ZECOTEK PHOTONICS INC.

Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

(Unaudited)

January 31, 2016

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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, 2016	July 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 285,716	$ 346,239
Restricted investments (note 3(c))	59,549	58,110
Trade receivables	10,970	73,576
Goods and services taxes recoverable	38,004	8,359
Advances to employees (note 12(b) and 12(d))	20,119	10,209
Prepaid expenses	102,358	591,640
Total current assets	516,716	1,088,133
Non-current assets:		
Deposits	32,375	38,851
Property and equipment (note 4)	89,846	96,893
Patent costs (note 5)	54,328	66,411
Total non-current assets	176,549	202,155
Total assets	$ 693,265	$ 1,290,288
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Trade and other payables (notes 8(c), 9 and 12)	$ 4,726,075	$ 3,985,493
Customer deposit	2,737,667	3,111,372
	7,463,742	7,096,865
Shareholders' deficiency:		
Share capital (note 6)	58,183,900	56,678,306
Share Subscription received	451,025	-
Contributed surplus	14,120,701	13,803,532
Deficit	(78,968,036)	(75,925,819)
Accumulated other comprehensive income (loss)	(558,067)	(362,596)
Total shareholders' deficiency	(6,770,477)	(5,806,577)
Nature of business and going concern uncertainty (note 1)		
Commitments and contingencies (note 8)		
Subsequent events (note 15)		
Total liabilities and shareholders' deficiency	$ 693,265	$ 1,290,288

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, 2016 and 2015

	Three Months		Six Months	
	2016	**2015**	**2016**	**2015**
Revenue	$ 697,365	$ 75,630	$ 846,954	$ 173,531
Cost of sales	593,911	56,751	688,429	123,812
Gross Margin	103,454	18,879	158,525	49,719
Expenses				
Operating, general and administrative (note 13)	1,483,821	1,838,622	2,351,438	3,857,521
Research and development (note 14)	492,998	415,227	849,304	745,414
	1,976,819	2,253,849	3,200,742	4,602,935
Net loss	(1,873,365)	(2,234,970)	(3,042,217)	(4,553,216)
Other comprehensive gain (loss)				
Exchange gain (loss) on translation of foreign operations	(320,223)	(180,392)	(195,471)	(178,333)
Net comprehensive loss	$ (2,193,588)	$ (2,415,362)	$ (3,237,688)	$ (4,731,549)
Net loss per common share – basic and diluted	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.04)
Weighted average number of common shares outstanding - basic and diluted	116,211,252	110,002,063	114,243,278	104,480,341

ZECOTEK PHOTONICS INC.

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

Six months ended January 31, 2016 and 2015

	Number of shares	Share capital	Share subscription received	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders equity (deficiency)
As at August 1, 2014	99,018,341	$ 53,139,204	$ -	$ 12,861,372	$ (71,808)	$ (68,760,803)	$ (2,832,035)
Share issuance on private placements (note 6(b)):							
Issuance of shares	13,060,213	4,571,075	-	-	-	-	4,571,075
Issue costs	-	(432,041)	-	-	-	-	(432,041)
Issuance of warrants	-	(666,817)	-	666,817	-	-	-
Issuance of finder's warrants	-	(60,252)	-	60,252	-	-	-
Exercise of stock options	180,000	117,000	-	(36,000)	-	-	81,000
Comprehensive loss	-	-	-	-	(178,333)	(4,553,216)	(4,731,549)
Stock-based compensation	-	-	-	249,495	-	-	249,495
As at January 31, 2015	112,258,554	$ 56,668,169	$ -	$ 13,801,936	$ (250,141)	$ (73,314,019)	$ (3,094,055)
As at August 1, 2015	112,275,304	$ 56,678,306	$ -	$ 13,803,532	$ (362,596)	$ (75,925,819)	$ (5,806,577)
Share issuance on private placements (note 6(b)):							
Issuance of shares	5,516,673	1,986,002	-	-	-	-	1,986,002
Issue costs	-	(163,239)	-	-	-	-	(163,239)
Issuance of warrants	-	(293,265)	-	293,265	-	-	-
Issuance of finder's warrants	-	(23,904)	-	23,904	-	-	-
Comprehensive loss	-	-		-	(195,471)	(3,042,217)	(3,237,688)
Share subscription received	-	-	451,025	-	-	-	451,025
As at January 31, 2016	117,791,977	$ 58,183,900	$ 451,025	$ 14,120,701	$ (558,067)	$ (78,968,036)	$ (6,770,477)

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, 2016 and 2015

	Three Months		Six months	
	2016	**2015**	**2016**	**2015**
Cash flows provided by (used in):				
Operating activities:				
Loss for the period	$ (1,873,365)	$ (2,234,970)	$ (3,042,217)	$ (4,553,216)
Adjustments for items not involving cash:				
Amortization of property and equipment	6,115	6,558	12,052	13,516
Amortization of patent costs	7,146	7,448	14,060	14,822
Foreign exchange loss (gain)	94,770	(151,205)	151,344	(101,226)
Stock-based compensation	-	49,663	-	249,495
	(1,765,334)	(2,322,506)	(2,864,761)	(4,376,609)
Changes in non-cash operating working capital:				
Trade receivables	6,327	(15,882)	62,606	(71,047)
Goods and services taxes recoverable	(29,751)	(8,647)	(29,645)	(1,999)
Advances to employees	(5,261)	(48,959)	(9,910)	(80,323)
Prepaid expenses	453,677	262,328	489,282	37,332
Trade and other payables	(50,215)	(338,201)	589,238	101,867
Customer deposit	(293,573)	3,075,033	(373,705)	3,075,033
Net cash flows used in operating activities	(1,684,130)	603,166	(2,136,895)	(1,315,746)
Investing activity:				
Deposits received (paid)	(4,875)	-	6,476	(193)
Acquisition of property and equipment	-	(1,456)	(2,054)	(4,420)
Net cash flows used in investing activity	(4,875)	(1,456)	4,422	(4,613)
Financing activities:				
Proceeds from shares and units issued	1,986,002	4,571,075	1,986,002	4,652,075
Share subscriptions received	(163,239)	(1,480,000)	(163,239)	-
Share issuance costs	381,302	(432,041)	(451,025)	(432,041)
Net cash flows provided by financing activities	2,204,065	2,659,034	2,273,788	4,220,034
Effects of exchange rate changes on cash	(331,256)	(194,151)	(201,838)	(192,922)
Increase (decrease) in cash and cash equivalents	183,804	3,066,593	(60,523)	2,706,753
Cash and cash equivalents, beginning of period	101,912	255,425	346,239	615,265
Cash and cash equivalents, end of period	$ 285,716	$ 3,322,018	$ 285,716	$ 3,322,018

See accompanying notes to consolidated financial statements.

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 Optronics Systems Pte. Ltd.(formerly Zecotek Laser Systems Pte. Ltd.). These subsidiaries all have principal activities of research and development (and eventual exploitation) of medical laser technologies.

(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, 2016, the Company had very limited operating revenue, a working capital deficiency of $6,947,026, shareholders' deficiency of $6,770,477, and negative operating cash flows of $2,136,895. 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.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting* ("IAS34") 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, 2016 and 2015.

These consolidated financial statements were reviewed by the Audit Committee and approved and authorized to be issued by the Board of Directors on March 31, 2016.

(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 assumptions used in determining the fair value of options and warrants. The fair value of stock options granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the option or warrant, expected volatility, actual and expected life of the option or warrant, expected dividends based on the dividend yield at the date of the grant, anticipated forfeiture rate, and the risk-free interest rate. The expected life of the options and warrants is based on historical experience and general option holder behavior. Consequently, the actual stock-based compensation expense may vary from the amount estimated.

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. The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

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, 2016 and 2015 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 (over the shorter of lease term or useful life)	-

Depreciation rates and salvage values are reviewed annually.

3. Significant accounting policies (continued):

(e) Patents and trademarks:

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

(f) Research and development expenditures:

Research costs are expensed in the year as incurred.

Development costs include all expenditures considered directly attributable to efforts by the Company to develop, and bring to commercial production, a new product. Such amounts are charged as an expense in the period incurred except in circumstances where the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. For the quarters ended January 31, 2016 and 2015, no costs have been capitalized.

(g) Impairment:

(*i*) Non-financial assets:

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

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

3. Significant accounting policies (continued):

(g) Impairment (continued):

(*ii*) Financial assets:

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

(h) Foreign currency translation:

(*i*) Functional and presentation currency:

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

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

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

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.

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. The Company's policy is to not value warrant modifications and as a result does not record an adjustment to the change in fair value as a result of revisions made to warrant terms.

(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.

3. Significant accounting policies (continued):

(o) Income taxes (continued):

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.

(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.

Customer deposits consist of payments received in advance of revenue recognition from shipment of products described above. Revenue is recognized as the revenue recognition criteria are met.

(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) New standards and interpretations not yet adopted:

The following standards and interpretations, that have been issued but are not yet effective as of January 31, 2016, have not been applied in preparing the financial statements.

(i) IFRS 9 - *Financial Instruments*:

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("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.

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(i) IFRS 9 - Financial Instruments (continued):

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The extent of the impact of adoption of the standard has not yet been determined.

(ii) 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.

(t) Comparative information:

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

4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2014	$ 231,949	$ 51,424	$ 432,746	$ 69,333	$ 785,452
Additions	4,420	-	-	-	4,420
Effect of movements in exchange rates	12,539	2,473	32,652	5,231	52,895
January 31, 2015	$ 248,908	$ 53,897	$ 465,398	$ 74,564	$ 842,767

(Expressed in Canadian dollars)

4. Property and equipment (continued):

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2015	$ 303,991	$ 54,400	$ 472,037	$ 75,628	$ 906,056
Additions	1,976	-	-	-	1,976
Effect of movements in exchange rates	9,614	1,351	17,837	2,858	31,660
January 31, 2016	$ 315,581	$ 55,751	$ 489,874	$ 78,486	$ 939,692

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
August 1, 2014	$ 188,871	$ 43,101	$ 419,009	$ 64,480	$ 715,461
Depreciation	5,406	820	6,579	711	13,516
Effect of movements in exchange rates	9,978	2,073	32,424	4,937	49,412
January 31, 2015	$ 204,255	$ 45,994	$ 458,012	$ 70,128	$ 778,389
August 1, 2015	$ 217,904	$ 47,300	$ 472,037	$ 71,922	$ 809,163
Depreciation	10,788	710	-	556	12,054
Effect of movements in exchange rates	6,882	1,171	17,837	2,739	28,629
January 31, 2016	$ 235,574	$ 49,181	$ 489,874	$ 75,217	$ 849,846

(Expressed in Canadian dollars)

4. Property and equipment (continued):

	Equipment	Furniture	Leasehold improvements	Vehicle	Total
Carrying amount:					
January 31, 2015	$ 44,653	$ 7,903	$ 7,386	$ 4,436	$ 64,378
January 31, 2016	80,007	6,570	-	3,269	89,846

5. Patent costs:

Costs:	
August 1, 2014	$ 294,419
Effect of movements in exchanges rates	19,455
January 31, 2015	$ 313,874
Costs:	
August 1, 2015	$ 317,829
Effect of movements in exchanges rates	10,628
January 31, 2016	$ 328,457
Accumulated depreciation:	
August 1, 2014	$ 204,921
Depreciation	14,823
Effect of movements in exchange rates	13,786
January 31, 2015	$ 233,530
Accumulated depreciation:	
August 1, 2015	$ 251,418
Depreciation	14,061
Effect of movements in exchange rates	8650
January 31, 2016	$ 274,129
Carrying amount:	
January 31, 2015	$ 80,344
January 31, 2016	54,328

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 December 15, 2015, the Company completed the share subscription agreements for the financing announced on December 9, 2015. Under the agreements, the subscribers purchased 3,084,000 units of the Company at a price of $0.36 per unit, for gross proceeds of $1,110,240. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common share until December 15, 2017. Pursuant the closing of the financing, the Company paid finder's fees consisting of cash totaling $77,716.80 and issued 215,880 finder's warrants. Each finder's warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common share until December 15, 2017. All securities issued are subject to a four-month hold period expiring on April 16, 2016.

(ii) On November 5, 2015, the Company completed the share subscription agreements for the financing announced on October 30, 2015. Under the agreements, the subscribers purchased 2,432,673 units of the Company at a price of $0.36 per unit, for gross proceeds of $875,762. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common until November 5, 2017. Pursuant the closing of the financing, the Company paid finder's fees consisting of cash totaling $53,147 and issued 147,630 finder's warrants. Each finder's warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common share until November 5, 2017. All securities issued are subject to a four-month hold period expiring on March 6, 2016.

(iii) On November 28, 2014, the Company completed the second tranche of the share subscription agreements for the financing announced October 23, 2014. Under the agreements, the subscribers purchased 5,003,073 units of the Company at a price of $0.35 per unit, for gross proceeds of $1,751,076. 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. Pursuant the closing of the second tranche of the financing, the Company paid finder's fees and agents commission of $121,473 and issued non-transferable finder's warrants to purchase 347,063 Common Shares at $0.50 per share before November 28, 2016. All shares and warrants are subject to a four-month hold period expiring on March 29, 2015.

(Expressed in Canadian dollars)

6. Share capital (continued):

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

(*iv*) On November 12, 2014, the Company completed the first tranche of 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. Pursuant the first tranche of the financing, the Company paid finder's fees and agent's commission of $197,400 and issued non-transferable finder's warrants to purchase an aggregate of 555,999 Common Shares at $0.50 per share before November 12, 2016. All shares and warrants are subject to a four-month hold period expiring on March 13, 2015.

(c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2014	10,199,689	$ 0.59
Warrants granted	13,060,213	0.75
Warrants exercised	(800,000)	(0.50)
Balance January 31, 2015	22,459,902	$ 0.54

	Number of warrants	Weighted average exercise price
Balance, July 31, 2015	18,230,403	$ 0.54
Warrants granted	5,516,673	0.53
Warrants expired	(1,714,499)	(0.50)
Balance, January 31, 2016	22,032,577	$ 0.51

(Expressed in Canadian dollars)

6. Share capital (continued):

(c) Common share purchase warrants (continued):

Common share purchase warrants outstanding at January 31, 2016 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.50	13,532,435	0.78
$ 0.53	5,516,673	1.83
$ 0.55	2,983,469	0.09
	22,032,577	0.95

(i) On August 31, 2015, the Company amended the terms of 2,983,469 warrants issued to subscribers of a private placement which closed on September 5, 2013. The Company re-priced the exercise price of the subscriber warrants to $0.55 per common share from the initial exercise price of $0.75, and extended the expiry date to March 5, 2016. The exercise period automatically accelerates to 30 days if the closing price for the common shares of the Company is $0.69 or greater for a period of 10 consecutive trading days.

(ii) 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.

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2014	778,908	$ 0.63
Warrants granted	911,061	0.50
Warrants exercised	(158,666)	(0.50)
Balance, January 31, 2015	1,531,303	$ 0.57
Balance, July 31, 2015	1,289,828	$ 0.65
Warrants granted	363,510	0.53
Warrants expired	(403,516)	(0.75)
Balance, January 31, 2016	1,249,822	$ 0.51

(Expressed in Canadian dollars)

6. Share capital (continued):

(d) Finder's warrants (continued):

Finder's warrants outstanding at January 31, 2016 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
$ 0.50	886,312	0.80
$ 0.53	363,510	1.83
	1,249,822	1.10

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:

	2016	2015
Annualized stock volatility	59.97%	57.50%
Risk-free interest rate	0.56%	1.02%
Expected option/warrant life	2.0 years	2.0 years
Dividend payments	0.0%	0.0%

(e) Stock options:

On December 30, 2015, 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

(Expressed in Canadian dollars)

6. Share capital (continued):

(e) Stock options (continued):

As of January 31, 2016, the Company has reserved 21,451,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 7,106,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31, 2014	15,295,000	$ 0.64
Options expired	(770,000)	(0.71)
Options exercised	(180,000)	(0.45
Balance, January 31, 2015	14,345,000	$ 0.60

	Number of options	Weighted average exercise price
Balance, July 31, 2015	14,345,000	$ 0.60
Options expired	(3,685,000)	(0.64)
Balance, January 31, 2016	10,660,000	$ 0.64

Options outstanding at January 31, 2016 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	2.28
$ 0.45	1,515,000	1,515,000	1.42
$ 0.57	1,135,000	1,135,000	1.00
$ 0.65	2,175,000	2,175,000	0.65
$ 0.70	1,785,000	1,785,000	3.27
$ 0.82	2,700,000	2,700,000	2.97
	10,660,000	10,660,000	2.03

(Expressed in Canadian dollars)

6. Share capital (continued):

(e) Stock options (continued):

During the Six months ended January 31, 2016, the Company recorded $nil (2015 - $249,495) of compensation expense representing the fair value of the options vesting during the quarter with a corresponding increase to contributed surplus.

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, 2015.

8. Commitments and contingencies:

(a) Commitments:

Years ending July 31	Rental leases	Research contracts	Total
2016 (balance of year)	$ 53,518	$ 69,012	$ 122,530
2017	86,859	41,000	127,859
2018	-	41,000	41,000
	$ 140,377	$ 151,012	$ 291,389

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 had 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 alleged that Saint-Gobain's LYSO crystals infringe Zecotek's patent, and that Philips infringes by using those crystals in the PET scanners it sells.

8. Commitments and contingencies (continued):

(b) Litigation (continued):

On December 22, 2014 Zecotek Imaging Systems Pte. Ltd. reached a settlement with both Philips and Saint Gobain. While terms of the settlement remain confidential, Zecotek and Philips have identified areas of cooperation in the field of medical imaging and look forward to establishing a meaningful business relationship.

(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

the salaries and fees owed to them totaling $976,777 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.

No payments were required under clause (ii) and (iii) based on the settlement reached for the litigation involving U.S. patent number 7.132.060 as disclosed in note 8(b).

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 $1,537,209), 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, 2015 and January 31, 2016. 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, 2016, 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 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);

(Expressed in Canadian dollars)

10. Financial instruments:

(a) Fair value (continued):

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

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

(b) Financial risk management:

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

(*i*) Credit risk:

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

(*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, 2016	January 31, 2015
Financial assets:		
Cash and cash equivalents	$ 100,944	$ 30,157
Trade receivables	-	-
Restricted investments	40,000	40,000
Financial liabilities:		
Trade and other payables	(3,737,629)	(3,249,203)
Gross financial position exposure	$ (3,596,685)	$ (3,179,046)
Canadian dollar equivalents	$ (3,556,043)	$ (2,986,078)

(Expressed in Canadian dollars)

10. Financial instruments (continued):

(b) Financial risk management (continued):

The following are exchange rates applied to presentation of the consolidated financial statements for the periods ended January 31, 2016 and 2015:

SGD	January 31, 2016	January 31, 2015
Canadian dollar		
Average rate	$ 1.05	$ 1.06
Closing rate	1.01	1.14

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, 2016	January 31, 2015
Canadian dollar	$ (355,605)	$ (298,608)

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

(*iii*) Interest rate risk:

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

(*iv*) Liquidity risk:

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

(Expressed in Canadian dollars)

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:

January 31, 2016	Asia	Europe	America	Total
Revenue	$ 795,754	$ 3,420	$47,780	$ 846,954
Property and equipment	83,790	-	6,056	89,846
Patent costs	54,328	-	-	54,328

January 31, 2015	Asia	Europe	America	Total
Revenue	$ 164,602	$ 2,883	$ 6,046	$ 173,531
Property and equipment	60,076	-	4,302	64,378
Patent costs	79,342	-	1,002	80,344

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.

(a) The Company incurred $28,211 (2015 - $69,595) in legal fees to Boughton Law Corporation, legal counsel to the Company, for legal services rendered during the quarter. A director of the Company is an Associate Counsel of Boughton Law Corporation.

(b) During the quarter, the Company incurred salaries of $53,740 (2015 - $49,134) for the Executive Vice President, Operations. The advances to the Executive Vice President, Operations amount to $2,536 as at January 31, 2016 (2015 - $2,651).

(c) The Company incurred fees of $49,016 (2015 - $45,000) during the quarter for consulting services to the chief financial officer. At January 31, 2016, $17,156 (2015 - $41,750) of the fees was unpaid and included in trade and other payables.

(d) During the quarter, the Company incurred salaries and benefits of $80,231 (2015 - $48,035) for the President and CEO and fees of $123,287 (2015 - $112,532) for consulting services to a company controlled by the President and CEO. At January 31, 2016, $nil (2015 - 31,842) of the salaries and benefits and $79,526 (2015 – $111,881) of the fees were unpaid and included in trade and other payables. The advances to the President and CEO, amount to $10,730 as at January 31, 2016 (2015 - $172,629).

(Expressed in Canadian dollars)

12. Related party transactions:

(e) The Company incurred fees of $19,500 (2015 - $19,500) during the quarter for directors' services. At January 31, 2016, $130,500 (2015 - $91,000) was unpaid and included in trade and other payables.

(f) The Company incurred fees of $30,000 (2015 - $30,000) during the quarter for accounting and related services provided by the Corporate Secretary.

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

	January 31 2016	January 31, 2015
Short term employee salary and benefits	$ 1,227,899	$ 939,427
Termination benefits	660,774	627,857
Share based payments to officers and directors	-	155,067

13. General and administrative expenses:

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

	January 31 2016	January 31 2015
Professional fees	$ 1,250,477	$ 2,831,670
Insurance	11,132	11,746
Marketing and promotion	70,201	39,388
Office	60,679	91,998
Rent	115,066	96,177
Salaries and benefits	546,347	480,223
Travel	139,355	179,647
Foreign exchange loss	151,344	(101,226)
Amortization of property and equipment	6,837	10,624
Stock-based compensation	-	217,274
Total	$ 2,351,438	$ 3,857,521

(Expressed in Canadian dollars)

14. Research and development expenses:

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

	January 31 2016	January 31 2015
Consulting fees	$ 312,686	$ 313,545
Overhead costs	6,312	17,876
Supplies	256,831	50,726
Salaries and benefits	93,170	73,455
Patent costs	161,030	227,322
Travel	-	12,556
Amortization of property and equipment	5,215	2,892
Amortization of patent costs	14,060	14,822
Stock-based compensation	-	32,220
Total	$ 849,304	$ 745,414

15. Subsequent events:

(a) On February 2, 2016, the Company completed the share subscription agreements for the financing announced on October 30, 2015. Under the agreements, the subscribers purchased 1,301,889 units of the Company at a price of $0.36 per unit, for gross proceeds of $468,680. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common until February 4, 2018. Pursuant the closing of the financing, the Company paid finder's fees consisting of cash totaling $17,180 and issued 47,724 finder's warrants. Each finder's warrant entitles the holder to acquire one common share at an exercise price of $0.53 per common share until February 4, 2018. All securities issued are subject to a four-month hold period expiring on June 5, 2016.

(b) 2,983,469 shareholder's warrants expired on March 5, 2016.