

ZECOTEK

ZECOTEK PHOTONICS INC.

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

January 31, 2019

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Interim Consolidated Financial Statements

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(Unaudited)

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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, 2019	July 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,947,967	\$ 2,422,542
Trade receivables	-	256
Restricted investments (note 3(c))	20,000	20,000
Taxes recoverable	59,211	41,422
Advances to employees (notes 12(a))	62,727	40,343
Inventory	55,919	2,920
Prepaid expenses	1,326,098	26,752
Total current assets	4,471,922	2,554,235
Non-current assets:		
Deposits	14,502	14,190
Property and equipment (note 4)	80,799	6,186
Long-term prepayments	1,637,094	1,679,141
Total non-current assets	1,732,395	1,699,517
Total assets	\$ 6,204,317	\$ 4,253,752

Liabilities and Shareholders' Deficiency

Current liabilities:		
Trade and other payables (notes 8(c), 9 and 12)	\$ 2,119,729	\$ 1,972,306
Customer deposits	1,825,023	1,809,762
Investment received (note 5(c))	4,000,612	-
Total liabilities	7,945,364	3,782,068
Shareholders' deficiency:		
Share capital (note 6)	69,227,855	69,227,855
Contributed surplus	17,371,891	17,251,223
Non-controlling interest	3,897,014	3,792,493
Deficit	(92,048,568)	(89,535,426)
Accumulated other comprehensive income (loss)	(189,239)	(264,461)
Total shareholders' deficiency	(1,741,047)	471,684

Nature of business and going concern uncertainty (note 1)
Commitments (note 8)

Total liabilities and shareholders' deficiency	\$ 6,204,317	\$ 4,253,752
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See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Faouzi Zerrouk"

Director

"Erich Sager"

Director

ZECOTEK PHOTONICS INC.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)

For the three months and six months ended January 31, 2019 and 2018

	Three Months		Six Months	
	2019	2018	2019	2018
Revenue	\$ 231	\$ 8,257	\$ 231	\$ 197,572
Cost of sales	7,528	8,739	7,528	238,832
Gross margin	(7,297)	(482)	(7,297)	(41,260)
Expenses				
Operating, general and administrative (note 13)	1,076,101	1,726,574	2,253,122	2,612,683
Research and development (note 14)	180,116	144,059	277,709	242,899
	1,256,217	1,870,633	2,530,831	2,855,582
Other income	-	1,137,465	-	1,677,502
Net loss	(1,263,514)	(733,650)	(2,538,128)	(1,219,340)
Other comprehensive income (loss)				
Exchange gain (loss) on translation of foreign operations	(23,244)	41,492	75,222	(111,666)
Net comprehensive loss	\$ (1,286,758)	\$ (692,158)	\$ (2,462,906)	\$ (1,331,006)
Net loss per common share – basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	164,932,675	142,996,781	164,932,675	142,996,781

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Consolidated Statements of Changes in Deficiency
(Expressed in Canadian Dollars)
(Unaudited)
Three months ended January 31, 2019 and 2018

	Number of Shares	Share Capital	Share Subscription Received	Contributed Surplus	Non-controlling interest	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders equity
As at August 1, 2017	138,841,798	\$ 62,974,717	\$ 215,971	\$ 15,251,233	\$ -	\$ (60,693)	\$ (84,588,934)	\$ (6,207,706)
Share issuance on private placements								
Issuance of shares	20,291,350	6,087,405	(215,971)	-	-	-	-	5,871,434
Issuance of warrants	-	(921,584)	-	921,584	-	-	-	-
Issuance of finder's warrants	-	(23,310)	-	23,310	-	-	-	-
Issue costs	-	(203,557)	-	-	-	-	-	(203,557)
Net loss	-	-	-	-	-	(111,666)	(1,219,340)	(1,331,006)
As at January 31, 2018	159,133,148	\$ 67,913,671	\$ -	\$ 16,196,127	\$ -	\$ (172,359)	\$ (85,808,274)	\$ (1,870,835)
As at August 1, 2018	164,932,675	\$ 69,227,855	\$ -	\$ 17,251,223	\$ 3,792,493	\$ (264,461)	\$ (89,535,426)	\$ 471,684
Net loss	-	-	-	-	(24,986)	-	(2,513,142)	(2,538,128)
Non-controlling interest	-	-	-	-	130,789	-	-	130,789
Cumulative translation adjustment	-	-	-	-	(1,282)	75,222	-	73,940
Stock based compensation	-	-	-	120,668	-	-	-	120,668
As at January 31, 2019	164,932,675	\$ 69,227,855	\$ -	\$ 17,371,891	\$ 3,897,014	\$ (189,239)	\$ (92,048,568)	\$ (1,741,047)

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, 2019 and 2018

	Three Months 2019	2018	Six months 2019	2018
Cash flows provided by (used in):				
Operating activities:				
Loss for the period	\$ (1,263,514)	\$ (733,650)	\$ (2,538,128)	\$ (1,219,340)
Adjustments for items not involving cash:				
Amortization of property and equipment	8,386	3,458	9,759	8,209
Amortization of patent costs	-	3,144	-	9,944
Stock based compensation	-	-	120,668	-
Foreign exchange loss (gain)	-	(61,265)	-	(79,521)
Debt forgiveness	-	(1,137,465)	-	(1,677,502)
	(1,255,128)	(1,925,778)	(2,407,701)	(2,958,210)
Changes in non-cash operating working capital:				
Trade receivables	-	(5,824)	(97)	(5,824)
Taxes recoverable	11,201	(11,095)	(17,789)	(27,222)
Advances to employees	(15,684)	(4,689)	(22,384)	(2,173)
Inventory	(36,862)	6,120	(53,030)	6,120
Prepaid expenses	(662,682)	4,199	(1,299,346)	47,674
Trade and other payables	77,365	334,190	147,423	85,871
Customer deposit	5,497	(76,766)	15,261	(213,297)
Net cash flows used in operating activities	(1,876,293)	(1,679,643)	(3,637,663)	(3,067,061)
Investing activities:				
Deposits received (paid)	-	577	-	577
Disposal (addition) of property and equipment	(11,351)	(1,985)	(84,372)	(1,985)
Long term prepayments	20,057	-	42,047	-
Loan payable	-	11,690	-	(20,041)
Net cash flows used in investing activities	8,706	10,282	(42,325)	(21,449)
Financing activities:				
Proceeds from shares and units issued	-	4,830,898	-	5,871,434
Investment received	2,056,880	-	4,000,612	-
Share issuance costs	-	(141,869)	-	(203,557)
Net cash flows provided by financing activities	2,056,880	4,689,029	4,000,612	5,667,877
Effects of exchange rate changes on cash	56,704	(199,549)	204,801	(335,716)
Increase (decrease) in cash and cash equivalents	245,997	2,820,119	525,425	2,243,651
Cash and cash equivalents, beginning of period	2,701,970	285,902	2,422,542	862,370
Cash and cash equivalents, end of period	\$ 2,947,967	\$ 3,106,021	\$ 2,947,967	\$ 3,106,021

See accompanying notes to consolidated financial statements.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

Three months ended January 31, 2019 and 2018

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 subsidiary, Zecotek Photonics Singapore Pte. Ltd. ("ZPS") which holds 100% ownership interests in Zecotek Display Systems Pte. Ltd. ("ZDS"), Zecotek Imaging Systems Pte. Ltd. ("ZIS") and a 100% ownership interest in Zecotek Optronics Systems Pte. Ltd. ("ZOS"), (formerly Zecotek Laser Systems Pte. Ltd.). ZIS holds 100% ownership interest in Zecotek Shanghai Ltd. ("ZSL") and a 93.33% joint venture interest in Zecotek Imaging China Limited ("ZICL"). These subsidiaries all have principal activities of research and development (and eventual exploitation) of imaging and medical laser technologies.

(b) Going concern uncertainty:

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, 2019, the Company had limited operating revenue, a working capital deficiency of \$3,473,442 shareholders' deficiency of \$1,741,047, and negative operating cash flows of \$3,637,663. The Company's current revenue is not sufficient to sustain operations. These factors, among others, create significant doubt as to the ability of the Company to continue as a going concern.

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.

Management believes the Company will be successful at securing additional equity financing, and if it reaches profitable operations, would continue as a going concern for the foreseeable future. The Company expects to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

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

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

Three months ended January 31, 2019 and 2018

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS” 34), Interim Financial Reporting (“IAS 34”) 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 periods ended January 31, 2019 and 2018.

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, 2019.

(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 and warrants 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.

The determination of income tax expense and the composition of deferred tax assets and liabilities involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities, and interpretations of tax laws. The Company is subject to assessments by tax authorities who may interpret the tax law differently.

Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the application of the going concern assumption. The assessment of

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

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2. Basis of presentation (continued):

(c) Significant judgments and estimates (continued):

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.

Changes in these interpretation, judgements and estimates may materially affect the final amount of current and deferred tax provisions, deferred income tax assets and liabilities, and results of operations.

The Company is subject to assessments by Singapore local taxation authority and by China local taxation authority in which its subsidiaries operate, and the taxation authority may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

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, 2019 and 2018 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 that have maturities of less than 12 months and pledged as security for various rental leases or otherwise subject to restricted liquidity and are recorded at fair market value.

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Notes to the Consolidated Financial Statements

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Three months ended January 31, 2019 and 2018

3. Significant accounting policies (continued):

(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.

(e) Patents:

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 periods ended January 31, 2019 and 2018, no costs have been capitalized.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

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3. Significant accounting policies (continued):

(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.

(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 (CAD), which is the functional and presentation currency of Zecotek Photonics Inc. ZPS, ZDS, and ZOS have functional currency of Singapore Dollar (SGD); ZIS has functional currency of US Dollar (USD); ZSL and ZICL have Chinese Yuan (RMB).

(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 statement of financial position and average exchange rate over the reporting period for the income

ZECOTEK PHOTONICS INC.

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(Expressed in Canadian dollars)
(Unaudited)
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3. Significant accounting policies (continued):

(h) Foreign currency translation (continued):

(i) Translation of accounts of foreign subsidiaries (continued):

statement. Foreign currency translation differences are recognized in other comprehensive income (loss).

(ii) Transactions in foreign currency:

Transactions conducted in currency other than an entity's functional currency ("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) 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 it has 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.

(j) 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 in comprehensive income 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, trade receivables, advances to employees, restricted investments and refundable deposits are classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Trade and other payables and short-term loans are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

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3. Significant accounting policies (continued):

(k) 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.

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.

(l) Share capital:

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares, including warrants, are recognized as a reduction of equity, net of tax. For compound financial instruments, the relative fair value method is used to separate the components where the Corporation issues common shares and warrants as part of its equity financing activities. The Corporation has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placements units. The relative fair value method allocates value to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another. The Corporation considers the market value of the common shares issued as fair value and measures the fair value of the warrant component of the unit using the Black-Scholes option pricing model. The unit value is then allocated, pro-rata, between the two components, with the fair value attributed to the warrants being recorded as contributed surplus.

(m) 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.

(n) 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.

ZECOTEK PHOTONICS INC.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

(Unaudited)

Three months ended January 31, 2019 and 2018

3. Significant accounting policies (continued):

(n) Income taxes (continued):

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 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 tax liabilities are generally recognized for all taxable temporary differences. Deferred 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 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 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.

(o) 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. In a loss period, stock options and warrants are anti-dilutive.

(p) Revenue recognition:

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

Customer deposits consist of amounts received in advance from customers who have not had their products shipped. Revenue is recognized as the revenue recognition criteria are met.

(q) 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,

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3. Significant accounting policies (continued):

(q) Government assistance (continued):

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.

(r) 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, 2019, have not been applied in preparing the consolidated 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. 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 Company intends to adopt IFRS 9 for the annual period beginning August 1, 2018. Management assessed its financial instrument and does not expect to see any significant impact to its consolidated financial statements from the adoption of this standard.

(ii) IFRS 15 - *Revenue from Contracts with Customers*:

In May 2015, 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, 2018 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. Management assessed its revenue stream and does not

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3. Significant accounting policies (continued):

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

(ii) IFRS 15 - Revenue from Contracts with Customers (continued):

expect to see any significant impact to its consolidated financial statements from the adoption of this standard.

(iii) IFRS 16 - Leases:

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring leases recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has an insignificant value. IFRS 16 was issued January 2017 and will be applicable to the Company's annual financial statements for the year beginning August 1, 2019. The Company is evaluating the impact of this new standard.

4. Property and equipment:

	Equipment	Furniture	Leasehold improvements	Total
August 1, 2017	300,770	53,188	456,033	809,991
Foreign Exchange Impact	7,125	672	8,869	16,666
January 31, 2018	\$ 307,895	\$ 53,860	\$ 464,902	\$ 826,657
August 1, 2018	53,455	18,648	-	72,103
Additions	77,574	-	-	77,574
Foreign Exchange Impact	4,569	-	-	4,569
January 31, 2019	\$ 135,598	\$ 18,648	\$ -	\$ 154,246

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4. Property and equipment (continued):

Accumulated depreciation:

	Equipment	Furniture	Leasehold improvements	Total
August 1, 2017	251,607	48,759	456,033	756,399
Depreciation	6,577	447	-	7,024
Foreign Exchange Impact	3,980	612	8,869	13,461
January 31, 2018	\$ 262,164	\$ 49,818	\$ 464,902	\$ 776,884
August 1, 2018	48,190	17,727	-	65,917
Depreciation	7,459	346	-	7,805
Foreign Exchange Impact	-	-	-	(275)
January 31, 2019	\$ 55,374	\$ 18,073	\$ -	\$ 73,447
Carrying amount:				
January 31, 2019	\$ 80,244	\$ 575	\$ -	\$ 80,799
January 31, 2018	\$ 6,061	\$ 576	\$ -	\$ 6,913

5. Subsequent events:

- On March 17, 2019; 1,255,000 shareholders warrants expired.
- On March 17, 2019; 46,900 finder warrants expired.
- ZIS offered a 2% equity interest in ZIS in exchange for USD 1.5 million. The funds have been received but due to a declining share price, the Chinese investment group requested to renegotiate the investment and the parties agreed to make it a loan convertible to shares when the restructuring transaction is finalized. An additional USD 1.5 million was invested by the same investor during the quarter for an increase in equity interest. The terms have not been finalized to date.
- Subsequent to the quarter end, Zecotek Holdings Singapore Pte. Ltd., of which Dr. Zerrouk is a majority shareholder is in the process of converting its preferred shares in ZDS, ZIS and ZOS to 10% of the issued common shares of each subsidiary, pursuant to a Share Purchase Agreement in 2006.

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5. Subsequent events (continued):

- (e) Subsequent the quarter end, the Company expects to receive approval from Hamamatsu for the delivery of LFS scintillation boules produced by the LFS Scintillation Crystal Facility in Shanghai, representing thousands of LFS scintillation crystals. The deliveries cannot be book as revenue until they are examined and qualified by Hamamatsu.

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 April 12, 2018, the Company completed debt settlement agreements. Under the agreements, 5,799,527 common shares of the Company were issued at a price of \$0.32 per share, towards settlement of accounts payable of \$2,974,620 (Note 10). All the shares are subject to a four-month hold period expiring on August 12, 2018.

(ii) On January 29, 2018, the Company completed the share subscription agreements for the financing announced on December 29, 2017. Under the agreements, the subscribers purchased 16,103,000 units of the Company at a price of \$0.30 per unit, for gross proceeds of \$4,830,900. 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 \$0.43 per share for a period of 24 months after the date of the private placement. Pursuant to the closing of the financing, the Company paid finder's fees and agents commission of \$167,998 and issued non-transferable finder's warrants to purchase 329,993 Common Shares at \$0.43 per share before January 29, 2020. All shares and warrants are subject to a four-month hold period expiring on May 30, 2018.

- (c) Common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2017	39,626,707	0.47
Warrants granted	20,291,349	0.43
Balance, January 31, 2018	59,918,056	\$ 0.46
Balance, July 31, 2018	53,366,838	0.46
Warrants expired	(20,442,148)	0.47
Balance, January 31, 2019	32,924,690	\$ 0.45

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6. Share capital (continued):

(c) Common share purchase warrants (continued):

Common share purchase warrants outstanding at January 31, 2019 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.53	5,516,673	0.82
\$ 0.43	27,408,016	0.76
	32,924,689	0.77

(d) Finder's warrants:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2017	1,903,267	\$ 0.39
Warrants granted	480,328	0.43
Warrants expired	(363,510)	(0.53)
Balance, January 31, 2018	2,020,085	\$ 0.38
Balance, July 31, 2018	1,431,681	\$ 0.39
Warrants expired	(640,636)	0.33
Balance, January 31, 2019	791,045	\$ 0.43

Finder's warrants outstanding at January 31, 2019 are summarized as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)
\$ 0.43	677,878	0.72
\$ 0.30	113,167	0.24
	791,045	0.65

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6. 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:

	2019	2018
Annualized stock volatility	49.05% - 51.96%	59.10%
Risk-free interest rate	1.21% - 1.82%	0.84%
Expected option/warrant life	2.0 years	2.0 years
Dividend payments	0.0%	0.0%

(e) Stock options:

On December 30, 2018, 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:

50%	on grant date
25%	3 months after grant date
25%	6 months after grant date

As of January 31, 2019, the Company has reserved 28,606,000 common shares for issuance of stock options to employees, directors, officers and consultants of the Company of which 8,921,000 were available for future issuance.

Stock option transactions and numbers outstanding are summarized below:

	Number of options	Weighted average exercise price
Balance, July 31 and January 31, 2018	5,835,000	\$ 0.69
Balance, July 31, and January 31, 2019	19,685,000	\$ 0.45

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6. Share capital (continued):

(e) Stock options (continued):

Options outstanding at January 31, 2019 are summarized as follows:

Exercise price	Number of options	Number of options exercisable	Weighted average remaining life (years)
\$ 0.36	15,200,000	15,200,000	3.93
\$ 0.70	1,785,000	1,785,000	0.45
	16,985,000	16,985,000	3.55

15,200,000 stock options were granted during the year ended July 31, 2018 (2017 - nil) at exercise price of \$0.36 per share with an expiry date of January 5, 2023. Each option has vesting schedule as 50% exercisable immediately, 25% on or after July 5, 2018 and 25% on or after October 5, 2018.

The fair values of the stock options are measured using the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on the range of historical volatility), expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government bonds).

	2018
Expected volatility	45.92% - 59.59%
Risk-free interest rate	2.03% - 2.22%
Expected option life	4.43 – 4.70 years
Dividend payments	0.0%

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 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.

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7. Capital disclosures (continued):

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 period ended January 31, 2019.

8. Commitments:

Commitments:

July 31,	Rental leases
2019	129,240
2020	248,138
2021	138,408
	\$ 515,786

Rental leases relate to the Company and its subsidiaries commitments under operating leases for rental of properties.

9. Financial instruments:

(a) Fair value:

The Company's financial instruments consist of cash and cash equivalents, trade receivables, advances to employees, restricted investments, trade and other payables and short-term loan. The fair values of all the financial instruments approximate carrying value because of the short-term nature of these instruments.

(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 currency risk:

The Company is exposed to foreign exchange rate when the Company undertakes transactions and hold assets and liabilities in currencies other than its functional currencies. The Company currently does not use derivative instruments to hedge its exposure to those risks. As at January 31, 2019, a 10% strengthening (weakening) of the

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9. Financial instruments (continued):

(b) Financial risk management (continued):

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

US dollars would have decreased (increased) deficiency and comprehensive loss by approximately \$106,571.

(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.

10. Joint venture:

During the year ended July 31, 2018; ZIS established a joint venture company, ZICL, in Shanghai, China with an arm's length party, Jilin Yuyang Technology Development Co., Ltd ("Jilin Yuyang"). As at October 31, 2018, ZICL has received capital injection of RMB 20,000,000 (CAD 3,818,000) from Jilin Yuyang. In return, Jilin Yuyang owns 6.67% interest in ZICL. In addition, ZICL signed a service agreement with Jilin Yuyang, Jilin Yuyang's capital contribution in ZICL and its 6.67% share of the net loss in ZICL are recorded in non-controlling interest.

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11. Segmented information:

The Company has principal operations in Canada and China (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, 2019	Asia	Europe	America	Total
Revenue	\$ 231	\$ -	\$ -	\$ 231
Property and equipment	74,160	-	6,639	80,799

January 31, 2018	Asia	Europe	America	Total
Revenue	\$ 189,315	\$ -	\$ -	\$ 189,315
Property and equipment	46,619	-	4,661	51,281
Patent costs	3,109	-	-	3,109

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) During the quarter, the Company incurred salaries and benefits of \$250,054 (2018 - \$16,958) for the President and Chief Executive Officer ("CEO") and fees of \$nil (2018 - \$118,703) for consulting services to a company which outsources the CEO to the Company. At January 31, 2019, \$106,151 (2018- \$76,057) of the salaries and benefits; and \$117,758 (2018 - \$190,748) of the fees were unpaid and included in trade and other payables.
- (b) The Company incurred fees of of \$7,590 (2018 - \$17,500) during the quarter for directors' services. At January 31, 2019, \$nil (2018 - \$219,670) was unpaid and included in trade and other payables.
- (c) The Company incurred fees of \$39,000 (2018 - \$39,000) during the quarter for accounting and related services provided by the Corporate Secretary. At January 31, 2019, \$nil (2018 - \$13,000) was unpaid and included in trade and other payables.

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12. Related party transactions (continued):

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

	January 31, 2019	January 31, 2018
Short-term employee salary and benefits	\$ 992,460	\$ 1,111,070
Termination benefits	727,460	727,570

13. General and administrative expenses:

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

	January 31, 2019	January 31, 2018
Professional fees	\$ 994,030	\$ 2,134,925
Insurance	11,365	19,023
Marketing and promotion	1,527	38,272
Office and miscellaneous	92,006	49,162
Rent	99,794	72,300
Salaries and benefits	699,854	221,227
Travel	148,780	152,349
Foreign exchange loss (gain)	86,079	(79,521)
Depreciation of property and equipment	7,355	4,946
Stock based compensation	112,332	-
Total	\$ 2,253,122	\$ 2,612,683

14. Research and development expenses:

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

	January 31 2019	January 31 2018
Consulting fees	\$ 136,132	\$ 47,750
Overhead costs	-	11,138
Supplies	-	23,133
Salaries and benefits	-	54,046
Patent costs	130,837	93,625
Depreciation of property and equipment	2,404	3,263
Amortization of patent	-	9,944
Stock based compensation	8,336	-
Total	\$ 277,709	\$ 242,899