



ZECOTEK PHOTONICS INC.

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

January 31, 2014

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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)
(Unaudited)

	January 31, 2014	July 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,477,667	\$ 211,107
Trade receivables	11,958	11,063
Goods and services taxes recoverable	45,951	33,480
Advances to employees (note 13(e))	3,326	38,146
Prepaid expenses	197,204	166,061
Total current assets	1,736,106	459,857
Non-current assets:		
Restricted investments (note 3(c))	54,820	52,280
Deposits	35,239	40,133
Property and equipment (note 4)	76,776	85,775
Patent costs (note 5)	103,888	110,390
Total non-current assets	270,723	288,578
Total assets	\$ 2,006,829	\$ 748,435

Liabilities and Shareholders' Deficiency

Current liabilities:		
Trade and other payables (notes 9(c), 10 and 13)	\$ 3,418,683	\$ 3,407,189
Shareholders' deficiency:		
Share capital (note 7)	48,700,256	43,693,611
Contributed surplus	12,780,092	13,824,087
Deficit	(62,836,402)	(60,307,692)
Accumulated other comprehensive income	(55,800)	131,240
Total shareholders' deficiency	(1,411,854)	(2,658,754)
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (note 9)		
Subsequent events (note 16)		
Total liabilities and shareholders' deficiency	\$ 2,006,829	\$ 748,435

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)

(Unaudited)

For the three months and six months ended January 31, 2014 and 2013

	Three Months		Six Months	
	2014	2013	2014	2013
Revenue	41,373	13,701	49,528	13,701
Expenses				
Operating, general and administrative	1,231,270	756,727	1,947,669	1,369,930
Research and development	394,042	101,184	630,569	321,405
	1,625,312	857,911	2,578,238	1,691,335
Net loss	(1,583,939)	(844,210)	(2,528,710)	(1,677,634)
Other comprehensive gain (loss)				
Exchange gain (loss) on translation of foreign operations	(85,436)	9,508	(187,040)	(35,873)
Net comprehensive loss	(1,669,375)	(834,702)	(2,715,750)	(1,713,507)
Net loss per common share – basic and diluted	\$(0.02)	\$(0.01)	\$(0.03)	\$(0.02)
Weighted average number of common shares outstanding - basic and diluted	91,583,138	73,378,327	89,206,846	71,403,435

ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Equity (Deficiency)
 (Expressed in Canadian Dollars)
 (Unaudited)
 Six months ended January 31, 2014 and 2013

	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	5,224,444	1,880,800	-	-	-	1,880,800
Issue costs	-	(147,527)	-	-	-	(147,527)
Issuance of warrants	-	(138,312)	138,312	-	-	-
Issuance of agents' warrants	-	(20,759)	20,759	-	-	-
Comprehensive loss	-	-	-	(35,873)	(1,677,634)	(1,713,507)
Stock-based compensation	-	-	263,738	-	-	263,738
As at January 31, 2013	73,676,032	\$ 40,453,000	\$ 11,562,458	\$ 68,004	\$ (54,919,971)	\$ (2,836,509)
	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders equity (deficiency)
As at August 1, 2013	82,598,166	\$ 43,693,611	\$ 13,824,087	\$ 131,240	\$ (60,307,692)	\$ (2,658,754)
Share issuance on private placements (note 7(b)(i)):						
Issuance of shares	5,966,938	3,460,824	-	-	-	3,460,824
Issue costs	-	(274,051)	-	-	-	(274,051)
Issuance of warrants	-	(206,878)	206,878	-	-	-
Issuance of finder's warrants	-	(38,984)	38,984	-	-	-
Exercise of warrants	815,500	415,000	-	-	-	415,000
Exercise of stock options	245,000	174,950	(54,900)	-	-	120,050
Comprehensive loss	-	-	-	(187,040)	(2,528,710)	(2,715,750)
Share based payment (note 7(b)(ii))	3,263,370	1,475,784	(1,475,784)	-	-	-
Stock-based compensation	-	-	240,827	-	-	240,827
As at January 31, 2014	92,861,974	\$ 48,700,256	\$ 12,780,092	\$ (55,800)	\$ (62,836,402)	\$ (1,411,854)

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

For the three and six months ended January 31, 2014 and 2013

	Three Months		Six months	
	2014	2013	2014	2013
Cash flows provided by (used in):				
Operating Activities:				
Net loss for the period	\$ (1,583,939)	\$ (844,210)	\$ (2,528,710)	\$ (1,677,634)
Adjustments for items not involving cash:				
Amortization of property and equipment	10,879	15,172	21,104	27,926
Amortization of patent costs	7,178	5,164	14,171	11,973
Foreign exchange (gain) / loss	(50,716)	13,430	(56,599)	(37,852)
Stock-based compensation	163,642	109,581	240,827	263,738
	(1,452,956)	(700,863)	(2,309,207)	(1,411,849)
Changes in non-cash working capital:				
Accounts receivables	7,413	(5,159)	(895)	(5,160)
Goods and services tax recoverable	(4,454)	(9,823)	(12,471)	(24,690)
Prepaid expenses	(47,341)	(8,904)	(26,249)	(19,892)
Accounts payable and accrued liabilities	106,405	(66,270)	(134,399)	76,353
Net cash flows used in operating activities	(1,390,933)	(791,019)	(2,483,221)	(1,385,238)
Investing Activity:				
Acquisition of property and equipment	(5,865)	-	(6,862)	-
Net cash flows used in investing activity	(5,865)	-	(6,862)	-
Financing Activities:				
Proceeds from shares and units issued	378,800	340,000	3,995,873	1,880,800
Share issuance costs	-	(22,402)	(274,050)	(147,526)
Share subscriptions	-	(100,000)	-	-
Repayments of obligations under capital lease	-	(2,329)	-	(4,359)
Repayments from employees	83	7,843	-	4,166
Proceeds from (repayments of) loans payable	-	260,000	34,820	(395,000)
Net cash flows from/(used in) financing activities	378,883	483,112	3,756,643	1,338,081
Increase (decrease) in cash and cash equivalents	(1,017,915)	(307,907)	1,266,560	(47,157)
Cash and cash equivalents, beginning of period	2,495,582	387,749	211,107	126,999
Cash and cash equivalents, end of period	\$ 1,477,667	\$ 79,842	\$ 1,477,667	\$ 79,842

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)
Six months ended January 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 two significant wholly owned subsidiaries as follows:

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

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

(b) Going concern uncertainty:

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes that the Company will be able to realize assets and discharge its liabilities in the normal course of business for the foreseeable future. As at January 31, 2014, the Company had very limited operating revenue, a working capital deficiency of \$1,682,577, shareholders' deficiency of \$1,411,854, and negative operating cash flows of \$2,483,221. 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)
Six months ended January 31, 2014 and 2013

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

(b) Going concern uncertainty (continued):

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

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

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Our accounting policies outlined in note 3 have been applied in preparing our consolidated financial statements as at and for the quarters ended January 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 April 1, 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 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)
Six months ended January 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 January 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, (i.e., has the power to govern the financial and operating policies) generally accompanying an equity holding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Company. Inter-entity transactions, balances and unrealized gains on consolidated group are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company's accounting policies are applied consistently throughout the organization.

(b) Cash and cash equivalents:

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

(c) Restricted investments:

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

(d) Property and equipment:

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

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

Depreciation rates and salvage values are reviewed annually.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)
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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 quarters ended January 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
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(Unaudited)
Six months ended January 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.

(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)
(Unaudited)
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3. Significant accounting policies (continued):

(j) Employee compensation costs:

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

(k) Financial instruments:

Financial assets and liabilities are measured at fair value upon their initial recognition. All financial instruments have been classified into one of the following five categories: (1) held-to-maturity; (2) loans and receivables; (3) other financial liabilities; (4) available-for-sale financial assets; and (5) fair value through profit or loss.

Subsequent measurement is based on either fair value or amortized cost, depending upon the classification. Financial assets at fair value through profit or loss are measured at fair value with changes in the fair value recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. For other financial liability, subsequent adjustments to expected cash flows are recorded if and when they occur through adjustments to the related expense.

The Company's financial instruments are classified as follows:

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

(l) Leases:

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

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
(Unaudited)
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3. Significant accounting policies (continued):

(l) Leases (continued):

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

(m) Stock-based compensation:

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

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

(n) Warrants:

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

(o) Share issue costs:

Professional, agent and regulatory fees, as well as, other costs directly attributable to specific financing transactions are reported as deferred financing costs until the transactions are completed, if successful completion is considered reasonably assured. Share issue costs are charged to capital stock when the related shares are issued. Costs relating to financing transactions that are not completed or for which completion is considered unlikely, are charged to net loss.

(p) Income taxes:

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

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

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued):

(p) Income taxes (continued):

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

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

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

(q) Loss per share:

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

(r) Revenue recognition:

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

(s) Government assistance:

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

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Notes to the Consolidated Financial Statements
(Expressed in Canadian dollars)
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3. Significant accounting policies (continued):

(t) Adoption of new accounting standards and interpretations:

- (i) IFRS 10 - Consolidated Financial Statements: IFRS 10 replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation remains largely consistent with IAS 27. The adoption of IFRS 10 did not have a material impact on the financial statements.
- (ii) IFRS 11 – Joint Arrangements: IFRS 11 replaces IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The adoption of IFRS 11 did not have a significant impact on the Company's financial statements.
- (iii) IFRS 12 - Disclosure of interests in other entities: IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company's disclosure requirements in respect of IFRS 12 will be contained in the consolidated financial statements for the year ended July 31, 2014.
- (iv) IFRS 13 - Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. This standard is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at August 1, 2013.
- (iv) IAS 1 Amendment - Presentation of Items of Other Comprehensive Income: The Company adopted the amendments to IAS 1 which required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

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3. Significant accounting policies (continued):

(u) Future changes in accounting standards:

(i) IFRS 9 - Financial Instruments:

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

(ii) Amendment to IAS 32 - Financial Instruments: Presentation:

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

(v) Comparative information:

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

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4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2012	\$ 196,170	\$ 69,245	\$ 398,994	\$ 63,911	\$ 728,320
Additions	-	-	-	-	-
Effect of movements in exchange rates	637	708	1,324	175	2,844
January 31, 2013	\$ 196,807	\$ 69,953	\$ 400,318	\$ 64,086	\$ 731,164

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2013	\$196,245	\$ 48,125	\$ 399,847	\$ 64,062	\$ 708,279
Additions	6,872	-	-	-	6,872
Effect of movements in exchange rates	10,829	2,320	31,462	5,041	49,652
January 31, 2014	\$ 213,946	\$ 50,445	\$ 431,309	\$ 69,103	\$ 764,803

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4. Property and equipment (continued):

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2012	\$ 157,831	\$ 48,600	\$ 325,630	\$ 54,781	\$ 586,842
Depreciation	5,157	1,794	17,566	1,381	25,898
Effect of movements in exchange rates	504	106	1,040	143	1,793
January 31, 2013	\$ 163,492	\$ 50,500	\$ 344,236	\$ 56,305	\$ 614,533

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2013	168,212	38,297	358,337	57,658	622,504
Depreciation	4,148	1,003	14,816	988	20,955
Effect of movements in exchange rates	9,259	1,804	28,920	4,585	44,568
January 31, 2014	\$ 181,619	\$ 41,104	\$ 402,073	\$ 63,231	\$ 688,027

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
Carrying amount:					
January 31, 2013	\$ 33,315	\$ 19,453	\$ 56,082	\$ 7,781	\$ 116,631
January 31, 2014	32,327	9,341	29,236	5,872	76,776

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5. Patent costs:

Costs:		
August 1, 2012		\$ 274,256
Effect of movements in exchange rates		647
January 31, 2013		\$ 274,903
Costs:		
August 1, 2013		\$ 274,815
Effect of movements in exchanges rates		18,746
January 31, 2014		\$ 293,561
Accumulated depreciation:		
August 1, 2012		\$ 136,685
Depreciation		13,802
Effect of movements in exchange rates		242
January 31, 2013		\$ 150,729
Accumulated depreciation:		
August 1, 2013		\$ 164,317
Depreciation		14,171
Effect of movements in exchange rates		11,185
January 31, 2014		\$ 189,673
Carrying amount:		
January 31, 2013		\$ 124,174
January 31, 2014		103,888

6. Finance lease liability:

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

	January, 31 2014	January, 31 2013
Balance	\$ -	\$ 9,030
Less: interest at a rate of 6.45% per annum	-	(530)
Less: payments	-	(3,829)
Current portion	\$ -	\$ 4,671

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7. Share capital:

(a) Authorized:

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

(b) Issued and outstanding common shares:

(i) On 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 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.

(ii) Under the agreement with IDMC, 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.

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2012	7,523,292	0.70
Warrants granted (note 7(b)(i) and (ii))	5,994,499	0.50
Warrants expired	(1,386,792)	(0.70)
Warrants repriced (note 7(b)(iii))	-	(0.15)
Balance, July 31, 2013	12,130,999	0.53
Warrants granted (note 7(b)(i) and (ii))	2,983,469	0.75
Warrants exercised	(808,500)	(0.51)
Balance, January 31, 2014	14,305,968	\$ 0.57

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7. Share capital (continued):

(c) Common share purchase warrants (continued):

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

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.50	5,330,999	1.03
\$ 0.55	5,991,500	1.02
\$ 0.75	2,983,469	1.59
	14,305,968	1.10

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2012	956,131	0.70
Warrants granted (note 7(b)(i) and (ii))	782,480	0.50
Warrants expired	(956,131)	0.70
Balance, July 31, 2013	782,480	0.50
Warrants granted (note 7(b)(i) and (ii))	403,516	0.75
Warrants exercised	(7,000)	(0.50)
Balance, January 31, 2014	1,178,996	\$ 0.59

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

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.50	775,480	1.02
\$ 0.75	403,516	1.59
	1,178,996	1.13

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7. Share capital (continued):

(d) Finder's warrants (continued):

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:

	January 31, 2014
Annualized stock volatility	44.44%
Risk-free interest rate	1.29%
Expected option/warrant life	2.0 years
Dividend payments	0.0%

(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 January 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 982,000 were available for future issuance.

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7. Share capital (continued):

(e) Stock options (continued):

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	2,700,000	0.82
Options exercised	(245,000)	(0.49)
Balance, January 31, 2014	16,980,000	\$ 0.63

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

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
\$ 0.43	1,600,000	1,221,250	4.28
\$ 0.45	2,055,000	2,055,000	3.42
\$ 0.57	1,135,000	1,135,000	3.00
\$ 0.64	3,900,000	3,900,000	1.96
\$ 0.65	2,550,000	2,550,000	0.24
\$ 0.65	45,000	45,000	0.24
\$ 0.65	2,225,000	2,225,000	2.65
\$ 0.71	770,000	770,000	0.97
\$ 0.82	2,700,000	675,000	4.97
	16,980,000	14,576,250	2.68

During the Six months ended January 31, 2014, the Company recorded \$240,827 (2013 - \$263,738) of compensation expense representing the fair value of the options vesting during the quarter with a corresponding increase to contributed surplus.

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8. Capital disclosures:

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the quarter ended January 31, 2014.

9. Commitments and contingencies:

(a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2014 (balance of year)	\$ 76,752	\$ 31,000	\$ 107,752
2015	90,581	66,546	157,127
2016	-	66,546	66,546
	\$ 167,333	\$ 164,092	\$ 331,425

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

(b) Litigation:

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

(c) Compensation waivers:

In March of 2011, the Company entered into agreements with certain of its consultants, directors and employees (the "individuals"). Under these agreements, the individuals waived

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9. Commitments and contingencies (continued):

(c) Compensation waivers (continued):

the salaries and fees owed to them totaling \$1,113,455 in favor of bonus payments of the same amounts, which are to be paid upon certain triggering events, including a sale of substantially all of the assets of the Company, or the shares of the Company, commercialization of any of the technologies of the Company, a public listing of shares of a subsidiary of the Company, or cash inflows exceeding \$3,000,000 in any three month period.

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

(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 January 31, 2014, the Company has issued 5,393,951 common shares.

10. Government grants:

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

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10. Government grants (continued):

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 \$1,353,434), referring to the Company not meeting all original conditions of the grant. The amount has been recognized as a liability, under accounts payable, as at July 31, 2012, July 31, 2013 and January 31, 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 January 31, 2014, EDB had not yet completed reviewing the information provided by the Company.

11. Financial instruments:

(a) Fair value:

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

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

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices);
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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11. Financial instruments (continued):

(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	January 31, 2014	January 31, 2013
Financial assets:		
Cash and cash equivalents	\$ 623,623	\$ 34,898
Trade receivables	13,737	19,714
Restricted investments	40,000	40,000
Financial liabilities:		
Trade and other payables	(3,418,649)	(3,466,154)
Gross financial position exposure	\$ (2,741,289)	\$ (3,371,542)
Canadian dollar equivalents	\$ (2,386,292)	\$ (2,721,846)

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11. Financial instruments (continued):

(b) Financial risk management (continued):

(ii) Foreign exchange risk (continued):

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

SGD	January 31, 2014	January 31, 2013
Canadian dollar		
Average rate	\$ 1.20	\$ 1.23
Closing rate	1.15	1.24

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

SGD	January 31, 2014	January 31, 2013
Canadian dollar	\$ (238,629)	\$ (272,185)

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

(iii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Restricted investments with fixed interest rates include guaranteed investment certificates with original maturities of greater than three months expose the Company to interest rate risk. The Company does not use financial instruments to mitigate this interest rate risk.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company currently settles its financial obligations using cash and cash equivalents. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Trade and other payables have contractual maturity of 6 months or less.

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12. Segmented information:

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

January 31, 2014	Asia	Europe	North America	Total
Revenue	\$ 49,528	\$ -	\$ -	\$ 49,528
Property and equipment	70,992	-	5,784	76,776
Patent costs	99,228	-	4,660	103,888

January 31, 2013	Asia	Europe	North America	Total
Revenue	\$ -	\$ -	\$ -	\$ -
Property and equipment	101,843	8,396	6,392	116,631
Patent costs	132,857	-	-	132,857

13. Related party transactions:

The Company undertook the following transactions with related parties. These transactions were measured at the exchange amounts which are the amounts of consideration established and agreed upon by the related parties.

- The Company incurred \$6,069 (2013 - \$5,342) 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. At January 31, 2014, \$nil (2013 - \$5,954) was outstanding and included in trade and other payables.
- The Company incurred fees of \$30,000 (2013 - \$22,500) during the quarter for accounting and related services to the Corporate Secretary.
- The Company incurred fees of \$45,000 (2013 - \$36,000) during the quarter for consulting services to the chief financial officer. At January 31, 2014, \$26,750 (2013 - \$36,960) of the fees was unpaid and included in trade and other payables.

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13. Related party transactions (continued):

- (d) During the quarter, the Company incurred salaries and allowances of \$46,300 (2013 - \$141,000) for the President and CEO and fees of \$108,186 (2013 - \$nil) for consulting services to a company controlled by the President and CEO. At January 31, 2014, \$23,362 (2013- \$144,197) of the salaries and allowances were unpaid and included in trade and other payables.
- (e) During the quarter, the Company incurred salaries of \$47,092 (2013 - \$38,400) for the Executive Vice President, Operations. The advances to the Executive Vice President, Operations amount to \$2,285 as at January 31, 2014 (2013 - \$1,453).
- (f) The Company incurred fees of of \$19,500 (2013 - \$19,500) during the quarter for directors' services. At January 31, 2014, \$84,500 (2013 - \$80,500) was unpaid and included in trade and other payables.
- (g) The following table summarizes the compensation of the Company's key management:

	January 31 2014	January 31, 2013
Short term employee salary and benefits	\$ 966,000	\$ 851,600
Termination benefits	597,500	576,800

14. General and administrative expenses:

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

	January 31 2014	January 31 2013
Professional fees	\$ 909,434	\$ 372,793
Insurance	13,318	10,511
Marketing and promotion	80,645	26,080
Office	98,142	55,101
Rent	90,103	76,020
Salaries and benefits	407,126	546,428
Travel	224,191	34,681
Foreign exchange loss	(101,219)	(6,487)
Amortization of property and equipment	19,582	25,124
Stock-based compensation	206,347	229,679
Total	\$ 1,947,669	\$ 1,369,930

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15. Research and development expenses:

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

	January 31 2014	January 31 2013
Consulting fees	\$ 197,756	\$ 78,381
Overhead costs	13,156	900
Supplies	119,321	12,971
Salaries and benefits	75,035	75,127
Patent costs	175,128	105,192
Amortization of property and equipment	1,522	2,802
Amortization of patent costs	14,171	11,973
Stock-based compensation	34,480	34,059
Total	\$ 630,569	\$ 321,405

16. Subsequent events:

During the months of February and March 2014; 4,214,546 common share purchase and agent's warrants were exercised at an average rate of \$0.52 per share for total cash proceeds of \$2,185,782 and 930,000 stock options were exercised at an average rate of \$0.64 per share for total cash proceeds of \$596,350.