



POET
TECHNOLOGIES INC.

Consolidated Financial Statements
Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the
Board of Directors and Shareholders
of **POET Technologies Inc.**

We have audited the accompanying consolidated financial statements of POET Technologies Inc. (formerly Opel Technologies Inc.), which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations and deficit, comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of POET Technologies Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with IFRS.

Emphasis of matter

As described in Note 2, the Company determined that proceeds from government grants should be classified as other income. The 2012 Statement of Operations has been corrected. Our report is not modified with respect to this matter.

Marcum LLP

Hartford, CT
April 4, 2014



POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

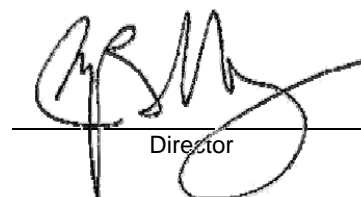
December 31,	2013	2012
Assets		
Current		
Cash and cash equivalents	\$ 3,260,967	\$ 1,435,762
Accounts receivable	-	96,749
Prepays and other current assets	267,012	158,257
Marketable securities (Note 4)	397	426
Assets available for sale (Note 18)	-	606,413
	3,528,376	2,297,607
Property and equipment (Note 5)	903,792	26,670
Patents and licenses (Note 6)	38,790	42,983
	\$ 4,470,958	\$ 2,367,260
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 7)	\$ 256,027	\$ 231,903
Product warranty (Note 2 and 21)	-	25,899
Disposal group liabilities (Note 18)	-	606,413
	256,027	864,215
Shareholders' Equity		
Share capital (Note 8(b))	42,911,455	40,225,401
Special voting share (Note 9)	-	100
Warrants (Note 10)	8,135,590	3,850,685
Contributed surplus (Note 11)	20,261,067	16,361,282
Accumulated other comprehensive loss	(11,593)	243,829
Deficit	(67,081,588)	(59,178,252)
	4,214,931	1,503,045
	\$ 4,470,958	\$ 2,367,260

Commitments and contingencies (Note 13)

On behalf of the Board of Directors



 Director



 Director

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

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

For the Years Ended December 31	2013	2012
Costs and expenses		
General and administration (Note 22)	\$ 6,338,607	\$ 3,027,760
Research and development (Note 22)	1,925,974	1,093,998
Investment income, including interest	(18,371)	-
Loss before the following	8,246,210	4,121,758
Other income (Note 2)	342,874	238,806
Net loss from continuing operations	(7,903,336)	(3,882,952)
Loss from discontinued operations, net of taxes (Note 18)	-	(4,685,449)
Net loss	(7,903,336)	(8,568,401)
Deficit, beginning of year	(59,178,252)	(50,470,735)
Divestiture of non-controlling interest	-	(139,116)
Net loss	(7,903,336)	(8,568,401)
Deficit, end of year	\$(67,081,588)	\$(59,178,252)
Basic and diluted loss per share (Note 12)	\$ (0.06)	\$ (0.08)
Basic and diluted loss per share, continuing operations	\$ (0.06)	\$ (0.04)
Basic and diluted loss per share, discontinued operations	\$ -	\$ (0.04)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in US Dollars)

December 31,	2013	2012
Net loss	\$ (7,903,336)	\$ (8,568,401)
Other comprehensive (loss) income - net of income taxes		
Exchange differences on translating foreign operations	(255,422)	(34,434)
Comprehensive loss	\$(8,158,758)	\$ (8,602,835)

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

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

For the Year Ended December 31,	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	93,012
Funds from the exercise of stock options	152,502	52,700
Value assigned to stock options	121,368	39,794
Funds from private placements	7,189,200	5,428,644
Share issue costs	(529,222)	(502,965)
Fair value of warrants and compensation warrants exercised	23,387	37,458
Fair value of warrants and compensation warrants issued	(4,308,292)	(3,608,483)
Common shares issued as finance costs	-	150,000
December 31,	42,911,455	40,225,401
Special Voting Share		
Beginning balance	100	100
Cancellation of special voting share	(100)	-
December 31,	-	100
Shares to be Issued		
Deferred share issue costs	-	27,521
Exchangeable Shares exchanged into common shares	-	(27,521)
December 31,	-	-
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)	(37,458)
Fair value of expired warrants	-	(1,534,069)
December 31,	8,135,590	3,850,685
Contributed Surplus		
Beginning balance	16,361,282	13,162,981
Stock-based compensation	4,021,153	1,704,026
Fair value of stock options exercised	(121,368)	(39,794)
Fair value of expired warrants	-	1,534,069
December 31,	20,261,067	16,361,282
Accumulated Other comprehensive income		
Beginning balance	243,829	278,263
Other comprehensive loss attributable to common shareholders - translation adjustment	(255,422)	(34,434)
December 31,	(11,593)	243,829
Deficit		
Beginning balance	(59,178,252)	(50,470,735)
Divestiture of non-controlling interest	-	(139,116)
Net loss attributable to common shareholders	(7,903,336)	(8,568,401)
December 31,	(67,081,588)	(59,178,252)
Total shareholders' equity	\$ 4,214,931	\$ 1,503,045
Non-controlling interest		
Beginning balance	\$ -	\$ (139,116)
Divestiture of non-controlling interest	-	139,116
Ending balance	\$ -	\$ -
Total equity	\$ 4,214,931	\$ 1,503,045

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

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US Dollars)

For the Year Ended December 31,	2013	2012
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss	\$ (7,903,336)	\$ (8,568,401)
Adjustments for:		
Depreciation of property and equipment	60,738	3,165
Amortization of patents and licenses	4,193	4,193
Product warranty reserve	(25,999)	-
Stock-based compensation (Note 11)	4,021,153	1,704,026
Discontinued operations, net of tax	-	4,685,449
Financing fees	-	150,000
	(3,843,251)	(2,021,568)
Net change in non-cash working capital accounts:		
Accounts receivable	96,749	(13,686)
Prepaid and other current assets	(163,726)	(58,094)
Accounts payable and accrued liabilities	24,124	(80,958)
Cash flows from operating activities, continuing operations	(3,886,104)	(2,174,306)
Cash flows from operating activities, discontinued operations	-	(3,728,678)
	(3,886,104)	(5,902,984)
INVESTING ACTIVITIES		
Purchase of property and equipment (Note 5)	(882,860)	(28,352)
Cash flow from investing activities, continuing operations	(882,860)	(28,352)
Cash flow from investing activities, discontinued operations	-	1,000,000
	(882,860)	971,648
FINANCING ACTIVITIES		
Issue of common shares for cash, net of issue costs	6,849,591	5,071,391
Cash flow from financing activities, continuing operations	6,849,591	5,071,391
Cash flow from financing activities, discontinued operations	-	-
	6,849,591	5,071,391
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(255,422)	(34,434)
NET CHANGE IN CASH, continuing operations	1,825,205	2,834,299
NET CHANGE IN CASH , discontinued operations	-	(2,728,678)
CASH AND CASH EQUIVALENTS, beginning of year	1,435,762	1,330,141
CASH AND CASH EQUIVALENTS, end of year	\$ 3,260,967	\$ 1,435,762

NOTES TO 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 semiconductor 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 consolidated financial statements of the Company were approved by the Board of Directors of the Company on April 3, 2014.

The Company has working capital of \$3,272,349 as of December 31, 2013 compared to working capital of \$1,433,392 as of December 31, 2012. Subsequent to December 31, 2013, the Company successfully completed an equity financing of \$5,000,000. Additionally, the Company received \$2,834,513 from the exercise of warrants. The Company is in a favorable cash position to cover its operating and investing activities and settle its outstanding obligations as they come due over the next twelve to eighteen months (see Note 23).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These 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").

The preparation of financial statements in accordance with IFRS 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 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 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 loss 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 loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 loss.

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:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Company discontinued its Solar operations in 2012 and disposed of its remaining solar assets and liabilities on April 5, 2013, as a result, the Company no longer has a reserve for product warranty (2012 - \$25,899). The Company is liable for warranty claims on sales previously recognized on a discontinued operation. Management believes the Company's exposure on these warranty claims is not material as of December 31, 2013. Any warranty claims settled by the Company will be classified as adjustments to discontinued operations.

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. During 2012, the Company discontinued its solar operations. In 2013 the Company did not record an impairment loss on long-lived assets (2012 - \$414,570).

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.

Government grants

Government grants received exclusively from the Department of Defense of the United States of America and NASA, relating to research and development, are recognized as other income, net, based on the agreed upon milestones of the projects. Government grants in 2013 were \$342,874 (2012 - \$238,806).

In 2012, grant income was presented as revenue. Upon application of IAS 20 relating to grant income, \$238,806 was reclassified to other income in the accompanying statements. This change represents a correction of an error. IFRS does not permit the reporting of this type of income as revenue.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Company has not met the the criteria set out in IAS 38, therefore no deferral has been recognized.

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.

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.

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 \$397 as of December 31, 2013 and \$426 as of December 31, 2012.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO 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	931,449	-	6,411	-	-	-	937,860
Balance, December 31, 2013	958,949	-	8,746	-	-	-	967,695
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	59,250	-	1,488	-	-	-	60,738
Balance, December 31, 2013	62,000	-	1,903	-	-	-	63,903
Carrying Amounts							
At December 31, 2012	\$ 24,750	\$ -	\$ 1,920	\$ -	\$ -	\$ -	\$ 26,670
At December 31, 2013	\$ 896,949	\$ -	\$ 6,843	\$ -	\$ -	\$ -	\$ 903,792

Included in 2013 additions is \$55,000 in deposits that were paid in 2012 and included in prepaids and other current assets.

6. PATENTS AND LICENSES

	Patents	Licenses	Total
Cost			
Balance, January 1, 2012	\$ 224,444	\$ 136,725	\$ 361,169
Additions	-	-	-
Reclassifications	(224,444)	(73,825)	(298,269)
Balance, December 31, 2012 and 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	-	4,193	4,193
Balance, December 31, 2013	-	24,110	24,110
Carrying Amounts			
At December 31, 2012	\$ -	\$ 42,983	\$ 42,983
At December 31, 2013	\$ -	\$ 38,790	\$ 38,790

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013	December 31, 2012
Trade payable	\$ 94,824	\$ 86,689
Payroll related liabilities	89,243	60,567
Accrued liabilities	71,960	84,647
	\$ 256,027	\$ 231,903

8. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of common shares
One 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	607,500	152,502
Fair value of stock options exercised	-	121,368
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, December 31, 2013	132,676,115	\$ 42,911,455

During 2012, the Company completed various brokered private placement financings for gross proceeds aggregating \$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 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 \$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 TMX Equity Transfer Services. 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, December 31, 2013	\$ 0.48	42,478,569	\$ 8,135,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

10. WARRANTS (Continued)

As at December 31, 2013 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 period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

11. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

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

	Number of Options	Weighted average 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	(607,500)	0.25
Granted	7,310,000	0.46
Balance, December 31, 2013	23,732,750	\$ 0.38

During the year, the Company granted 7,310,000 (2012 - 15,130,000) stock options to officers, employees and consultants of the Company to purchase common shares at an average price of \$0.46 (2012 - \$0.27) per share.

During the year, the Company recorded stock-based compensation of \$4,021,153 (2012 - \$1,704,026) relating to vested stock options.

The stock options granted during 2013 and 2012 were valued on the date of the grant using the Black-Scholes option pricing model using the following assumptions:

	<u>2013</u>	<u>2012</u>
Weighted average exercise price	\$ 0.46	\$ 0.27
Weighted average risk-free interest rate	1.75%	1.41%
Weighted average dividend yield	0%	0%
Weighted average volatility	113%	116%
Weighted average estimated life	5 years	5.75 years

Share price on the various grant dates were:

First grant	\$ 0.53	\$ 0.22
Second grant	0.50	0.23
Third grant	0.44	0.28
Fourth grant	0.46	0.43
Fifth grant	0.47	0.45
Sixth grant	0.42	-
Seventh grant	0.43	-

The underlying expected volatility was determined by reference to the Company's historical share price movements, its dividend policy and dividend yield and past experience relating to the expected life of granted stock options.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

11. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at December 31, 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	6,730,000	\$ 0.22	4.08	6,730,000	\$	0.22
\$0.28 - \$0.31	736,250	\$ 0.27	4.46	611,250	\$	0.27
\$0.34 - \$0.37	892,500	\$ 0.33	6.63	892,500	\$	0.33
\$0.38 - \$0.86	15,174,000	\$ 0.45	4.41	10,116,500	\$	0.45
\$0.87 - \$1.21	200,000	\$ 1.20	7.36	200,000	\$	1.20
	23,732,750	\$ 0.38	4.43	18,550,250	\$	0.35

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	4,021,153
Fair value of stock options exercised	(121,368)
Balance, December 31, 2013	\$ 20,261,067

POET TECHNOLOGIES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

12. LOSS PER SHARE

	2013	2012
Numerator		
Net loss from continuing operations	\$ (7,903,336)	\$ (3,882,952)
Net loss from discontinued operations	\$ -	\$ (4,685,449)
Net loss	\$ (7,903,336)	\$ (8,568,401)
Denominator		
Weighted average number of common shares outstanding	130,743,149	101,912,576
Weighted average number of common shares outstanding - diluted	130,743,149	101,912,576
Basic and diluted loss per share, continuing operations	\$ (0.06)	\$ (0.04)
Basic and diluted loss per share, discontinued operations	\$ -	\$ (0.04)
Basic and diluted loss per share	\$ (0.06)	\$ (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. In 2012, the Company terminated a lease agreement for office space that was used by its discontinued operation.

Rent expense under these leases was \$118,068 for the year ended December 31, 2013 (2012 - \$245,739).

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

2014	\$ 128,904
2015	32,897
	\$ 161,801

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

14. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

	2013	2012
Salaries	\$ 867,231	\$ 452,615
Share-based payments (1)	1,481,517	1,116,124
Total	\$ 2,348,748	\$ 1,568,739

(1) Share-based payments are the fair value of options granted to key management personnel and expensed during the year as calculated using the Black-Scholes model.

Included in prepaid and other assets is an advance of \$100,000 to the CEO of the Company. The advance is non-interest bearing and short-term in nature. The amount was settled subsequent to the year end.

During the year, the Company paid a cumulative total of \$351,708 (2012 - \$193,692) in consulting fees to two executive directors of the Company.

The Company paid \$91,316 to a director for legal services rendered to the Company for the year ended December 31, 2013 (2012 - \$202,252).

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.

Segment information for the years ended December 31, 2013 and December 31, 2012 are as follows:

	2013			2012		
	Opel Solar Inc.	ODIS	Total	Opel Solar Inc.	ODIS	Total
Interest income	\$ -	\$ 18,371	\$ 18,371	\$ -	\$ -	\$ -
Operating expenses	-	3,422,646	3,422,646	-	1,586,327	1,586,327
Amortization	-	4,193	4,193	-	4,357	4,357
Other income	-	342,874	342,874	-	238,806	238,806
Loss from discontinued operations	-	-	-	4,685,449	-	4,685,449
Segment loss	-	2,800,186	2,800,186	4,685,449	1,351,878	6,037,327
Corporate operations			5,103,150			2,531,074
Net loss			\$ 7,903,336			\$ 8,568,401

POET TECHNOLOGIES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

15. SEGMENT INFORMATION (Continued)

Assets and capital expenditures at December 31,

	Opel Solar Inc. (1)		2013 ODIS	Total	Opel Solar Inc.		2012 ODIS	Total				
Total assets	\$	592,254	\$	990,866	\$	1,583,120	\$	1,368,226	\$	672,862	\$	2,041,088
Capital expenditures	\$	-	\$	937,860	\$	937,860	\$	-	\$	28,352	\$	28,352

(1) Includes cash of \$488,841, other current assets of \$100,000 and equipment of \$3,413.

(2) The Company has assets of \$2,887,838 at its corporate office not included above in 2013 (2012 - \$326,172).

(3) Included in 2013 capital expenditures is \$55,000 in deposits that were paid in 2012 and allocated as capital costs in 2013.

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

2013						
As of December 31,	US	Canada	Consolidated			
Current assets	\$	640,538	\$	2,887,838	\$	3,528,376
Property and equipment		903,792		-		903,792
Patents and licenses		38,790		-		38,790
	\$	1,583,120	\$	2,887,838	\$	4,470,958

	US	Canada	Consolidated			
Year ended December 31,						
General and administration	\$	1,235,457	\$	5,103,150	\$	6,338,607
Research and development		1,925,974		-		1,925,974
Investment income		(18,371)		-		(18,371)
Other income		(342,874)		-		(342,874)
	\$	2,800,186	\$	5,103,150	\$	7,903,336

2012						
As of December 31,	US	Canada	Consolidated			
Current assets	\$	1,971,435	\$	326,172	\$	2,297,607
Property and equipment		26,670		-		26,670
Patents and licenses		42,983		-		42,983
	\$	2,041,088	\$	326,172	\$	2,367,260

	US	Canada	Consolidated			
For the Year ended December 31,						
General and administration	\$	561,430	\$	2,466,330	\$	3,027,760
Research and development		1,093,998		-		1,093,998
Other income		(238,806)		-		(238,806)
	\$	1,416,622	\$	2,466,330	\$	3,882,952

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

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:

	December 31, 2013	December 31, 2012
Fair value through profit or loss, measured at fair value:		
Cash	\$ 3,260,967	\$ 1,435,762
Loans and receivable, measured at amortized cost:		
Accounts receivable	-	96,749
Available-for-sale, measured at fair value:		
Marketable securities	397	426
Assets available for sale	-	606,413
	\$ 3,261,364	\$ 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.

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 assets.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable. The Company has accounts receivable from both governmental and non-governmental agencies that are currently concentrated 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 not 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 value of the Canadian dollar would increase or decrease other comprehensive (loss) income by \$268,996 as of December 31, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 eighteen 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 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 \$74,569,079 at December 31, 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.

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. Both assets available for sale and disposal group liabilities were \$606,413 as of December 31, 2012.

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.

POET TECHNOLOGIES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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18. DISCONTINUED OPERATIONS (Continued)

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:

For the Years Ended December 31,	2013		2012	
Revenue	\$	-	\$	617,728
<hr/>				
Costs and expenses				
Cost of goods sold (1)		-		1,117,282
General and administration (2)		-		3,380,117
Research and development		-		611,644
Investment income, including interest		-		(3,044)
		-		5,105,999
<hr/>				
Net operating results from discontinued operations, net of taxes		-		(4,488,271)
<hr/>				
Loss on divestiture of Opel Solar Asia Company Limited, net of taxes (3)		-		(197,178)
<hr/>				
Loss from discontinued operation, attributable to equity shareholders	\$	-	\$	(4,685,449)
<hr/>				
(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		-		414,570
Uncollectible accounts 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.

POET TECHNOLOGIES INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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19. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 27% for 2013 (2012 - 27%) and United States statutory federal and state income tax rate of 43% for 2013 (2012 - 43%) to the amounts recognized in operations.

For the Year Ended December 31,	2013	2012
Net loss, continuing operations	\$ 7,903,336	\$ 3,882,952
Net loss, discontinued operations	-	4,685,449
Net loss	7,903,336	8,568,401
Expected income tax recovery at combined statutory rates:		
Continuing operations	\$ 2,555,600	\$ 1,249,000
Discontinued operations	-	2,050,440
	2,555,600	3,299,440
Changes from:		
Amounts not deductible for tax purposes	(1,041,000)	(737,000)
Other non-deductible items	(18,400)	108,273
Deductible share issuance costs	99,000	70,000
Effect of tax rate reduction	-	(28,713)
Change in valuation allowance	(1,422,513)	(2,894,000)
Foreign tax differential	(172,687)	182,000
Income tax recovery recognized	\$ -	\$ -

The following table reflects future income tax assets at December 31,:

	2013	2012
Resource assets	\$ 621,000	\$ 621,000
Share issue costs	225,504	184,000
Canadian non-capital losses	1,002,309	793,000
Canadian capital losses	391,000	391,000
US non-capital losses	20,006,700	18,835,000
	22,246,513	20,824,000
Valuation allowance	(22,246,513)	(20,824,000)
Future income tax assets recognized	\$ -	\$ -

In addition to capital losses of \$3,064,000 and resource pools of \$1,111,000 which have no expiry date, the Company had United States and Canadian tax loss carryforwards of \$48,797,000 and \$3,931,000 respectively, which will expire between 2014 and 2030 if not used.

POET TECHNOLOGIES INC.
(Formerly OPEL Technologies Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

20. SHARES TO BE ISSUED

	Number of Shares to be Issued	Historical Fair Value
Balance, January 1, 2012	135,000	\$ 27,521
Exchangeable Shares exchanged into common shares	(135,000)	(27,521)
Balance, December 31, 2012 and December 31, 2013	-	\$ -

21. PRODUCT WARRANTY

The provision for warranties relates to solar products sold by the Company's discontinued operations between 2007 and 2012. The provision is based on estimates made from historical warranty data associated with similar products and services. The Company does not expect to incur any material product warranty charges in the next year.

Product warrant provisions are considered current. The carrying amounts may be analysed as follows:

	2013	2012
Opening balance	\$ 25,899	\$ 25,899
Additional provisions	74,101	-
Amount utilized	-	-
Reversals	(100,000)	-
Ending balance	\$ -	\$ 25,899

22. EXPENSES

Research and development costs can be analysed as follows:

	2013	2012
Wages and benefits	\$ 692,105	\$ 572,399
Subcontract fees	558,073	326,458
Stock-based compensation	565,246	64,744
Supplies	110,550	130,397
	\$ 1,925,974	\$ 1,093,998

General and administrative costs can be analysed as follows:

Stock-based compensation	\$ 3,455,907	\$ 1,639,282
Wages and benefits	831,950	420,572
Professional fees	695,082	175,332
Management and consulting fees	581,203	287,192
General expenses	558,560	222,466
Rent	150,974	275,558
Depreciation and amortization	64,931	7,358
	\$ 6,338,607	\$ 3,027,760

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

23. SUBSEQUENT EVENTS

Financing

On February 13, 2014, the Company completed a CAD \$5,000,000 private placement financing. The financing consisted of 7,692,307 Units at a price of CAD \$0.65 per unit. Each unit comprises one common share and one common share purchase warrant. One warrant allows the holder to acquire one common share of the Company at an exercise price of CAD \$1.00 per share for a period of 2 years. No commission was payable with respect to this financing.

Subsequent to the year end, the Company received CAD \$2,834,513 from the exercise of 7,761,863 warrants.

License Agreement Restructure

Subsequent to the year end, the Company entered into a term sheet with the University of Connecticut ("the University") to restructure its license agreement of April 8, 2003 (the "License Agreement"). The parties agreed to restructure the payment provisions of the License Agreement by reducing the royalty payment to three percent (3%) of amounts received from unaffiliated third parties in respect of the exploitation of the Intellectual Property defined in the License Agreement.

In consideration for the favorable restructuring of the royalty terms, the Company will provide the University 2,000,000 common shares. Trading of these shares is restricted until May 31, 2016. The restructuring is subject to the final execution of the formal amendment to the License Agreement.

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