



POET
TECHNOLOGIES INC.

Unaudited Consolidated
Financial Statements
9-months ended September 30, 2013

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NOTICE TO SHAREHOLDERS
FOR THE NINE MONTHS ENDED September 30, 2013
(Unaudited and Expressed in US Dollars)

POET Technologies Inc.
(Formerly OPEL Technologies Inc.)

Auditors' involvement

The auditors of POET Technologies Inc. have not performed a review of the condensed unaudited interim consolidated financial statements for the three and nine months ended September 30, 2013 and September 30, 2012.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)


CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

	(Unaudited) September 30, 2013	(Audited) December 31, 2012
Assets		
Current		
Cash	\$ 4,439,906	\$ 1,435,762
Accounts and other receivable	277,511	96,749
Prepays and other current assets	-	158,257
Marketable securities (Note 4)	410	426
Assets available for sale (Note 18)	-	606,413
	4,717,827	2,297,607
Property and equipment (Note 5)	409,739	26,670
Construction in progress (Note 5)	481,010	-
Patents and licenses (Note 6)	39,838	42,983
	\$ 5,648,414	\$ 2,367,260
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 7)	\$ 249,814	\$ 231,903
Product warranty	100,000	25,899
Disposal group liabilities (Note 18)	-	606,413
	349,814	864,215
Shareholders' Equity		
Share capital (Note 8(b))	42,904,177	40,225,401
Special voting share (Note 9)	-	100
Warrants (Note 10)	8,135,590	3,850,685
Contributed surplus (Note 11)	19,303,172	16,361,282
Accumulated other comprehensive income	74,134	243,829
Deficit	(65,118,473)	(59,178,252)
	5,298,600	1,503,045
	\$ 5,648,414	\$ 2,367,260

Commitments and contingencies (Note 13)

On behalf of the Board of Directors


Director


Director

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue	\$ 84,628	\$ 112,070	\$ 261,984	\$ 112,070
Costs and expenses				
General and administration	2,013,975	698,005	5,280,254	2,002,694
Research and development	352,486	240,494	921,951	764,108
	2,366,461	938,499	6,202,205	2,766,802
Net loss from continuing operations	(2,281,833)	(826,429)	(5,940,221)	(2,654,732)
Loss from discontinued operations, net of taxes (Note 18)	-	382,666	-	(4,474,695)
Net loss	(2,281,833)	(443,763)	(5,940,221)	(7,129,427)
Deficit, beginning of period	(62,836,640)	(57,156,399)	(59,178,252)	(50,470,735)
Net loss	(2,281,833)	(443,763)	(5,940,221)	(7,129,427)
Deficit, end of period	\$(65,118,473)	\$(57,600,162)	\$(65,118,473)	\$(57,600,162)
Basic and diluted loss per share (Note 12)	\$ (0.02)	\$ -	\$ (0.05)	\$ (0.08)
Basic and diluted loss per share, continuing operations	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.03)
Basic and diluted loss per share, discontinued operations	\$ -	\$ (0.01)	\$ -	\$ (0.05)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net loss	\$ (2,281,833)	\$ (443,763)	\$ (5,940,221)	\$ (7,129,427)
Other comprehensive (loss) income - net of income taxes				
Exchange differences on translating foreign operations	66,457	(23,850)	(169,695)	(12,447)
Comprehensive loss	\$ (2,215,376)	\$ (467,613)	\$ (6,109,916)	\$ (7,141,874)

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in US Dollars)
(Unaudited)

For the Nine Months Ended September 30,	2013	2012
Share Capital		
Beginning balance	\$ 40,225,401	\$ 38,507,720
OPEL Solar Inc. Exchangeable Shares, exchanged into common shares	-	27,521
Funds from the exercise of warrants	37,111	-
Funds from the exercise of stock options	148,034	7,203
Value assigned to stock options	118,558	5,129
Funds from private placements	7,189,200	5,428,644
Share issue costs	(529,222)	(495,540)
Fair value of warrants and compensation warrants exercised	23,387	-
Fair value of warrants and compensation warrants issued	(4,308,292)	(3,608,483)
Common shares issued as finance costs	-	150,000
September 30,	42,904,177	40,022,194
Special Voting Share		
September 30,	-	100
Shares to be Issued		
Deferred share issue costs	-	27,521
Exchangeable Shares exchanged into common shares	-	(27,521)
September 30,	-	-
Warrants		
Beginning balance	3,850,685	1,813,729
Fair value of warrants and compensation warrants issued	4,308,292	3,608,483
Fair value of warrants and compensation warrants exercised	(23,387)	-
Fair value of expired warrants	-	(1,534,069)
September 30,	8,135,590	3,888,143
Contributed Surplus		
Beginning balance	16,361,282	13,162,981
Stock-based compensation	3,060,448	1,052,709
Fair value of stock options exercised	(118,558)	(5,129)
Fair value of expired warrants	-	1,534,069
September 30,	19,303,172	15,744,630
Accumulated Other comprehensive income		
Beginning balance	243,829	278,263
Other comprehensive (loss) income attributable to common shareholders	(169,695)	(12,447)
September 30,	74,134	265,816
Deficit		
Beginning balance	(59,178,252)	(50,470,735)
Divestiture of non-controlling interest	-	(7,129,427)
Net loss attributable to common shareholders	(5,940,221)	-
September 30,	(65,118,473)	(57,600,162)
Total shareholders' equity	\$ 5,298,600	\$ 2,320,721
Non-controlling interest		
Beginning balance	\$ -	\$ (139,116)
Divestiture of non-controlling interest	-	139,116
September 30,	\$ -	\$ -
Total equity	\$ 5,298,600	\$ 2,320,721

The accompanying notes are an integral part of these condensed consolidated financial statements.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US Dollars)

(Unaudited)

For the Nine Months Ended September 30,

2013

2012

CASH (USED IN) PROVIDED BY:

OPERATING ACTIVITIES

Net loss	\$ (5,940,221)	\$ (7,129,427)
Adjustments for:		
Depreciation of property and equipment	36,157	2,374
Amortization of patents and licenses	3,145	3,145
Product warranty	74,101	-
Stock-based compensation (Note 11)	3,060,448	1,052,709
Discontinued operations, net of tax	-	4,474,695
Financing fees	-	150,000
	(2,766,370)	(1,446,504)
Net change in non-cash working capital accounts:		
Accounts and other receivable	(180,762)	(50,021)
Prepaid and other current assets	158,273	(151)
Accounts payable and accrued liabilities	17,911	(1,214,223)
Cash flows from operating activities, continuing operations	(2,770,948)	(2,710,899)
Cash flows from operating activities, discontinued operations	-	(1,695,391)
	(2,770,948)	(4,406,290)

INVESTING ACTIVITIES

Construction in progress	(481,010)	-
Purchase of property and equipment	(419,226)	(28,352)
Cash flow from investing activities, continuing operations	(900,236)	(28,352)
Cash flow from investing activities, discontinued operations	-	-
	(900,236)	(28,352)

FINANCING ACTIVITIES

Issue of common shares for cash, net of issue costs	6,845,023	4,940,307
Cash flow from financing activities, continuing operations	6,845,023	4,940,307
Cash flow from financing activities, discontinued operations	-	-
	6,845,023	4,940,307

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(169,695)	(12,447)
NET CHANGE IN CASH, continuing operations	3,004,144	2,188,609
NET CHANGE IN CASH, discontinued operations	-	(1,695,391)
CASH AND CASH EQUIVALENT, beginning of year	1,435,762	1,330,141
CASH AND CASH EQUIVALENT, end of period	\$ 4,439,906	\$ 1,823,359

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

1. DESCRIPTION OF BUSINESS

POET Technologies Inc. is incorporated in the Province of Ontario. POET Technologies Inc. and ODIS Inc. ("ODIS"), a subsidiary of Opel Solar Inc., (collectively, the "Company") develops and markets semi-conductor devices using planar "opto" electronic technology ("POET"). Opel Solar Inc. is a wholly owned subsidiary of POET Technologies Inc. The Company continues to develop the process to produce a gallium arsenide microchip. The Company's head office is located at 121 Richmond Street West, Suite 501, Toronto, Ontario, Canada M5H 2K1. These condensed unaudited interim consolidated financial statements of the Company were approved Board of Directors of the Company on November 14, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed unaudited interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These condensed unaudited interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated audited financial statements for the year ended December 31, 2012.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

Basis of presentation

These condensed consolidated financial statements include the accounts of POET Technologies Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

Foreign currency translation

These condensed consolidated financial statements are presented in U.S. dollars ("USD"), which is the Company's presentation currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of operations and deficit.

Assets and liabilities of entities with functional currencies other than U.S. dollars are translated into the presentation currency at the year end rates of exchange, and the results of their operations are translated at average rates of exchange for the year. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

Financial Instruments

Financial instruments are required to be classified as one of the following: held-to-maturity; loans and receivables, fair value through profit or loss; available-for-sale or other financial liabilities.

The Company's financial instruments include cash, accounts and other receivable, accounts payable and accrued liabilities. The Company designated its cash as fair value through profit or loss, its accounts and other receivable as loans and receivables, and its accounts payable and accrued liabilities as other financial liabilities.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value through profit or loss financial assets are measured at fair value with gains and losses recognized in operations. Financial assets, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of a financial instrument that is quoted in active markets is based on the bid price for a financial asset held and the offer price for a financial liability. When an independent price is not available, fair value is determined by using a valuation methodology which refers to observable market data. Such a valuation technique includes comparisons with a similar financial instrument where an observable market price exists, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. If no reliable estimate can be made, the Company measures the financial instrument at cost less impairment as a last resort.

Marketable securities

Marketable securities are classified as available for sale and are carried at fair value. Unrealized holding gains and losses are recognized in other comprehensive income.

Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated based on the estimated useful life of the asset using the following rates:

	<u>New</u>	
Machinery and equipment		Straight Line, 5 years
Office equipment		Straight Line, 5 years

Patents and licenses

Patents and licenses are recorded at cost and amortized on a straight line basis over their estimated useful lives. Ongoing maintenance and patent registration costs are expensed as incurred. The expiry of the patents and licenses range from 6 - 12 years.

Product warranty

A product warranty is recognized when present obligations as a result of a sale of products will probably lead to an outflow of economic resources from the Company and the amounts can be estimated reliably. The timing or the amount of the outflow may still be uncertain.

Product warranty is measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Product warranties are reviewed at each reporting date and adjusted to reflect the current best estimate. After a review, the Company increased its estimate to \$100,000 in the 2nd quarter of 2013. The accrual is \$100,000 at September 30, 2013 and \$25,899 at December 31, 2012..

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

The Company's tangible and intangible assets are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. An assessment is made at each reporting date whether there is any indication that an asset may be impaired.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the year. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a 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 depreciation or amortization, if no impairment loss had been recognized. In 2013 the Company did not record an impairment loss on long-lived assets (2012 - \$494,465).

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are provided on differences between the financial reporting and income tax bases of assets and liabilities and on income tax losses available to be carried forward to future years for tax purposes. Deferred income taxes are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse. Valuation allowances are provided to reduce deferred income tax assets to the amount expected to be realized.

Revenue recognition

Revenue is comprised of research and development (R&D) service revenue. Revenue under R&D contracts is recognized as services are provided. R&D costs are recognized as incurred; any unbilled revenue is recognized as services are provided under the terms of the contract. The Company, through ODIS, also provides services under "fixed price" and "cost plus" R&D contracts exclusively with the Department of Defense of the United States of America and NASA.

Interest income

Interest income on cash and short-term investments classified as fair value through profit or loss is recognized as earned using the effective interest method.

Research and development costs

Research costs are expensed in the year incurred. Development costs are also expensed in the year incurred unless the Company believes a development project meets IFRS criteria as set out in IAS 38, *Intangible Assets*, for deferral and amortization.

Stock-based compensation

Stock options and warrants awarded to non employees are accounted for using the fair value of the instrument awarded or service provided whichever is considered more reliable. Stock options and warrants awarded to employees are accounted for using the fair value method. The fair value of such stock options and warrants granted is recognized as an expense on a proportionate basis consistent with the vesting features of each tranche of the grant. The fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the year after giving effect to potentially dilutive financial instruments. The dilutive effect of stock options and warrants is determined using the treasury stock method.

The following new accounting policies were adopted on January 1, 2013:

(i) Disclosure of Interests in Other Entities

IFRS 12 *Disclosure of Interests in Other Entities*. This standard requires disclosures relating to an entity's interests in subsidiaries. The Company will start the application of IFRS 12 in the financial statements effective from January 1, 2013. There was no impact to the financial statements as a result of adopting IFRS 12.

(ii) Fair value measurement

IFRS 13, *Fair Value Measurements*, provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. There was no impact to the financial statements as a result of adopting IFRS 13.

(iii) Consolidated financial statements

IFRS 10, *Consolidated Financial Statements*, replaces SIC 12, Consolidation – Special Purpose Entities, and the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements. IFRS 10 includes a new definition of control that determines which entities are consolidated, and requires control of an investee to be reassessed when the facts and circumstances indicate that there have been changes to one or more of the criteria for determining control. There was no impact to the financial statements as a result of adopting IFRS 10

3. RECENT ACCOUNTING PRONOUNCEMENTS

The following is a summary of recent accounting pronouncements that may affect the Company.

(i) Financial instruments

IFRS 9, *Financial Instruments*, replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard requires entities to classify financial assets as being measured either at amortized cost or fair value depending on the business model and contractual cash flow characteristics of the asset. For financial liabilities, IFRS 9 requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to change in the entity's own credit risk in the other comprehensive income rather than in the statement of profit or loss. The new standard applies to annual years beginning on or after January 1, 2015.

(ii) Financial instruments

IAS 32, *Financial Instruments; Offsetting Financial Assets and Financial Liabilities*

The amendment provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective from January 1, 2014. The Company has not yet evaluated the impact on the financial statements

The Company has considered all other recently issued accounting pronouncements and does not believe the adopting of such pronouncements will have a material impact on its consolidated financial statements.

4. MARKETABLE SECURITIES

Marketable securities consist of small investments in three companies carrying a market value of \$410 as of September 30, 2013 and \$426 as of December 31, 2012.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

5. PROPERTY AND EQUIPMENT

	Machinery and equipment	Furniture and fixture	Office equipment	Leasehold improvements	Solar installations	Construction in progress/committed assets	Total
Cost							
Balance, January 1, 2012	\$ 1,171,936	\$ 138,028	\$ 78,203	\$ 44,761	\$ 1,567,018	\$ 1,501,692	\$ 4,501,638
Additions	27,500	-	852	-	-	-	28,352
Reclassification/impairment	(1,171,936)	(138,028)	(76,720)	(44,761)	(1,567,018)	(1,501,692)	(4,500,155)
Balance, December 31, 2012	27,500	-	2,335	-	-	-	29,835
Additions	32,019	-	2,879	-	-	868,217	903,115
Reclassification	387,207	-	-	-	-	(387,207)	-
Balance, September 30, 2013	446,726	-	5,214	-	-	481,010	932,950
Accumulated Depreciation							
Balance, January 1, 2012	781,014	95,491	55,527	5,339	263,796	1,501,692	2,702,859
Depreciation / impairment for the year	(778,264)	(95,491)	(55,112)	(5,339)	(263,796)	(1,501,692)	(2,699,694)
Balance, December 31, 2012	2,750	-	415	-	-	-	3,165
Depreciation for the period	38,211	-	825	-	-	-	39,036
Balance, September 30, 2013	40,961	-	1,240	-	-	-	42,201
Carrying Amounts							
At December 31, 2012	\$ 24,750	\$ -	\$ 1,920	\$ -	\$ -	\$ -	\$ 26,670
At September 30, 2013	\$ 405,765	\$ -	\$ 3,974	\$ -	\$ -	\$ 481,010	\$ 890,749

6. PATENTS AND LICENSES

	Patents	Licenses	Total
Cost			
Balance, January 1, 2012	\$ 224,444	\$ 136,725	\$ 361,169
Additions	-	-	-
Disposals	(224,444)	(73,825)	(298,269)
Balance, December 31, 2012 and September 30, 2013	-	62,900	62,900
Accumulated Depreciation			
Balance, January 1, 2012	124,538	66,660	191,198
Amortization/impairment	(124,538)	(46,743)	(171,281)
Balance, December 31, 2012	-	19,917	19,917
Amortization	-	3,144	3,144
Balance, September 30, 2013	-	23,061	23,061
Carrying Amounts			
At December 31, 2012	\$ -	\$ 42,983	\$ 42,983
At September 30, 2013	\$ -	\$ 39,839	\$ 39,839

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2013	December 31, 2012
Trade payable	\$ 106,461	\$ 86,689
Payroll related liabilities	82,993	60,567
Accrued liabilities	23,618	84,647
Committed assets	36,742	-
	\$ 249,814	\$ 231,903

8. SHARE CAPITAL

- (a) AUTHORIZED
Unlimited number of common shares
1 Special voting share

- (b) COMMON SHARES ISSUED

	Number of Shares	Amount
Balance, December 31, 2011	93,025,421	\$ 38,507,720
OPEL Solar Inc. Exchangeable Shares, exchanged into common shares	135,000	27,521
Shares issued on the exercise of stock options	185,000	52,700
Fair value of stock options exercised	-	39,794
Shares issued on private placement	23,412,479	5,428,644
Fair value of warrants and compensation warrants issued	-	(3,608,483)
Share issue costs	-	(502,965)
Shares issued as finance costs	500,000	150,000
Shares issued on the exercise of warrants	270,715	93,012
Fair value of warrants exercised	-	37,458
Balance, December 31, 2012	117,528,615	40,225,401
Shares issued on the exercise of warrants and compensation warrants	140,000	37,111
Fair value of warrants and compensation warrants exercised	-	23,387
Shares issued on the exercise of stock options	582,500	148,034
Fair value of stock options exercised	-	118,558
Shares issued on private placements	14,400,000	7,189,200
Fair value of warrants and compensation warrants issued	-	(4,308,292)
Share issue costs	-	(529,222)
Balance, September 30, 2013	132,651,115	\$ 42,904,177

During the 2012, the Company completed various brokered private placement financings for gross proceeds aggregating to \$5,428,644 (\$5,384,870 CAD). IBK Capital Corp. acted as agent in respect of the issuance and sale of 23,412,479 units, at a price of \$0.225 (\$0.23 CAD) per unit. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.34 (\$0.35 CAD) per share for a period of three years. The agent received cash commissions in the aggregate of \$371,862 (\$368,941 CAD) and 2,341,247 compensation warrants in connection with these private placements. Each compensation warrant entitles the holder to purchase one common share of the Company at \$0.225 (\$0.23 CAD) per share for a period of four years. Additional issue costs amounted to \$131,103 (\$132,144 CAD).

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

8. SHARE CAPITAL (Continued)

The fair value of the warrants and compensation warrants was estimated using the Black-scholes option pricing model with the following assumptions: dividend yield of 0%, interest rate of 1.08% and 1.17%, volatility of 109% and 120.55% and estimated life of 3 and 4 years. The estimated fair value assigned to the warrants and compensation warrants was \$3,186,039 (\$3,160,685 CAD) and \$422,444 (\$419,083 CAD) respectively.

On February 14, 2013, the Company completed a brokered private placement financing for gross proceeds aggregating to \$7,189,200 (\$7,200,000 CAD). The Company issued 14,400,000 units, at a price of \$0.499 (\$0.50 CAD) per unit. Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.748 (\$0.75 CAD) per share for a period of two years. The agents received cash commissions in the aggregate of \$503,244 (\$504,000 CAD) and 1,440,000 compensation warrants in connection with the private placement. Each compensation warrant entitles the holder to purchase one common share of the Company at \$0.499 (\$0.50 CAD) per share for a period of three years. Additional issue costs amounted to \$25,978 (\$26,017 CAD).

The fair value of the warrants and compensation warrants was estimated using the Black-scholes option pricing model with the following assumptions: dividend yield of 0%, interest rate of 1.16% and 1.24%, volatility of 121% and 111.35% and estimated life of 2 and 3 years. The estimated fair value assigned to the warrants and compensation warrants was \$3,825,178 (\$3,844,400 CAD) and \$483,114 (\$483,840 CAD) respectively.

9. SPECIAL VOTING SHARE

On June 5, 2007, one (1) special voting share was issued in conjunction with a Support and Trust Agreement entered into amongst POET Technologies Inc, OPEL Solar Inc ("OSI"). and Equity Transfer & Trust Company. The special voting share was returned to treasury and cancelled on June 21, 2013.

10. WARRANTS

The following table reflects the continuity of warrants:

	Average Exercise Price	Number of Warrants	Historical Fair value
Balance, December 31, 2011	\$ 0.45	11,839,560	\$ 1,813,729
Warrants issued	0.34	23,412,479	3,186,039
Compensation warrants issued	0.23	2,341,247	422,444
Expired	0.48	(10,544,002)	(1,534,069)
Exercised	0.34	(270,715)	(37,458)
Balance, December 31, 2012	0.33	26,778,569	3,850,685
Warrants issued	0.75	14,400,000	3,825,178
Compensation warrants issued	0.50	1,440,000	483,114
Exercised	0.17	(140,000)	(23,387)
Balance, September 30, 2013	\$ 0.48	42,478,569	\$ 8,135,590

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10. WARRANTS (Continued)

As at December 31, 2012 the following warrants were outstanding:

	Number of Warrants	Historical Fair Value (\$)	Exercise Price (\$)	Expiry Date
Warrants	1,295,558	279,660	0.29	July 21, 2014
Warrants	2,157,348	284,635	0.34	June 8, 2015
Warrants	2,770,044	365,143	0.34	June 22, 2015
Warrants	1,554,000	208,972	0.34	July 31, 2015
Warrants	6,272,087	856,893	0.34	September 7, 2015
Warrants	5,369,000	744,240	0.34	September 13, 2015
Warrants	5,000,000	687,082	0.35	September 27, 2015
Warrants	14,400,000	3,825,178	0.75	February 14, 2015
Compensation warrants	220,734	38,642	0.22	June 8, 2016
Compensation warrants	285,289	49,943	0.22	June 22, 2016
Compensation warrants	155,400	27,708	0.22	July 31, 2016
Compensation warrants	522,209	94,597	0.22	September 7, 2016
Compensation warrants	536,900	98,681	0.22	September 13, 2016
Compensation warrants	500,000	91,102	0.22	September 27, 2016
Compensation warrants	1,440,000	483,114	0.50	February 14, 2016
	42,478,569	8,135,590	0.48	

These warrants were issued in Canadian dollars and are exercisable at prices ranging from \$0.23 CAD and \$0.75 CAD.

11. STOCK OPTIONS AND CONTRIBUTED SURPLUS

Stock Options

On June 21, 2013, shareholders of the Company approved amendments to the Company's fixed 20% stock option plan (as amended, referred to as the "2013 Plan"). Under the 2013 Plan, the board of directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and consultants. The 2013 Plan provides that the number of common shares issuable pursuant to options granted under the 2013 Plan and pursuant to other previously granted options is limited to 26,475,000 (the "Number Reserved"). Any subsequent increase in the Number Reserved must be approved by shareholders of the Company and cannot exceed 20% of the number of issued and outstanding shares. Options granted under the 2013 Plan generally vest 25% immediately and 25% every six months from the date of issue, however, the directors may, at their discretion, specify a different vesting year.

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11. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

Stock option transactions and the number of stock options outstanding were as follows:

	Weighted Average Number of Options	Exercise Price
Balance, December 31, 2011	9,532,750	\$ 0.63
Expired/cancelled	(6,875,000)	0.68
Exercised	(185,000)	0.28
Granted	15,130,000	0.27
Balance, December 31, 2012	17,602,750	0.35
Expired/cancelled	(572,500)	0.53
Exercised	(582,500)	0.25
Granted	5,630,000	0.45
Balance, September 30, 2013	22,077,750	\$ 0.38

During the period, the Company granted 5,630,000 (2012 - 8,280,000) stock options to officers, employees and consultants of the Company to purchase common shares at an average price of \$0.45 (2012 - \$0.23) per share.

During the period, the Company recorded stock-based compensation of \$3,060,448 (2012 - \$1,052,709) relating to vested stock options.

The stock options granted during 2013 and 2012 were valued using the Black-Scholes option pricing model using the following assumptions;

	<u>2013</u>	<u>2012</u>
Weighted average risk-free interest rate	1.54%	1.50%
Weighted average dividend yield	0%	0%
Weighted average volatility	115%	116%
Weighted average estimated life	5 years	6.4 years

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at September 30, 2013 are as follows:

Options Outstanding				Options Exercisable		
Exercise Range	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price	
\$0.11 - \$0.25	6,755,000	\$ 0.22	4.32	5,380,000	\$ 0.22	
\$0.28 - \$0.31	736,250	\$ 0.27	4.70	611,250	\$ 0.27	
\$0.34 - \$0.37	892,500	\$ 0.33	6.88	892,500	\$ 0.33	
\$0.38 - \$0.86	13,494,000	\$ 0.46	4.65	2,821,500	\$ 0.50	
\$0.87 - \$1.21	200,000	\$ 1.20	7.61	200,000	\$ 1.20	
	22,077,750	\$ 0.38	4.67	9,905,250	\$ 0.33	

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11. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

Contributed Surplus

The following table reflects the continuity of contributed surplus:

	Amount
Balance, January 1, 2012	\$ 13,162,981
Stock-based compensation	1,704,026
Fair value of stock options exercised	(39,794)
Fair value of expired warrants	1,534,069
Balance, December 31, 2012	16,361,282
Stock-based compensation	3,060,448
Fair value of stock options exercised	(118,558)
Balance, September 30, 2013	\$ 19,303,172

12. LOSS PER SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator				
Net loss from continuing operations	\$ (2,281,833)	\$ (826,429)	\$ (5,940,221)	\$ (2,654,732)
Net loss from discontinued operations	\$ -	\$ 382,666	\$ -	\$ (4,474,695)
Net loss	\$ (2,281,833)	\$ (443,763)	\$ (5,940,221)	\$ (7,129,427)
Denominator				
Weighted average number of common shares outstanding	132,583,098	102,697,921	130,060,889	96,703,569
Weighted average number of common shares outstanding - diluted	132,583,098	102,697,921	130,060,889	96,703,569
Basic and diluted loss per share, continuing operations	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.03)
Basic and diluted loss per share, discontinued operations	\$ -	\$ (0.01)	\$ -	\$ (0.05)
Basic and diluted loss per share	\$ (0.02)	\$ -	\$ (0.05)	\$ (0.08)

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2013 and 2012 is not reflected as they are anti-dilutive.

13. COMMITMENTS AND CONTINGENCIES

The Company has an operating lease for office and research facilities expiring March 31, 2015.

Rent expense under this lease was \$31,555 and \$87,856 for the three and nine months ended September 30, 2013 (2012 - \$64,759 and \$210,037 respectively).

Remaining minimum annual rental payments to the lease expiration dates are as follows:

2014	\$ 123,527
2015	67,137
	\$ 190,664

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14. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Salaries	\$	192,200	\$	189,830
Share-based payments (1)		342,999		64,858
Total	\$	535,199	\$	254,688
			\$	1,554,573
			\$	1,195,526

(1) Share-based payments are the fair value of options granted to key management personnel and expensed during the year.

Prepays and other current assets include \$100,000 advanced to the CEO of the Company. The advance is non-interest bearing and short-term in nature.

The Company paid a cumulative total of \$73,200 and \$219,600 in consulting fees to two executive directors of the Company for the three and nine months ended September 30, 2013 (2012 - \$26,292 and \$34,692 respectively).

The Company paid \$46,096 and \$89,996 to a director for consulting services rendered to the Company for the three and nine months ended September 30, 2013 (2012 - \$25,200 and \$33,600 respectively).

The Company paid \$3,421 and \$30,077 to a director for legal services rendered to the Company for the three and nine months ended September 30, 2013 (2012 - \$22,675 and \$202,252 respectively).

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

15. SEGMENT INFORMATION

The Company and its subsidiary operates in a single segment; the design of semi-conductor products for military and industrial applications. In prior years, the Company had two operating segments, however, in 2012, management made a decision to discontinue one segment. The Company's operating and reporting segment reflects the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision making purposes, including the allocation of resources. A summary of the Company's operating segment is below:

ODIS Inc. ("ODIS")

ODIS develops gallium arsenide-based processes and semi-conductor microchip products having several potential major market applications: infrared sensor arrays for Homeland Security monitoring and imaging along with the unique combination of optical lasers, and electronic control circuits on the same microchip for potential applications in various military programs and potentially telecom for, Fibre to The Home. ODIS' technology also provides the opportunity for higher speed computing capabilities.

Segmented information for the Nine Months ended September 30, 2013 and September 30, 2012 is as follows:

	OSI	2013 ODIS		Total	OSI	2012 ODIS		Total
Revenue	\$ -	\$ 261,984	\$ 261,984	\$ -	\$ -	\$ 112,070	\$ 112,070	
Operating expenses	-	2,280,304	2,280,304	-	-	1,160,692	1,160,692	
Amortization	-	3,145	3,145	-	-	5,519	5,519	
Loss from discontinued operations	-	-	-	4,474,695	-	-	4,474,695	
Segment loss	-	2,283,449	2,283,449	4,474,695	1,054,141	-	5,528,836	
Corporate operations			3,656,772				1,600,591	
Net loss			\$ 5,940,221				\$ 7,129,427	

POET TECHNOLOGIES INC.
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15. SEGMENT INFORMATION (Continued)

Segmented information for the three months ended September 30, 2013 and September 30, 2012 is as follows:

	OSI	2013 ODIS	Total	OSI	2012 ODIS	Total
Revenue	\$ -	\$ 84,628	\$ 84,628	\$ -	\$ 112,070	\$ 112,070
Operating expenses	-	716,910	716,910	-	401,321	401,321
Amortization	-	1,048	1,048	-	3,257	3,257
Loss from discontinued operations	-	-	-	(382,666)	-	(382,666)
Segment loss	-	895,315	895,315	(382,666)	292,508	(90,158)
Corporate operations			1,386,518			533,921
Net loss			\$ 2,281,833			\$ 443,763

Assets and capital expenditures at September 30,

	Opel (1)	2013 ODIS	Total	Opel	2012 ODIS	Total
Total assets	\$ 1,336,289	\$ 1,021,642	\$ 2,357,931	\$ 1,530,286	\$ 95,880	\$ 1,626,166
Capital expenditures	\$ -	\$ 900,236	\$ 900,236	\$ -	\$ 28,352	\$ 28,352

(1) Includes cash of \$1,191,168 and accounts and other receivable of \$142,673.

(2) The Company has assets of \$3,290,483 (2012 - \$1,451,240) at its corporate office not included above.

The Company operates geographically in the United States and Canada. Geographical information is as follows:

2013

As of September 30,	US	Canada	Consolidated
Current assets	\$ 1,427,344	\$ 3,290,483	\$ 4,717,827
Property and equipment	409,739	-	409,739
Construction in progress	481,010	-	481,010
Patents and licenses	39,838	-	39,838
	\$ 2,357,931	\$ 3,290,483	\$ 5,648,414

2013

	US	Canada	Consolidated
Nine Months ended September 30,			
Revenue	\$ 261,984	\$ -	\$ 261,984
General and administration	1,623,482	3,656,772	5,280,254
Research and development	921,951	-	921,951

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15. SEGMENT INFORMATION (Continued)

2012			
As of September 30,	US	Canada	Consolidated
Current assets	\$ 1,996,182	\$ 1,451,240	\$ 3,447,422
Property and equipment	27,461	-	27,461
Patents and licenses	44,031	-	44,031
	\$ 2,067,674	\$ 1,451,240	\$ 3,518,914

2012			
	US	Canada	Consolidated
For the Nine Months ended September 30,			
Revenue	\$ 112,070	\$ -	\$ 112,070
General and administration	\$ 402,103	\$ 1,600,591	\$ 2,002,694
Research and development	764,108	-	764,108

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, short-term investments, accounts and other receivable, marketable securities, accounts payable and accrued liabilities and customer deposits. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company estimates that the fair value of these instruments approximate the carrying values due to their short term nature.

The Company has classified financial assets as follows:

	September 30, 2013	December 31, 2012
Fair value through profit or loss, measured at fair value:		
Cash	\$ 4,439,906	\$ 1,435,762
Loans and receivable, measured at amortized cost:		
Accounts and other receivable	277,511	96,749
Available-for-sale, measured at fair value:		
Marketable securities	410	426
Assets available for sale	-	606,413
	\$ 4,717,827	\$ 2,139,350

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Cash and marketable securities were determined using level 1 inputs, assets available for sale were determined using a level 3 input. The level 3 input for the available for sale asset was based on negotiations with a third party interested in acquiring the asset.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts and other receivable. The Company has accounts and other receivable from a governmental agency that in North America. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. The Company has never experienced any significant instances of non-payment from its customers.

Exchange Rate Risk

The functional currency of each of the entities included in the accompanying consolidated financial statements is the local currency where the entity is domiciled. Functional currencies include the US and Canadian dollar. Most transactions are conducted in functional currencies. As such, none of the entities included in the consolidated financial statements engage in hedging activities. The Company is exposed to a foreign currency risk with the Canadian dollar. A 10% change in the Canadian dollar would increase or decrease other comprehensive income by \$314,564.

Liquidity Risk

The Company currently does not maintain credit facilities. The Company's existing cash and cash resources are considered sufficient to fund operating and investing activities over the next twelve months.

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is exposed to fair value fluctuations on its short-term investments and marketable securities. The Company's other financial instruments (cash, cash equivalents, accounts and other receivable and accounts payable and accrued liabilities) are not subject to market risk, due to the short-term nature of these instruments.

17. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders equity (excluding accumulated other comprehensive income, deficit and non controlling interest) and cash. The capital of the Company was \$74,782,845 at September 30, 2013. The Company's objective in managing capital is to ensure that financial flexibility is present to increase shareholder value through organic growth and responding to changes in economic and/or market conditions; to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and to safeguard the Company's ability to obtain financing should the need arise.

In maintaining its capital, the Company has a strict investment policy which includes investing its surplus capital only in highly liquid, highly rated financial instruments.

The Company reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the year.

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18. DISCONTINUED OPERATIONS

On June 11, 2012, management committed to a plan to discontinue its solar related operations and to dispose of its solar related assets and liabilities. The decision was taken in line with the Company's strategy to focus on the Company's key competencies, being the development of the POET platform, which enables the monolithic fabrication of integrated circuits containing both electronic and optical elements, with potential high-speed and power-efficient applications in devices such as servers, tablet computers and smartphones. Consequently, all saleable assets and liabilities relating to the solar operations were classified as "assets available for sale" or "disposal group liabilities".

On December 12, 2012, the Company sold a portion of its assets available for sale to an arms length party. The sale resulted in the Company receiving \$1,000,000 for those assets available for sale. No gain or loss was recorded on the sale of the assets as current accounting standards mandate that assets are evaluated for impairment prior to discontinued operations treatment.

On April 5, 2013, the Company disposed of the remaining assets available for sale in consideration for the assumption of the disposal group liabilities to another arms length party. There was no gain or loss on the disposition of the assets or associated liabilities.

Revenue and expenses, and gains and losses relating to the discontinued activity have been removed from the results of continuing operations and are shown as a single line item on the face of the consolidated statement of comprehensive loss. The operating results of the discontinued operations can be analysed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ -	\$ 398,016	\$ -	\$ 610,895
Costs and expenses				
Cost of goods sold	-	(258,156)	-	1,117,282
General and administration	-	319,307	-	3,024,857
Research and development	-	(45,801)	-	609,948
Investment income, including interest	-	-	-	(2,791)
	-	15,350	-	4,749,296
Net operating results from discontinued operations, net of taxes	-	382,666	-	(4,138,401)
Loss on divestiture of subsidiaries, net of taxes	-	-	-	(336,294)
Net loss from discontinued operation, net of taxes	\$ -	\$ 382,666	\$ -	\$ (4,474,695)
(1) Cost of goods sold includes inventory write-down of	\$ -	\$ -	\$ -	\$ 1,143,011
(2) General and administration includes the following:				
Impairment of long lived assets	-	-	-	494,465
Uncollectible accounts and other receivable	-	-	-	195,774
Prepaid expenses	-	-	-	127,602
(3) The Company divested itself of its interest in Opel Solar Asia Company Limited because it was unable to identify a buyer for this investment. The Company therefore recorded a loss on divestiture of \$197,178.				
Opel Solar Asia Company Limited	\$ -	\$ -	\$ -	\$ 197,178
Betasol	-	-	-	139,116
Loss on divestment of subsidiaries	\$ -	\$ -	\$ -	\$ 336,294

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