

Consolidated Financial Statements
(Expressed in Canadian dollars)

ZECOTEK PHOTONICS INC.

Years ended July 31, 2014 and 2013



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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, 2014 and 2013, the consolidated statements of comprehensive loss, changes in 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, 2014 and 2013, 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 qualifying our opinion, we draw attention to note 1(b) in the consolidated financial statements which indicates that the Company 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 that 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 27, 2014
Vancouver, Canada

ZECOTEK PHOTONICS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

July 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 615,265	\$ 211,107
Trade receivables	23,068	11,063
Goods and services taxes recoverable	20,244	33,480
Advances to employees (notes 12(c) and 12(d))	137,554	38,146
Prepaid expenses	139,802	166,061
Total current assets	935,933	459,857
Non-current assets:		
Restricted investments (note 3(c))	54,936	52,280
Deposits	35,348	40,133
Property and equipment (note 4)	69,991	85,775
Patent costs (note 5)	89,498	110,390
Total non-current assets	249,773	288,578
Total assets	\$ 1,185,706	\$ 748,435

Liabilities and Shareholders' Deficiency

Current liabilities:		
Trade and other payables (notes 8(c), 9 and 12)	\$ 4,017,741	\$ 3,407,189
Shareholders' deficiency:		
Share capital (note 6)	53,139,204	43,693,611
Contributed surplus	12,861,372	13,824,087
Deficit	(68,760,803)	(60,307,692)
Accumulated other comprehensive income (loss)	(71,808)	131,240
Total shareholders' deficiency	(2,832,035)	(2,658,754)

Nature of business and going concern uncertainty (note 1)

Commitments and contingencies (note 8)

Subsequent events (notes 16)

Total liabilities and shareholders' deficiency	\$ 1,185,706	\$ 748,435
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See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“Faouzi Zerrouk” Director

“David Toyoda” Director

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

	2014	2013
Revenue	\$ 86,535	\$ 39,616
Expenses:		
Operating, general and administrative (note 13)	6,857,278	3,208,774
Research and development (note 14)	1,682,368	929,523
Collaboration costs (note 6(b)(vi))	-	2,966,674
	8,539,646	7,104,971
Loss for the year	(8,453,111)	(7,065,355)
Other comprehensive gain (loss):		
Exchange gain (loss) on translation of foreign operations	(203,048)	27,363
Comprehensive loss	\$ (8,656,159)	\$ (7,037,992)
Net loss per common share - basic and diluted	\$ (0.09)	\$ (0.09)
Weighted average number of common shares outstanding - basic and diluted	94,238,799	74,461,411

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

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

Years ended July 31, 2014 and 2013

	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	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 on private placements (note 6(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 6(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)
Share issuance on private placements (note 6(b)):						
Issuance of shares	5,966,938	3,460,824	-	-	-	3,460,824
Issuance of warrants	-	(347,197)	347,197	-	-	-
Issuance of finder's warrants	-	(69,405)	69,405	-	-	-
Issue costs	-	(274,051)	-	-	-	(274,051)
Exercise of warrants	5,321,867	3,236,118	(479,835)	-	-	2,756,283
Exercise of stock options	1,895,000	1,659,300	(595,900)	-	-	1,063,400
Comprehensive loss	-	-	-	(203,048)	(8,453,111)	(8,656,159)
Share based payment (note 6(b)(vi))	3,236,370	1,780,004	(1,780,004)	-	-	-
Stock-based compensation	-	-	1,476,422	-	-	1,476,422
As at July 31, 2014	99,018,341	\$ 53,139,204	\$ 12,861,372	\$ (71,808)	\$ (68,760,803)	\$ (2,832,035)

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

	2014	2013
Cash flows provided by (used in):		
Operating activities:		
Loss for the year	\$ (8,453,111)	\$ (7,065,355)
Adjustments for items not involving cash:		
Amortization of property and equipment	44,411	48,914
Amortization of patent costs	28,854	27,632
Foreign exchange loss (gain)	(75,011)	34,812
Loss on disposal of capital assets	-	7,247
Stock-based compensation	1,476,422	549,783
Collaboration costs (note 6(b)(vi))	-	2,966,674
	(6,978,435)	(3,430,293)
Changes in non-cash operating working items:		
Trade receivables	(12,005)	(286)
Goods and services taxes recoverable	13,236	(6,495)
Advances to employees	(99,408)	(14,815)
Prepaid expenses	26,259	6,805
Trade and other payables	610,552	253,289
Deferred revenue	-	(25,001)
Net cash flows used in operating activities	(6,439,801)	(3,216,796)
Investing activities:		
Deposits received (paid)	4,785	(9,426)
Acquisition of property and equipment	(24,806)	-
Net cash flows used in investing activities	(20,021)	(9,426)
Financing activities:		
Proceeds from shares and units issued	7,280,507	3,661,039
Share issuance costs	(274,051)	(333,245)
Repayments of obligations under finance lease liability	-	(9,030)
Net cash flows provided by financing activities	7,006,456	3,318,764
Effects of exchange rate changes on cash	(142,476)	(8,434)
Increase in cash and cash equivalents	404,158	84,108
Cash and cash equivalents, beginning of year	211,107	126,999
Cash and cash equivalents, end of year	\$ 615,265	\$ 211,107

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

1. Nature of business and going concern uncertainty:

(a) Nature of business:

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

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

The Company has one significant wholly owned subsidiaries, Zecotek Photonics Singapore Pte. Ltd. which 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, 2014, the Company had very limited operating revenue, a working capital deficiency of \$3,081,808, shareholders' deficiency of \$2,832,035, and negative operating cash flows of \$6,439,801. 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.

Management of the Company believes that it will be successful in meeting its business objectives and raising additional funds, 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

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, 2014 and 2013.

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized to be issued by the Board of Directors on November 27, 2014.

(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 that have the most significant effect on the amounts recognized in the financial statements include the application of the going concern assumption and the determination of related parties.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

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, 2014 and 2013 and the results of all its subsidiaries for the years then ended. Subsidiaries are all those entities which the Company controls, where control is defined as having the power to govern the financial and operating policies and exposure to variable returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company. Inter-entity transactions, balances and unrealized gains on consolidated group are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company's accounting policies are applied consistently throughout the organization.

(b) Cash and cash equivalents:

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

(c) Restricted investments:

Restricted investments are short-term investments pledged as security for various rental leases 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

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, 2014 and 2013, 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

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 (loss).

(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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

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 liabilities, subsequent adjustments to expected cash flows are recorded if and when they occur through adjustments to the related expense.

The Company's financial instruments are classified as follows:

- Cash and cash equivalents are classified as loans and receivable, which are 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.
- Short-term investments are classified as restricted investments and are measured at fair value.
- 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) Stock-based compensation:

The Company grants stock options to employees, directors, officers and consultants pursuant to the stock option plan described in note 6(e). The fair value method of accounting for stock-based compensation transactions is used. Management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. The fair value of stock options is generally estimated at the date of grant using the Black-Scholes Option Pricing Model. For graded vested share options, IFRS 2 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

3. Significant accounting policies (continued):

(l) Stock-based compensation (continued):

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.

(m) 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.

(n) 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.

(o) Income taxes:

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

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

Deferred 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

3. Significant accounting policies (continued):

(p) 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.

(q) 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.

(r) 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.

(s) Changes in accounting policies:

(i) Consolidated Financial Statements:

Effective August 1, 2013, The Company adopted IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The adoption of IFRS 10 did not have any impact on the consolidated financial statements.

(ii) Joint Arrangements:

Effective August 1, 2013, The Company adopted IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities-Non-Monetary Contributions by Ventures*. IFRS 11 requires that joint ventures be accounted for using the equity method of accounting and eliminates the need for proportionate consolidation.

The Company was not impacted by the adoption of IFRS 11.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

3. Significant accounting policies (continued):

(s) Changes in accounting policies (continued):

(iii) Disclosure of Interests in Other Entities:

Effective August 1, 2013, the Company adopted IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of IFRS 12 has resulted in additional disclosures within the consolidated financial statements.

(iv) Fair Value Measurements:

Effective August 1, 2013, the Company adopted IFRS 13, *Fair Value Measurements* ("IFRS 13"). IFRS 13 provides new guidance on fair value measurement and disclosure requirements. The adoption of IFRS 13 resulted in minor changes in disclosure within Note 10, but did not have a significant impact on the consolidated financial statements.

(v) Financial Instruments:

Effective August 1, 2013, the Company adopted Amendments to IFRS 7, *Financial Instruments Disclosures* ("Amendments to IFRS 7"), which amend the disclosure requirements in IFRS 7 to require information about all recognized financial instruments that are offset in accordance with IAS 32. The adoption of Amendments to IFRS 7 did not have any impact on the consolidated financial statements.

(t) New standards and interpretations not yet adopted:

The following standards and interpretations, that have been issued but are not yet effective as of July 31, 2014, have not been applied in preparing the financial statements.

(i) IFRS 9 - *Financial Instruments*:

In November 2009 the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9 (2009)"), and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)").

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, *Financial Instruments* (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

The mandatory effective date is not yet determined, however, early adoption of the new standard is still permitted. The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on August 1, 2014.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended July 31, 2014 and 2013

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

(ii) IFRIC 21 - *Levies*:

In May 2013, the IASB issued IFRIC 21, *Levies*. This IFRIC is effective for annual period commencing on or after January 1, 2014 and is to be applied retrospectively. The Company intends to adopt IFRIC 21 in its financial statements for the annual period beginning on August 1, 2014. The Company does not expect the adoption of IFRIC 21 to have a material impact on the financial statements.

(iii) IAS 32 Amendments, *Offsetting Financial Assets and Liabilities*:

In December 2011, the IASB published, *Offsetting Financial Assets and Financial Liabilities*. The effective date for the amendments to IAS 32 is annual periods beginning on or after August 1, 2014. These amendments are to be applied retrospectively.

The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning August 1, 2014. The Company does not expect the amendments to have a material impact on the financial statements.

(iv) IAS 36 Amendments - *Recoverable Amount Disclosures for Non-Financial Assets*:

In May 2013, the IASB issued, *Recoverable Amount Disclosures for Non-Financial Assets* ("Amendments to IAS 36"). The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The Company intends to adopt the amendments in its financial statements for the annual period beginning on August 1, 2014. As the amendments impact certain disclosure requirements only, the Company does not expect the amendments to have a material impact on the financial statements.

(v) Annual Improvements to IFRS (2010 - 2012) and (2011 - 2014) cycles:

In December 2013, the IASB issued narrow - scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on August 1, 2014. The extent of the impact of these amendments has not yet been determined.

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3. Significant accounting policies (continued):

(t) New standards and interpretations not yet adopted (continued):

(vi) IFRS 15 - Revenue from Contracts with Customers:

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*, which replaces IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and other interpretive guidance associated with revenue recognition. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
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
Additions	24,806	-	-	-	24,806
Effect of movements in exchange rates	10,898	3,299	32,899	5,271	52,367
July 31, 2014	\$ 231,949	\$ 51,424	\$ 432,746	\$ 69,333	\$ 785,452

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
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
Depreciation	10,241	2,029	30,132	2,009	44,411
Effect of movements in exchange rates	10,418	2,775	30,540	4,813	48,546
July 31, 2014	\$ 188,871	\$ 43,101	\$ 419,009	\$ 64,480	\$ 715,461

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4. Property and equipment (continued):

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
Carrying amount:					
July 31, 2014	\$ 43,078	\$ 8,323	\$ 13,737	\$ 4,853	\$ 69,991
July 31, 2013	28,033	9,828	41,510	6,404	85,775

5. Patent costs:

Costs:		
August 1, 2012		\$ 274,256
Effect of movements in exchange rates		559
July 31, 2013		274,815
Effect of movements in exchange rates		19,604
July 31, 2014		\$ 294,419
Accumulated depreciation:		
August 1, 2012		\$ 136,685
Depreciation		27,632
Effect of movements in exchange rates		108
July 31, 2013		164,425
Depreciation		28,854
Effect of movements in exchange rates		11,642
July 31, 2014		\$ 204,921
Carrying amount:		
July 31, 2014		\$ 89,498
July 31, 2013		110,390

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6. 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 6(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 6(d)). Legal and other costs amounted to \$5,602. All shares and warrants are to be subject to a four-month hold period.

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6. 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 6(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. 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 6 (d)). Legal and other costs amounted to \$9,424. All shares and warrants are to be subject to a four-month hold period.

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6. Share capital (continued):

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

(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 8(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, in 2013, \$1,186,670 was recorded to share capital and the remaining \$1,780,004 was recorded to contributed surplus. In 2014, the Company has issued 1,078,790 common shares on August 26, 2013; 1,078,790 common shares on October 26, 2013 and 1,078,790 common shares on December 26, 2013 to IDMC and transferred \$1,780,004 to share capital upon issuance of the underlying common shares.

(vii) 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. The estimated fair value of the common share purchase warrants granted was determined to be \$347,197 using the Black-Scholes option pricing model (note 6 (d)).

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 estimated fair value of the finders' warrants granted was determined to be \$69,405 using the Black-Scholes option pricing model (note 6(d)). Legal and other costs amounted to \$99,205.

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6. Share capital (continued):

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2012	7,523,292	\$ 0.70
Warrants granted	5,994,499	0.50
Warrants expired	(1,386,792)	(0.70)
Warrants repriced	-	(0.15)
Balance, July 31, 2013	12,130,999	0.53
Warrants granted	2,983,469	0.75
Warrants exercised	(4,914,779)	(0.52)
Balance, July 31, 2014	10,199,689	\$ 0.59

Common share purchase warrants outstanding at July 31, 2014 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.50	2,986,721	0.53
\$ 0.55	4,229,499	0.53
\$ 0.75	2,983,469	1.10
	10,199,689	0.61

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2012	956,131	\$ 0.70
Warrants granted	782,480	0.50
Warrants expired	(956,131)	0.70
Balance, July 31, 2013	782,480	0.50
Warrants granted	403,516	0.75
Warrants exercised	(407,088)	(0.50)
Balance, July 31, 2014	778,908	\$ 0.63

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6. Share capital (continued):

(d) Finder's warrants (continued):

Finder's warrants outstanding at July 31, 2014 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.50	375,392	0.51
\$ 0.75	403,516	1.10
	778,908	0.64

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:

2014:

Annualized stock volatility	48.82%
Risk-free interest rate	1.34%
Expected option/warrant life	2.0 years
Dividend payments	0.0%

2013:

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

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6. Share capital (continued):

(e) Stock options:

On December 27, 2013, 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%	3 months after grant date
25%	6 months after grant date
25%	9 months after grant date

As of July 31, 2014, the Company has reserved 18,207,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 1,017,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 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
Options granted	4,485,000	0.77
Options exercised	(1,895,000)	(0.56)
Options expired	(1,820,000)	(0.65)
Balance, July 31, 2014	15,295,000	\$ 0.64

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6. Share capital (continued):

(e) Stock options (continued):

Options outstanding at July 31, 2014 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
\$ 0.43	1,350,000	1,350,000	3.79
\$ 0.45	1,695,000	1,695,000	2.92
\$ 0.57	1,135,000	1,135,000	2.50
\$ 0.64	3,685,000	3,685,000	1.47
\$ 0.65	2,175,000	2,175,000	2.15
\$ 0.70	1,785,000	446,250	4.77
\$ 0.71	770,000	770,000	0.47
\$ 0.82	2,700,000	2,025,000	4.48
	15,295,000	13,281,250	2.86

During the year ended July 31, 2014, the Company recorded \$1,476,422 (2013 - \$549,783) of compensation expense representing the fair value of the options vesting during the year with a corresponding increase to contributed surplus.

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

2014:	
Expected volatility	57.61%
Risk-free interest rate	1.41%
Expected option life	5.0 years
Dividend payments	0.0%
2013:	
Expected volatility	62.89%
Risk-free interest rate	1.26%
Expected option life	5.0 years
Dividend payments	0.0%

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7. Capital disclosures:

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes shareholders' equity 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, 2013.

8. Commitments and contingencies:

(a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2015	\$ 120,557	\$ 62,920	\$ 183,477
2016	-	62,920	62,920
2017	-	41,000	41,000
	\$ 120,557	\$ 166,840	\$ 287,397

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.

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8. Commitments and contingencies (continued):

(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 (2013 - \$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.

(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, 2014, the Company has issued 5,393,951 common shares.

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9. 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 \$1,357,943), 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, 2013 and 2014. 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.

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, 2014, EDB had not yet completed reviewing the information provided by the Company.

10. 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 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).

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10. Financial instruments (continued):

(a) Fair value (continued):

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.

(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	2014	2013
Financial assets:		
Cash and cash equivalents	\$ 369,338	\$ 56,767
Trade receivables	-	13,709
Restricted investments	40,000	40,000
Financial liabilities:		
Trade and other payables	(3,343,921)	(3,619,945)
Gross financial position exposure	\$ (2,934,583)	\$ (3,509,469)
Canadian dollar equivalents	\$ (2,563,065)	\$ (2,832,142)

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10. Financial instruments (continued):

(b) Financial risk management:

(ii) Foreign exchange risk (continued):

The following are exchange rates applied to presentation of the consolidated financial statements for the years ended July 31, 2014 and 2013:

SGD		2014		2013
Canadian dollar:				
Average rate	\$	1.17	\$	1.23
Closing rate		1.14		1.24

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

		2014		2013
Canadian dollar	\$	256,307	\$	283,215

The Company also has subsidiary in Malaysia, but the operations have not been significant; therefore, the Company is not exposed to significant foreign exchange risk between Canadian dollar and Malaysian ringgit.

(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.

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11. 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, 2014	Asia	Europe	North America	Total
Revenue	\$ 86,535	\$ -	\$ -	\$ 86,535
Property and equipment	65,014	-	4,977	69,991
Patent costs	86,667	-	2,831	89,498

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

12. 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.

- The Company incurred \$36,362 (2013 - \$46,886) 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, 2014, \$1,008 (2013 - \$24,751) was outstanding and included in trade and other payables.
- The Company incurred fees of \$177,000 (2013 - \$134,000) during the year for consulting services provided by the chief financial officer. At July 31, 2014, \$26,750 (2013 - \$26,750) of the fees was unpaid and included in trade and other payables.
- During the year, the Company incurred salaries of \$203,570 (2013 - \$153,600) for the Executive Vice President, Operations. The advances to the Executive Vice President, Operations amounted to \$2,443 as at July 31, 2014 (2013 - \$2,947).

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12. Related party transactions (continued):

- (d) During the year, the Company incurred salaries and allowances of \$186,292 (2013 - \$564,000) for the President and Chief Executive Officer ("CEO") and fees of \$472,468 (2013 - nil) for consulting services to a company controlled by the President and CEO. At July 31, 2014, nil (2013- \$180,604) of the salaries and allowances were unpaid and included in trade and other payables. The advances to the President and CEO, amount to \$131,880 as at July 31, 2014 (2013 - \$35,199).
- (e) The Company incurred fees of of \$78,000 (2013 - \$78,000) during the year for directors' services. At July 31, 2013, \$91,000 (2013 - \$99,500) was unpaid and included in trade and other payables.
- (f) The Company incurred fees of \$117,500 (2013 - \$90,000) during the year for accounting and related services provided by the Corporate Secretary.
- (g) During the year, the Company granted options to acquire 1,300,000 shares at a price of \$0.82 and 1,200,000 shares at a price of \$0.70 to certain directors and officers until May 13, 2018.
- (h) The following table summarizes the compensation of the Company's key management:

	2014	2013
Short-term employee salary and benefits	\$ 937,895	\$ 851,600
Post-employment benefits	-	-
Termination benefits	627,474	576,800

13. General and administrative expenses:

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

	2014	2013
Professional fees	\$ 3,833,091	\$ 1,055,128
Insurance	24,800	22,432
Marketing and promotion	167,535	66,306
Office	200,986	150,432
Rent	184,674	152,225
Salaries and benefits	786,375	1,097,057
Travel	439,104	97,199
Foreign exchange loss (gain)	(75,011)	34,812
Amortization of property and equipment	39,856	44,001
Stock-based compensation	1,255,868	489,182
Total	\$ 6,857,278	\$ 3,208,774

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14. Research and development expenses:

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

	2014	2013
Consulting fees	\$ 402,775	\$ 223,211
Overhead costs	86,392	29,294
Supplies	252,435	102,591
Salaries and benefits	238,163	150,824
Patent costs	448,177	331,585
Amortization of property and equipment	5,015	3,785
Amortization of patent costs	28,854	27,632
Stock-based compensation	220,557	60,601
Total	\$ 1,682,368	\$ 929,523

15. Income taxes:

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

	2014		2013	
	Canada	Singapore	Canada	Singapore
Statutory income tax rate	(26.0%)	(17.0%)	(25.3%)	(17.0%)
Tax losses not recognized	26.0%	17.0%	25.3%	17.0%
Effective tax rate	-	-	-	-

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

	2014		2013	
	Canada	Singapore	Canada	Singapore
Operating losses	\$ 17,627,838	\$ 50,109,580	\$ 13,778,152	\$ 42,938,164
Intangible assets	28,807	219,138	27,530	201,904
Share issuance costs	506,381	-	582,508	-
Property and equipment	45,240	433,854	56,918	394,371
Total	\$ 18,208,266	\$ 50,762,572	\$ 14,445,108	\$ 43,534,439

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15. Income taxes (continued):

- (c) As at July 31, 2014, 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 2015 year as follows:

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	1,539,601
2034	3,657,466
	<hr/>
	\$ 17,627,838

Operating losses for Singapore tax purposes of approximately \$50,000,000 may be carried forward indefinitely, subject to certain restrictions.

16. Subsequent events:

- (a) On July 10, 2014 Aquarius Group, Russia's largest computer company and member of Russia's National Computer Corporation, signed a letter of intent to acquire 20 percent of Zecotek Display Systems Pte Ltd., for US\$7 million. As at July 31, 2014, the transaction had not been completed.
- (b) During the month of September 2014, 180,000 stock options were exercised at an average rate of \$0.45 per share for total cash proceeds of \$81,000.
- (c) On November 5, 2014, the Company completed the share subscription agreements for the financing announced October 23, 2014. Under the agreements, the subscribers purchased 8,057,140 units of the Company at a price of \$0.35 per unit, for gross proceeds of \$2,819,999. Each unit consists of one common share and one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.50 per share for a period of 24 months after the date of the private placement.

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16. Subsequent events (continued):

(c) Continued:

On November 19, 2014, the Company extended (the "Warrant Extension") by 18 months the term of outstanding share purchase warrants (the "Warrants") exercisable at a price of \$0.50 per common share for 472,222 common shares of the Company, which were issued pursuant to a private placement which closed on December 3, 2012. All of the Warrants were originally exercisable for two years from the date of issuance, subject to acceleration, such that if the closing price of the common shares of the Company on the TSX Venture Exchange (the "Exchange") is equal to or greater than \$1.00 for a period of 10 consecutive trading days (the "Trading Target"), the Warrants will expire on the date that is 30 days after the date the Trading Target is met.