



# **ZECOTEK PHOTONICS INC.**

**Interim Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
(Unaudited)

**October 31, 2012**

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(Expressed in Canadian Dollars)  
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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# ZECOTEK PHOTONICS INC.

Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

	October 31, 2012	July 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 387,749	\$ 126,999
Trade receivables	10,756	10,777
Goods and services taxes recoverable	41,852	26,985
Advances to employees (notes 9(d) and (e))	27,008	23,331
Prepaid expenses	183,854	172,866
<b>Total current assets</b>	<b>651,219</b>	<b>360,958</b>
Non-current assets:		
Restricted investments (note 3(d))	52,772	52,204
Deposits	31,589	30,707
Property and equipment	131,091	141,478
Patent costs	132,857	137,571
<b>Total non-current assets</b>	<b>348,309</b>	<b>361,960</b>
<b>Total assets</b>	<b>\$ 999,528</b>	<b>\$ 722,918</b>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>		
Current liabilities:		
Trade and other payables (note 7)	\$ 3,296,523	\$ 3,153,900
Deferred revenue	24,991	25,001
Current portion of finance liability	7,000	7,951
Loans payable	-	655,000
Share subscription received	100,000	-
<b>Total current liabilities</b>	<b>3,428,514</b>	<b>3,841,852</b>
Finance lease liability	-	1,079
<b>Total Liabilities</b>	<b>3,428,514</b>	<b>3,842,931</b>
Shareholders' equity:		
Share capital (note 4(b))	40,166,674	38,878,798
Contributed surplus	11,421,605	11,139,649
Deficit	(54,075,761)	(52,242,337)
Accumulated other comprehensive income	58,496	103,877
<b>Total shareholders' equity (deficiency)</b>	<b>(2,428,986)</b>	<b>(3,120,013)</b>
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (note 6)		
Subsequent event (note 12)		
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 999,528</b>	<b>\$ 722,918</b>

Approved on behalf of the Board:

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Faouzi Zerrok Director

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David Toyoda Director

## ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)

Three months ended October 31, 2012 and 2011

	2012	2011
Revenue	\$ -	\$ 1,761
Expenses:		
Operating, general and administrative	613,203	939,064
Research and development	220,221	432,490
	<u>833,424</u>	<u>1,371,554</u>
Net loss	(833,424)	(1,369,793)
Other comprehensive gain (loss):		
Exchange gain (loss) on translation of foreign operations	(45,381)	(40,965)
Comprehensive loss	<u>\$ (878,805)</u>	<u>\$ (1,410,758)</u>
Net loss per common share - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>69,428,545</u>	<u>68,451,588</u>

# ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian Dollars)

Three months ended October 31, 2012 and 2011

	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	\$ 68,757	\$ (48,033,186)	\$ 637,717
Comprehensive loss	-	-	-	(40,965)	(1,369,793)	(1,410,758)
Stock-based compensation	-	-	362,883	-	-	362,883
As at October 31, 2011	68,451,588	\$ 38,878,798	\$ 10,086,231	\$ 27,792	\$ (49,402,979)	\$ (410,158)

	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders equity (deficiency)
As at August 1, 2012	68,451,588	\$ 38,878,798	\$ 11,139,649	\$ 103,877	\$ (53,242,337)	\$ (3,120,013)
Share issuance:						
Private placement	4,280,000	1,540,800	-	-	-	1,540,800
Issue costs	-	(125,125)	-	-	-	(125,125)
Issuance of warrants	-	(109,994)	109,994	-	-	-
Issuance of agents' warrants	-	(17,805)	17,805	-	-	-
Comprehensive loss	-	-	-	(45,381)	(833,424)	(878,805)
Stock-based compensation	-	-	154,157	-	-	154,157
As at October 31, 2012	72,731,588	\$ 40,166,674	\$ 11,421,605	\$ 58,496	\$ (54,075,761)	\$ (2,428,986)

# ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

Three months ended October 31, 2012 and 2011

	2012	2011
Cash flows provided by (used in):		
Operating activities:		
Net loss	\$ (833,424)	\$ (1,369,793)
Adjustments for items not involving cash:		
Amortization of property and equipment	12,754	6,433
Amortization of patent costs	6,809	6,382
Exchange (gain) / loss on translation	(45,381)	(40,182)
Stock-based compensation	154,157	362,883
	<u>(705,085)</u>	<u>(1,034,277)</u>
Changes in non-cash operating items:		
Trade receivables	21	(359)
Goods and services taxes recoverable	(14,867)	(9,204)
Advances to employees	(3,677)	(3,440)
Prepaid expenses	(10,988)	(51,151)
Trade and other payables	142,623	21,497
Deferred revenue	(10)	-
Net cash flows used in operating activities	<u>(591,983)</u>	<u>(1,076,934)</u>
Investing activities:		
Short term investment	(568)	-
Deposits received	(881)	(28,677)
Acquisition of property and equipment	(4,463)	-
Net cash flows used in investing activities	<u>(5,912)</u>	<u>(28,677)</u>
Financing activities:		
Proceeds from shares and units issued	1,540,800	-
Share issuance costs	(125,125)	-
Share subscriptions received	100,000	-
Repayments of obligations under finance lease liability	(2,030)	(1,839)
Proceeds from (repayments of) loans payable	(655,000)	-
Net cash flows from (used in) financing activities	<u>858,645</u>	<u>(1,839)</u>
Increase (decrease) in cash and cash equivalents	260,750	(1,107,450)
Cash and cash equivalents, beginning of period	126,999	2,857,820
Cash and cash equivalents, end of period	<u>\$ 387,749</u>	<u>\$ 1,750,370</u>

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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## 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., and 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 October 31, 2012, the Company had very limited operating revenue, and a cumulative deficit of \$54,075,761. The Company's current revenue generated 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.

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

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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

### (b) Going concern uncertainty (continued):

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 unaudited interim consolidated financial statements have been prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") using accounting policies in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The notes presented in these interim consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with our most recent annual audited consolidated financial statements, for the year ended July 31, 2012. We have consistently applied the same accounting policies for all periods presented in these interim consolidated financial statements as those used in our audited consolidated financial statements for the year ended July 31, 2012.

These financial statements were reviewed by the Audit Committee and approved and authorized to be issued by the Board of Directors on December 27, 2012.

### (b) Basis of measurement:

The 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 the 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, and valuation allowances for receivables, and assumptions used in determining the fair value of options and warrants.



# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
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Three months ended October 31, 2012 and 2011

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## 2. Basis of presentation (continued):

### (c) Significant judgments and estimates (continued):

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. Summary of significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at October 31, 2012 and the results of all its subsidiaries for the period 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) Short term investments:

Short term investments, which consist of financial instruments purchased with an original maturity of greater than ninety days and less than one year, are recorded at fair market value.

### (d) Restricted short term investments:

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

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
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### 3. Summary of significant accounting policies (continued):

(e) 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.

(f) 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.

(g) Research and development expenditures:

Research costs are expensed in the year as incurred.

Development costs include all expenditures considered directly attributable to efforts by the Company to develop, and bring to commercial production, a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. For the periods ended October 31, 2012 and 2011, no costs have been capitalized.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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### 3. Summary of significant accounting policies (continued):

(h) Impairment:

(i) Non-financial assets:

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

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

(ii) Financial assets:

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

(i) 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.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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### 3. Summary of significant accounting policies (continued):

(i) Foreign currency translation (continued):

(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 continuously.

(j) 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.

(k) 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.

(l) 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.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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### 3. Summary of significant accounting policies (continued):

#### (l) Financial instruments (continued):

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.

#### (m) 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.

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.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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### 3. Summary of significant accounting policies (continued):

(n) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 8(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.

(o) Warrants:

Proceeds from issuances by the Company of units consisting of shares and warrants are generally allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants. In circumstances where agent warrants are issued coincidentally with a unit offering, both the agent warrants and the warrant portion of the unit offering are valued using the Black-Scholes option pricing model.

(p) 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 income.

(q) 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.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
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### 3. Summary of significant accounting policies (continued):

(q) 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.

(r) 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.

(s) 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.

(t) 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.

# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Three months ended October 31, 2012 and 2011

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### 3. Summary of significant accounting policies (continued):

(u) Future changes in accounting standards:

On May 12, 2011, the International Accounting Standards Board (IASB) issued IFRS 10, Consolidated Financial Statements, which is a replacement of IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation - Special Purpose Entities. Concurrent with the issuance of IFRS 10, the IASB also issued:

- IFRS 11, Joint Ventures;
- IFRS 12, Disclosures of Involvement with Other Entities;
- IAS 27, Separate Financial Statements (revised 2011), has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28, Investments in Associates and Joint Ventures (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards in the above 'package of five' has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards in the package of five is also early applied. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. IFRS 10 also requires a continuous assessment of control of an investee. The adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 13, Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 applies to all transactions and balances for which IFRSs require or permit fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 Share-based Payment and leasing transactions within the scope of IAS 17 Leases. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

On June 16, 2011, the IASB issued amendment to IAS 1, Presentation of Financial Statements, revising how certain items are presented in other comprehensive income (OCI). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.



# ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements  
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### 3. Summary of significant accounting policies (continued):

#### (u) Future changes in accounting standards (continued):

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.

### 4. 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:

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 \$0.5 per share for a period of 24 months after the date of the private placement. The exercise period automatically accelerates 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 \$109,994. 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 finders' warrants granted was determined to be \$17,805 using the Black-Scholes option pricing model (note 4(d)). Legal and other costs amounted to \$17,269. All shares and warrants are to be subject to a four-month hold period.

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## 4. Share capital (continued):

### (c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2011	13,448,292	\$ 0.83
Warrants expired (note 8(b)(iii))	(5,925,000)	(0.65)
Balance, July 31, 2012	7,523,292	\$ 0.70
Warrants granted (note 4(b))	2,140,000	0.50
Balance, October 31, 2012	9,663,292	\$ 0.66

### (d) Agent's and finder's warrants and options:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2011	1,311,631	\$ 0.78
Warrants expired (note 8(b)(iii))	(355,500)	(1.00)
Balance, July 31, 2012	956,131	\$ 0.70
Warrants granted (note 8(b)(ii))	299,600	\$ 0.50
Balance, October 31, 2012	1,255,731	\$ 0.65

### (d) Agent's and finder's warrants and options:

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, 2012
Annualized stock volatility	48.0%
Risk-free interest rate	1.3%
Expected option/warrant life	2.0 years
Dividend payments	0.0%

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## 4. Share capital (continued):

### (e) Stock options:

On December 28, 2011, 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:

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

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As of July 31, 2012 the Company has reserved 13,690,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 505,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

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	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 expired	(100,000)	(1.30)
Balance, October 31, 2012	13,085,000	\$ 0.62

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## 4. Share capital (continued):

(e) Stock options (continued):

Options outstanding at October 31, 2012 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
\$ 0.45	2,250,000	562,500	4.67
\$ 0.57	1,135,000	942,500	4.25
\$ 0.64	3,920,000	3,920,000	3.22
\$ 0.65	2,550,000	2,550,000	1.49
\$ 0.65	45,000	45,000	1.49
\$ 0.65	2,255,000	1,691,250	3.90
\$ 0.71	770,000	770,000	2.22
\$ 1.79	160,000	160,000	0.07
	13,085,000	10,641,250	3.23

During the three months ended October 31, 2012, the Company recorded \$154,157 (2011 - \$362,883) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus.

## 5. 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.

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## 6. Commitments and contingencies:

### (a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2013 (balance of year)	\$ 90,769	\$ 45,942	\$ 136,711
2014	68,898	50,942	119,840
2015	28,707	60,942	89,649
2016	-	60,942	60,942
	\$ 188,373	\$ 218,768	\$ 407,141

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.

## 7. 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, 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 \$1,232,162), referring to the Company's not meeting all original conditions of the grant. The amount has been recognized as a liability, under accounts payable, as at August 1, 2010, July 31, 2011 and 2012. The Company disputes the repayment requirement, believes the EDB had previously waived or postponed some conditions, and is in

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## 7. Government grants (continued):

discussion with the EDB seeking to eliminate the amount owing by the Company. 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 October 2012, EDB had not yet completed reviewing the information provided by the Company.

## 8. Financial instruments:

### (a) 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.

### (b) 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	October 31, 2012	October 31, 2011
Financial assets:		
Cash and cash equivalents	\$ 27,907	\$ 211,622
Trade receivables	13,128	9,770
Restricted investments	40,000	-
Financial liabilities:		
Trade and other payables	(3,482,197)	(2,811,135)
Gross financial position exposure	\$ (3,401,162)	\$ (2,589,743)
Canadian dollar equivalents	\$ (2,786,572)	\$ (2,055,738)

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## 8. Financial instruments (continued):

### (b) Foreign exchange risk (continued):

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended October 31, 2012 and 2011:

SGD	October 31, 2012	October 31, 2011
Canadian dollar		
Average rate	1.25	1.24
Closing rate	1.22	1.26

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.

### (c) 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.

### (d) 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 and Loans payable have contractual maturity of 6 months or less.

## 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) The Company incurred \$4,243 (2011 - \$7,102) in legal fees to Boughton Law Corporation, legal counsel to the Company, for legal services rendered during the quarter. A director of the Company is an Associate Counsel of Boughton Law Corporation.
- (b) The Company incurred fees of \$22,500 (2011 - \$22,500) during the quarter for accounting and related services to a company controlled by the Corporate Secretary.
- (c) The Company incurred fees of \$21,000 (2011 - \$21,000) during the quarter for consulting services to the chief financial officer.

# ZECOTEK PHOTONICS INC.

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## 9. Related party transactions (continued):

- (d) The balance of the interest free loan to the Executive Vice-President, Operations at the end of October 31, 2012 was \$8,193 (SGD 10,000) (July 31, 2012 - \$8,051 (SGD 10,000)). Balance of the travelling allowance as at October 31, 2012 was \$1,475 (July 31, 2012 - \$1,800).
- (e) During the quarter, the Company incurred salaries & allowances of \$141,000 (2011 - \$141,000) for the President and CEO. The advances to the President and CEO amount to \$9,320 as at October 31, 2012 (July 31, 2012 - \$9,158).
- (f) During the quarter, the company incurred salaries of \$38,400 (2011 - \$38,400) for the Executive Vice President, Operations.
- (g) The Company incurred fees of of \$19,500 (2011 - \$19,500) during the year for directors' services.
- (h) The following table summarizes the compensation of the Company's key management:

	October 31, 2012	October 31, 2011
Short term employee salary and benefits	200,400	200,400
Termination benefits	564,000	564,000

## 10. 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:

October 31, 2012	Asia	Europe	North America	Total
Revenue	\$ -	\$ -	\$ -	\$ -
Property and equipment	115,721	8,485	6,885	131,091
Patent costs	132,857	-	-	132,857

  

October 31, 2011	Asia	Europe	North America	Total
Revenue	\$ 1,761	\$ -	\$ -	\$ 1,761
Property and equipment	59,922	5,290	9,324	74,536
Patent costs	156,101	-	-	156,101



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## 11. General and administrative expenses:

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

	October 31, 2012	October 31, 2011
Professional fees	\$ 129,256	\$ 213,285
Insurance	4,837	8,683
Marketing and promotion	21,115	7,936
Office	17,686	38,470
Rent	37,856	59,234
Salaries and benefits	259,339	262,444
Travel	16,417	70,773
Foreign exchange gain	(19,202)	(23,663)
Amortization of property and equipment	11,826	5,296
Stock-based compensation	134,073	296,575
Total	\$ 613,203	\$ 939,064

## 12. Subsequent events:

The Company completed the second tranche of share subscription agreements on November 30, 2012. 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. The exercise period of the warrants is to be accelerated if certain conditions are met.

The Company paid a finder's fee equal to 7% of the gross proceeds of the sales of the shares and issued 46,666 non-transferable finder's warrants. Each finder's warrant is to entitle the holder to purchase one share at a price of \$0.50 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.

1,386,792 common share purchase warrants exercisable at \$0.70 per share and 124,811 finder's warrants exercisable at \$0.70 per share expired on November 3, 2012.