
Current portion of obligations under capital lease	7,889	7,217
Liabilities of discontinued operations	53,254	53,254
	915,993	628,274
Obligations under capital lease	30,341	29,558
Shareholders' Equity		
Share capital (<i>note 5(b)</i>)	28,985,958	28,985,958
Contributed surplus (<i>note 5(g)</i>)	4,386,493	4,353,169
Deficit	(31,727,785)	(30,446,019)
	1,644,666	2,893,108
Basis of presentation (<i>note 1</i>)		
Commitments (<i>note 7</i>)		
Total Liabilities and Shareholders' Equity	\$ 2,591,000	\$ 3,550,940

Approved, on behalf of the Board:

"Faouzi Zerrouk"
Director

"Erich Sager"
Director

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.**Consolidated Statements of Operations, Comprehensive Loss and Deficit**

(Expressed in Canadian Dollars)

(Unaudited)

Three months ended October 31, 2008 and 2007

	2008	2007
Revenue		
Interest income	\$ 2,071	\$ 11,673
Government of Singapore Economic Development Board grant	499,692	-
	501,763	11,673
Expenses		
Operating, general and administrative	842,269	888,670
Research and development	740,757	766,688
Stock-based compensation (<i>note 5(e)</i>)	33,324	360,789
Foreign exchange loss	75,006	39,332
Amortization of property and equipment	85,398	52,104
Amortization of patent costs	6,775	620
	1,783,529	2,108,203
Net loss and comprehensive loss for the period	(1,281,766)	(2,096,530)
Deficit, beginning of period	(30,446,019)	(22,042,838)
Deficit, end of period	\$(31,727,785)	\$(24,139,368)
Net loss per common share – basic and diluted	\$(0.04)	\$(0.05)
Weighted average number of common shares outstanding – basic and diluted (<i>note 5(f)</i>)	45,455,838	40,767,877

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

For the three months ended October 31, 2008 and 2007

	2008	2007
Operating Activities:		
Net loss for the period	\$ (1,281,766)	\$ (2,096,530)
Adjustments for items not involving cash:		
Amortization of property and equipment	85,398	52,104
Amortization of patent costs	6,775	620
Stock-based compensation	33,324	360,789
	(1,156,269)	(1,683,017)
Changes in non-cash working capital:		
Interest receivable	23,842	4,978
Share subscription receivable	-	(16,000)
Accounts receivables	(53,875)	-
Goods and services tax recoverable	22,114	(29,899)
Prepaid expenses	68,518	(52,441)
Accounts payable and accrued liabilities	287,047	(26,126)
	(808,623)	(1,802,505)
Investing Activities:		
Net proceeds on disposal of short term investments	990,000	-
Deposits received	(6,080)	-
Acquisition of property and equipment	(2,014)	(78,360)
Patent costs incurred	(34,387)	(35,245)
	1,317,519	(113,605)
Financing Activities:		
Proceeds from shares issued, net of issuance costs (note 5(b))	-	2,499,680
Repayments of obligations under capital lease	1,455	(4,739)
Advances to related parties	-	(5,530)
	1,455	2,489,411
Increase (decrease) in cash and cash equivalents	(140,351)	573,301
Cash and cash equivalents, beginning of period	308,345	1,577,863
Cash and cash equivalents, end of period	\$ 448,696	\$ 2,151,164

See accompanying Notes to Consolidated Financial Statements

Zecotek Photonics Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
(Unaudited)
Three months ended October 31, 2008 and 2007

1. Basis of presentation

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

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

These financial statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the financial statements.

Certain information and disclosure normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended July 31, 2008. The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended July 31, 2008.

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

2. Changes in accounting policies

(a) Financial instruments – disclosures and presentation

New requirements for financial instrument presentation and disclosure were issued by the CICA in December of 2006; Section 3862 – *Financial Instruments – Disclosures*; and Section 3863 – *Financial Instruments – Presentation* which replaces Section 3861 – *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards add to previous presentation requirements. These new Sections are effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company has assessed the impact of these changes on its financial statements and has determined that there was no significant impact on the interim consolidated financial statements.

(b) Inventories

In June of 2007, the CICA issued Section 3031 – *Inventories*, which will replace the existing inventory standard. The new standard requires inventory to be valued on a first-in, first-out or weighted averaged basis. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company has assessed the impact of this change on its financial statements and has determined that there was no significant impact on the interim consolidated financial statements.

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(Unaudited)
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2. Changes in accounting policies (continued)

(c) Capital disclosures

The CICA has issued Section 1535 – *Capital Disclosures*, which will require disclosure of objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company has assessed the impact of this change on its financial statements and has determined that there was no significant impact on the interim consolidated financial statements.

(d) General standards on financial statements presentation

The CICA has issued a new amendment to Section 1400, General Standards of Financial Statement Presentation, which includes requirements to assess and disclose an entity's ability to continue as a going concern. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2008. The Company has assessed the impact of this change on its financial statements and has determined that there was no significant impact on the interim consolidated financial statements.

3. New accounting pronouncements

(a) Goodwill and intangible assets

The CICA has issued a new accounting standard: Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets", and Section 3450 "Research and Development Costs". This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. This new Section is effective for the Company for interim and annual financial statements beginning August 1, 2009. The Company is presently assessing the impact of the new accounting standard on its financial statements.

(b) International financial reporting standards

In January of 2006, the CICA adopted a strategic plan to converge Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") over a transition period ending in 2011. The Company is assessing the impact of the transition to IFRS on its financial statements.

4. Financial instruments and risks

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

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

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4. Financial instruments and risks (continued)

Credit risk

Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash and short term investments. The Company places its cash and short term investments with high credit quality financial institutions. Short term investments are held in fixed rate securities. Concentration of credit risks with respect to receivables is limited.

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

Financial risk is the risk to the Company's results of operations that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates, as well as credit risk associated with the financial stability of the issuers of the financial instruments. The company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

Foreign currency risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies including Singapore dollars, United States dollars, Euros, and Swiss Francs. Most of the transactions in the Company's Singapore operations are undertaken in Singapore dollars. The company monitors fluctuations in rates and takes action, if deemed necessary, to mitigate its risks. At October 31, 2008, the Company had cash balances of \$100,910 United States dollars (\$120,446 Canadian dollars), \$293,070 Singapore dollars (\$240,280 Canadian dollars) and 50,984 Swiss Francs (\$48,919 Canadian dollars), exposed to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Short-term investment with fixed interest rates are invested in separate guaranteed investment certificates with original maturities of greater than three months exposing the Company to interest rate risk on these financial instruments. The Company does not use financial instruments to mitigate this interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company currently settles its financial obligations out of cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities.

5. Share capital

(a) Authorized

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

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(Unaudited)
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5. Share capital (continued)

(b) Issued and outstanding common shares:

	Number of Shares	Amount \$
Balance, July 31, 2007	39,813,278	21,809,339
Private placements (i),(ii)	3,719,300	4,698,308
Exercise of options (iii)	70,000	87,441
Exercise of agents' options (iv)	131,838	153,022
Exercise of warrants (v)	1,408,380	1,830,894
Exercise of agents' warrants (v)	313,042	406,954
Balance, July 31, 2008 and October 31, 2008	45,455,838	\$ 28,985,958

- (i) On September 6, 2007, the Company completed a non-brokered private placement of 1,563,000 units issued at \$1.60 per unit, resulting in gross proceeds of \$2,500,800. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of eighteen months at a price of \$2.00 per share. The Company paid a finder's fee equal to 5% of the gross proceeds of the sale of the shares and issued to the agent non-transferable warrants to purchase shares equal in number to 5% of the units sold (78,150) under the private placement with the same terms. The estimated fair value of agents' warrants granted was determined to be \$22,122 (approximately \$0.28 per share), using the Black-Scholes option pricing model (note 5(d)).

The amounts assigned to the share and warrant portions of the units have been allocated proportionately based on the share price at the issuance date and the warrant value determined using the Black Scholes option pricing model with the assumptions detailed in Note 5(d).

- (ii) On December 20, 2007, the Company completed a private placement of 2,156,300 units issued at \$1.60 per unit, resulting in gross proceeds of \$3,450,080. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of twenty four months at a price of \$2.10 per share. The Company paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares and issued to the agent non-transferable warrants to purchase shares equal in number to 7% of the units sold (150,941) under the private placement with an exercise price \$1.60 per share. Legal and other share issuance costs amounted to \$77,849. The estimated fair value of agents' warrants granted was determined to be \$96,850 (approximately \$0.64 per share), using the Black-Scholes option pricing model (note 5(d)).

The amounts assigned to the share and warrant portions of the units have been allocated proportionately based on the share price at the issuance date and the warrant value determined using the Black Scholes option pricing model with the assumptions detailed in Note 5(d).

- (iii) During the year ended July 31, 2008, 70,000 options at a weighted average price of \$0.79 per share were exercised for total cash proceeds of \$55,000. Contributed surplus amounts of \$32,441 related to these options were consequently transferred to the share capital account.
- (iv) During the year ended July 31, 2008, 131,838 agents' options at a weighted average price of \$0.90 per share were exercised for total cash proceeds of \$118,655. Contributed surplus amounts of \$34,367 related to these options were consequently transferred to the share capital account.

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5. Share capital (continued)

(b) Issued and outstanding common shares (continued)

- (v) During the year ended July 31, 2008, 1,408,380 common share purchase warrants and 313,042 agents' warrants were exercised at \$1.30 per share for total cash proceeds of \$2,237,848.

(c) Common share purchase warrants

	Number of warrants	Weighted average exercise price
Balance, July 31, 2007	2,178,030	1.30
Warrants exercised (note 5(b)(v))	(1,408,380)	1.30
Warrants expired	(769,650)	1.30
Warrants granted (notes 5(b)(i) & (ii))	1,859,650	2.06
Balance, July 31, 2008 and October 31, 2008	1,859,650	\$ 2.06

At October 31, 2008, the share purchase warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
781,500	\$ 2.00	March 6, 2009
1,078,150	2.10	December 20, 2009

(d) Agent's warrants and options

	Number of warrants	Weighted average exercise price
Balance, July 31, 2007	592,145	1.07
Agents' options exercised	(131,838)	0.90
Agents' warrants granted on exercise of options	65,917	1.30
Agents' warrants exercised	(313,042)	1.30
Agents' warrants expired	(139)	1.30
Agents' warrants granted in private placements	229,091	1.74
Balance, July 31, 2008 and October 31, 2008	442,134	\$1.33

At October 31, 2008, the agents' options and warrants outstanding and exercisable were as follows:

Number of common shares to be issued	Exercise price	Date of expiry
213,043	\$ 0.90	February 18, 2009
78,150	\$ 2.00	March 6, 2009
150,941	\$ 1.60	December 20, 2009

The fair value of agents' options and warrants has been estimated at the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

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(Unaudited)

Three months ended October 31, 2008 and 2007

5. Share capital (continued)

(d) Agent's warrants and options (continued)

	<u>2008</u>	<u>2007</u>
Annualized stock volatility	77.7%	77.9%
Risk-free interest rate	4.1%	4.1%
Expected option/warrant life	1.8 years	2.0 years
Dividend payments	0.0%	0.0%

(e) Stock options

On December 28, 2007, the Board of Directors approved a new stock option plan. Under the plan, the Company may grant options to purchase common shares in the Company to employees, directors, officers, and consultants of the Company. The exercise price of the options is to be determined by the Board of Directors but generally will be equal to or greater than the market price of the shares at the grant date. Options will vest according to the following schedule:

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

As of October 31, 2008, the Company has reserved 8,340,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 2,928,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2007	4,469,000	1.22
Options granted	260,000	1.60
Options exercised	(70,000)	0.79
Options expired	(50,000)	0.80
Balance, July 31, 2008 and October 31, 2008	4,609,000	\$ 1.25

At October 31, 2008, 4,504,000 options had vested, which have a weighted average exercise price of \$1.24.

The estimated fair value of options granted to employees, directors, officers and consultants is amortized to expense over the vesting period of the options, resulting in compensation expense and addition to contributed surplus of \$33,324 for the first quarter ended October 31, 2008 (2007 – \$360,789).

The weighted average fair value of stock options granted during the year ended July 31, 2008 has been estimated at the date of grant using the Black-Scholes option pricing model as \$1.03 per share using the following weighted average assumptions:

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Notes to Consolidated Financial Statements

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(Unaudited)

Three months ended October 31, 2008 and 2007

5. Share capital (continued)

(e) Stock options (continued)

	2008
Annualized stock volatility	78.0%
Risk-free interest rate	4.0%
Expected option life	5 years
Dividend payments	0.0%

Options outstanding at July 31, 2008 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
\$0.50	560,000	560,000	1.17
\$0.70	260,000	260,000	1.22
\$0.72	100,000	100,000	2.23
\$0.75	554,000	554,000	1.87
\$0.80	60,000	60,000	3.21
\$0.93	140,000	140,000	2.39
\$0.99	100,000	100,000	2.67
\$1.05	160,000	160,000	2.77
\$1.10	300,000	300,000	3.23
\$1.20	100,000	100,000	3.25
\$1.30	100,000	75,000	3.94
\$1.55	240,000	240,000	2.59
\$1.76	1,775,000	1,775,000	2.53
\$1.79	160,000	80,000	4.07
	4,609,000	4,504,000	2.36

The Black-Scholes model, used by the Company to calculate option values, was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price, volatility, and expected time until exercise, which greatly affect the calculated values.

(f) Escrow shares

As at October 31, 2008 a total of 4,746,878 (2007: 8,795,628) of the issued shares were held in escrow, the release of which is subject to a pre-determined schedule through January of 2011 as indicated below.

November 2008	1,762,500
January 2009	261,878
May 2009	1,762,500
June 2009	240,000
January 2010	240,000
June 2010	240,000
January 2011	240,000
	<u>4,746,878</u>

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Notes to Consolidated Financial Statements
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(Unaudited)
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5. Share capital (continued)

(f) Escrow shares (continued)

The escrowed shares are included in the computation of the weighted-average number of common shares outstanding.

(g) Contributed surplus

	October 31, 2008	July 31, 2008
Balance, beginning of period	\$4,353,169	\$2,955,552
Stock-based compensation expense	33,324	656,249
Options exercised	-	(32,441)
Agents' warrants exercised	-	(34,367)
Agents' warrants granted	-	118,972
Warrants issued	-	689,204
Balance, end of period	\$4,386,493	\$4,353,169

6. Capital management

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 capital structure of the Company consists of cash and cash equivalents, short-term investments, capital lease obligations and equity comprising of issued capital, contributed surplus and deficit.

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, adjust the amount of cash and cash equivalents 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, 2008.

7. Commitments

	Rental Leases	Research Contracts	Total
2009	\$ 241,456	\$ 683,718	\$ 925,174
2010	80,630	443,908	524,538
2011	-	391,958	391,958
2012	-	10,500	10,500
2013	-	20,500	20,500
	\$ 322,086	\$ 1,550,584	\$ 1,872,670

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

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8. Segmented information

The Company has principal operations in Canada and Singapore (Asia) and is organized into three sales geographic areas consisting of Asia, Europe, and North America. Reporting information by geographic area is as follows:

2008	Asia	Europe	North America	Total
Revenue	\$ -	\$ -	\$ -	\$ -
Property and equipment	\$ 1,241,843	\$ 10,331	\$ 22,686	\$ 1,274,860
Interest income	\$ -	\$ -	\$ 2,071	\$ 2,071
Equipment under capital lease	\$ 31,496	\$ -	\$ -	\$ 31,496
Patent costs	\$ 226,503	\$ -	\$ -	\$ 226,503

2007	Asia	Europe	North America	Total
Revenue	\$ -	\$ -	\$ -	\$ -
Property and equipment	\$ 1,130,406	\$ 12,914	\$ 23,858	\$ 1,167,178
Interest income	\$ -	\$ 27	\$ 11,646	\$ 11,673
Equipment under capital lease	\$ 34,050	\$ -	\$ -	\$ 34,050
Patent costs	\$ 171,737	\$ -	\$ -	\$ 171,737

9. Subsequent event

On December 29, 2008, the Company announced a private placement of 1,000,000 units issued at \$0.60 per unit, resulting in gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of eighteen months at an exercise price of \$0.70 per common share. The warrant's exercise period will automatically accelerate if the common shares of the Company trade above \$1.00 for a period of 10 consecutive days. The Company will pay a finder's fee equal to 7% of the gross proceeds of the sale of the shares and issue non-transferable finder's warrants to purchase common shares equal in number to 6% of the units sold under the private placement.