Consolidated Financial Statements
(Expressed in Canadian dollars)

ZECOTEK PHOTONICS INC.

Years ended July 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zecotek Photonics Inc.

We have audited the accompanying consolidated financial statements of Zecotek Photonics Inc., which comprise the consolidated statements of financial position as at July 31, 2013 and 2012, the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Zecotek Photonics Inc. as at July 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1(b) in the consolidated financial statements which indicates that Zecotek Photonics Inc. has a working capital deficiency, shareholders' deficiency and negative cash from operations. These conditions, along with other matters as set forth in note 1(b) in the consolidated financial statements, indicates the existence of a material uncertainty that may cast significant doubt about Zecotek Photonics Inc.'s ability to continue as a going concern.

KPMG LLP (signed)

Chartered Accountants

November 28, 2013
Vancouver, Canada

ZECOTEK PHOTONICS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

July 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 211,107	$ 126,999
Trade receivables	11,063	10,777
Goods and services taxes recoverable	33,480	26,985
Advances to employees (notes 13(d) and 13(e))	38,146	23,331
Prepaid expenses	166,061	172,866
Total current assets	459,857	360,958
Non-current assets:		
Restricted investments (note 3(c))	52,280	52,204
Deposits	40,133	30,707
Property and equipment (note 4)	85,775	141,478
Patent costs (note 5)	110,390	137,571
Total non-current assets	288,578	361,960
Total assets	$ 748,435	$ 722,918
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Trade and other payables (notes 9(c), 10 and 13)	$ 3,407,189	$ 3,153,900
Deferred revenue	-	25,001
Current portion of finance liability (note 6)	-	7,951
Loans payable (note 7(b)(*i*))	-	655,000
Total current liabilities	3,407,189	3,841,852
Finance lease liability (note 6)	-	1,079
Total liabilities	3,407,189	3,842,931
Shareholders' deficiency:		
Share capital (note 7)	43,693,611	38,878,798
Contributed surplus	13,824,087	11,139,649
Deficit	(60,307,692)	(53,242,337)
Accumulated other comprehensive income	131,240	103,877
Total shareholders' deficiency	(2,658,754)	(3,120,013)
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (note 9)		
Subsequent events (notes 9(d) and 18)		
Total liabilities and shareholders' deficiency	$ 748,435	$ 722,918

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

	2013	2012
Revenue	$ 39,616	$ 36,535
Expenses:		
Operating, general and administrative (note 14)	3,208,774	3,955,688
Research and development (note 15)	929,523	1,242,935
Collaboration costs (note 7(b)(*vi*))	2,966,674	-
	7,104,971	5,198,623
Loss for the year	(7,065,355)	(5,162,088)
Other comprehensive gain (loss):		
Exchange gain (loss) on translation of foreign operations	27,363	(11,943)
Comprehensive loss	$ (7,037,992)	$ (5,174,031)
Net loss per common share - basic and diluted	$ (0.09)	$ (0.08)
Weighted average number of common shares outstanding - basic and diluted	74,461,411	68,451,588

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

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

Years ended July 31, 2013 and 2012

	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders equity (deficiency)
As at August 1, 2011	68,451,588	$ 38,878,798	$ 9,723,348	$ 115,820	$ (48,080,249)	$ 637,717
Comprehensive loss	-	-	-	(11,943)	(5,162,088)	(5,174,031)
Stock-based compensation	-	-	1,416,301	-	-	1,416,301
As at July 31, 2012	68,451,588	38,878,798	11,139,649	103,877	(53,242,337)	(3,120,013)
Share issuance on private placements (note 7(b)):						
Issuance of shares	11,988,997	4,316,039	-	-	-	4,316,039
Issue costs	-	(333,245)	-	-	-	(333,245)
Issuance of warrants	-	(309,076)	309,076	-	-	-
Issuance of finder’s warrants	-	(45,575)	45,575	-	-	-
Comprehensive loss	-	-	-	27,363	(7,065,355)	(7,037,992)
Share based payment (note 7(b)(*vi*))	2,157,581	1,186,670	1,780,004	-	-	2,966,674
Stock-based compensation	-	-	549,783	-	-	549,783
As at July 31, 2013	82,598,166	$ 43,693,611	$ 13,824,087	$ 131,240	$ (60,307,692)	$ (2,658,754)

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

	2013	2012
Cash flows provided by (used in):		
Operating activities:		
Loss for the year	$ (7,065,355)	$ (5,162,088)
Adjustments for items not involving cash:		
Amortization of property and equipment	48,914	43,969
Amortization of patent costs	27,632	27,216
Foreign exchange loss	34,812	17,999
Loss on disposal of capital assets	7,247	-
Stock-based compensation	549,783	1,416,301
Collaboration costs (note 7(b)(*vi*))	2,966,674	-
	(3,430,293)	(3,656,603)
Changes in non-cash operating working items:		
Trade receivables	(286)	(3,381)
Goods and services taxes recoverable	(6,495)	19,940
Advances to employees	(14,815)	16,296
Prepaid expenses	6,805	(135,541)
Trade and other payables	253,289	509,012
Deferred revenue	(25,001)	1,156
Net cash flows used in operating activities	(3,216,796)	(3,249,121)
Investing activities:		
Deposits received (paid)	(9,426)	27,236
Restricted investment	-	(32,204)
Acquisition of property and equipment	-	(94,104)
Net cash flows used in investing activities	(9,426)	(99,072)
Financing activities:		
Proceeds from shares and units issued	3,661,039	-
Share issuance costs	(333,245)	-
Repayments of obligations under finance lease liability	(9,030)	(7,686)
Proceeds from loans payable	-	655,000
Net cash flows provided by financing activities	3,318,764	647,314
Effects of exchange rate changes on cash	(8,434)	(29,942)
Increase (decrease) in cash and cash equivalents	84,108	(2,730,821)
Cash and cash equivalents, beginning of year	126,999	2,857,820
Cash and cash equivalents, end of year	$ 211,107	$ 126,999

See accompanying notes to consolidated financial statements.

(Expressed in Canadian dollars)

1. Nature of business and going concern uncertainty:

(a) Nature of business:

Zecotek Photonics Inc. (the "Company") was incorporated on November 25, 1983 under the laws of the Province of British Columbia, Canada. The head office for the Company is located at: Unit 1120 - 21331 Gordon Way, Richmond, BC, Canada.

The activities of the Company are focused on the creation of advanced materials and integrated optoelectronic devices for high resolution medical imaging, optical precision surgery and biopharmaceutical research.

The Company has two significant wholly owned subsidiaries as follows:

Subsidiary	Main current or planned activity
Zecotek Photonics Singapore Pte. Ltd.	Holding company for Singapore subsidiaries
Zecotek Medical Systems AG	Swiss company for certification of medical technologies

Zecotek Photonics Singapore Pte. Ltd. holds 100% ownership interests in Zecotek Display Systems Pte. Ltd., Zecotek Imaging Systems Pte. Ltd. and a 90% ownership interest in Zecotek Laser Systems Pte. Ltd. These subsidiaries all have principal activities of research and development (and eventual exploitation) of medical laser technologies. Zecotek Imaging Systems Pte. Ltd. holds a 100% ownership interest in Zecotek Imaging Systems (Malaysia) SDN BHD ("ZISM") which was incorporated on June 24, 2008 with the same principal activity.

(b) Going concern uncertainty:

The Company's ability to continue to operate and meet its obligations as they come due is dependent upon the ability of the Company to obtain further equity financing as necessary, retain the support of its principal shareholders, and to successfully bring its technologies to market and achieve future profitable operations. The ultimate outcomes of these matters cannot presently be determined because they are contingent on future events.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes that the Company will be able to realize assets and discharge its liabilities in the normal course of business for the foreseeable future. As at July 31, 2013, the Company had very limited operating revenue, a working capital deficiency of $2,947,332, shareholders' deficiency of $2,658,754, and negative operating cash flows of $3,216,796. The Company's current revenue is not sufficient to sustain operations. These factors, among others, create substantial doubt as to the ability of the Company to continue as a going concern.

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

(b) Going concern uncertainty (continued):

Management of the Company believes that it will be successful in meeting its business objectives, and that the going concern assumption remains appropriate.

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

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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, 2013 and 2012.

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, 2013.

(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 recoverable amount of equipment and intangible assets, future economic benefits of the collaboration costs, and assumptions used in determining the fair value of options and warrants.

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

3. 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, 2013 and 2012 and the results of all its subsidiaries for the years then ended. Subsidiaries are all those entities which the Company controls, (i.e., has the power to govern the financial and operating policies) generally accompanying an equity holding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company. Inter-entity transactions, balances and unrealized gains on consolidated group are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company's accounting policies are applied consistently throughout the organization.

(b) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand, balances on deposit with banks and highly liquid market investments with original terms of maturity of less than ninety days at time of acquisition, intended for use in current operations.

(c) Restricted investments:

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

(d) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided primarily on the declining balance basis at the following annual rates:

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

Depreciation rates and salvage values are reviewed annually.

3. Significant accounting policies (continued):

(e) Patents and trademarks:

Product registration costs related to efforts by the Company to acquire legal protections for its proprietary products, such as trademarks and patents, are capitalized if the Company believes that obtaining the trademark or patent, and recovery of the costs from future related revenues is reasonably assured, otherwise the costs are expensed. Capitalized costs are amortized on a straight-line basis over 5 to 20 years. The amortization period is determined based on the anticipated duration of legal protection, an assessment of the period of time over which the Company may be able to generate revenues from the related product, and expected obsolescence.

(f) Research and development expenditures:

Research costs are expensed in the year as incurred.

Development costs include all expenditures considered directly attributable to efforts by the Company to develop, and bring to commercial production, a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. For the years ended July 31, 2013 and 2012, no costs have been capitalized.

(g) Impairment:

(*i*) Non-financial assets:

The carrying amounts of non-current assets, including property and equipment, and patent costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in net loss if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a significant change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(g) Impairment (continued):

(*ii*) Financial assets:

Financial assets not carried at fair value through earnings are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If impairment has occurred, the carrying amount of the asset is reduced, with the amount of the loss recognized in earnings.

(h) Foreign currency translation:

(*i*) Functional and presentation currency:

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Canadian dollar, which is the functional and presentation currency of the Company.

(*ii*) Translation of accounts of foreign subsidiaries:

On consolidation, the financial statements of foreign operations are translated into Canadian dollar using exchange rate at the end of reporting period for the financial position and average exchange rate over the reporting period for the income statement. Foreign currency translation differences are recognized in other comprehensive income.

(*iii*) Transactions in foreign currency:

Transactions made in a foreign currency are translated using the currency rate at the time of the translation. Monetary assets and liabilities in foreign currency are measured at the currency rate at the closing date and the translation differences are charged in profit and loss.

(i) Provisions:

A provision is recognized on the basis of a legal or constructive obligation arising from a past event, if there is a more likely than not outflow of resources and the amount can be estimated reliably. Where the effect of discounting is material, the expected future cash flows associated with a provision are discounted at a pre-tax rate that reflects current market assessments of the time value of money. The unwinding of the discount is recognized as a finance cost.

3. Significant accounting policies (continued):

(j) Employee compensation costs:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability when we have a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) 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 would be recorded in net income. For other financial liability, subsequent adjustments to expected cash flows are recorded if and when they occur through adjustments to the related expense.

The Company's financial instruments are classified as follows:

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

(l) Leases:

Leases where the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. Significant accounting policies (continued):

(l) Leases (continued):

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in net earnings for the period on a straight-line basis over the period of the lease.

(m) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 7(e). The fair value method of accounting for stock-based compensation transactions is used. Management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. The fair value of stock options is generally estimated at the date of grant using the Black-Scholes Option Pricing Model. For graded vested share options, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value.

The fair value of stock-based payments to non-employees is based on fair value of the goods or services received, when these can be measured reliably. In the event that no reliable measurement can be made, the fair value of the options granted will be used.

(n) Warrants:

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated on a pro-rata basis as determined by the fair value of each element. The fair value of the warrants is estimated using the Black-Scholes option pricing model. In circumstances where finder's warrants are issued coincidentally with a unit offering, the finder's warrants are valued using the Black-Scholes option pricing model.

(o) 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.

(p) Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized directly in equity.

Current income tax is the expected tax payable (recoverable) on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable (recoverable) in respect of previous years.

3. Significant accounting policies (continued):

(p) Income taxes (continued):

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(q) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized based on the use of proceeds that could be obtained upon exercise of such options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation generally produces an anti-dilutive effect for loss years.

(r) Revenue recognition:

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

(s) Government assistance:

Government grants are recognized when there is reasonable assurance that the Company has complied with the conditions of the grant. Such grants are accounted for as a reduction of the related expense or asset, or as income, as appropriate. When circumstances arise that indicate repayment is likely or when there is a formal demand for repayment, government grants previously recorded as a reduction of related expenditures or expenses is recorded as a liability in the year the condition for repayment arises.

3. Significant accounting policies (continued):

(t) Future changes in accounting standards:

(*i*) IFRS 9 - Financial Instruments:

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

(*ii*) IFRS 10 - Consolidated Financial Statements, Joint Arrangements, and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12):

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard is effective for annual periods beginning on or after January 1, 2013, but early adoption is permitted. If an entity applies this Standard earlier, it shall also apply IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.

In June 2012, the IASB issued, *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12),* which is effective with the adoption of the applicable standard to which the amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 10, including the amendments issued in June 2012, in its financial statements for the annual period beginning on August 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

3. Significant accounting policies (continued):

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

(*iii*) IFRS 12 - Disclosure of Interests in Other Entities and Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12):

In May 2011, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities*. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates, and/or unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies some of the requirements of this Standard earlier, it needs to apply IFRS 10, IFRS 11, IAS 27 (2011), and IAS 28 (2011) at the same time.

In June 2012, the IASB issued *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*, which is effective with the adoption of the applicable standard to which the amendments relate to, i.e., IFRS 10, IFRS 11, and IFRS 12.

The Company intends to adopt IFRS 12, including the amendments issued in June 2012, in its financial statements for the annual period beginning on August 1, 2013. The Company does not expect the amendments to have a material impact on the financial statements.

(*iv*) IFRS 13 - Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. This standard is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. The Company expects to apply this standard to its financial statements beginning on August 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

(*v*) Amendment to IAS 32 - Financial Instruments: Presentation:

In December 2011, the IASB issued, *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32, *Financial Instruments: Presentation*. The objective of this amendment to IAS 32 is to clarify when an entity has a right to offset financial assets and liabilities. This standard is effective for annual periods beginning on or after January 1, 2014, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on August 1, 2014. The Company is currently evaluating the impact of the amendment to IAS 32 on its financial statements.

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

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

(*vi*) Amendment to IFRS 7 - Financial Instruments: Disclosures:

In December 2011, the IASB issued amendments to IFRS 7 - *Financial Instruments: Disclosures*. The objective of this amendment to IFRS 7 is to enhance disclosures about offsetting of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on August 1, 2013. The Company is currently evaluating the impact of the amendment to IFRS 7 on its financial statements.

(u) Comparative information:

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

4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
July 31, 2011	$ 192,596	$ 68,194	$ 306,352	$ 62,911	$ 630,053
Additions	1,921	3,584	87,115	-	92,620
Effect of movements in exchange rates	1,653	(2,533)	5,527	1,000	5,647
July 31, 2012	196,170	69,245	398,994	63,911	728,320
Disposal	-	(20,385)	-	-	(20,385)
Effect of movements in exchange rates	75	(735)	853	151	344
July 31, 2013	$ 196,245	$ 48,125	$ 399,847	$ 64,062	$ 708,279

(Expressed in Canadian dollars)

4. Property and equipment (continued):

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
July 31, 2011	$ 143,002	$ 45,079	$ 298,399	$ 50,073	$ 536,553
Depreciation	13,555	5,081	22,487	3,913	45,036
Effect of movements in exchange rates	1,274	(1,560)	4,744	795	5,253
July 31, 2012	157,831	48,600	325,630	54,781	586,842
Depreciation	10,328	3,593	32,229	2,764	48,914
Disposal	-	(13,138)	-	-	(13,138)
Effect of movements in exchange rates	53	(758)	478	113	(114)
July 31, 2013	$ 168,212	$ 38,297	$ 358,337	$ 57,658	$ 622,504

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
Carrying amount:					
July 31, 2012	$ 38,339	$ 20,645	$ 73,364	$ 9,130	$ 141,478
July 31, 2013	28,033	9,828	41,510	6,404	85,775

(Expressed in Canadian dollars)

5. Patent costs:

Costs:	
August 1, 2011	$ 270,536
Effect of movements in exchanges rates	3,720
July 31, 2012	274,256
Effect of movements in exchange rates	559
July 31, 2013	$ 274,815
Accumulated depreciation:	
August 1, 2011	$ 107,906
Depreciation	27,425
Effect of movements in exchange rates	1,354
July 31, 2012	136,685
Depreciation	27,632
Effect of movements in exchange rates	108
July 31, 2013	$ 164,425
Carrying amount:	
July 31, 2012	$ 137,571
July 31, 2013	110,390

6. Finance lease liability:

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

	2013	2012
Balance	$ -	$ 9,670
Less: interest at a rate of 6.45% per annum	-	(640)
Less: current portion of principal payments	-	(7,951)
Long-term portion	$ -	$ 1,079

7. **Share capital:**

(a) Authorized:

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

(b) Issued and outstanding common shares:

(*i*) On October 10, 2012, the Company completed the first tranche of a non-brokered private placement of 4,280,000 units of the Company at a price of $0.36 per unit, for gross proceeds of $1,540,800. Each unit consists of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.50 per share for a period of 24 months after the date of the private placement. The warrant's exercise period automatically accelerates to 30 days if the common shares of the Company trade above $1.00 for a period of 10 consecutive trading days. The estimated fair value of common share purchase warrants granted was determined to be $115,420. Pursuant to the financing, the Company paid finder's fees in the amount of $107,856 for the first tranche of financing and issued 299,600 non-transferable finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of $0.50 for a period of 24 months after the date that the private placements closed. The estimated fair value of finder's warrants granted was determined to be $17,805 using the Black-Scholes option pricing model (note 7(d)). Legal and other costs amounted to $17,269. All shares and warrants are to be subject to a four-month hold period.

Loans payable of $655,000 outstanding as at July 31, 2012 was converted into 1,819,444 units issued under this private placement.

(*ii*) On December 3, 2012, the Company completed the second tranche of share subscription agreements. Under the agreements, the subscribers purchased 944,444 units of the Company at a price of $0.36 per unit, for gross proceeds of $340,000. Each unit consists of one common share and one half of one share purchase warrant Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.50 per share for a period of 24 months after the date of the private placement. The warrant's exercise period automatically accelerates to 30 days if the common shares of the Company trade above $1.00 for a period of 10 consecutive trading days. The estimated fair value of common share purchase warrants granted was determined to be $20,670. Pursuant to the financing, the Company paid finder's fees in the amount of $16,800 and issued 46,666 non-transferable finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of $0.50 for a period of 24 months after the date that the private placements closed. The estimated fair value of finder's warrants granted was determined to be $2,954 using the Black-Scholes option pricing model (note 7(d)). Legal and other costs amounted to $5,602. All shares and warrants are to be subject to a four-month hold period.

7. Share capital (continued):

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

(*iii*) On January 21, 2013, the Company amended the terms of 4,450,000 and 1,686,500 warrants issued to subscribers of a private placement which closed on February 8, 2011 and February 17, 2011. The Company re-priced the exercise price of the subscriber warrants to $0.55 per common share from the initial exercise price of $0.70, and extended the expiry date to February 8, 2015 and February 17, 2015. The exercise period automatically accelerates to 30 days if the common shares of the Company trade at $1.00 or greater for a period of 10 consecutive trading days.

(*iv*) On April 10, 2013, the Company completed the first tranche of a non-brokered private placement of 3,784,442 units of the Company at a price of $0.36 per unit for gross proceeds of $1,362,399. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.50 per share for a period of 24 months after the date of the private placement. The warrant's exercise period will automatically accelerate to 30 days if the common shares of the Company trade above $1.00 for a period of 10 consecutive trading days. The estimated fair value of common share purchase warrants granted was determined to be $76,568. Pursuant to the financing, the Company paid finder's fees in the amount of $95,368 for the first tranche of financing and finder's warrants to purchase a total of 264,909 common shares at $0.50 per share until April 10, 2015. Each finder's warrant entitles the holder to purchase one common share at a price of $0.50 for a period of 24 months after the date that the private placements closed. The estimated fair value of finders' warrants granted was determined to be $19,300 using the Black-Scholes option pricing model (note 7(d)). Legal and other costs amounted to $14,136. All shares and warrants are to be subject to a four-month hold period.

(*v*) On June 7, 2013, the Company completed the second tranche of share subscription agreements for the financing announced March 8, 2013. Under the agreements, the subscribers purchased 2,980,111 units of the Company at a price of $0.36 per unit, for gross proceeds of $1,072,840. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.50 per share for a period of 24 months after the date of the private placement. The warrant's exercise period will automatically accelerate to 30 days if the common shares of the Company trade above $1.00 for a period of 10 consecutive trading days. The estimated fair value of common share purchase warrants granted was determined to be $96,417. Pursuant to the financing, the Company paid finder's fees in the amount of $61,670 and 171,305 non-transferable finder's warrants for the financing.

(Expressed in Canadian dollars)

7. Share capital (continued):

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

(*v*) (continued):

Each finder's warrant entitles the holder to purchase one common share at a price of $0.50 for a period of 24 months after the date that the private placements closed. The estimated fair value of finders' warrants granted was determined to be $5,516 using the Black-Scholes option-pricing model (note 7(d)). Legal and other costs amounted to $9,424. All shares and warrants are to be subject to a four-month hold period.

(*vi*) On June 26, 2013, the Company agreed to issue 5,393,951 common shares to Invention Development Management Company, LLC ("IDMC") under the terms of the joint collaboration agreement to develop and source new inventions related to photonics (see note 9(d)). The fair value of the shares issued or to be issued was determined at the grant date of July 11, 2013 and was determined to be $0.55 per share. The total fair value of $2,966,674 was recognized as collaboration costs in the year ended July 31, 2013. Of the 5,393,951 shares granted, 2,157,581 shares were issued by July 31, 2013; therefore, $1,186,670 was recorded to share capital and the remaining $1,780,004 was recorded to contributed surplus. The amount included in contributed surplus will be transferred to share capital upon issuance of the underlying common shares.

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2011	13,448,292	$ 0.83
Warrants expired	(5,925,000)	(0.65)
Balance, July 31, 2012	7,523,292	0.70
Warrants granted (note 7(b)(*i*), (*ii*), (*iv*) and (*v*))	5,994,499	0.50
Warrants expired	(1,386,792)	(0.70)
Warrants repriced (note 7(b)(iii))	-	(0.15)
Balance, July 31, 2013	12,130,999	$ 0.53

(Expressed in Canadian dollars)

7. Share capital (continued):

(c) Common share purchase warrants (continued):

Common share purchase warrants outstanding at July 31, 2013 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.50	5,994,499	1.53
$ 0.55	6,136,500	1.53
	12,130,999	1.53

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2011	1,311,631	$ 0.78
Warrants expired	(355,500)	(1.00)
Balance, July 31, 2012	956,131	0.70
Warrants granted (note 7(b)(*i*), (*ii*), (*iv*) and (*v*))	782,480	0.50
Warrants expired	(956,131)	0.70
Balance, July 31, 2013	782,480	$ 0.50

All of the finder's warrants outstanding at July 31, 2013 have an exercise price of $0.50 and have a weighted average remaining life of 1.52 years.

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:

2013:	
Annualized stock volatility	48.16%
Risk-free interest rate	1.10%
Expected option/warrant life	2.0 years
Dividend payments	0.0%

(Expressed in Canadian dollars)

7. Share capital (continued):

(e) Stock options:

On December 28, 2012, the Board of Directors approved a new stock option plan. Under the plan, the Company may grant options to purchase common shares in the Company to employees, directors, officers, and consultants of the Company. The exercise price of the options is to be determined by the Board of Directors but generally will be equal to or greater than the market price of the shares at the grant date. Options will generally vest according to the following schedule:

25%	on grant date
25%	6 months after grant date
25%	12 months after grant date
25%	18 months after grant date

As of July 31, 2013, the Company has reserved 14,540,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 15,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2011	8,405,000	$ 0.71
Options granted	5,640,000	0.65
Options expired	(860,000)	(0.96)
Balance, July 31, 2012	13,185,000	0.63
Options granted	1,600,000	0.43
Options expired	(260,000)	(1.60)
Balance, July 31, 2013	14,525,000	$ 0.59

(Expressed in Canadian dollars)

7. Share capital (continued):

(e) Stock options (continued):

Options outstanding at July 31, 2013 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
$ 0.43	1,600,000	463,750	4.79
$ 0.45	2,250,000	1,687,500	3.92
$ 0.57	1,135,000	1,135,000	3.50
$ 0.64	3,920,000	3,920,000	2.47
$ 0.65	2,550,000	2,550,000	0.74
$ 0.65	45,000	45,000	0.74
$ 0.65	2,255,000	2,255,000	3.15
$ 0.71	770,000	770,000	1.47
	14,525,000	12,826,250	2.78

During the year ended July 31, 2013, the Company recorded $549,783 (2012 - $1,416,301) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus.

8. Capital disclosures:

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes shareholders' equity and long-term debt in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or undertake other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended July 31, 2012.

(Expressed in Canadian dollars)

9. Commitments and contingencies:

(a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2014	$ 133,992	$ 50,942	$ 184,934
2015	83,974	60,942	144,916
2016	-	60,942	60,942
	$ 217,966	$ 172,826	$ 390,792

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

(b) Litigation:

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

(c) Compensation waivers:

In March of 2011, the Company entered into agreements with certain of its consultants, directors and employees (the "individuals"). Under these agreements, the individuals waived salaries and fees owed to them totaling $1,113,455 in favor of bonus payments of the same amounts, which are to be paid upon certain triggering events, including a sale of substantially all of the assets of the Company, or the shares of the Company, commercialization of any of the technologies of the Company, a public listing of shares of a subsidiary of the Company, or cash inflows exceeding $3,000,000 in any three month period.

The liability for this compensation will remain included in accounts payable and accrued liabilities until such time as it can be determined that the liability is legally extinguished or that the Company's obligation to pay is unlikely.

9. Commitments and contingencies (continued):

(d) Intellectual property:

On June 26, 2013, Zecotek Photonics Inc. entered into a joint collaboration agreement with Invention Development Management Company, LLC ("IDMC") for collaboration on intellectual property strategy, including the sourcing, development and monetization of new inventions related to photonics. The agreement will also provide the Company with the opportunity to licence intellectual properties and technologies from IDMC's own portfolio of photonics related inventions and patents created with its network of inventors.

In consideration, the Company agreed to:

(*i*) issue to IDMC 5,393,951 common shares over a period of 6 months;

(*ii*) pay IDMC 5% of the gross proceed on any settlement of or damage award in any of the Company's patent infringement litigation involving U.S. patent number 7.132.060 (or any of its related family members) commenced before date of the Agreement; and

(*iii*) if a settlement includes any licensing royalty settlement component ("Licensing Component") for a period of 60 months commencing on receipt of first licensing royalty settlement payment, pay IDMC 5% of such Licensing Component.

At July 31, 2013, the Company has issued 2,157,581 common shares. Subsequent to year end, the Company issued 1,078,790 common shares on August 26, 2013 and 1,078,790 common shares on October 26, 2013. The remaining 1,078,790 common shares will be issued on December 26, 2013.

10. Government grants:

The Company has received grants from the Government of Singapore - Economic Development Board ("EDB") and the Government of Malaysia - Industrial Development Authority ("MIDA"). During the 2009 year, the Company received Singapore dollars $1,554,778 (Canadian dollars $1,232,162) and recorded this as a reduction in expenditures and expenses as management believed there was reasonable assurance that the amounts would not have to be repaid. The EDB grant is contingently repayable should the Company not meet certain requirements in respect to local employment, expenditures and production. As at July 31, 2010, it was determined that certain of these conditions were not met in respect to the EDB grant.

The Company received correspondence from the EDB in August 2010 in which the EDB required repayment of cumulative grants received by the Company in the amount of Singapore dollars $1,554,778 (Canadian dollars $1,254,706), referring to the Company not meeting all original conditions of the grant. The amount has been recognized as a liability, under accounts payable, as at July 31, 2012 and 2013. The Company disputes the repayment requirement, believes the EDB had previously waived or postponed some conditions and is in discussion with the EDB seeking to eliminate the amount owing by the Company.

10. Government grants (continued):

In May 2012, EDB requested the Company to provide a fresh update on all the grant conditions to better evaluate the Company's appeal for changes to the grant conditions in order to reduce the repayment to EDB. As at the end of July 31, 2013, EDB had not yet completed reviewing the information provided by the Company.

11. Financial instruments:

(a) Fair value:

The Company's financial instruments consist of cash and cash equivalents, investments, trade receivables, advances to employees, restricted investments, trade and other payables, and loans payable. The fair values of cash and cash equivalents, trade receivable, advances to employees, trade and other payables, and loans payable approximate carrying value because of the short-term nature of these instruments. The interest rates applied to the obligations under capital lease are not considered to be materially different from market rates, thus the carrying value of obligations under capital lease approximate fair value. The carrying value of short-term investments equal their fair values as they are classified as held for trading.

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

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

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

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

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

(b) Financial risk management:

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

(*i*) Credit risk:

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

(Expressed in Canadian dollars)

11. Financial instruments (continued):

(b) Financial risk management (continued):

(*ii*) Foreign exchange risk:

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

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

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

SGD		2013		2012
Financial assets:				
Cash and cash equivalents	$	56,767	$	17,693
Trade receivables		13,709		13,357
Restricted investments		40,000		40,000
Financial liabilities:				
Trade and other payables		(3,619,945)		(3,367,655)
Gross financial position exposure	$	(3,509,469)	$	(3,296,605)
Canadian dollar equivalents	$	(2,832,142)	$	(2,654,097)

(Expressed in Canadian dollars)

11. Financial instruments (continued):

(b) Financial risk management (continued):

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

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended July 31, 2013 and 2012:

SGD	2013	2012
Canadian dollar		
Average rate	$ 1.23	$ 1.25
Closing rate	1.24	1.24

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

	2013	2012
Canadian dollar	$ 283,215	$ 293,736

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

(*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.

(Expressed in Canadian dollars)

12. Segmented information:

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

July 31, 2013	Asia	Europe	North America	Total
Revenue	$ 37,677	$ 1,939	$ -	$ 39,616
Property and equipment	80,369	-	5,406	85,775
Patent costs	103,901	-	6,489	110,390

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

13. 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 $46,886 (2012 - $25,870) 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, 2013, $24,751 (2012 - $3,823) was outstanding and included in trade and other payables.

(b) The Company incurred fees of $90,000 (2012 - $110,000) during the year for accounting and related services to a company controlled by the Corporate Secretary. At July 31, 2013, none (2012 - $8,400) of these fees were unpaid and included in trade and other payables.

(c) The Company incurred fees of $134,000 (2012 - $84,000) during the year for consulting services to the chief financial officer. At July 31, 2013, $26,750 (2012 - $23,520) of the fees was unpaid and included in trade and other payables.

(Expressed in Canadian dollars)

13. Related party transactions (continued):

(d) During the year, the Company incurred salaries and allowances of $564,000 (2012 - $564,000) for the President and CEO. At July 31, 2013, $180,604 (2012 - $92,580) of the salaries and allowances were unpaid and included in trade and other payables. The advances to the President and CEO amount to $35,199 as at July 31, 2013 (2012 - $9,158).

(e) During the year, the Company incurred salaries of $153,600 (2012 - $155,935) for the Executive Vice President, Operations. At July 31, 2013, none (2012 - $30,456) of these salaries were unpaid and included in trade and other payables. The advances to the Executive Vice President, Operations amount to $2,947 as at July 31, 2013 (2012 - $14,173).

(f) The Company incurred fees of of $78,000 (2012 - $78,000) during the year for directors' services. At July 31, 2013, $99,500 (2012 - $39,000) was unpaid and included in trade and other payables.

(g) During the year, the Company granted options to acquire 780,000 shares to certain directors and officers at a price of $0.43 per share until May 13, 2018.

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

	2013	2012
Short term employee salary and benefits	$ 851,600	$ 803,935
Post-employment benefits	-	-
Termination benefits	576,800	576,800

14. General and administrative expenses:

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

	2013	2012
Professional fees	$ 1,055,128	$ 897,705
Insurance	22,432	48,233
Marketing and promotion	66,306	42,668
Office	150,432	155,922
Rent	152,225	186,905
Salaries and benefits	1,097,057	1,114,108
Travel	97,199	229,734
Foreign exchange loss	34,812	17,999
Amortization of property and equipment	44,001	39,268
Stock-based compensation	489,182	1,223,146
Total	$ 3,208,774	$ 3,955,688

(Expressed in Canadian dollars)

15. Research and development expenses:

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

	2013	2012
Consulting fees	$ 223,211	$ 527,533
Overhead costs	29,294	30,905
Supplies	102,591	52,587
Salaries and benefits	150,824	148,473
Patent costs	331,585	258,365
Amortization of property and equipment	3,785	4,701
Amortization of patent costs	27,632	27,216
Stock-based compensation	60,601	193,155
Total	$ 929,523	$ 1,242,935

16. Income taxes:

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

	2013		2012	
	Canada	Singapore	Canada	Singapore
Statutory income tax rate	(25.3%)	(17.0%)	(25.0%)	(17.0%)
Tax losses not recognized	25.3%	17.0%	25.0%	17.0%
Effective tax rate	-	-	-	-

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

	2013		2012	
	Canada	Singapore	Canada	Singapore
Operating losses	$13,778,152	$42,938,164	$12,802,800	$ 21,021,765
Intangible assets	27,530	201,904	26,400	178,235
Share issuance costs	582,508	-	479,200	-
Property and equipment	56,918	394,371	69,200	352,941
Total	$14,445,108	$43,534,439	$13,377,600	$ 21,552,941

(Expressed in Canadian dollars)

16. Income taxes (continued):

(c) As at July 31, 2013, the Company and its subsidiaries have operating losses carried forward for Canadian and Singapore income tax purposes, available to reduce taxable income of future years, subject to certain restrictions. The Canadian tax losses expire commencing in the 2014 year as follows:

2014	$ 103,007
2015	1,478,231
2026	2,426,535
2027	2,254,153
2028	1,846,998
2029	1,298,391
2030	1,293,648
2031	1,039,417
2032	793,398
2033	1,244,374
	$ 13,778,152

Operating losses for Singapore tax purposes of approximately $43,000,000 may be carried forward indefinitely, subject to certain restrictions.

17. Disposition of foreign operation:

On May 3, 2013, the Company completed the sale of the issued and outstanding shares of Zecotek Medical Systems AG (“ZMS”) to Swiss Cleanwater Group for the cash consideration of $1. As a condition of closing the transaction, ZMS was released from the intercompany loan payable to Zecotek Photonics Singapore. The cumulative amount of the exchange differences relating to ZMS of $17,019 was reclassed from other comprehensive income to foreign exchange loss upon disposition.

18. Subsequent events:

(a) Private placement:

On September 4, 2013, the Company completed the share subscription agreements for the financing announced August 20, 2013. Under the agreements, the subscribers purchased 5,966,938 units of the Company at a price of $0.58 per unit, for gross proceeds of $3,460,824. Each unit consists of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of $0.75 per share for a period of 24 months after the date of the private placement. The warrant’s exercise period will automatically accelerate to 30 days if the common shares of the Company trade above $1.25 for a period of 10 consecutive trading days.

18. Subsequent events (continued):

(a) Private placement (continued):

The Company paid finder's fees in the amount of $234,040 and 403,516 non-transferable finder's warrants for the financing. Each finder's warrant entitles the holder to purchase one common share at a price of $0.75 for a period of 24 months after the date that the private placements closed. All shares and warrants are to be subject to a four-month hold period.

The completion of this private placement triggers the bonus payments under the compensation waivers because the cash inflows condition has been met (see note 9(c)).

(b) Share issuance:

Under the agreement with IDMC, the Company has issued 1,078,790 common shares on August 26, 2013 and 1,078,790 common shares on October 26, 2013 to IDMC; the remaining 1,078,790 common shares are to be issued on December 26, 2013.