

# **ZECOTEK PHOTONICS INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED OCTOBER 31, 2009 AND 2008**

### **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 October 31, 2009 and July 31, 2009

|  | <b>October 31, 2009</b><br><b>(Unaudited)</b> | <b>July 31, 2009</b><br><b>(Audited)</b> |
|--|---|--|
| <b>Assets</b>                                      |   |  |
| <b>Current Assets</b>                              |   |  |
| Cash and cash equivalents                          | \$ 1,988,216                                  | \$ 81,430                                |
| Accounts receivable                                | 36,410  | 2,116                                    |
| Interest receivable                                | 298   | 298                                      |
| Goods and services tax recoverable                 | 19,709  | 15,411                                   |
| Prepaid expenses                                   | 33,737  | 17,184                                   |
|  | 2,078,370                                     | 116,439                                  |
| Due from related parties ( <i>note 9(a)</i> )      | 17,445  | 14,410                                   |
| Restricted short term investments                  | 15,000  | 15,000                                   |
| Deposits   | 208,477                                       | 73,594                                   |
| Property and equipment                             | 722,257                                       | 780,046                                  |
| Equipment under capital lease                      | 22,047  | 23,835                                   |
| Patent costs                                       | 214,953                                       | 221,952                                  |
|  | \$ 3,278,549                                  | \$ 1,245,276                             |
| <b>Liabilities And Shareholders' Equity</b>        |   |  |
| <b>Current Liabilities</b>                         |   |  |
| Accounts payable and accrued liabilities           | \$ 1,497,583                                  | \$ 1,715,438                             |
| Current portion of obligations under capital lease | 7,410   | 7,213                                    |
| Liabilities of discontinued operations             | 53,254  | 53,254                                   |
|  | 1,558,247                                     | 1,775,905                                |
| Obligations under capital lease                    | 20,631  | 22,330                                   |
| <b>Shareholders' Equity</b>                        |   |  |
| Share capital ( <i>note 5(b)</i> )                 | 31,869,043                                    | 29,410,773                               |
| Contributed surplus ( <i>note 5(g)</i> )           | 6,367,343                                     | 5,099,237                                |
| Deficit  | (36,536,715)                                  | (35,062,969)                             |
|  | 1,709,671                                     | (552,959)                                |
| Basis of presentation ( <i>note 1</i> )            |   |  |
| Commitments ( <i>note 7</i> )                      |   |  |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 3,278,549</b>                           | <b>\$ 1,245,276</b>                      |

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, 2009 and 2008

|  | <b>2009</b>    | <b>2008</b>    |
|--|----------------|----------------|
| <b>Revenue</b>   | \$ 39,434      | \$ -           |
| <b>Cost of Sales</b>   | 17,895         | -              |
|  | 21,539         | -              |
| <b>Expenses</b>  |                |                |
| Operating, general and administrative  | 723,802        | 824,840        |
| Research and development   | 365,311        | 294,657        |
| Stock-based compensation ( <i>note 5(e)</i> )  | 154,025        | 33,324         |
| Financing costs  | 135,460        | -              |
| Foreign exchange loss  | 50,106         | 75,006         |
| Amortization of property and equipment   | 59,581         | 85,398         |
| Amortization of patent costs   | 7,000          | 6,775          |
|  | 1,495,285      | 1,320,000      |
| Loss before interest and other costs   | (1,473,746)    | (1,320,000)    |
| Interest income  | -              | 2,071          |
| Net loss and comprehensive loss for the year   | (1,473,746)    | (1,317,929)    |
| Deficit, beginning of period   | (35,062,969)   | (30,446,019)   |
| Deficit, end of period   | \$(36,536,715) | \$(31,763,948) |
| Net loss per common share – basic and diluted  | \$(0.03)       | \$(0.04)       |
| Weighted average number of common shares<br>outstanding – basic and diluted ( <i>note 5(f)</i> ) | 52,384,171     | 45,455,838     |

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, 2009 and 2008

|  | 2009           | 2008           |
|--|----------------|----------------|
| <b>Operating Activities:</b>                                   |                |                |
| Net loss for the period  | \$ (1,473,746) | \$ (1,317,929) |
| Adjustments for items not involving cash:                      |                |                |
| Amortization of property and equipment                         | 59,581         | 85,398         |
| Amortization of patent costs                                   | 7,000          | 6,775          |
| Financing costs  | 135,460        | -              |
| Stock-based compensation                                       | 154,025        | 33,324         |
|  | (1,117,680)    | (1,192,432)    |
| Changes in non-cash working capital:                           |                |                |
| Interest receivable  | -              | 23,842         |
| Accounts receivables   | (34,294)       | (53,875)       |
| Goods and services tax recoverable                             | (4,304)        | 22,114         |
| Prepaid expenses   | (16,553)       | 68,518         |
| Accounts payable and accrued liabilities                       | (217,854)      | 287,047        |
|  | (1,390,685)    | (844,786)      |
| <b>Investing Activities:</b>                                   |                |                |
| Net proceeds on disposal of short term investments             | -              | 990,000        |
| Deposits received (paid)                                       | (134,883)      | (6,080)        |
| Acquisition of property and equipment                          | -              | (2,014)        |
| Reimbursement for property and equipment (government grants)   | -              | 36,163         |
| Patent costs incurred  | -              | (34,387)       |
|  | (134,883)      | 983,682        |
| <b>Financing Activities:</b>                                   |                |                |
| Proceeds from shares issued, net of issuance costs (note 5(b)) | 3,436,891      | -              |
| Repayments of obligations under capital lease                  | (1,502)        | 1,455          |
| Advances (to) from related parties                             | (3,035)        | -              |
|  | 3,432,354      | 1,455          |
| Increase (decrease) in cash and cash equivalents               | 1,906,786      | 140,351        |
| Cash and cash equivalents, beginning of period                 | 81,430         | 308,345        |
| Cash and cash equivalents, end of period                       | \$ 1,988,216   | \$ 448,696     |

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, 2009 and 2008

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**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, 2009. 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, 2009.

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

**2. Adoption of new accounting standards**

**Goodwill and intangible assets**

Effective August 1, 2009, the Company adopted CICA Handbook section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes amended standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The adoption of this standard did not have a material impact on the financial statements of the Company.

**3. New accounting pronouncements**

**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 five year transition period ending in 2010. While the Company is assessing the impact of the transition to IFRS on its financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
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#### **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.

##### **Credit risk**

Financial instruments that potentially subject the Company to concentration of credit risks include cash and short term investments. The Company places its cash and 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.

##### **Foreign currency risk**

The Company uses financial instruments 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.

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, 2009, the Company had cash balances of \$26,001 United States dollars (\$28,131 Canadian dollars), \$104,449 Singapore dollars (\$80,447 Canadian dollars), 10,913 Swiss Francs (\$11,480 Canadian dollars) and Malaysian Ringgit 4,887 (\$1,543 Canadian dollars), and accounts payable balances of \$679,829 United States dollars (\$735,507 Canadian dollars), \$233,636 Singapore dollars (\$179,946 Canadian dollars), 32,142 Euros (\$46,824 Canadian dollars) and 71,045 Malaysian Ringgits (22,429 Canadian dollars), such amounts representing exposure 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 investments with fixed interest rates include guaranteed investment certificates with original maturities of greater than three months, exposing the Company to interest rate risk. The Company does not use financial instruments to mitigate this interest rate risk.

##### **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 from cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. As at October 31, 2009, the Company had insufficient cash and cash equivalents to satisfy its short term obligations.

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
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**5. Share capital**

**(a) Authorized**

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

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

|                                 | Number of<br>Shares | Amount<br>\$         |
|---------------------------------|---------------------|----------------------|
| <b>Balance, July 31, 2008</b>   | <b>45,455,838</b>   | <b>28,985,958</b>    |
| Private placement (i)           | 1,003,333           | 424,815              |
| <b>Balance July 31, 2009</b>    | <b>46,459,171</b>   | <b>\$ 29,410,773</b> |
| Private placement (ii)          | 5,925,000           | 2,458,270            |
| <b>Balance October 31, 2009</b> | <b>52,384,171</b>   | <b>\$ 31,869,043</b> |

- (i) On January 13, 2009 the Company completed a private placement of 1,003,333 units issued at \$0.60 per unit, resulting in gross proceeds of \$602,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of eighteen months at a price of \$0.70 per 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 paid a finder's fee equal to 7% of the gross proceeds of the sale of the shares (\$42,140) and issued to the agent non-transferable warrants to purchase common shares equal in number to 6% of the units sold (60,200) under the private placement with the same terms. The estimated fair value of agents' warrants granted was determined to be \$9,194 (approximately \$0.15 per warrant), 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 February 26, 2009, the Company amended the terms of the 781,500 warrants issued to subscribers of the private placement described in Note 5(b)(i). The exercise price of the warrants was reduced from \$2.00 to \$0.75 per common share. The expiry date for the warrants was extended by twelve months from March 6, 2009 to March 6, 2010. The exercise period of the amended warrants is to be accelerated if certain conditions are met. The estimated fair value of the warrants increased by \$56,753 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 5(d)). The amount was considered a financing expense and charged to operations for the 2009 year.
- (iii) On August 5, 2009, the Company amended the terms of the 1,078,150 warrants issued to subscribers of a private placement which closed on December 20, 2007. The exercise price of the warrants was reduced from \$2.10 to \$0.75 per common share with no change to the expiry date of December 20, 2009. The exercise period of the amended warrants is to be accelerated if certain conditions are met. The estimated fair value of the warrants increased by \$135,460 as a result of the modification of warrant terms, determined using the Black-Scholes option pricing model (note 5(d)). The amount was considered a financing expense and charged to operations for the first quarter of the 2010 fiscal year.

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
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**5. Share capital (continued)**

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

- (iv) On October 23, 2009, the Company completed a non-brokered private placement of 5,925,000 units issued at \$0.63 per unit, resulting in gross proceeds of \$3,732,750. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of twenty four months at a price of \$1.00 per common share. The exercise period of the warrants will be accelerated if certain conditions are met. The Company paid a finder's fee equal to 7% of the gross proceeds (\$261,293) and issued to the agent non-transferable warrants to purchase common shares equal in number to 6% of the units sold (355,500) under the private placement with the same terms. Legal and other costs amounted to \$34,570. The estimated fair value of agents' warrants granted was determined to be \$94,581 (approximately \$0.27 per warrant), 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).

**(c) Common share purchase warrants**

|                                    | <b>Number of<br/>warrants</b> | <b>Weighted average<br/>exercise price</b> |
|------------------------------------|-------------------------------|--|
| <b>Balance, July 31, 2008</b>      | <b>1,859,650</b>              | <b>2.06</b>                                |
| Warrants granted (note 5(b)(i))    | 1,003,333                     | 0.70                                       |
| Warrants repriced (note 5(b)(ii))  |                               | (1.25)                                     |
| <b>Balance, July 31, 2009</b>      | <b>2,862,983</b>              | <b>\$ 1.24</b>                             |
| Warrants granted (note 5(b)(iv))   | 5,925,000                     | 1.00                                       |
| Warrants repriced (note 5(b)(iii)) |                               | (1.35)                                     |
| <b>Balance, October 31, 2009</b>   | <b>8,787,983</b>              | <b>\$ 0.91</b>                             |

At October 31, 2009, the share purchase warrants outstanding and exercisable were as follows:

| <b>Number of common<br/>shares to be issued</b> | <b>Exercise price</b> | <b>Date of expiry</b> |
|---|-----------------------|-----------------------|
| 1,078,150                                       | \$ 0.75               | December 20, 2009     |
| 781,500   | 0.75                  | March 6, 2010         |
| 1,003,333                                       | 0.70                  | July 13, 2010         |
| 5,925,000                                       | 1.00                  | October 23, 2011      |

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
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**5. Share capital (continued)**

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

|   | Number of<br>warrants | Weighted average<br>exercise price |
|---|-----------------------|------------------------------------|
| <b>Balance, July 31, 2008</b>                 | <b>442,134</b>        | <b>\$1.33</b>                      |
| Agents' warrants granted in private placement | 60,200                | 0.70                               |
| Agents' warrants expired                      | (291,193)             | 1.20                               |
| <b>Balance, July 31, 2009</b>                 | <b>211,141</b>        | <b>\$1.34</b>                      |
| Agents' warrants granted in private placement | 355,500               | 1.00                               |
| <b>Balance, October 31, 2009</b>              | <b>566,641</b>        | <b>\$1.13</b>                      |

At October 31, 2009, the agents' warrants outstanding and exercisable were as follows:

| Number of common<br>shares to be issued | Exercise price | Date of expiry           |
|---|----------------|--------------------------|
| <b>150,941</b>                          | <b>\$ 1.60</b> | <b>December 20, 2009</b> |
| <b>60,200</b>                           | <b>\$ 0.70</b> | <b>July 13, 2010</b>     |
| <b>355,500</b>                          | <b>\$ 1.00</b> | <b>October 23, 2011</b>  |

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

|                              | October 31, 2009 | July 31, 2009 |
|------------------------------|------------------|---------------|
| Annualized stock volatility  | 83.3%            | 83.9%         |
| Risk-free interest rate      | 1.4%             | 0.9%          |
| Expected option/warrant life | 1.2 years        | 1.3 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

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
Three months ended October 31, 2009 and 2008

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**5. Share capital (continued)**

**(e) Stock options (continued)**

As of October 31, 2009, 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 53,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

|  | <b>Number of<br/>options</b> | <b>Weighted average<br/>exercise price</b> |
|--|------------------------------|--|
| <b>Balance, July 31, 2008</b>                | <b>4,609,000</b>             | <b>\$ 1.25</b>                             |
| Options granted                              | 2,925,000                    | 0.65                                       |
| <b>Balance, July 31 and October 31, 2009</b> | <b>7,534,000</b>             | <b>\$ 1.02</b>                             |

At October 31, 2009, 6,060,250 options had vested, which have a weighted average exercise price of \$1.11.

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 \$154,025 for the first quarter ended October 31, 2009 (2009 – \$33,324).

Options outstanding at October 31, 2009 are summarized as follows:

| <b>Exercise price</b> | <b>Number of<br/>options</b> | <b>Number of options<br/>exercisable</b> | <b>Weighted average<br/>remaining life<br/>(years)</b> |
|-----------------------|------------------------------|--|--|
| \$0.50                | 560,000                      | 560,000                                  | 0.17   |
| \$0.65                | 2,880,000                    | 1,440,000                                | 4.49   |
| \$0.65                | 45,000                       | 11,250                                   | 4.49   |
| \$0.70                | 260,000                      | 260,000                                  | 0.22   |
| \$0.72                | 100,000                      | 100,000                                  | 1.23   |
| \$0.75                | 554,000                      | 554,000                                  | 0.87   |
| \$0.80                | 60,000                       | 60,000                                   | 2.21   |
| \$0.93                | 140,000                      | 140,000                                  | 1.39   |
| \$0.99                | 100,000                      | 100,000                                  | 1.67   |
| \$1.05                | 160,000                      | 160,000                                  | 1.77   |
| \$1.10                | 300,000                      | 300,000                                  | 2.23   |
| \$1.20                | 100,000                      | 100,000                                  | 2.25   |
| \$1.30                | 100,000                      | 100,000                                  | 2.94   |
| \$1.55                | 240,000                      | 240,000                                  | 1.59   |
| \$1.76                | 1,775,000                    | 1,775,000                                | 1.53   |
| \$1.79                | 160,000                      | 160,000                                  | 3.07   |
|                       | <b>7,534,000</b>             | <b>6,060,250</b>                         | <b>2.60</b>  |

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
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**5. Share capital (continued)**

**(e) Stock options (continued)**

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, 2009 a total of 720,000 (2009: 4,746,878) 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.

|              |                |
|--------------|----------------|
| January 2010 | 240,000        |
| June 2010    | 240,000        |
| January 2011 | <u>240,000</u> |
|              | <u>720,000</u> |

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

**(g) Contributed surplus**

|                                     | <b>October 31,<br/>2009</b> | <b>July 31,<br/>2009</b> |
|-------------------------------------|-----------------------------|--------------------------|
| <b>Balance, beginning of period</b> | \$ 5,099,237                | \$ 4,353,169             |
| Stock-based compensation expense    | 154,025                     | 557,565                  |
| Agents' warrants granted            | 94,581                      | 9,194                    |
| Warrants issued (Note 5(b)(vi))     | 884,040                     | 122,556                  |
| Warrants amended (Note 5(b)(vii))   | 135,460                     | 56,753                   |
| <b>Balance, end of period</b>       | <b>\$ 6,367,343</b>         | <b>\$ 5,099,237</b>      |

**6. Capital disclosures**

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes shareholders' equity and long-term debt in the definition of capital. At October 31, 2009, the Company had a capital balance of \$1,709,671.

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, 2009.

**Zecotek Photonics Inc.**  
**Notes to Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)  
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**7. Commitments**

|             | <b>Rental<br/>Leases</b> | <b>Research<br/>Contracts</b> | <b>Total</b>        |
|-------------|--------------------------|-------------------------------|---------------------|
| <b>2010</b> | \$ 65,840                | \$ 643,432                    | \$ 709,273          |
| <b>2011</b> | 33,119                   | 336,042                       | 369,161             |
| <b>2012</b> | -                        | 10,500                        | 10,500              |
| <b>2013</b> | -                        | 20,500                        | 20,500              |
|             | <b>\$ 98,959</b>         | <b>\$ 1,010,475</b>           | <b>\$ 1,109,434</b> |

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.

**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:

| <b>2010</b>                          | <b>Asia</b> | <b>Europe</b> | <b>North<br/>America</b> | <b>Total</b> |
|--------------------------------------|-------------|---------------|--------------------------|--------------|
| <b>Revenue</b>                       | \$ -        | \$ 39,434     | \$ -                     | \$ 39,434    |
| <b>Property and equipment</b>        | \$ 698,090  | \$ 8,268      | \$ 15,899                | \$ 722,257   |
| <b>Interest income</b>               | \$ -        | \$ -          | \$ -                     | \$ -         |
| <b>Equipment under capital lease</b> | \$ 22,047   | \$ -          | \$ -                     | \$ 22,047    |
| <b>Patent costs</b>                  | \$ 214,953  | \$ -          | \$ -                     | \$ 214,953   |

| <b>2009</b>                          | <b>Asia</b> | <b>Europe</b> | <b>North<br/>America</b> | <b>Total</b> |
|--------------------------------------|-------------|---------------|--------------------------|--------------|
| <b>Revenue</b>                       | \$ 318,219  | \$ 32,365     | \$ -                     | \$ 350,584   |
| <b>Property and equipment</b>        | \$ 754,261  | \$ 8,700      | \$ 17,085                | \$ 780,046   |
| <b>Interest income</b>               | \$ -        | \$ -          | \$ 6,176                 | \$ 6,176     |
| <b>Equipment under capital lease</b> | \$ 23,835   | \$ -          | \$ -                     | \$ 23,835    |
| <b>Patent costs</b>                  | \$ 221,952  | \$ -          | \$ -                     | \$ 221,952   |

**Zecotek Photonics Inc.****Notes to Consolidated Financial Statements**

(Expressed in Canadian Dollars)

(Unaudited)

Three months ended October 31, 2009 and 2008

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**9. 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) Amounts due from Dr. Faouzi Zerrouk ("Dr. Zerrouk"), the Chairman of the Board of Directors, President and Chief Executive Officer of the Company, relating to travel and other advances, amounting to \$17,445 (2009 - \$0) are non-interest bearing, unsecured and without fixed terms of repayment.
- (b) The Company paid \$45,000 (2009 - \$45,000) for consulting services to Dr. Zerrouk and a company controlled by Dr. Zerrouk. The Company also provided Dr. Zerrouk, as part of his compensation package, the use of a house with rent amounting to \$22,700 (2009 - \$34,131) for the quarter.
- (c) The Company paid \$6,704 and accrued \$40,203, the total amounting to \$46,907 to Boughton Law Corporation, legal counsel to the Company, during the 2009 year for legal services rendered. A director of the Company is an Associate Counsel of Boughton Law Corporation.
- (d) During the quarter, the Company paid \$12,370 for accounting and related services to a company controlled by the Acting Chief Financial Officer of the Company.

**10. Subsequent event**

In November 2009, the Company advanced \$100,000 to planBmedia AG, a related Swiss corporation, in respect to a proposed investment in a joint development of certain software technology. The total advances to November 30, 2009 including the \$145,000 advanced in the current quarter amount to \$245,000.