



POET TECHNOLOGIES INC.

Management's Discussion
and Analysis
6-months ended June 30, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2013

The following discussion and analysis of the operations, results, and financial position of POET Technologies Inc. (formerly 'OPEL Technologies Inc.'), ('PTI' or the "Company") for the six months ended June 30, 2013 (the "Period") should be read in conjunction with the Company's June 30, 2013 condensed unaudited interim consolidated financial statements and the Company's December 31, 2012 audited consolidated financial statements and the related notes thereto where applicable both of which were prepared in accordance with International Financial Reporting Standards ("IFRS"). The effective date of this report is August 13, 2013. All financial figures are in United States dollars ("USD") unless otherwise indicated.

Forward-Looking Statements

This management discussion and analysis contains forward-looking statements that involve risks and uncertainties. It uses words such as "may", "would", "could", "will", "likely", "except", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", and other similar expressions to identify forward-looking statements. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the early stage of the Company's development and the possibility that future development of the Company's technology and business will not be consistent with management's expectations, difficulties in achieving commercial production or interruptions in such production if achieved, the inherent uncertainty of cost estimates and the potential for unexpected costs and expenses, the uncertainty of profitability and failure to obtain adequate financing on a timely basis. The Company undertakes no obligation to update forward-looking statements if circumstances or Management's estimates or opinions should change, except to the extent required by law. The reader is cautioned not to place undue reliance on forward-looking statements.

Business Overview

The Company currently operates as a fabless semiconductor company, where it develops a process for integrating optical and electronic devices on a single chip, the planar opto-electronic technology ("POET") a next-generation semiconductor platform.

PTI is incorporated under the laws of the Province of Ontario. The Company's shares trade under the symbol "PTK" on the TSX Venture Exchange in Canada and under the symbol "POETF" on the OTCQX in the U.S.

While it currently operates in one business segment, it previously operated in two:

- Through its wholly-owned U.S subsidiary, ODIS Inc. ("ODIS"), the Company has developed and deployed the POET platform – with a focus on military, industrial and commercial applications, including infrared sensor arrays and ultra-low-power random access memory. The POET platform 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. POET addresses the needs of speed, size, energy, and cost efficiency associated with the current silicon-based technology along with the hurdles of expanding silicon-based chip technology to fit the needs of product developers. PTI is the first company to demonstrate the monolithic integration of optical and electronic devices on a single chip using a single manufacturing process.
- Through its wholly owned U.S. subsidiary, OPEL Solar Inc ("OSI"), the Company previously manufactured and deployed solar trackers. All solar activities ceased in June 2012, and related assets were disposed of throughout the balance of 2012 and into 2013 (See *Discontinued Operations*).

Semiconductor Technology

PTI is currently conducting developmental activities, through its ODIS facility, for a broad array of devices for potential military, consumer, commercial, and industrial applications, built on its III-V (gallium-arsenide) POET semiconductor platform. The Company currently has 34 patents issued and 7 patents pending, covering the POET process.

Using POET, PTI has successfully demonstrated monolithic integration of optical and electronic devices on a single chip in its own facility, demonstrating and optimizing a number of fundamental devices, including optical thyristors,

lasers, and complementary inverters. A critical subset of these devices has also been produced and operation validated by a third-party military semiconductor fab.

Projects in the current POET pipeline include optical code division multiple access (OCDMA) devices for avionics systems, combined RF/optical phased arrays, optoelectronic directional couplers, and ultra-low-power random access memory (RAM).

Many of these military-grade devices are expected to be adaptable to commercial applications such as infrared sensor arrays for monitoring and imaging applications, and in telecom applications such as fiber to the home (FTTH).

The POET process is expected to allow the Company to fundamentally alter the landscape of computing for a broad range of applications by offering components with dramatically lowered cost together with increased speed, density, and reliability.

Utilizing completely standard CMOS fabrication equipment and process steps POET allows semiconductor manufacturers to make microchips that will potentially operate at far faster clock speeds and be more energy efficient than current silicon devices, at a lower price point.

Specifically, key anticipated benefits of the POET platform include:

- 100x speed improvement over CMOS silicon (silicon hits a “power wall” at about 4 GHz that has limited circuit speeds to about 3.2 GHz over the last 10 years)
- 10-100x power efficiency improvement over CMOS silicon (depending on application)
- Flexible application that can be applied to virtually any technical application, including memory, digital/mobile, sensor/laser and electro-optical, among many others
- No retrofit or other modifications to existing silicon fabs required – Since POET/PET are CMOS technologies fabricated using standard lithography techniques; they are easily integrated into current semiconductor production facilities extending the profitable utilization of fabrication equipment and production lines that would otherwise be considered at the end of life.

Key milestones for PTI were its successful production of two micro-devices which form the basis for its platform menu for building next-generation microchips:

- Continuous-wave vertical cavity lasers, the basis for chip-to-chip interconnection; and
- Complementary inverters, the basis of on-chip logic.

These complement numerous other optoelectronic devices already demonstrated by PTI – including heterostructure field effect transistors (HFETs), optical thyristors, pulsed lasers, and super-radiant light emitting devices – both optical and electronic devices, and all able to be monolithically fabricated via the POET process.

Once POET is scaled, it is anticipated that the future technology development will lower the threshold current, increase the output power and optimize the in-plane version of the VCL. In addition the complementary transistor circuit capability will be enhanced by reducing the feature size to the 100-nm scale incorporating PTI’s new self-aligned contact technology. With transistor cutoff frequencies around 38-GHz for a 0.7-um gate, the scaling is expected to produce 260-GHz transistors with commensurate improvements in circuit speed. Potential business partners and licensees for PTI’s POET technology include semiconductor device companies, semiconductor fabs, and other key verticals in the military, industrial and commercial sectors.

As with many cutting-edge technologies, the potential of POET was first recognized by the military sector. POET has been validated by the U.S. Department of Defense (USDOD) by the award of numerous projects in the last decade and a half – many of them as follow-on to successful projects. These have supported and continue to support the development of the POET process, infrared sensing technology, sensor/laser development and the other devices whose operation depends on the combination of electronic circuits and lasers on the same microchip.

The Company remains active in this area with projects underway with the USDOD and a major U.S. Defense Contractor. While the Company continues on the path of producing a much sought after Infrared Detector (IR) Device contracted for by the U.S. Air Force Research Laboratory (AFRL), the work conducted with military applications will not limit the Company’s ability to monetize POET in non-military areas, by porting its operational advantages to the civilian sector.

Rapid growth continues in the semiconductor industry, as the world has become increasingly dependent on electronics for day-to-day functioning. As that dependency grows, so does the need for smaller, faster and more power efficient devices. Silicon-based semiconductor technology has been pushed to its limits. In an effort to keep up

with the demand, technology leaders are committing an average 15% of their \$167 billion in revenues to R&D efforts as reported by IC Insights.

In this framework, the Company believes that its unique POET positions it to form a new paradigm for the future, extending Moore's Law beyond present-day capabilities as a truly disruptive technology.

Industry Outlook

The semiconductor market is projected to grow to \$430 billion by 2015 and remains a rapidly growing segment of our economy. Electronics sales topping \$1,200 billion all require semiconductors to achieve success and competitive performance. New and more integrated technologies and devices have been the biggest driver to this market growth.

PTI's POET technology is applicable in a large portion of this semiconductor market as it represents, possibly, the most comprehensive solution to increasing semiconductor performance in an economical and functional manner. In the short term, POET's current development efforts may allow future licensees to address weaknesses in the following markets (market sizes projected for 2015):

- Optical Semiconductor – projected \$37.4 billion
- Sensors and actuators – projected \$14.1 billion
- Analog ICs – projected \$55.9 billion
- Discrete semiconductors – projected \$28.6 billion

With further development, POET can potentially address other market areas such as:

- Logic – projected \$115 billion
- MPUs and MCUs – projected \$92.6 billion
- Memories – projected \$86.6 billion

Source: Gartner, PWC

Business indicators suggest that POET may provide significant value to the ever growing market, where it addresses a need for power consumption, speed, size and cost efficiency.

As reported throughout 2012, PTI's strategy is to continue, aggressive research and development efforts planned by ODIS as it relates to the completion of the POET platform. Upon completion, POET is expected to allow ODIS to fundamentally alter the landscape of computing for a broad range of applications by offering components with dramatically lowered cost together with increased speed, density, and reliability.

Since the beginning of its development, the recognition of the breakthrough potential provided by the POET technology within the military community remains strong. Even through a downturn in military spending during 2011, POET remained at the forefront of those projects earmarked for funding during 2012 and 2013. This military development work will not constrain the commercial application of the POET Technology.

Key Success Drivers ("KSD")

ODIS continued to develop its enhancements to the POET platform during 2012 and into 2013. POET is a semiconductor fabrication process that enables the monolithic fabrication of integrated circuits containing both electronic and optical elements. In late 2012, PTI successfully demonstrated a continuous laser, fabricated using POET, which it regards as a significant development and underscores its viability and commercial applicability.

The POET platform, which is covered by numerous patents and patents pending, makes possible the economic production of fully-integrated optoelectronic semiconductor devices with higher speeds and reduced power consumption compared to conventional silicon-based devices. Utilizing POET, ODIS designs infrared sensor type products for military and industrial applications. ODIS develops gallium arsenide-based processes and semiconductor 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, higher efficiency computing systems, and potentially telecom for Fiber to The Home. ODIS chip design capabilities allow for optical and electronic signals to be used on the same chip when necessary and allow for direct connection to optical fiber without conversion to electronic signals.

In June 2012, the Company announced a major re-structuring, formalized on the basis of the new strategic plan to exit the solar industry, and re-focus its efforts on its POET semiconductor platform. Operationally, this included the intent to pursue a \$3,000,000 financing, in tranches, the departure of two members of the Board to allow the inclusion of Messrs. Mark Benadiba and Peter Copetti as Executive Chairman and Executive Director on the Board, respectively,

and the return of Dr. Samuel Peralta to the Board as an independent Director. Management enacted new stringent cost-cutting initiative with regard to solar-related facilities, staff, and equipment, and all remaining cash resources was diverted to POET operations.

On October 29, 2012, the Company appointed Mr. Lee Shepherd as Vice President of Technology. With over 25 years of experience in business, technical, and military leadership roles, and a focus on the telecommunications and information technology industry serving in technical, management, product architecture, engineering program management, technical sales, merger and acquisition leadership, and entrepreneurial roles, Mr. Shepherd brought a broad range of experience to directive of assisting the Company's POET commercialization efforts.

The Company's success in 2012 was driven by its ability to achieve significant milestones in cost control, liquidity and technical progress, which in turn led to a recovery in market value of its share price from 2011. In 2013, the Company continued to build on those success drivers to keep the Company operationally sustainable. The Company's future success will also be driven by focusing on the same factors, as well as critical human capital.

Management's decision in 2012 to relieve itself of underperforming assets and establishing a lean operational model has allowed the Company an opportunity to access the necessary resources to focus on its key strategy – developing and monetizing its state-of-the-art POET process.

In February 2012 the Company completed a new brokered private placement financing. For details of this, please refer to the section entitled "*Significant Events and Milestones During 2013*".

Over 2012 and 2013, the Company recognized the need for and invested in new fabrication equipment to allow its technical staff to address technology and commercialization milestones. This new equipment has resulted in the ability to target milestones further down the roadmap than previously mapped. It has also enabled the Company to define and develop an important planar electronic technology (PET) subset of the POET platform, which has the potential to rapidly address specialized application niches in the semiconductor industry.

Significant Events and Milestones During 2013

PTI continues to make progress in 2013. Following are some significant events in the growth and development of the Company which add to the foundation for the achievement of the Company's future success:

- 1) 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 year 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.
- 2) On February 25, 2013, the Company engaged Atomic Communications, LLC as its new public relations firm.
- 3) In February 2013, the Company ordered approximately \$868,000 dollars of new equipment to upgrade its R&D facility capabilities. All necessary site infrastructure upgrades have been completed and some of the new equipment has been delivered and installed. The delivery of the remaining equipment has been delayed by the supplier and is now expected installed and calibrated by the end of September 2013.
- 4) On March 4, 2013, the Company announced that it had achieved Milestone 4, which is the next key milestone in POET. The Company announced that it achieved radio frequency and microwave operation of both n-channel and p-channel transistors. By reaching this milestone, 3-inch POET wafers fabricated at BAE Systems (Nashua, NH) yielded submicron n-channel and micron-sized p-channel transistors operating at frequencies of 42 GHz and 3 GHz respectively. These operating frequencies are expected to be improved even further in the short term to up to 300-350 GHz range for the n-channel device.
- 5) On April 2, 2013, the Company announced the appointment of Dr. Adam Chowaniec and Dr. Geoff Taylor to the Board of Directors. Dr. Chowaniec was the CEO of a number of technology companies that were successfully acquired by companies such as Ericsson, Microsemi and Integrated Device Technology.

Dr. Taylor is the Chief Scientist who has led the development of the Company's POET platform. Dr Taylor is also a professor of Electrical Engineering and Photonics at the University of Connecticut. Dr. Taylor was also a member of the technical team at AT&T Bell Labs, Honeywell and Texas Instruments.

- 6) On April 5, 2013, the Company divested its remaining assets available for sale to a third party in consideration of the assumption of the related disposal group liability, thereby completing the Company's discontinuance of its solar division.
- 7) On April 11, 2013, the Company announced that it retained Grayling Communications Limited ("Grayling"), a leading international strategic communications advisory firm to be its North American investor relations counsel. Grayling has committed to assisting the Company in areas of investor relations, public relations and government relations. Grayling has over 1,000 staff in 70 offices in more than 40 countries across the United States, Western and Eastern Europe, Africa and Asia Pacific.
- 8) On June 3, 2013, the Company completed the refitting of its Molecular Beam Epitaxy ("MBE") System which is used in its gallium arsenide wafer production. In addition to refitting the MBE, the Company also completed a redesign of the lab to allow for the installation of new R&D equipment.
- 9) On June 10, 2013, the Company announced the establishment of a Special Strategic Committee ("SSC"). The SSC has been given the mandate to evaluate strategic alternatives in relation to the sale or licensing of the Company's proprietary POET platform, to deliver recommendations to the Board and to carry out any selected transactions to completion as confirmed by the Board. Mr. Copetti was confirmed as chairman of the SSC.
- 10) On June 27, the Company announced that the chairman of the SSC had appointed Adam Chowaniec to the SSC. Also appointed were members to the advisory subcommittee to the SSC, Lee Shepherd, VP of Technology at ODIS, and two external members, Geoffrey Rogers and Dr. Martin Peisl. Mr. Rogers has held key roles with Tensilica (now Cadence Design Systems), Silicon Architects (now Synopsys), VLSI Technology (now Philips Semiconductor) and Applied Micro Circuits. Dr. Peisl has held senior positions in companies such as Siemens, Infineon, Qimonda, Ramaxel, and Netlist; he was directly responsible for product development of Dynamic Random Access Memory (DRAM) generations from 64Mbit to 1Gbit, has overseen product-line starts in Mobile Random Access Memory, Reduced Latency DRAM and DRAM based Application Specific Integrated Circuits (ASICS); on the Joint Electron Device Engineering Council (JEDEC) standardization committee, he has chaired development of the predecessor of the Double Data Rate 2 (DDR2) specification within the Advanced DRAM Technology (ADT) consortium together with technical members of Intel, Samsung, Hynix, Micron and Elpida.
- 11) On June 27, 2013, the Company announced that it had achieved Milestone 6. The new Milestone is the integration of the complementary inverter. Specifically, PTI successfully demonstrated complementary heterostructure field effect transistor based inverter operation using the POET process. This milestone was accelerated at the direction of the SSC, and forms the basis for all on-chip logic.
- 12) On July 23, 2013, the Company changed its name to POET Technologies Inc. and trading on the TSX Venture Exchange under the new name and stock symbol (TSX-V:PTK) commenced on July 25, 2013. The purpose of the name change is to better reflect the Company's business and highlight the POET platform.

Summary of Quarterly Results

Following are the highlights of financial data of the Company for the most recently completed eight quarters which have been derived from the Company's financial statements prepared in accordance with IFRS. All amounts herein are expressed in United States dollars unless otherwise indicated:

	Jun. 30/13	Mar. 31/13	Dec. 31/12	Sep. 30/12	Jun. 30/12	Mar. 31/12	Dec. 31/11	Sep. 30/11
Sales	\$ 86,269	\$ 91,087	\$ 126,736	\$ 112,070	\$ -	\$ -	\$ 7,630	\$ 93,316
Cost of goods sold	-	-	-	-	-	-	-	-
Research and development	256,914	312,551	265,146	240,494	233,850	289,764	338,018	305,349
Depreciation, amortization	12,276	2,548	1,838	3,258	1,131	1,131	1,089	1,131
Professional fees	185,615	139,786	32,001	17,650	70,931	54,750	20,375	88,690
Stock-based compensation	993,179	734,715	651,317	379,243	309,069	364,397	439,000	593,864
General and administrative	612,825	585,335	404,654	297,854	342,968	160,312	188,180	189,827
Investment income and other income	-	-	-	-	-	-	(1,812)	(5,312)
Discontinued operations (income) loss	-	-	210,754	(382,666)	3,480,717	1,376,644	6,645,439	2,334,914
Net loss	(\$1,974,540)	(\$1,683,848)	(\$1,438,974)	(\$ 443,763)	(\$ 4,438,666)	(\$ 2,246,998)	(\$7,622,658)	(\$3,415,148)

Explanation of Quarterly Results

In this section entitled “*Explanation of Quarterly Results*”, all amounts relate to the quarterly periods ended June 30, 2013 or June 30, 2012. In 2013, the Company continued to earn SBIR revenues relating to a \$750,000 SBIR contract granted to the Company in 2012. This award was granted to the Company while the government was scaling back on SBIR contracts due to government cutbacks. From that SBIR grant, \$86,269 was earned in 2013. During the same period in 2012, no awards were granted and the Company did not earn any revenue. The Company’s strategy, however, is to reduce its dependency on SBIR by developing POET to the stage of monetizing it outside of its current uses by the government.

In 2013, the Company reported a loss of \$1,974,540 compared to a loss of \$4,438,666 for the same period in 2012, representing a significant improvement in corporate performance of \$2,612,328. The most notable impact to this improvement was from discontinuing the Company’s solar related operations. In 2012, the loss resulting from its solar operations was \$3,480,717 compared to nil in 2013. The ongoing reduction in quarterly and periodic operating loss continues to underscore the financial value of discontinuing this segment of the business.

Research and development costs had a marginal increase of \$23,064 over 2012. The increase is consistent with the message of reaching milestones which will in-turn drive monetization of POET. The increased research and development costs contributed to the Company achieving milestone 6 three months ahead of schedule. The new milestone is the integration of the complementary inverter, the basis of all on-chip logic. The Company successfully demonstrated complementary heterostructure field effect transistor (“HFET”) based inverter operation using the POET process.

Depreciation and amortization increased by \$11,145, increasing from \$1,131 in 2012 to \$12,276 in 2013. The expense will continue to increase as the Company adds approximately \$875,000 of new equipment to the lab. The new equipment provides the Company with a unique opportunity to advance the POET process within the confines of its own lab and advance its timelines toward monetization.

Professional fees continue to increase over 2012. In 2013, professional fees were \$185,615 compared to \$70,931, an increase of \$114,684. The Company made numerous changes to its corporate structure and is continuing to make changes in order to better position the company to quickly execute on the best opportunities for monetization. These structural changes include; changing its name, managing its patent registrations, expanding its shareholder base and examining other non-Canadian listing opportunities. Legal and other professional costs were incurred to execute on these necessary changes.

General and administrative expenses for 2013, although higher than 2012 by \$269,857, remained relatively consistent from Quarter 1 to Quarter 2. The increase over 2012 was driven primarily by increases in management fees and investor relations of \$151,950 and an increase in product warranty of \$74,101. As previously disclosed, the increased management fees have yielded immediate effects on the Company’s overall operations and direction. The increase in product warranty was as a result of a review of its product warrant estimate.

Due to the timing of stock option grants and the price at which stock options are granted, the Company had a non-cash increase in stock option compensation expense of \$684,110 for 2013 (\$684,110) compared to 2012 (\$309,069). During the period, the Company granted 2,200,000 stock options at a price of \$0.46 per share compared to 5,500,000

stock options at a price of \$0.22 per share in 2012. Substantially all of the new option grants were to new Board members and to advisors to the recently formed Special Strategic Committee.

Explanation of Six Months Results

In this section entitled "*Explanation of Six Months Results*", all amounts relate to the six-month periods ended June 30, 2013 or June 30, 2012. As explained in the quarterly results above, the Company earned \$177,356 during the six months ended June 30, 2013 in SBIR revenue relating to a \$750,000 SBIR contract granted to the Company in 2012. The Government's interest the Company's technology and its historical success helped to secure the \$750,000 award while it was scaling back on SBIR contracts due to government cutbacks. During the same period in 2012, no awards were granted and the Company did not earn any revenue. The Company's strategy, however, is to reduce its dependency on SBIR by developing POET to the stage of monetizing it outside of its current uses by the government.

General and administrative expenses in 2013 increased by \$694,880 over the same period in 2012. The increase was primarily driven by increases in: management fees and investor relations of \$332,231; maintenance and insurance costs of \$64,000; director fees, salaries and benefits of \$254,000; and listing and regulatory fees of \$40,000.

The increases in the above expenses are consistent with the Company's strategy to continue to drive POET to monetization. The new management team was successful in attracting high profile members to the Board of Directors, renewing investor confidence which allowed the Company to raise over 13 million dollars in new capital since June 2012. Additionally, the leadership of the new management team contributed to divesting the Company of its under-performing solar division which had contributed to a \$4,857,361 loss in 2012. The current level of management fees and investor relation expenditure is expected to remain for the foreseeable future as the team continues to drive the POET monetization. Other expenses such as regulatory fees, listing fees, office expenses, travel expenses and other ancillary expenses naturally increased as these costs are considered integral to raising capital.

The Company continues to invest in highly technical staff to expedite the development and monetization of POET, as a result the Company had an additional \$98,200 of salaries and benefits for the period when compared to 2012. This investment has already contributed to the Company reaching its Milestone 6, an important milestone in the Company's path to monetization.

Non-cash stock option expense was \$1,727,894 in 2013 compared to \$673,466 in 2012, an increase of \$1,054,428. The Company granted 2,250,000 stock options in 2013 and 7,780,000 stock options in 2012. The expensing of vested stock options granted in 2012 had a significant impact on the expense in the current period. The periodic granting of stock options to key personnel is considered to be invaluable to maintaining such key employees and consultants.

Professional fees were \$325,401 in 2013 compared to \$125,681 during the same period in 2012. Professional fees had an increase of \$254,470 due to the professional services required by both accountants and lawyers in dealing with the divestiture of the solar division which included the sale of assets, termination of leases and orderly termination of redundant employees. Additionally, The Company made numerous changes to its corporate structure and is continuing to make changes in order to better position the company to quickly execute on the best opportunities for monetization. These structural changes include; changing its name, managing its patent registrations, expanding its shareholder base and examining other non-Canadian listing opportunities. More than the usual legal and other professional costs were incurred to execute on these necessary changes.

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 arm's 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.

During the period, the Company sold the remaining assets available in consideration of the assumption of the associated disposal group liabilities relating to its discontinued solar segment. As at June 30, 2013, the Company has fully divested itself of all solar related assets and liabilities. No further income or expense will be incurred relating to the former business segment.

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 in Q2 2013 and 2012 can be analyzed as follows:

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Revenue	\$ -	\$ 169,684	\$ -	\$ 212,879
Costs and expenses				
Cost of goods sold	- -	1,332,196	- -	1,375,438
General and administration	- -	1,711,737	- -	2,705,550
Research and development	- -	270,858	- -	655,749
Investment income, including interest	- -	(684)	- -	(2,791)
	- -	3,314,107	- -	4,733,946
Net operating results from discontinued operations, net of taxes	- -	(3,144,423)	- -	(4,521,067)
Loss on divestiture of subsidiaries, net of taxes	- -	(336,294)	- -	(336,294)
Net loss from discontinued operation, net of taxes	\$ - -	\$ (3,480,717)	\$ - -	\$ (4,857,361)

Explanation of Material Variations by Quarter for the Last Eight Quarters

In the quarter ending June 30, 2013, the Company disposed of its remaining assets available for sale to a third party in consideration of the assumption of the associated disposal group liabilities relating to its discontinued solar segment. No gain or loss was recorded on the disposal. Stock option expenses increased by \$258,464 in the quarter over the previous quarter. Substantially all of the new option grants were to new Board members and to advisors to the recently formed Special Strategic Committee.

In the quarter ending March 31, 2013, the Company's professional fees and general and administrative expenses were cumulatively \$725,121. This amount is \$288,466 greater than the previous quarter ended December 31, 2012. The increase was a result of professional fees relating to discontinuing the solar operations, the hiring of a new investor relations firm and salaries and benefits paid to new technical staff engaged to drive the technical development of POET and severance payments related to redundant staff. Professional fees are expected to be reduced over the coming quarters.

In the quarter ending December 31, 2012, the Company divested itself of a portion of its solar segment. The assets were sold to an third party for \$1,000,000. No gain or loss was recorded on the disposition of these assets.

In the quarter ending September 30, 2012, PTI's results showed a profit of \$382,666 included in discontinued operations through the negotiation of lower payments on some of its accounts payable and the completion of some final sales commitments to customers. These were the final billings associated with the discontinued solar business.

In the quarter ending June 30, 2012, PTI made the decision not to continue the solar related side of its business. All assets and operations were reviewed and the Company posted a loss on discontinued operations of \$3,480,717. By the end of the year, all losses associated with discontinuing the solar division totaled \$4,685,449. All eight quarters in the table above have been retroactively restated to show the effects of the discontinuation of PTI's solar business.

In the quarter ending December 31, 2011, the Company recorded an inventory write down of \$3,570,406 and an impairment of long lived assets of \$1,501,692. Both items were included in the loss from discontinued operations of \$6,645,439.

In the quarters ending September 30, 2011, December 31, 2011, March 31, 2012, and June 30, 2012, PTI, through its ODIS division, recorded its lowest levels of revenue since 2008. The U.S. Government stopped all SBIR funding for many companies, including ODIS. This type of grant had been a solid source of funding to develop the POET platform over the years. ODIS was granted a new SBIR from NASA last quarter which will help fund this activity with new revenue which started in July.

Segment Disclosure

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 six months ended June 30, 2013 and June 30, 2012 is as follows:

	OSI	2013 ODIS	Total	OSI	2012 ODIS	Total
Revenue	\$ -	\$ 177,356	\$ 177,356	\$ -	\$ -	\$ -
Operating expenses	-	1,563,394	1,563,394	-	759,371	759,371
Amortization	-	2,096	2,096	-	2,262	2,262
Loss from discontinued operations	-	-	-	4,857,361	-	4,857,361
Segment loss	-	1,388,134	1,388,134	4,857,361	761,633	5,618,994
Corporate operations	-	-	2,270,254	-	-	1,066,670
Net loss			\$ 3,658,388			\$ 6,685,664

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

	OSI	2013 ODIS	Total	OSI	2012 ODIS	Total
Revenue	\$ -	\$ 86,269	\$ 86,269	\$ -	\$ -	\$ -
Interest income	-	-	-	-	-	-
Cost of goods sold	-	-	-	-	-	-
Operating expenses	-	855,679	855,679	-	356,926	356,926
Amortization	-	1,048	1,048	-	1,214	1,214
Loss from discontinued operations	-	-	-	3,480,717	-	3,480,717
Segment loss	-	770,458	770,458	3,480,717	358,140	3,838,857
Corporate operations	-	-	1,204,082	-	-	599,809
Net loss			\$ 1,974,540			\$ 4,438,666

Assets and capital expenditures at June 30,

	Opel (1)	2013 ODIS	Total	Opel	2012 ODIS	Total
Total assets	\$ 1,893,793	\$ 1,171,888	\$ 3,065,681	\$ 1,530,286	\$ 95,880	\$ 1,626,166
Capital expenditures	\$ -	\$ 871,096	\$ 871,096	\$ -	\$ 27,500	\$ 27,500

(1) Includes cash of \$1,781,222 and accounts and other receivable of \$109,979.

(2) The Company has assets of \$3,409,646 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 June 30,	US	Canada	Europe	Consolidated		
Current assets	\$ 2,140,044	\$ 3,409,646	\$ -		\$ 5,549,690	
Property and equipment	\$ 211,095	-	-		\$ 211,095	
Construction in progress	\$ 673,655	-	-		\$ 673,655	
Patents and licenses	\$ 40,887	-	-		\$ 40,887	
	\$ 3,065,681	\$ 3,409,646	\$ -		\$ 6,475,327	

2013

	US	Canada		Europe		Consolidated
Six months ended June 30,						
Revenue	\$ 177,356	\$ -	\$ -	\$ -	\$ 177,356	
General and administration	1,070,126	2,196,153	-	-	3,266,279	
Research and development	569,465	-	-	-	569,465	

2012

As of June 30,	US	Canada		Europe		Consolidated
Current assets	\$ 1,872,720	\$ 49,422	\$ -	\$ -	\$ 1,922,142	
Property and equipment	28,818	-	-	-	28,818	
Patents and licenses	45,079	-	-	-	45,079	
	\$ 1,946,617	\$ 49,422	\$ -	\$ -	\$ 1,996,039	

2012

	US	Canada		Europe		Consolidated
For the six months ended June 30,						
General and administration	\$ 240,390	\$ 1,064,299	\$ -	\$ -	\$ 1,304,689	
Research and development	523,614	-	-	-	523,614	

Liquidity and Capital Resources

The Company had working capital of \$5,208,293 on June 30, 2013 compared to \$1,433,392 on December 31, 2012. The increase and maintenance of the high working capital was due to the 7.2 million dollars of financing completed on February 14, 2013 in addition to the 5.4 million dollars raised in the second half of 2012. The Company used a portion of the funds raised in 2012 to settle the high accounts payable balances that it carried for most of 2012. Additionally, the \$870,808 has been spent in procuring vital machinery and equipment.

The Company's balance sheet currently has assets with a book value of \$6,475,327 (2012 - \$2,367,260) of which 86% (2012 - 97%) or \$5,549,690 (2012 - \$2,297,607) is current and primarily cash and accounts receivable of \$5,546,212 (2012 - \$1,532,511). This highly liquid and unencumbered balance sheet is a spring board for a flurry of activity already undertaken and further expected in 2013, including but not limited to achieving technical and operational milestones, acquiring new and more modern semi-conductor fabrication equipment and engaging critical commercial and technical staff.

The Company is positioned with sufficient liquidity to support its operations, technological programs and fixed asset purchases over the next 12 to 18 months. Although the Company has been successful in obtaining such financing in the past, there is no assurance that it will be able to do so in the future.

The Company is embarking on an aggressive plan of monetizing POET while simultaneously improving shareholder value. The focus therefore is to remain sufficiently capitalized through lean operations.

Related Party Transactions

Compensation to key management personnel were as follows:

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	2012	2012	2012	2012
Salaries	\$ 235,831	\$ 188,889	\$ 372,231	\$ 410,889
Share-based payments (1)	481,901	362,222	647,143	568,511
Total	\$ 717,732	\$ 551,111	\$ 1,019,374	\$ 979,400

(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.

During the period, the Company paid a cumulative total of \$146,400 in consulting fees to two executive directors of the Company.

During the period, the Company paid \$43,900 to a director for consulting services rendered to the Company.

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.

Other Events

On July 23, 2013, the Company changed its name to POET Technologies Inc. and started trading on the TSX Venture under the new name and stock symbol on July 25, 2013. The purpose of the name change was to better reflect the Company's business and highlight the POET platform.

Critical Accounting Estimates

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.

Other stock-based payments

The Company accounts for other stock-based payments based on the fair value of the equity instruments issued or service provided, whichever is more reliable.

Cumulative Translation Adjustment

IFRS requires certain gains and losses such as certain exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation to be included in comprehensive income.

Recent Accounting Pronouncements

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. Please see note 3 of the financial statements for additional information.

Financial Instruments and Risk Management

The Company's financial instruments consist of cash, accounts receivable, marketable securities, accounts payable and accrued liabilities. 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.

Exchange Rate Risk

The functional currency of PTI Technologies Inc. is the Canadian dollar. The Company is exposed to foreign currency risk with the Canadian dollar. A 10% change in the Canadian dollar would increase or decrease other comprehensive income by \$327,629. Since the Company's operations predominantly transact their sales and purchases in their respective domestic currencies, the exposure is reduced. Therefore, the Company typically does not hedge accounts receivable and accounts payable that are denominated in a foreign currency.

Interest Rate Risk

Short-term investments bear interest at fixed rates, and as such, are subject to interest rate risk resulting from changes in fair value from market fluctuations in interest rates. The Company does not depend on interest from its investments to fund its operations.

World Economic Risk

Like many other companies, the world economic climate has impacted PTI's business and the business of many of its current and prospective customers. The difficult economic climate has led to U.S. Government cutbacks in funding the SBIR's that are used to support ODIS' R&D activities. However, lower interest rates, a lower value of the dollar and rising global liquidity have helped to counterbalance some of these global economic challenges which may lead to the release of some Government funding.

Liquidity Risk

PTI predominately relies on equity funding for liquidity to meet current and foreseeable financial requirements. Additionally, ODIS has a history of Governmental funding of some of its projects through SBIR grants but recent Federal budget issues have reduced availability to smaller companies like ODIS.

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, accounts receivable and accounts payable and accrued liabilities) are not subject to market risk, due to the short-term nature of these instruments.

Strategy and Outlook

During 2013, there are a number of projects planned which will address the short-term and long-term growth plans of the Company including, but not limited to the following:

- Continue to complete the third party validation of the patented POET technology at a fabrication facility that can prove its viability and product potential through ODIS.
- Expand the ODIS engineering team with placement of additional team members at both the ODIS' R&D facility and the third party fabrication facility in Nashua, New Hampshire.
- Procure additional equipment which may be required for the continuing development of POET on a more rapid and more efficient basis.
- Actively engage with all Departments of the Military including other Government Agencies pressing for SBIR funding directed at ODIS for projects which serve to enhance POET's development.
- Actively search out opportunities to monetize POET, bringing maximum value to shareholders.

Outstanding Share Data

Common Shares

As of June 30, 2013 and August 13, 2013, there were, respectively, 132,474,865 and 132,636,115 outstanding common shares of the Company.

Stock Options and Warrants

As at June 30, 2013 and August 13, 2013, the Company had 42,478,569 warrants and compensation warrants outstanding to purchase common shares at exercise prices ranging from \$0.22 – \$0.75

Total stock options outstanding as at June 30, 2013 and August 13, 2013 were 19,074,000 and 22,267,750 shares respectively, priced between \$0.16 and \$1.20 per common share.

Additional detailed share data information is available the Company's Notes to Consolidated Financial Statement.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

Key Business Risks and Uncertainties

Dependence Upon Key Personnel – PTI depends on its senior management and technical staff. If PTI is unable to attract and retain key personnel, it may have a material adverse effect on the Company. In an effort to manage this risk, the Company has established a competitive compensation grid for all staff that includes certain benefits and stock options. The Company frequently compares its rates of pay to its competitors and the compensation package that would normally be offered to such senior individuals both inside and outside the industry.

Technology Development – Delays in either technology development or the transition to large scale application of the technology may cause a material adverse effect to the Company. Technology development in PTI follows a strict path of concept, research, business analysis, design, beta testing and technical implementation. These milestones are reviewed regularly with the head of technology development to ensure timely completion the technological milestones. Should major delays ensue, the Company has a policy of advising its stakeholders of significant delays and the impact of any such delay.

Financial Liquidity – The Company has not earned profits, so its ability to finance operations is chiefly dependent on equity financings. Given the current financial position of the Company, significant doubt is raised as to the Company's ability to continue as a going concern. However since June 2012, the Company has raised over 13 million dollars in equity financing in support of the POET initiative.

Governmental Incentives – Projects that PTI might participate in directly or through ODIS may not be funded due to reductions, changes in timing, and/or the removal of government incentives. There is no assurance that the Company will be successful in continuing to focus its energies on commercial applications of the ODIS technology and minimizing its reliance on SBIRs to mitigate this risk.

Ability to Reach Profitability – PTI has no history of profitability and may not be able to monetize POET. The Company has been aggressively marketing the technology to industry.

Market Acceptance of New Products – ODIS' POET technology is a new technology which currently does not have an installed base and may not be embraced for use by the semiconductor industry. Branding is a key to creating market acceptance. There is no assurance that these risks can be mitigated through public announcements, demonstrations and advertisements about the competitive advantage of the Company's high efficiency technology..

Technology Changes – PTI's technology is highly reliant upon keeping pace with technological changes. PTI's products are complex and rely on state-of-the-art design methodologies to optimize them for market. If PTI cannot afford to keep pace with these changes, it may have a material adverse effect on the Company. Retaining qualified engineers and scientists has been identified as a KSD for the Company. Qualified personnel will continue to ensure that the Company is not only keeping in touch with technological developments but is also implementing these new developments. Compensation is key in hiring and retaining these individuals. As discussed above, our Compensation packages have been identified as above standard in the industry.

Major Competitors – PTI may face several competitors before or after it brings its technology to market which could result in the lack of acceptance thereby having a material adverse effect on the Company. Through research and competitive data, PTI feels that these markets are ready for a new entrant especially with the efficiency of the ODIS technology. Staying ahead of the curve with R&D, and consistency in new product development will be key to keeping, developing and maintaining market share.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.



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