

**WiLAN**

Wi-LAN Inc.  
2013 Annual Report



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Dear Fellow Shareholders:

It is seven years since market changes and strong competitive forces put WiLAN's Board in the position of having to choose between the Company continuing as a manufacturer of high-speed wireless products or focusing its business on technology licensing.

WiLAN's Board of course chose to focus on technology licensing and today WiLAN is a different and much stronger company. From modest beginnings with a small portfolio of wireless patents, WiLAN has grown into one of the world's leading licensing companies. We have established a diverse business which is no longer dependent upon a single market or a single portfolio of patents but instead is active in many of the world's most important technology markets.

In the last seven years as a licensing company, WiLAN has developed many successful multi-million dollar licensing programs for patents. These programs relate to many key technologies employed today including Wi-Fi, 2G, 3G and 4G cellular, DOCSIS, Bluetooth, DSL, and V-Chip. Many of these licensing programs are expected to continue to generate revenues and new licenses in the future.

WiLAN has assembled a world-class team, including senior business executives hired in 2013 who have been tasked with expanding our business into new markets. Some of the newer markets in which we are active include digital cameras, computer games, network management, streaming video, DRAM, and other semiconductor technologies. These new programs have already begun to generate results and are expected to contribute significantly to WiLAN's future growth.

In late 2013, WiLAN's business took an important step forward when the Company entered into a partnership with Panasonic. Under this partnership, WiLAN will help Panasonic monetize a portfolio of over 900 semiconductor patents and applications which we believe have applicability to a wide range of products including CMOS image sensors used in digital cameras. This partnership gives the Company another key licensing program with the potential of generating significant revenues.

Since restarting the Company in 2006, our licensing efforts have generated agreements worth over three quarters of a billion dollars. To date over 280 companies have licensed patented technologies in our portfolio. In 2013, WiLAN signed 17 licenses, including agreements with Samsung and Panasonic, generating the second highest level of bookings ever. We are particularly pleased that the agreements with Samsung, an early license renewal, and Panasonic, the first major TV manufacturer to license our broad digital TV and display portfolio, were achieved without litigation.

License agreements signed during this year with Alcatel-Lucent and HTC ended multiple litigations and strengthened WiLAN by adding tens of millions of dollars to our backlog. WiLAN also signed license agreements in 2013 with Dell, HP, Novatel Wireless and Sierra Wireless to settle litigation before trial, which is always our preferred outcome.

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In 2013, WiLAN experienced many successes but also experienced tactical setbacks in our licensing efforts, specifically in our litigation. While disappointing, these setbacks must be viewed in the context of the bigger picture. WiLAN is a major licensing company involved in many licensing campaigns for itself and its partners, some of which may require litigation to receive fair compensation. Given the uncertainties of any legal process, we are likely to experience setbacks in our litigation activities from time to time.

Fortunately, WiLAN was organized to withstand setbacks in our licensing efforts and therefore remains viable and strong. With many licensing programs, a deep portfolio of valuable patents and an experienced team, WiLAN can overcome multiple obstacles and minimize their impact on our long-term prospects.

Indeed, notwithstanding many obstacles including multiple declaratory judgments, patent re-exams and difficult, seemingly unproductive negotiations, not to mention the unfavourable outcome in our trial in July 2013, WiLAN has signed license agreements worth an estimated three quarters of a billion dollars. The 280 companies that have licensed technologies in our portfolio, the diversity of our licensing programs and the depth of our patent portfolio are evidence of the continuing strength of WiLAN.

License agreements signed in 2013 contributed to over \$88 million in revenue generated during the year. Our earnings over the year were impacted by significant investments in litigation during the first three quarters. This investment ultimately generated license agreements in the second half of the year that put many millions of dollars into backlog and ended many litigations. The resulting reduction in litigation expense led to over \$17 million in adjusted earnings on revenues of just over \$29 million in the fourth quarter of 2013 and similarly profitable operation forecasted for the first quarter of 2014.

Having generated over \$135 million in adjusted earnings or over 40% of revenue since 2010, WiLAN's business model can generate healthy margins. Since 2010, over \$74 million has been returned to shareholders in dividend and share buyback payments, including over \$25 million in 2013 alone. Our dividend which has been increased four times in three years signals the confidence that we have in our business and the prospect for future earnings.

Our healthy balance sheet, with over \$130 million in cash at the end of 2013, gives WiLAN a strong financial foundation upon which to continue building our business. This foundation demonstrates to prospective licensees that WiLAN can afford to take the time and steps necessary to achieve a fair and balanced license agreement. WiLAN's financial strength also gives the Company the ability to support our partnerships, return capital to shareholders and invest in research and patent acquisitions.

Technology research and the commercialization of innovative technology drove the founding of WiLAN two decades ago. Today, WiLAN remains committed to commercializing innovative technology. Cygnus Broadband, a subsidiary of WiLAN, develops innovative solutions to the challenging problems facing next generation communication networks. Cygnus has pioneered advances in the areas of mobile Quality of Experience (QoE), streaming video optimization, capacity enhancements for wireless networks and software defined network orchestration techniques for improving data center efficiency and cloud application performance. To date, WiLAN's research activities have yielded over 200 patents and applications. By working with existing and potential WiLAN licensees, industry and academia, Cygnus will work to support the commercialization of these advanced technologies. We believe this work will, in turn, establish new

revenue opportunities for WiLAN.

In 2013, WiLAN invested more than \$60 million in acquiring valuable patents. We believe that a number of these patents are important components of our new semiconductor technology licensing program which we expect to begin generating revenue in the next year. Looking further ahead, we believe many of the acquired patents will be valuable in future efforts to renew wireless license agreements.

We have enjoyed significant success building this complex business over the past seven years but we must not stand still. Successful businesses must evolve to address changing economic, competitive and regulatory environments. With our world-class team, strong balance sheet, valuable portfolio and future business prospects, WiLAN can embrace change.

With changing market dynamics, we believe a more judicious approach to litigation is necessary. As a result, WiLAN is likely to launch fewer litigations in the future. WiLAN will also seek to enter fee deals with external counsel that put a significant portion of fees “at risk”, fees that will only be paid in the event of a successful outcome. Launching fewer litigations and “at risk” fee deals will help WiLAN better control litigation expenses and deliver stronger earnings in the future.

We will also seek to control the capital that we invest in acquiring patent portfolios and increasingly focus on licensing partnerships in which the patent owner is rewarded through the success of a licensing program, rather than upfront cash, to help drive the growth of our business in the future. We expect these partnerships, exemplified by our agreement with Panasonic, to contribute significant future revenues.

In late 2013, WiLAN’s Board initiated a strategic review process. The review, which is ongoing at the time of the writing of this letter, has made significant progress in the evaluation of the various strategic alternatives. Completing the strategic review is a priority for WiLAN’s Board, management team and advisors, all of whom continue to work diligently to conclude the process.

We would like to thank WiLAN’s employees and our Board for their dedication and hard work in 2013. We would also like to sincerely thank WiLAN’s shareholders for their continued support.

Best regards,



Paul McCarten  
Chairman of the Board



Jim Skippen  
President & CEO

Management's Discussion and Analysis ("MD&A") of Financial  
Condition and Results of Operations

For the Twelve Months ended December 31, 2013 and 2012

February 3, 2014

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## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is dated February 3, 2014. It should be read in conjunction with the audited consolidated financial statements and notes thereto for Wi-LAN Inc. for the year ended December 31, 2013 (the "Financial Statements"). References in this MD&A to "WiLAN," "Company," "our company," "we," "us" and "our" refer to Wi-LAN Inc. and its consolidated subsidiaries during the periods presented unless the context requires otherwise. The Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and applicable United States Securities and Exchange Commission ("SEC") regulations for annual financial information.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of United States dollars ("U.S. dollars"), with the exception of share and earnings per share data which is reported in number of shares and U.S. dollars respectively. The tables and charts included in this document form an integral part of this MD&A.

We prepared this MD&A with reference to National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with Canadian disclosure requirements which may differ from U.S. disclosure requirements. This MD&A provides information for the year ended December 31, 2013 and up to and including January 31, 2013. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and our annual information form for the year ended December 31, 2013 (our "AIF"), is available on-line at [www.sedar.com](http://www.sedar.com) and also on our website at [www.WiLAN.com](http://www.WiLAN.com). Our Form 40-F can be found on the SEC's EDGAR website at [www.sec.gov](http://www.sec.gov).

Our management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by us, is complete and reliable. These procedures include the review and approval of our financial statements and associated information, including this MD&A, first by our management's Disclosure Committee, then by our Board of Directors' Audit Committee (the "Audit Committee") and, finally, by our Board of Directors as a whole (the "Board").

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other applicable United States and Canadian securities laws, including such statements relating to:

- our initiation of a process to explore and evaluate potential strategic alternatives, the potential impact and results of which are currently unknown;
- assumptions and expectations described in our critical accounting policies and estimates;
- our expectation regarding the adoption and impact of certain accounting pronouncements;
- our expectation regarding the growth rates of licensees' businesses and the expected revenues to be collected from such licensees;
- our expectations with respect to revenues to be recorded as a consequence of license agreements with fixed periodic payment structures;
- our expectations with respect to the timing and amounts of any license agreements that may be entered into with respect to any of our litigation matters;
- our expectations with respect to our ability to sign new licenses and to sign renewal agreements with existing licensees;
- our estimates regarding our effective tax rate;
- our expectations with respect to the sufficiency of our financial resources; and

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- our expectations regarding continued expansion of our patent portfolio through the acquisition of patents from third parties and from the development of new inventions or our entry into licensing relationships with third parties.

The words “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “would”, “intend”, “believe”, “plan”, “continue”, “anticipate”, “project” or the negative of these words or other variations on these words, comparable terms and similar expressions are intended to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

We provide forward-looking statements and forward-looking information to assist external stakeholders in understanding our management’s expectations and plans relating to the future as of the date of this MD&A and such statements and information may not be appropriate for any other purposes. The forward-looking statements and forward-looking information in this MD&A are made as of the date of this MD&A only. We have no intention and undertake no obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## **RISKS AND UNCERTAINTIES**

Many factors could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including, without limitation, the following factors, which are discussed in greater detail under the heading “Risk Factors” in our AIF and should be reviewed in detail by all readers:

- certain of our patents may be found to be invalid, unenforceable and/or not infringed by any specific third party;
- we will be required to establish the enforceability of our patents in court to obtain material licensing revenues;
- certain of our patents are, and others may be, subject to administrative proceedings that could invalidate or limit the scope of those patents;
- the generation of future V-Chip revenues and the likelihood of our signing additional V-Chip licenses could be negatively impacted by changes in government regulation – in addition, the failure of leading digital television manufacturers to adopt or to continue to use our patented V-Chip technologies or to adopt competing technologies may harm our business;
- licensing our patents can take an extremely long time and may be subject to variable cycles;
- we are reliant on licensees paying royalties under existing licensing agreements and on the additional licensing of our patent portfolio to generate future revenues and increased cash flows;
- delays in renewing or an inability to renew existing license agreements could cause revenue and cash flow to decline;
- royalty rates could decrease for future license agreements;
- reduced spending by consumers and businesses due to the uncertainty of economic and geopolitical conditions may negatively affect us;
- changes in patent or other applicable laws or in the interpretation or application of those laws could materially adversely affect us;
- our industry is subject to increased regulatory scrutiny, political commentary and related proceedings;
- fluctuations in foreign exchange rates impact and may continue to impact our revenues and operating expenses, potentially adversely affecting financial results;
- we will need to acquire or develop new patents to continue and grow our business;

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- we may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption, and fail to enhance shareholder value;
  - we may not be able to compete effectively against others to acquire patent assets – any failure to compete effectively could harm our business and results of operations;
  - we have made and may make (or attempt to make) future acquisitions of technologies or businesses which could materially adversely affect us;
  - our acquisitions of patents are time consuming, complex and costly, which could adversely affect our operating results;
  - our quarterly revenue and operating results can be difficult to predict and can fluctuate substantially;
  - we may require investment to translate our intellectual property position into sustainable profit in the market;
  - there can be no assurance as to the payment of future dividends;
  - our ability to recruit and retain management and other qualified personnel is crucial to our ability to develop, market and license our patented technologies;
  - our business could be negatively affected as a result of actions of activist shareholders;
  - the trading price of our common shares has been, and may continue to be, subject to large fluctuations;
  - as a foreign private issuer, we are subject to different United States securities laws and rules than a domestic United States issuer, which may limit the information publicly available to our shareholders;
  - if we lose our United States “foreign private issuer” status in the future, it could result in significant additional costs and expenses to us;
  - the financial reporting obligations of being a public company in the United States are expensive and time consuming, and place significant additional demands on our management;
  - we are an “emerging growth company” under the United States *Jumpstart Our Business Startups Act of 2012*; we cannot be certain whether the reduced disclosure requirements applicable to emerging growth companies could make our common shares less attractive as an investment;
  - an investor may be unable to bring actions or enforce judgments against us and certain of our directors and officers;
  - our actual financial results may vary from our publicly disclosed forecasts;
  - if at any time we are classified as a passive foreign investment company under United States tax laws, United States holders of our common shares may be subject to adverse tax consequences;
  - the acquisition of, investment in, and disposition of our common shares has tax consequences;
  - substantial future sales of our common shares by existing shareholders, or the perception that such sales may occur, could cause the market price of our common shares to decline, even if our business is doing well;
  - we may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us;
  - certain Canadian laws could delay or deter a change of control; and
  - our authorized capital permits our directors to issue preferred shares which may prevent a takeover by a third party.

These factors should be considered carefully, and readers should not place undue reliance on our forward-looking statements and forward-looking information.

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## EXPLORATION OF POTENTIAL STRATEGIC ALTERNATIVES

On October 30, 2013, the Company announced that the Board had initiated a process to explore and evaluate potential strategic alternatives, which may include changes to WiLAN's dividend policy or other forms of return of capital to shareholders, the acquisition or disposition of assets, joint ventures, the sale of the Company, alternative operating models or continuing with the current business plan, among other potential alternatives. There can be no assurance that this strategic review process will result in identification of any strategic alternative that enhances shareholder value, or if such an alternative is identified, that any agreement for a strategic transaction will be entered into or consummated.

In addition, the market price of the Common Shares has been volatile since the announcement, and such volatility may persist or increase during the process, including if a decision is announced to pursue a particular alternative or to terminate the process, without pursuing or consummating a transaction. Shareholders may expect that a transaction will result from the strategic alternatives review and, as a consequence, not completing a transaction may result in a material decline in the price of the Common Shares. Such a transaction, if any, may be unsuccessful or less successful than anticipated and may adversely affect WiLAN's financial position and results of operations.

The process of exploring and evaluating strategic alternatives may be disruptive to WiLAN's business operations, and create uncertainties with current and potential licensees, defendants, employees and business relationships. If the Company is unable to effectively manage these risks, WiLAN's business, financial condition and/or results of operations may be adversely affected. Furthermore, in connection with the process of exploring and evaluating strategic alternatives, the Company expects to incur expenses, including expenses in connection with the retention of advisors and consultants. Such costs may be significant, whether or not any transaction is consummated.

## NON-GAAP DISCLOSURE

We use the term "adjusted earnings" to reference earnings from continuing operations before stock-based compensation expense, depreciation & amortization expense, interest expense, unrealized foreign exchange gains or losses, restructuring charges, incentive buy-out, success fee, transaction costs, investment income, debenture financing costs, provision for income taxes, and certain other charges all as disclosed in the reconciliation of net earnings/loss to adjusted earnings included in this MD&A. We report adjusted earnings in the belief that it may be useful for certain investors and readers of the financial statements as a measure of our performance. **ADJUSTED EARNINGS IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER U.S. GAAP. IT DOES NOT HAVE ANY STANDARDIZED MEANING PRESCRIBED BY U.S. GAAP AND IS THEREFORE UNLIKELY TO BE COMPARABLE TO SIMILARLY TITLED MEASURES USED BY OTHER COMPANIES. ADJUSTED EARNINGS SHOULD NOT BE INTERPRETED AS AN ALTERNATIVE TO NET EARNINGS AND CASH FLOWS FROM OPERATIONS AS DETERMINED IN ACCORDANCE WITH U.S. GAAP OR AS A MEASURE OF LIQUIDITY.**

## OVERVIEW

In mid-2006, we re-focused our business on technology innovation and licensing. At that time, we owned approximately twenty patents including certain patents we believed could be used in a licensing program. In launching this new form of business, a key strategy was to strengthen the patent portfolio to sustain long-term revenue opportunities and associated growth.

Over the past seven years, we have grown from 1 employee to 63 employees, increased our patent portfolio from approximately 20 patents to more than 4,000 issued or pending patents, signed more than 275 companies to licenses, and grown our annual revenues from approximately \$1,900 to approximately \$88,000 in our 2013 fiscal year representing a compound annual growth rate of over 70%.

Our principal source of revenue to date is from licensing the patents in our own patent portfolio. We also generate revenue from licensing portfolios of third-party patent holders and we may, from time to time, sell patents from our portfolio when we believe the revenue from an outright sale of patents ("Brokerage") is greater than what can be derived from licensing the patents. We plan to build upon our significant base of signed license agreements and increase our licensing opportunities by growing our patent portfolio with a combination of technology innovation through internal

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research and development, patent acquisitions, licensing relationships with patent holders, and corporate mergers and acquisitions. A fundamental requirement of the business is that our portfolios must be large, deep, geographically broad, and have sufficient life remaining to be of real value for potential licensees.

Our “Core Programs” for patent licensing are: Wireless Access; Digital TV and Display; Semiconductors; and Medical Devices. We are continuing to evaluate all of the patents in our portfolio to determine whether any specific patents may be applicable to other technology and product areas.

Technology areas generally included in our Wireless Access program include, but are not limited to, 3G, LTE, Wi-Fi and Bluetooth as well as other technologies generally applicable to handheld devices or to infrastructures necessary to operate wireless networks. We have received licensing revenue from companies that sell products described as cellular handsets, such as smart phones, and infrastructure, tablets, laptop computers and Wi-Fi routers. The Wireless Access portfolio contains more than 1,100 patents and patent applications. In addition, we believe we have identified a number of other potentially licensable products in markets adjacent to “pure” wireless markets.

The Digital TV and Display portfolio originated with the acquisition of the V-Chip technology patents in July 2007 and has been augmented with acquisitions from several other sources. The portfolio now includes more than 1,400 patents and patent applications around such technology areas as multimedia processing, display and touch screens and graphical user interfaces, all of which are potentially used in smart phones, digital televisions, tablets and laptop computers. Approximately 30 - 40% of the available North American digital television market has been licensed to our V-Chip patents and signed agreements are expected to generate revenues for an additional three years. This market is not, however, expected to grow any further over the next two to three years and, consequently, revenues derived from these signed agreements are also not expected to grow any further. Our Digital TV and Display program does, however, have significant depth above and beyond just V-Chip and we have only had limited licensing discussions related to non-V-Chip Digital TV and Display related patents to date.

Our Semiconductor portfolio includes patents acquired from a number of sources including Cypress Semiconductor Corporation, IXYS CH GmbH and Panasonic. This portfolio now includes more than 1,000 patents and patent applications around such areas as phased loop technology, microcontrollers applicable to safety-critical aerospace, medical, industrial and automotive applications, CMOS image sensors, and microcontrollers and semiconductors used in optical drives.

Our strategy to increase revenues is partially rooted in the size and breadth of our Wireless Access, Digital TV and Display, and Semiconductor patent portfolios but another component of our growth strategy is the creation of large valuable portfolios in new areas. We continue to work in the Medical Devices technologies area, to develop licensing programs through the acquisition of patent portfolios or through the development of one or more strategic partnerships.

Our internal research and development efforts seek to generate new inventions in next generation communications technologies and to identify new technology opportunities. With the goal of growing and strengthening our intellectual property portfolio, this technology innovation complements our ongoing activities to acquire appropriate technology or to partner with technology owners permitting us to grow our revenues over time. Our Company was originally founded as a pioneer in the design, development and delivery of wireless technologies. Innovations developed and patented through the years by our founding team and engineering staff resulted in the commercialization of advanced broadband wireless equipment more than a decade ago. Growing on these foundations, we are actively engaged in ongoing technology research activities. Our current area of research and development focus is wireless broadband, but we continue to engage in research and development in other technology areas as opportunities present themselves.

We have developed licensing programs that have yielded strong results since mid-2006, having generated cumulative revenues to the end of 2013 of approximately \$445,000. When approaching a potential licensee, we present compelling reasons to enter into a license agreement with detailed infringement analysis along with a fair and reasonable license rate. In many circumstances, we also present the potential licensee with an array of patents or patent families that may be applicable to the licensee’s business or products thus increasing the value in signing a license. We continue to consistently sign licenses every year and have entered into 17 licenses in the last twelve months. Early in fiscal 2011, we signed many significant license agreements with computer chip suppliers that are licensed for at least five and, in some cases, six years which has made further licensing in certain legacy areas more time consuming. In addition, we continue

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to be involved in litigation with significant potential licensees. Licensing in the Digital TV and Display program was also slow in 2012 and 2013, with many potential licensees only recently recommencing detailed discussions.

Generally, our licensing agreements take into consideration rights to license the patents covered and releases for past infringement. Related payments may be lump-sum, fixed-price with set payments made over a specified period of time or running royalty based depending on a price per-unit and/or a percentage of product sales or service revenues enjoyed by licensees. Running royalty based licensees generally provide us with quarterly or semi-annual royalty reports which are typically received subsequent to the period in which the underlying sales occurred.

Consideration for license agreements is generally paid in cash, although we have in the past and may in the future accept a combination of cash and in-kind patents if the patents fit our value proposition and strategic objectives. We recognize revenue from these arrangements as amounts become due and collection is reasonably assured.

Royalty rates and the consideration for a license may vary significantly with different licensees because there are many factors that may make different rate and other terms appropriate. These include, without limitation: the clarity of the reads of patent claims on the products of the prospective licensee; the significance of the patented invention to the performance of such products; the strength of the patents generally; the profitability of the products in question; the propensity of the prospective licensee to resist taking a license or to litigate; the number of applicable patents; the volume of products that infringe; the geographies in which infringing products are manufactured and sold; the prospective licensee's future sales plans; and the prospective licensee's financial position.

Although we prefer to negotiate license agreements without litigation, we are prepared to take all necessary steps, including investing in litigation, to ensure we receive fair compensation for the use of our patented technologies. If litigation should be initiated against a prospective licensee, our business approach seeks resolution of the litigation through the signing of a license agreement. Licensing discussions can be ongoing with a number of prospective licensees at any time and although we cannot anticipate how any litigation may affect ongoing discussions, our experience is that discussions will often continue through the litigation process and that some parties may be inclined to take licenses before the commencement of trial proceedings or after the conclusion of trial proceedings.

Notwithstanding our early success in many areas, the business and legal environment for patent licensing companies has become increasingly difficult during the past several years. In this more difficult licensing environment, we will continue to adapt and evolve to achieve success. Recent examples of this evolution include the hiring of highly qualified specialists and subject matter experts in applicable technologies, acquisitions of patents that have strengthened our patent portfolio and entry into significant partnerships to gain access to additional patents. As well we signed a number of significant license agreements with large industry leaders in 2011 and 2013. We believe these recent accomplishments have established a strong foundation for our future operations and growth. It may be, however, that the United States Patent and Trademark Office (the "USPTO"), U.S. courts and U.S. juries are becoming less willing to side with patent assertion companies in proceedings brought by or against technology manufacturers, which may lead to those manufacturers and other potential licensees delaying or resisting taking licenses to our patents or taking licenses on terms less favourable to us.

We employ individuals with unique skill sets and proven abilities to conclude license agreements. This is important because the strength of asserted patents is only part of what is needed to derive substantial revenues. Having expertise in the relevant markets, in patent portfolio development, and in patent licensing and litigation are as critical as having strong patents.

Based on the strength of our portfolio, our licensing capability, our human resources and our fair business dealings, we believe that our core programs are well known in the applicable industries and that companies will accept that licenses will be inevitable and will budget for them. We also believe that we are well positioned to deliver succeed because of our strong and growing patent portfolio, professional and systematic approach to licensing, experienced management team, track record of signing license agreements, significant base of signed agreements and solid financial position.

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We expect that we will be required to litigate from time to time with parties that infringe our patents but refuse to pay what we consider fair consideration for a license or as compensation for past infringement. It is important that prospective licensees know that, when necessary, we have sufficient funds to conduct protracted and multiple litigations, otherwise a party may be even more reluctant to take a license. In addition to any litigation commenced by us, one or more parties may file actions against us seeking declaratory judgments of non-infringement and/or invalidity against our patents and/or request re-examination or reviews of certain patents before the USPTO or other regulatory bodies.

As part of our longer-term strategy, we will continue to acquire additional patents to strengthen our portfolios as such patents are identified and become available; in the past, such acquisitions have often been in the wireless and telecommunications areas, but these areas will not necessarily be the only focus for future patent acquisitions. The business models for acquisition may include: the acquisition of patents or licensing rights to the patents with a limited or no up-front cash payment, but sharing in any license fees generated through licensing the patents; the acquisition of patents as partial consideration for a license to our patent portfolio; and/or the acquisition of patents for cash or Common Shares.

During fiscal 2013 and so far in fiscal 2014, we acquired over 1,000 patents and patent applications and we are currently in discussions with a number of parties concerning the possible acquisition of patents, the value of which patents will be determined on a case by case basis.

On December 31, 2013, we had approximately \$131,851 in cash and short-term investments on hand and we believe this amount represents sufficient financial resources to fund operations for the foreseeable future based on our current plans. We believe we will remain in a position to fund ongoing operations from license revenues generated for the foreseeable future, although this is not assured.

**RESULTS AND OUTLOOK**
**Overall performance**

The following table sets forth consolidated statements of operations data, which is expressed in thousands of U.S. dollars, except share and per share amounts, for the indicated years as well as certain balance sheet data as at December 31, 2013, 2012, and 2011.

	Year ended December 31, 2013		Year ended December 31, 2012		Year ended December 31, 2011	
	\$000's	%	\$000's	%	\$000's	%
Revenue						
Royalties	\$ 88,209	100	\$ 87,960	100	\$ 104,813	99
Brokerage	-	-	-	-	996	1
	<b>88,209</b>	<b>100</b>	<b>87,960</b>	<b>100</b>	<b>105,809</b>	<b>100</b>
Operating expenses						
Cost of revenue	82,213	93	55,938	64	72,968	69
Research and development	9,293	11	9,010	10	8,050	8
Marketing, general and administrative	13,065	15	12,300	14	19,535	18
Foreign exchange loss (gain)	2,538	3	(5,191)	(6)	1,039	1
Transaction costs	-	-	-	-	3,044	3
Restructuring charges	-	-	418	0	-	-
Total operating expenses	<b>107,109</b>	<b>121</b>	<b>72,475</b>	<b>82</b>	<b>104,636</b>	<b>99</b>
Earnings (loss) from operations	<b>(18,900)</b>	<b>(21)</b>	<b>15,485</b>	<b>18</b>	<b>1,173</b>	<b>1</b>
Investment income	728	1	1,277	1	5,654	5
Interest expense	-	-	(1,247)	(1)	(4,218)	(4)
Debtore financing, net	-	-	(31,138)	(35)	20,747	20
Earnings (loss) before income taxes	<b>(18,172)</b>	<b>(21)</b>	<b>(15,623)</b>	<b>(18)</b>	<b>23,356</b>	<b>22</b>
Provision for (recovery of) income tax expense						
Current	5,980	7	3,480	4	3,275	3
Future	(6,059)	(7)	(4,583)	(5)	(11,716)	(11)
Provision for (recovery of) income tax expense	<b>(79)</b>	<b>(0)</b>	<b>(1,103)</b>	<b>(1)</b>	<b>(8,441)</b>	<b>(8)</b>
Net earnings (loss)	<b>\$ (18,093)</b>	<b>(21)</b>	<b>\$ (14,520)</b>	<b>(17)</b>	<b>\$ 31,797</b>	<b>30</b>
Earnings (loss) per share						
Basic	\$ (0.15)		\$ (0.12)		\$ 0.26	
Diluted	(0.15)		(0.12)		0.25	
Weighted average number of common shares						
Basic	120,856,511		121,451,967		122,741,326	
Diluted	<b>120,856,511</b>		<b>121,451,967</b>		<b>124,999,644</b>	
	<b>As at December 31, 2013</b>		<b>As at December 31, 2012</b>		<b>As at December 31, 2011</b>	
	<b>\$000's</b>		<b>\$000's</b>		<b>\$000's</b>	
Cash and cash equivalents	\$ 130,394		\$ 175,246		\$ 432,186	
Short-term investments	1,457		1,617		1,524	
Total assets	<b>337,201</b>		<b>330,785</b>		<b>588,992</b>	
Long term debt	-		-		-	
Dividends declared per common share	<b>0.16</b>		<b>0.13</b>		<b>0.10</b>	

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Revenues for the twelve months ended December 31, 2013 were \$88,209 representing an increase of \$249 over the twelve months ended December 31, 2012. Revenues in fiscal 2012 had decreased over the fiscal 2011 period which was attributable to the timing of fixed payment amounts as a result of the significant license agreements signed during the twelve months ended December 31, 2011 for which certain agreements contained one-time lump sum payments and certain agreements contained fixed-payments which had higher front-end payments.

Our license agreements can generally be classified as either: (1) running royalty agreements in which licensees provide reports on their sales activities for the previous fiscal quarter, and calculate and remit the appropriate royalty; or (2) fixed fee arrangements with periodic payments that may be over a period shorter than or equal to the license term. In all cases, licenses provide for a release of past infringement and a license to some or all of our patents for a specified period of time. In certain cases, licenses may also extend to certain patents acquired by us during the term of the license. In all cases, the continued right to the license is subject to the licensee making the required payments defined in the agreement, all of which are non-refundable once received by us. We recognize revenue, generally, when the license fee is earned, fixed and determinable, collectability is reasonably assured, and all other conditions of revenue recognition are met.

Our business is unique because, left to their own devices, entities who infringe our patents are content to not pay fair compensation to us for the right to use the inventions claimed in those patents. Our licensing process involves the preparation of claim charts which are detailed descriptions of the claims in our patents and how those claims relate to a particular technology standard or a particular product offering. These claim charts are presented to entities which we believe to be infringing these patents as the first step in commencing licensing discussions. The licensing process then generally includes countering arguments relating to technology and legal matters relating to these and other patents, arriving at mutually satisfactory business, financial and legal terms for license agreements and signing such license agreements. We note that with more than 4,000 patents, we generally only prepare claim charts on a small subset of the entire portfolio. Accordingly, we will commence license discussions focusing on only a small number of patents that we believe are being infringed.

If licensing discussions are not productive, we may resort to litigation as a means to motivate a potential licensee to negotiate a license. Although our preference is to reach a negotiated license agreement without commencing patent litigation, we have found that many entities will not engage in substantive discussions without litigation. If litigation is required, it will most certainly be on only a subset of the patents that we believe are infringed, for example on only two or three patents out of our entire portfolio. We may also engage in additional infringement litigation against a potential licensee to create additional pressure to enter into a negotiated license agreement.

As a result of the above, we are not necessarily in control of when a license is executed and, accordingly, we may experience fluctuations in revenues year over year.

Operating expenses for the twelve months ended December 31, 2013 were \$107,109 or 121% of revenues, representing an increase of \$34,634 or 48% as compared to the twelve months ended December 31, 2012.

Our largest operating expense in each of the presented fiscal years is litigation expense, which is included in cost of revenue. Litigation expense accounted for approximately \$45,911, \$25,564 and \$17,478 or 52%, 35% and 25% of total operating expenses in each of fiscal 2013, 2012 and 2011 respectively. As noted, we would prefer to negotiate licenses without the use of litigation but that is not always possible. Given the number of litigations we are currently involved in, litigation expenses for 2014 are expected to decrease over the 2013 levels, perhaps materially. Litigation activities, and therefore expenses, are difficult to predict as there are many factors that can influence any action that is commenced.

We recorded a net loss for the twelve months ended December 31, 2013 of \$18,093 or \$0.15 per basic and diluted share as compared to a net loss for the twelve months ended December 31, 2012 of \$14,520 or \$0.12 per basic and diluted share. In fiscal 2012, we recorded \$31,138 of debenture financing costs (all recorded in the first quarter of 2012) related to the financing we put in place late in 2011 to support our bid to acquire MOSAID Technologies Incorporated. These costs are non-recurring in nature.

We consider adjusted earnings, a non-GAAP measure, to be a good indicator of performance for the business as it more accurately captures financial performance in a given period related to the operations of the business.

The table below reconciles the net earnings/loss to the adjusted earnings.

	<u>Year ended December 31,</u> <u>2013</u>	<u>Year ended December 31,</u> <u>2012</u>	<u>Year ended December 31,</u> <u>2011</u>
	<u>\$000's</u>	<u>\$000's</u>	<u>\$000's</u>
Net (loss) earnings under GAAP	\$ (18,093)	\$ (14,520)	\$ 31,797
Adjusted for:			
Unrealized foreign exchange loss (gain)	1,730	(5,213)	2,997
Depreciation and amortization	29,682	25,693	22,785
Stock based compensation	4,192	3,894	4,228
Restructuring charges	-	418	-
Incentive buy-out	-	-	7,102
Success fee	-	-	27,986
Other	-	-	285
Asset write-off related to restructuring	-	209	-
Interest expense	-	1,247	4,218
Transaction costs	-	-	3,044
Investment income	-	-	(3,733)
Debt financing, net	-	31,138	(20,747)
Loss on disposal of assets	123	-	-
Provision for (recovery of) income tax expense	(79)	(1,103)	(8,441)
Adjusted earnings	<u>\$ 17,555</u>	<u>\$ 41,763</u>	<u>\$ 71,521</u>
Adjusted earnings per basic share	\$ 0.15	\$ 0.34	\$ 0.58
Weighted average number of common shares			
Basic	120,856,511	121,451,967	122,741,326

The adjusted earnings for the twelve months ended December 31, 2013 were \$17,555 as compared to \$41,763 for the twelve months ended December 31, 2012, and \$71,521 for the twelve months ended December 31, 2011. The decrease in adjusted earnings as compared to last year is primarily attributable to an increase in litigation expenses whereas the decrease in 2012 compared to 2011 is principally related to a decrease in revenues and an increase in litigation and R&D expenses.

### Results of Operations for the twelve months ended December 31, 2013 as compared to the twelve months ended December 31, 2012

#### Revenues

Revenues for the twelve months ended December 31, 2013 were \$88,209, representing an increase of \$249.

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Year ended</u> <u>December 31, 2012</u>
	<u>\$000's</u>	<u>\$000's</u>
Revenues	\$ 88,209	\$ 87,960
Change from previous year	0%	

Our revenues are derived from five principal sources: (i) running royalty agreements pursuant to which licensees pay us royalties based on either a percentage of the net selling price of licensed products or a fixed fee per licensed product sold; (ii) fixed fee royalties consisting of a set quarterly or annual amount for all licensed products sold by licensees; (iii) one-time lump sum fees to cover the sale of all licensed products by a particular licensee, subject to certain limitations; (iv) licensing patents owned by third parties; or (v) brokerage which provides the acquirer exclusive rights to the technology. License agreements are generally for a five to eight year period but can be significantly longer. We consider revenue to be earned when we have persuasive evidence of an arrangement, all obligations that we need to perform have been fulfilled in accordance with the terms of the license agreement, including delivery and acceptance, the revenue

amount is reasonably determinable and collection is reasonably assured.

Revenues can vary significantly from quarter to quarter depending upon the type of royalty arrangement with licensees, the timing of royalty reporting by licensees, the cyclical nature of licensees' markets and fluctuations in foreign currency and other factors. Revenues can fluctuate based on individual licensees' growth and success rates in their respective markets, and other market factors on their respective businesses and other factors outside of our control. See "Risk Factors" contained in our AIF for more detailed information.

Two licensees individually accounted for 20% and 14%, respectively, of revenues from royalties for the twelve months ended December 31, 2013 as compared to two licensees accounted for 23% and 14%, respectively, of revenues from royalties for the twelve months ended December 31, 2012. For the twelve months ended December 31, 2013, the top ten licensees accounted for 79% of revenues from royalties, whereas in the comparable period last year the top ten licensees accounted for 83% of revenues from royalties, respectively.

For the twelve months ended December 31, 2013 and 2012, there were no revenues from brokerage. We may sell patents from our portfolio when we believe the revenue from an outright sale of patents is greater than what can be derived from licensing the patents.

**Cost of Revenue**

Cost of revenue is comprised of patent licensing expenses which includes royalty obligations, cost of patents sold through brokerage activities (if any), employee related costs and other costs incurred in conducting license negotiations, litigation expense and patent amortization expense related to acquired patents. Litigation and amortization expenses are not necessarily variable with revenues. Patent licensing expense is predominately employee related costs and, therefore, is not directly variable with revenues. We also include, as a licensing expense, any costs related to sourcing new patent portfolios or developing new strategic partnerships.

	Year ended December 31, 2013	Year ended December 31, 2012
	<u>\$000's</u>	<u>\$000's</u>
Patent licensing	\$ 6,320	\$ 4,640
Litigation	45,911	25,564
Amortization of patents	28,854	24,794
Stock-based compensation	<u>1,128</u>	<u>940</u>
	<u>\$ 82,213</u>	<u>\$ 55,938</u>
Percent of revenue	93%	64%
Increase from previous year	47%	

Cost of revenue for the twelve months ended December 31, 2013 was \$82,213 or 93% of revenues as compared to \$55,938 or 64% of revenues. The increase in expenses is primarily attributable to an increase in litigation expense, patent licensing expense as a result of an increase in staffing levels and an increased level of technical consulting services in support of litigation and patent acquisition evaluation, and amortization expense as a result of patent acquisitions completed during fiscal 2012 and 2013.

In general, patent licensing expenses are proportional to the breadth and depth of our licensing and brokerage programs and should be expected to increase as we add programs to our business operations. During 2013 we hired new resources to expand our core programs in the areas of Semiconductor and Medical. As a result of the expansion of our core programs, licensing expenses would be expected to increase in fiscal 2014 but it should not be material.

A key element of our strategy involves acquiring additional patents or obtaining exclusive licensing arrangements through relationships with patent holders that may be accounted for as acquisitions. Any further acquisitions will increase amortization expense from our current levels. We have acquired approximately \$275,000 in patents since November 1, 2006.

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Litigations are a normal part of our business which may extend over multiple years and are principally a discretionary cost, not directly related to or necessarily proportional to the revenues we generate. Our litigation expenses consist of all expenses related to the management and conduct of our litigation activities and include the costs of internal resources assigned to the litigation management function, external legal counsel and third party costs including those of expert witnesses and other service providers required during the course of litigations.

Pursuant to our engagement of McKool Smith (“McKools”) in respect of certain litigations that concluded in 2011, in consideration for a discount on fees in connection with such litigations, we have agreed to pay McKools a success fee based on achieving certain minimum financial measures attributable to such litigations. Upon achieving these financial measures, McKools will be entitled to receive a percentage of the proceeds actually received pursuant to the licensing agreements relating to these litigations up to a maximum of \$27,986. We have collected and expect to collect proceeds from these license agreements over the next four years. Should we collect these amounts as contemplated in the agreements, McKools will be entitled to the entire success fee. We accrued the full amount of the success fee obligation in fiscal 2011. As at December 31, 2013, the current and long term portion of the success fee obligation is \$4,358 and \$7,048, respectively. During the twelve months ended December 31, 2013, we paid McKools \$3,896 (twelve months ended December 31, 2012 - \$12,685) based on proceeds collected as of September 30, 2013.

For the twelve months ended December 31, 2013, litigation expenses amounted to \$45,911 as compared to \$25,564 for the same period last year. The increase in litigation expenses is attributable to an increase in the level of litigation activities in comparison to the same period last year, including preparation for three claims construction hearings, and preparation for two trials which took place in July 2013 and October 2013. Litigation expenses are expected to vary from period to period due to the variability of litigation activities and were expected to increase significantly in fiscal 2013 given the level of litigation matters that were active. We expect a reduction in litigation expenses in fiscal 2014 as a result of the license agreements signed during the third and fourth quarter of fiscal 2013 and the completion of the related trials.

During the twelve months ended December 31, 2013, we realized an increased level of litigation activities primarily as a result of patent infringement actions before the U.S. District Court for the Southern District of New York (the “SDNY Court”), the U.S. District Court for the Southern District of Florida (the “SDFL Court”), the U.S. District Court for the Eastern District of Texas (the “EDTX Court”), the U.S. District Court for the Southern District of California (the “SDCAL Court”) and the United States Court of Appeal for the Federal Circuit (the “CAFC”).

In the course of our normal operations, we are subject to claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, we have no reason to believe that the ultimate outcome of these matters would have a significant impact on our consolidated financial position.

On December 16, 2013, we engaged the services of an external law firm to represent us in certain patent infringement litigation. Pursuant to this engagement, in consideration for a discounted fixed fee arrangement, we have agreed to pay the firm a success fee which is based on a percentage of proceeds received (as defined in the respective agreements) pursuant to future license agreements resulting from these patent infringement litigations. As at December 31, 2013, the success fees are not yet determinable because the total proceeds have not yet been determined and therefore no amounts have been accrued.

The following discloses our significant litigation activities during the year ended December 31, 2013:

In September 2002, the Company, our former Chairman, Dr. Hatim Zaghoul, and Wi-Com Technologies Inc. (a private Alberta company), among others, were served with two statements of claim in the Court of Queen’s Bench of the Province of Alberta alleging the defendants are liable for failing to deliver certain share certificates in a timely manner to the claimants. This action was dismissed as against WiLAN in February 2013.

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On October 5, 2010, WiLAN filed claims against 11 major companies including Alcatel-Lucent USA Inc. (“Alcatel-Lucent”), Ericsson Inc. (“Ericsson”), Sony Ericsson Mobile Communications (USA) Inc., HTC Corporation (“HTC”) and each of LG Electronics, Inc. and LG Electronics U.S.A., Inc. (together, “LGE”) in the EDTX Court. The Company has claimed that these companies have infringed and continue to infringe our U.S. patent numbers 6,088,326 (the “326 patent”), 6,195,327, 6,222,819 and 6,381,211 by making and/or selling various products including wireless communications products that use technology derived from these patents which relate to the 3GPP standard. This action was settled as against LGE in December 2010, Alcatel-Lucent in September 2013 and HTC in October 2013. A trial against the remaining defendants in this action concluded with a jury verdict given on July 15, 2013 that held the four patents in suit were not infringed by the defendants and that certain claims in three of the four patents were invalid; a final judgment was entered on July 16, 2013 and an amended final judgment entered on July 22, 2013. We and the remaining defendants filed a number of post judgement motions, which were heard by the EDTX Court on November 21, 2013, all of which were denied by the EDTX Court on January 28, 2014. We are conferring with our legal counsel with respect to filing an appeal of the decision in this matter.

On February 2, 2011, WiLAN filed claims against HTC in the EDTX Court (the “HTC Matter”). The Company claimed that HTC has infringed and continues to infringe our U.S. patent numbers 5,282,222 (the “222 patent”) and RE37,802 (the “802 patent”) by making and/or selling various products including mobile handheld devices and other equipment that use technology derived from these patents which relate to Wi-Fi and CDMA. This matter was consolidated with the 2011 Wireless Action (discussed below) on September 17, 2012 and was settled against HTC in October 2013.

On September 1, 2011, WiLAN filed claims (the “2011 Wireless Action”) against Apple Inc. (“Apple”), Alcatel-Lucent, Dell Inc. (“Dell”), Hewlett-Packard Company (“Hewlett-Packard”), HTC, Kyocera International, Inc., Kyocera Communications, Inc., Novatel Wireless, Inc. (“Novatel”) and Sierra Wireless America, Inc. (“Sierra Wireless”). We claimed that these companies have infringed and continue to infringe the 222 patent and the 802 patent by making and/or selling various wireless communications products including modems, personal computers and mobile handheld devices that use technology derived from these patents. The Kyocera parties were severed from this matter in March 2013, Dell settled in May 2013, Alcatel-Lucent settled in September 2013 and each of Hewlett-Packard, HTC, Novatel and Sierra Wireless settled in October 2013. A claim construction hearing in this matter was heard on March 21, 2013 and a related order issued on April 11, 2013. The trial of this matter commenced on October 15, 2013 against only Apple and a jury decision was rendered on October 23, 2013 finding no infringement of the 802 patent and determining that it was invalid. We filed a motion for judgment as a matter of law against this jury decision on November 22, 2013, but no date has currently been set for the hearing of that motion.

On January 23, 2012, we filed claims against Research In Motion Limited (now, “BlackBerry Limited”) and Research In Motion Corporation (collectively, “RIM”) before the SDFL Court. The Company has claimed that RIM has infringed and continues to infringe our U.S. patent numbers 5,515,369 (the “369 patent”), 6,240,088 (the “088 patent”) and 6,232,969 (the “969 patent”) by making and/or selling various wireless communications products. A claim construction hearing was held in this matter on July 26, 2013 and a trial was scheduled for April 7, 2014. This matter was consolidated with another action we had filed against RIM before the SDFL Court on August 6, 2013 that claimed infringement of our U.S. patent number 6,260,168, and all such cases were settled in October 2013.

On October 1, 2012, WiLAN filed claims in the SDFL Court in separate actions against Alcatel-Lucent and against Ericsson and Telefonaktiebolaget LM Ericsson (“LME”) claiming infringement of our U.S. patent numbers 8,229,437, 8,027,298 and 8,249,014 related to LTE technologies. The Company settled its action against Alcatel-Lucent in September 2013 and LME brought a motion for summary judgment on February 13, 2013, with respect to which the SDFL Court ruled in LME’s favour on June 20, 2013 and amended its order on July 12, 2013. WiLAN has filed an appeal in this matter with the CAFC, which appeal has been joined with another appeal on parallel issues filed by Ericsson. No date has currently been set for the hearing of these appeals.

On October 1, 2012, the Company filed an action against Hon Hai Precision Industry Co. Ltd (“Hon Hai”) in the State Court of Florida concerning Hon Hai’s failure to report sales and revenues as required under a license agreement signed in January, 2008. Hon Hai moved to transfer this action to the SDFL Court and WiLAN successfully moved to have it transferred back to Florida State Court. A trial in this action was scheduled for November 11, 2013. On October 23, 2012, Hon Hai filed an action in the SDNY Court requesting a declaration that Hon Hai does not infringe the 402 patent and that the 402 patent is invalid. These actions have been discontinued by the parties conditional upon

finalization of a settlement agreement between the Company and Hon Hai.

On October 3, 2012 and October 15, 2012, WiLAN filed separate actions in the SDFL Court against each of LGE and Toshiba Corporation, respectively, claiming infringement of our U.S. patent numbers 6,359,654 and 7,034,889 related to digital television and display technology. A trial against Toshiba had been scheduled for January 13, 2014, prior to which the Company and Toshiba settled their action in January 2014. With respect to the action against LGE, we filed a motion before the SDNY Court to compel mediation of certain matters with the action brought before the SDFL Court stayed pending any such arbitration. A date for the motion before the SDNY Court to be heard has not been set.

On December 6, 2012, the Company filed separate claims in the SDFL Court against Apple, HTC and Sierra Wireless claiming infringement of our U.S. patent numbers 8,315,640 and 8,311,040 related to LTE technologies. WiLAN settled these matters as against HTC and Sierra Wireless in October 2013 and the matter against Apple has been transferred to the SDCAL Court. A claim construction hearing against Apple took place on December 9, 2013, and a related order issued on December 23, 2013, with respect to which we filed a motion seeking clarification. A trial in this matter is currently scheduled for November 17, 2014.

On December 6, 2012, WiLAN filed separate claims in the EDTX Court against each of Apple and Sierra Wireless claiming infringement of our U.S. patent number 6,381,211 related to 3G HSPA handset products. We settled this matter as against Sierra Wireless in October 2013. A claim construction hearing against Apple is currently scheduled to take place on November 6, 2014 and a trial against Apple in this matter is currently scheduled for March 14, 2016, however, the parties have agreed to stay this action pending resolution of the motion for judgment as a matter of law in an unrelated action involving U.S. patent number 6,381,211.

On December 12, 2012, the Company filed claims in the SDFL Court against RIM claiming infringement of our U.S. patent number 6,260,168 related to Bluetooth technologies. This action was consolidated with another action brought by us against RIM before the SDFL Court on August 6, 2013 and all pending actions between WiLAN and RIM were settled in October 2013.

On November 14, 2012, a law firm filed a request for ex parte re-examination at the USPTO with respect to our 326 patent. On February 7, 2013, the USPTO granted this re-examination request. On November 25, 2013, the USPTO issued an office action in this proceeding and, on December 18, 2013, issued an advisory opinion rejecting some of the claims of the 326 patent and accepting some new claims. We have filed a notice of appeal in respect of this advisory opinion and expect a final outcome of the re-examination process in the first half of 2014. All currently pending claims of the 326 patent remain valid and enforceable unless and until a final contrary determination has been made by the USPTO and all appeal rights have been exhausted.

On January 25, 2013, Research In Motion Corporation filed petitions for inter partes review at the USPTO with respect to each of our 369 patent and 088 patent. We expect each such inter partes review process to continue for approximately 12 to 24 months. Each such patent remains valid and enforceable unless and until a final contrary determination has been made by the USPTO and all appeal rights have been exhausted.

### ***Research and development expense***

	Year ended December 31, 2013	Year ended December 31, 2012
	\$000's	\$000's
Research	\$ 1,947	\$ 3,195
Patent management	6,436	5,046
Depreciation	299	410
Stock-based compensation	611	359
	<b>\$ 9,293</b>	<b>\$ 9,010</b>
Percent of revenue	11%	10%
Increase from previous year	3%	

We designed, developed and sold or licensed a variety of advanced digital wireless technologies, systems and products since our inception in the early 1990s until 2006. Over the course of our history, we have been able to explore emerging technologies, identify needs created by the development of advanced wireless systems and build technologies for those new requirements. Today, we are focusing our R&D efforts on advanced wireless technologies. These efforts have fostered inventions that form the basis of a number of new patent applications. The costs associated with these efforts, principally staff costs (including stock-based compensation) and certain external consultants, are classified as R&D. During the three months ended June 30, 2012, we undertook a review of our R&D program the result of which was to focus the R&D efforts specifically on generating patents in advanced wireless technologies but not the commercialization of these patented inventions and accordingly, reduced the staff from sixteen to seven. Research expense is predominately employee related costs and therefore any changes in spending will be a result of changes to future staffing levels.

We also consider the expenses related to the management of our patent portfolio as R&D costs because they directly relate to our most important asset, our patents. The management of our patent portfolio involves filing patent applications, prosecuting applications to obtain issued patents, documenting infringement, assessing validity of issued patents, conducting due diligence on patents and applications to be acquired and other general administrative tasks. Many of these costs are directly related to the size and breadth of our patent portfolio and, therefore, as we add patents, these costs would be expected to increase. We completed a partnership with Panasonic Corporation in December 2013 which added nearly 1,000 patents to our portfolio, the maintenance fees and prosecution costs for which are not in 2013; however these costs would be expected to increase in 2014 as a result of the addition of this patent portfolio. We are continuously looking at ways to reduce costs including reducing our patent count if revenues will not be impacted.

For the twelve months ended December 31, 2013, R&D expenses were \$9,293 or 11% of revenue as compared to \$9,010 or 10% of revenue for the twelve months ended December 31, 2012. The increase in spending for the twelve months ended December 31, 2013 is primarily attributable to an increase in patent management costs, principally patent prosecution and maintenance costs, as a result of the increased size and breadth of our patent portfolio, partially offset by a decrease in staffing costs related to the research function resulting from the workforce reduction undertaken in fiscal 2012.

### *Marketing, general and administration expense*

	Year ended December 31, 2013	Year ended December 31, 2012
	\$000's	\$000's
Marketing, general and administration	\$ 10,083	\$ 9,007
Asset write-off related to restructuring	-	209
Depreciation	529	489
Stock-based compensation	2,453	2,595
	<u>\$ 13,065</u>	<u>\$ 12,300</u>
Percent of revenue	15%	14%
Increase from previous year	6%	

Marketing, general and administration (“MG&A”) expenses represent the cost of corporate services including facilities, executive management, finance, corporate legal, human resources, office administration, marketing and communications, information technology and all costs associated with being a public company. For the twelve months ended December 31, 2013, MG&A expenses amounted to \$13,065 or 15% of revenues as compared to \$12,300 or 14% of revenue. The increase in spending for the twelve months ended December 31, 2013 is primarily attributable to an increase in salary costs and third party costs related to the increase in staffing levels, as well as an increase in consulting costs in support of the strategic alternatives review announced on October 30, 2013.

MG&A costs will vary from period to period depending on activities and initiatives undertaken, and changes in staffing levels in any given period.

## Foreign exchange gain/loss

	Year ended December 31, 2013	Year ended December 31, 2012
	\$000's	\$000's
Realized foreign exchange loss	\$ 808	\$ 22
Unrealized foreign exchange loss (gain)	1,730	(5,213)
	<u>\$ 2,538</u>	<u>\$ (5,191)</u>
Percent of revenue	3%	(6%)
Increase from previous year	NM*	

\* NM - percentage is not meaningful as the change is too large

Our realized foreign exchange gain/loss is attributable to unhedged transactions denominated in currencies other than our functional currency, U.S. dollars. The realized foreign exchange gain/loss is a result of the change in exchange rates in effect when foreign denominated transactions are initially recorded and the corresponding settlement.

The unrealized foreign exchange loss recognized in the twelve months ended December 31, 2013 resulted from the translation of monetary accounts denominated in Canadian dollars to U.S. dollars at December 31, 2013. The change from the same period last year is attributable to the decrease in the value of the Canadian dollar relative to the U.S. dollar and the level of monetary accounts denominated in Canadian dollars.

In addition to the impact of the translation of our foreign currency denominated monetary balances in the twelve months ended December 31, 2013, the unrealized foreign exchange gain/loss relates to the foreign exchange contracts we held as at December 31, 2013. From time to time we utilize forward contracts to enhance our ability to manage foreign currency exchange rate risk and exposure to currency rate fluctuations related primarily to future cash outflows of Canadian dollars. The foreign exchange forward contracts require us to sell U.S. dollars for Canadian dollars at prescribed rates.

As at December 31, 2013, we held foreign exchange forward contracts totaling approximately \$32,000 which mature at various dates through to January 2015. During the twelve months ended December 31, 2013, we recorded an unrealized foreign exchange loss of approximately \$678 related to the foreign exchange forward contracts held as at December 31, 2013.

We cannot accurately predict foreign exchange movements and as such, cannot accurately predict future gains and losses related to unhedged transactions denominated in currencies other than U.S. dollars.

## Restructuring charges

During the three months ended June 30, 2012, we undertook a workforce reduction which was attributable to the change in focus in our R&D program, resulting in a restructuring charge of \$418. The components of the charge included \$300 for severance, benefits and other costs associated with the termination of the affected employees, and \$118 for lease obligations. In addition, we wrote-off \$209 of assets related to this workforce reduction which was included in marketing, general and administration expense.

The following table summarizes details of the restructuring charges and related reserves:

Description	Workforce Reduction	Lease Obligation	Total
Charges	\$ 300	\$ 118	\$ 418
Cash payments	(300)	(21)	(321)
Balance of provision as at December 31, 2012	\$ -	\$ 97	\$ 97
Charges	-	-	-
Cash payments	-	(59)	(59)
Balance of provision as at December 31, 2013	\$ -	\$ 38	\$ 38

### ***Investment income***

Our recorded investment income for the twelve months ended December 31, 2013 was \$728 as compared to \$1,277 and twelve months ended December 31, 2012. Investment income includes interest earned on deposits and short-term investments, as well as, gains on equity holdings. For the twelve months ended December 31, 2013 and 2012, investment income included gains on equity holdings of nil. The decrease in investment income for the twelve months ended December 31, 2013 is attributable to a decreased cash position.

### ***Debenture financing costs and Interest expense***

On January 31, 2012 we repaid in cash the remaining aggregate principal amount of the outstanding Debentures and accrued and unpaid interest and therefore there will be no further Debenture related expenses or costs.

### ***Income taxes***

	Year ended December 31, 2013	Year ended December 31, 2012
	\$000's	\$000's
Current income tax expense	\$ 5,980	\$ 3,480
Future income tax recovery	(6,059)	(4,583)
Net income tax expense (recovery)	\$ (79)	\$ (1,103)
Current income tax expense % of revenue	6.8%	4.0%

Income tax recovery for the twelve months ended December 31, 2013 was \$79 as compared to an income tax recovery of \$1,103 for the same period last year. The provision for income tax is recognized based on our management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the twelve months ended December 31, 2013 and 2012 was approximately 26.5%.

The decrease in the net income tax recovery is primarily attributable to an increase in current tax expense partially offset by an increase in deferred income tax recovery. The increase in current income tax expense is attributable to an increase in foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. The increase in withholding tax expense as a percentage of revenue is attributable to the increase in revenue from jurisdictions for which there is no tax treaty relief. The increase in deferred tax recovery is attributable to an increase in loss carryforwards. There is a valuation allowance of \$10,983 as at December 31, 2013 (December 31, 2012 - \$7,626) against a portion of our Canadian deferred tax assets and all of our U.S. deferred tax assets. We establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the assets to offset future taxes. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period.

We claim R&D expenditures and related investment tax credits based on our interpretation of the applicable legislation in the *Income Tax Act* (Canada). These claims are subject to review by the Canada Revenue Agency. For the twelve months ended December 31, 2013, we recorded non-refundable investment tax credits earned of \$12 as a deferred tax recovery.

## SELECTED CONSOLIDATED QUARTERLY RESULTS (Unaudited)

Thousands of U.S. dollars except per share amounts	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013
Revenues	\$ 29,175	\$ 20,724	\$ 19,941	\$ 18,369
Adjusted earnings	\$ 17,227	\$ (263)	\$ (762)	\$ 1,353
Adjusted earnings per share				
Basic	\$ 0.14	\$ -	\$ (0.01)	\$ 0.01
Diluted	\$ 0.14	\$ -	\$ (0.01)	\$ 0.01
Net earnings (loss)	\$ 2,432	\$ (6,459)	\$ (7,632)	\$ (6,434)
Net earnings (loss) per share				
Basic	\$ 0.02	\$ (0.05)	\$ (0.06)	\$ (0.05)
Diluted	\$ 0.02	\$ (0.05)	\$ (0.06)	\$ (0.05)
Weighted average number of common shares				
Basic	119,972,775	120,701,944	121,225,490	121,545,062
Diluted	120,350,286	120,701,944	121,225,490	122,166,911

Thousands of U.S. dollars except per share amounts	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Revenues	\$ 21,183	\$ 21,293	\$ 20,791	\$ 24,693
Adjusted earnings	\$ 7,036	\$ 9,260	\$ 10,069	\$ 15,397
Adjusted earnings per share				
Basic	\$ 0.06	\$ 0.08	\$ 0.08	\$ 0.13
Diluted	\$ 0.06	\$ 0.08	\$ 0.08	\$ 0.13
Net earnings (loss)	\$ (2,119)	\$ 2,159	\$ (149)	\$ (14,411)
Net earnings (loss) per share				
Basic	\$ (0.02)	\$ 0.02	\$ 0.00	\$ (0.12)
Diluted	\$ (0.02)	\$ 0.02	\$ 0.00	\$ (0.12)
Weighted average number of common shares				
Basic	121,429,318	121,225,795	121,338,319	121,816,678
Diluted	121,429,318	122,086,343	121,338,319	121,816,678

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly results will continue to fluctuate in the future. The operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole.

The factors affecting our revenue and results, many of which are outside of our control, include the factors set out under the heading “Risks and Uncertainties” above which are discussed in greater detail under the heading “Risk Factors” in our AIF which we urge readers to review carefully and, also include the following:

- competitive conditions in our industry, including strategic initiatives by us, our licensees or competitors, new products or services or the implementation and take-up of new standards, product or service announcements and changes in pricing policy by us or our licensees;

- 
- market acceptance of our patented technologies;
  - our ability to sign license agreements;
  - decisions relating to our patents issued pursuant to litigation or administrative proceedings;
  - the discretionary nature of purchase and budget cycles of our licensees' customers and changes in their budgets for, and timing of, purchases;
  - strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
  - general weakening of the economy resulting in a decrease in the overall demand for products and services that infringe our patented technologies or otherwise affecting the capital investment levels of our current and prospective licensees;
  - timing of product development and new product initiatives; and
  - the length and variability of the licensing cycles for our patented technologies.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of payment of royalties could cause us to plan or budget inaccurately, and those variations could adversely affect our operating results. Delays or reductions in the amounts of royalty payments would adversely affect our business, results of operations and financial condition.

## **CAPITAL AND LIQUIDITY**

Cash and cash equivalents, and short-term investments amounted to \$131,851 at December 31, 2013, representing a decrease of \$45,012 from the \$176,863 held at December 31, 2012. The decrease is primarily attributable to the acquisition of patents and other intangibles totaling \$10,261, the repurchase of common shares under a normal course issuer bid (the "NCIB") totaling \$7,134, and the payment of dividends totaling \$18,370, and cash utilized in operations of \$9,476.

At December 31, 2013 we had working capital of \$99,951, long-term success fee obligation of \$7,048 and patent and licensing rights finance obligations of \$32,552 which relates to deferred payment terms on patents and patent rights we acquired in fiscal 2011 and 2013.

We have a revolving credit facility available in the amount of CDN\$8,000 or the equivalent in U.S. dollars for general corporate purposes and a further CDN\$2,000 for foreign exchange facility. Canadian dollar or U.S. dollar amounts advanced under this credit facility are payable on demand and bear interest at the bank's Canadian prime rate plus 1.0% per annum or U.S. base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over our cash and cash equivalents, receivables and present and future personal property. As at and during the twelve months ended December 31, 2013, we had no borrowings under this facility.

On March 7, 2013, we received regulatory approval to make a NCIB through the facilities of the TSX. Under the NCIB, we could purchase up to 11,846,843 common shares. The NCIB commenced on March 11, 2013 and is expected to be completed on March 10, 2014. We repurchased 1,903,200 common shares under the NCIB during the twelve months ended December 31, 2013 for a total of \$7,134.

We plan to use our cash resources to fund our operations and any litigation that might be required, and to purchase additional high quality patent portfolios and patent licensing businesses that are identified and fit our value proposition and strategic objectives.

Our ability to generate cash from operations going forward is based on collecting royalties under our signed licenses and additional licensing of our patent portfolio to companies around the world. It is difficult to predict the timing and nature of future licenses.

We plan to finance our cash requirements for operating expenses, litigation costs and technology acquisitions by a combination of cash generated from licensing our patent portfolio and, if desirable based on market conditions, by selling common shares and debt securities to the public.

A summary of our contractual obligations due by period for the next 5 years is noted below:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	-	-	-
Operating leases	5,263	672	1,861	919	1,811
Purchase obligations	-	-	-	-	-
Other-long term obligations	67,076	25,194	37,669	4,213	-
Total contractual obligations	\$ 72,339	\$ 25,866	\$ 39,530	\$ 5,132	\$ 1,811

## OUTSTANDING COMMON SHARE DATA

We are authorized to issue an unlimited number of common shares, 6,350.9 special preferred, redeemable, retractable, non-voting shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2013, there were 119,909,016 common shares and no special or preferred shares issued and outstanding. We also maintain a Share Option Plan, an Employee Share Purchase Plan and a Deferred Stock Unit Plan. Under all these plans, we can issue a maximum of 10% of our issued and outstanding common shares from time to time which was, as at December 31, 2013, 11,990,902 common shares combined. As at December 31, 2012, we had 10,340,968 options outstanding and 89,198 deferred stock units outstanding.

## OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

Dr. Michel Fattouche, a member of our Board of Directors, has provided consulting services to us. For the twelve months ended December 31, 2013, consulting services have totaled \$98 (twelve months ending December 31, 2012 – Nil) all of which had been paid as at year end.

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**FOURTH QUARTER REVIEW**
**Results of Operations for the three months ended December 31, 2013 as compared to the three months ended December 31, 2012**
**Revenues**

Revenues for the three months ended December 31, 2013 were \$29,175, representing an increase of \$7,992 or 38% over the same period last year. The increase in revenues is primarily attributable to an increase of fixed payment amounts as a result of license agreements signed during fiscal 2013, certain of which are front end loaded and therefore are not expected to recur at the same levels in future quarters.

	Three months ended	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Revenues	\$ 29,175	\$ 21,183
Increase from comparative period	38%	

Three licensees individually accounted for 24%, 15%, and 11%, respectively, of revenues from royalties for the three months ended December 31, 2013 as compared to two licensees individually accounted for 24% and 15%, respectively, for the three months ended December 31, 2012. For the three months ended December 31, 2013 and 2012, the top ten licensees accounted for 88% of revenues from royalties.

For the three months ended December 31, 2013 and 2012 there were no revenues from brokerage.

**Cost of Revenue**

	Three months ended	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Patent licensing	\$ 2,411	\$ 1,064
Litigation	4,746	8,772
Amortization of patents	8,562	6,531
Stock-based compensation	341	256
	<u>\$ 16,060</u>	<u>\$ 16,623</u>
Percent of revenue	55%	78%
Decrease from comparative period	(3%)	

Cost of revenue for the three months ended December 31, 2013 was \$16,060 or 55% of revenues as compared to \$16,623 or 78% of revenues. The decrease in expenses is primarily attributable to a decrease in litigation expenses partially offset by an increase in amortization and patent licensing costs.

For the three months ended December 31, 2013, litigation expenses amounted to \$4,746 as compared to \$8,772 for the same period last year. The decrease in litigation for the three months ended December 31, 2013 is attributable to a decrease in the level of litigation activities in comparison to the same period last year. The decrease in the level of litigation activities is attributable to the conclusion of two trials and the dismissal of other litigations as a result of license agreements signed during the third and fourth quarter. Litigation expenses are expected to vary from period to period due to the variability of litigation activities.

The litigation activities are discussed in detail in the Results of Operations for the twelve months ended December 31, 2013 as compared to the twelve months ended December 31, 2012 in the discussion of Cost of Revenue.

During the three months ended December 31, 2013, we paid McKools \$736 of the success fee payable based on proceeds collected during the three months ended September 30, 2013.

**Research and development expense**

	Three months ended	
	December 31, 2013	December 31, 2012
Research	\$ 584	\$ 488
Patent management	2,030	1,748
Depreciation	75	90
Stock-based compensation	138	(62)
	<u>\$ 2,827</u>	<u>\$ 2,264</u>
Percent of revenue	10%	11%
Increase from comparative period	25%	

For the three months ended December 31, 2013, R&D expenses were \$2,827 or 10% of revenue as compared to \$2,264 or 11% of revenue for the three months ended December 31, 2012. The increase in spending for the three months ended December 31, 2013 is primarily attributable to an increase in patent management costs, principally patent prosecution and maintenance costs, as a result of the increased size and breadth of our patent portfolio and an increase in stock-based compensation.

**Marketing, general and administration expense**

	Three months ended	
	December 31, 2013	December 31, 2012
Marketing, general and administration	\$ 2,094	\$ 2,172
Depreciation	164	114
Stock-based compensation	595	744
	<u>\$ 2,853</u>	<u>\$ 3,030</u>
Percent of revenue	10%	14%
Decrease from comparative period	(6%)	

For the three months ended December 31, 2013, MG&A expenses amounted to \$2,853 or 10% of revenues as compared to \$3,030 or 14% of revenue. The decrease in spending for the three months ended December 31, 2013 is primarily attributable to a decrease in stock based compensation.

**Foreign exchange loss**

	Three months ended	
	December 31, 2013	December 31, 2012
Realized foreign exchange loss	\$ 258	\$ 114
Unrealized foreign exchange loss	806	247
	<u>\$ 1,064</u>	<u>\$ 361</u>
Percent of revenue	4%	2%
Increase from comparative period	126%	

Our realized foreign exchange gain/loss is attributable to unhedged transactions denominated in currencies other than our functional currency, U.S. dollars. The realized foreign exchange gain/loss is a result of the change in exchange rates in effect when foreign denominated transactions are initially recorded and the corresponding settlement.

The unrealized foreign exchange loss recognized in the three months ended December 31, 2013 resulted from the translation of monetary accounts denominated in Canadian dollars to U.S. dollars at December 31, 2013. The change from the same period last year is attributable to the decrease in the value of the Canadian dollar relative to the U.S. dollar and the level of monetary accounts denominated in Canadian dollars.

In addition to the impact of the translation of our foreign currency denominated monetary balances in the three months ended December 31, 2013, the unrealized foreign exchange gain/loss relates to the foreign exchange contracts we held as at December 31, 2013. From time to time, we utilize forward contracts to enhance our ability to manage foreign currency exchange rate risk and exposure to currency rate fluctuations related primarily to future cash outflows of Canadian dollars. The foreign exchange forward contracts require us to sell U.S. dollars for Canadian dollars at prescribed rates.

As at December 31, 2013, we held foreign exchange forward contracts totaling approximately \$32,000 which mature at various dates through to January 2015. During the three months ended December 31, 2013, we recorded an unrealized foreign exchange loss of approximately \$656 related to the foreign exchange forward contracts held as at December 31, 2013.

We cannot accurately predict foreign exchange movements and as such, cannot accurately predict future gains and losses related to unhedged transactions denominated in currencies other than U.S. dollars.

### ***Investment income***

Our recorded investment income for the three months ended December 31, 2013 was \$175 as compared to \$212 for the three months ended December 31, 2012. Investment income includes interest earned on deposits and short-term investments, as well as, gains on equity holdings. For the three months ended December 31, 2013 and 2012, investment income included gains on equity holdings of nil. The decrease in investment income for the three months ended December 31, 2013 is attributable to a decreased cash position.

### ***Income taxes***

	Three months ended	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Current income tax expense	\$ 2,093	\$ 420
Deferred income tax expense	<u>2,021</u>	<u>695</u>
	<u>\$ 4,114</u>	<u>\$ 1,115</u>
Current income tax expense % of revenue	7.2%	2.0%

Income tax expense for the three months ended December 31, 2013 was \$4,114 as compared to \$1,115 for the same period last year. The provision for income tax is recognized based on our management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three months ended December 31, 2013 and 2012 was approximately 26.5%.

We claim R&D expenditures and related investment tax credits based on our interpretation of the applicable legislation in the *Income Tax Act* (Canada). These claims are subject to review by the Canada Revenue Agency. For the three months ended December 31, 2013, we recorded non-refundable investment tax credits earned of nil.

The current income tax expense for the three months ended December 31, 2013 and 2012, consisted of foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. Withholding tax expense for the three months ended December 31, 2013 was 7.2% of revenue as compared to 2.0% of revenues for the same period last year. The increase in withholding tax expense as a percentage of revenue is attributable to the increase in revenue from jurisdictions for which there is no tax treaty relief.

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## **PROPOSED TRANSACTIONS**

There are no proposed transactions.

## **CRITICAL ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION OF POLICIES, AND CRITICAL ESTIMATES**

Our management is required to make judgments, assumptions and estimates in applying our accounting policies and practices which have a significant impact on our financial results. The following outlines the accounting policies and practices involving the use of professional judgment and estimates that are critical to determining our financial results.

### ***Revenue recognition***

Our revenue consists principally of royalty revenue from licensing our own patent portfolio. We also generate royalty revenue from licensing patent portfolios of third-party patent holders. We consider revenue to be earned when we have persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, and collection is reasonably assured. We defer recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require us to make judgments, assumptions and estimates based upon current information and historical experience.

Our royalty revenues consist of fixed fee and running royalty payments.

Royalties from running royalty arrangements can be based on either a percentage of sales or number of units sold for which we earn royalties at the time the licensees' sales occur. The licensees are obligated to provide us with quarterly or semi-annual royalty reports. Our licensees do not, however, report and pay royalties owed for sales in any given reporting period until after the conclusion of that reporting period. As we are unable to estimate the licensees' sales in any given reporting period to determine the royalties due to us, we recognize running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. We monitor the receipt of reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

Royalties from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, we assess if the deliverables have standalone value upon delivery, and if so, we account for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on our best estimate of selling price ("BESP"). We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

As part of our partnership agreements with third parties, we are able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the period which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes reasonably assured.

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***Investment Tax Credits***

At December 31, 2013, we have approximately \$5,935 (December 31, 2012 - \$6,159) of non-refundable investment tax credits carried forward, relating primarily to past R&D. These credits can be applied against future income taxes payable and are subject to a 20 year carry-forward period. Judgment is required in determining the amount of unutilized investment tax credits to record as an asset. In assessing the potential utilization of investment tax credits, we have considered whether it is more likely than not that some portion or all of the unutilized investment tax credits will be realized based upon estimates of our anticipated income tax position in future periods. We will continue to evaluate our future income tax position quarterly and record any adjustment necessary in that period.

***Valuation of Deferred Income Tax Assets and Future Income Tax Expense/Recovery***

As at December 31, 2013, we had accumulated \$20,198 of unused R&D expenditures for income tax purposes. These deductions are available without expiry to reduce future year's taxable income. We also had approximately \$126,470 of temporary differences and tax losses available for carry forward. As a result, as of December 31, 2013, we have a deferred income tax asset of \$37,859 of which \$26,876 has been recorded. Judgment is required in determining the amounts of deferred income tax assets and liabilities and the related valuation allowance recorded against the net deferred income tax assets. In assessing the potential realization of deferred income tax assets, we consider all available evidence, both positive and negative. The realization of deferred tax assets is dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. Our forecasted future operating results are highly influenced by, among other factors, assumptions regarding (1) our ability to achieve forecasted revenue, (2) our ability to effectively manage our expenses relative to our forecasted revenue and (3) market conditions in the technology areas in which we operate. We considered both positive and negative evidence and based on revenue from existing contracts and spending managed to the revenue levels determined future taxable income will be sufficient to utilize existing tax attributes.

We assess the probability that deferred income tax assets will be recovered from future taxable income, and whether a valuation allowance is required to reflect any uncertainty at each reporting period. We estimate when deferred income tax assets will be realized and classify them as current and long term accordingly. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period. As at December 31, 2013, we had a valuation allowance of \$10,983 (December 31, 2012 - \$7,626) primarily related to net operating losses and capital losses in certain operating subsidiaries which we have assessed as more likely than not that these losses will not be utilized.

***Patents***

We have acquired patents and patent rights (hereinafter, collectively "patents") directly, through business acquisitions or as full or partial payments for licensing fees. In determining the fair value of these patents, we make estimates and judgments about the future income-producing capabilities of these assets and related future cash flows. We also make estimates about the useful lives of these assets based on assessment of the legal and economic lives of the patents and potential future licensing revenues achievable from our patent portfolio. Our patent portfolio as at December 31, 2013 is being amortized on a straight-line basis over the remaining useful lives of the patents which range from approximately one to thirteen years. If our basis for assessing the useful lives of the intangibles and potential future licensing revenues achievable from our patent portfolio is adversely affected by future events or circumstances, we will record write-downs of patents, write-down of other intangible assets, or changes in the estimated useful lives of these assets, which would result in changes to amortization expense in the future. Such changes would not affect cash flows.

The carrying value of patents is reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. Impairments are determined by comparing the carrying value to the estimated undiscounted future cash flows to be generated by those assets. If this assessment indicates that the carrying value of the patents is not recoverable, the carrying value is then compared with the estimated fair value of the assets, and the carrying value is written down to the estimated fair value. We have determined that there were no indications of possible impairment during the twelve months ended December 31, 2013.

***Goodwill***

Goodwill is subject to annual impairment tests or on a more frequent basis if events or conditions indicate that goodwill may be impaired. We will also test goodwill for impairment more frequently if events or circumstances warrant.

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As a whole, we are considered one reporting unit. We estimate the value of our reporting unit based on market capitalization. If we determine that our carrying value exceeds our fair value, we would conduct the second step of the goodwill impairment test which compares the implied fair value of the goodwill (determined as the excess fair value over the fair value assigned to our other assets and liabilities) to the carrying amount of goodwill.

We have determined there were no indications of possible impairment during the twelve months ended December 31, 2013.

***Estimation uncertainty***

Critical accounting policies and estimates utilized in the normal course of preparing our consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values, amortization, allowance for bad debt, legal contingency estimate, useful lives of property, equipment and intangible assets, valuation of intangibles, valuation of debt securities, and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in the consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on our financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

Critical accounting estimates and accounting policies are reviewed annually or more often if needed, by the Audit Committee.

**DISCLOSURE CONTROLS AND PROCEDURES**

In conformance with National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators, we have filed certificates signed by our Chief Executive Officer and Chief Financial Officer that, among other things, deal with the matter of disclosure controls and procedures.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013, and based on our evaluation has concluded that these are effective.

The evaluation took into consideration our corporate disclosure policy and the functioning of our executive officers, Board and Board Committees. In addition, our evaluation covered our processes, systems and capabilities relating to regulatory filings, public disclosures and the identification and communication of material information.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

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## **MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Our management evaluated, under the supervision of the Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as at December 31, 2013. We based our evaluation on criteria established in “Internal Control over Financial Reporting – Guidance for Smaller Public Companies” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and, based on that evaluation, we have concluded that, as of December 31, 2013, our internal control over financial reporting is effective.

### ***No Attestation Report of the Registered Public Accounting Firm***

Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to an exemption for emerging growth companies under the U.S. Jumpstart Our Business Startups Act.

We shall continue to be deemed an emerging growth company until the earliest of:

- (a) the last day of our fiscal year during which we had total annual gross revenues of \$1,000,000,000 (as such amount is indexed for inflation every 5 years by the SEC to reflect the change in the U.S. Consumer Price Index for All Urban Consumers published by the U.S. Bureau of Labor Statistics, setting the threshold to the nearest \$1,000,000) or more;
- (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective IPO registration statement, which for us would be February 7, 2017;
- (c) the date on which we have, during the previous 3-year period, issued more than \$1,000,000,000 in non-convertible debt; or
- (d) the date on which we are deemed to be a large accelerated filer.

As an emerging growth company we are exempt from Section 404(b) of the U.S. Sarbanes-Oxley Act of 2002 and in particular exempt from the requirement that the registered accounting firm attest to and report on the assessment on the effectiveness of the internal control structure and procedures for financial reporting.

## **CHANGES IN INTERNAL CONTROLS**

There have been no changes in our “internal control over financial reporting” that occurred during the twelve months ended December 31, 2013 which have materially affected or are reasonably likely to materially affect the internal control over financial reporting.

The consolidated financial statements and other financial information of WiLAN included in this annual report are the responsibility of the Company's management and have been examined and approved by its Audit Committee and Board of Directors. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States of America and include amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

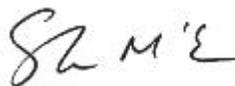
To discharge its responsibility for financial reporting and the safeguarding of assets, the Company maintains internal control systems designed to provide reasonable assurances that financial information is reliable and accurate. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and establishes financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the consolidated financial statements and other financial information such as the management's discussion and analysis of financial condition and results of operations ("MD&A") through its Audit Committee, which consists solely of outside directors. The Audit Committee meets at least quarterly with management and annually with the independent auditors to review the Company's reported financial performance and discuss audit, internal control, accounting policy and financial reporting matters.

PricewaterhouseCoopers LLP ("PwC") have audited the consolidated financial statements in accordance with generally accepted auditing standards. PwC are the external auditors who were appointed by the Company's shareholders.



James D. Skippen  
CEO



Shaun McEwan, CA  
CFO

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**To the Shareholders of Wi-LAN Inc.**

We have audited the accompanying consolidated financial statements of Wi-LAN Inc., which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended, and the related notes.

**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 generally accepted accounting principles in the United States of America 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.

**Auditor's 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. 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 auditor's 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, the auditor considers 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 financial position of Wi-LAN Inc., as at December 31, 2013 and 2012 and its results of operations and cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

**Chartered Professional Accountants, Licensed Public Accountants**

February 3, 2014  
Ottawa, Ontario

### Wi-LAN Inc.

#### Consolidated Statements of Operations

(in thousands of United States dollars, except share and per share amounts)

	Year ended December 31, 2013	Year ended December 31, 2012
Revenue		
Royalties	\$ 88,209	\$ 87,960
Operating expenses		
Cost of revenue	82,213	55,938
Research and development	9,293	9,010
Marketing, general and administration	13,065	12,300
Foreign exchange loss (gain)	2,538	(5,191)
Restructuring charges (Note 14)	-	418
Total operating expenses	<u>107,109</u>	<u>72,475</u>
Earnings (loss) from operations	<u>(18,900)</u>	15,485
Investment income	728	1,277
Interest expense	-	(1,247)
Debenture financing, net (Note 9)	-	(31,138)
Loss before income taxes	<u>(18,172)</u>	<u>(15,623)</u>
Provision for (recovery of) income tax expense (Note 3)		
Current	5,980	3,480
Deferred	(6,059)	(4,583)
	<u>(79)</u>	<u>(1,103)</u>
Net and comprehensive loss	<u>\$ (18,093)</u>	<u>\$ (14,520)</u>
Loss per share (Note 11(g))		
Basic	\$ (0.15)	\$ (0.12)
Diluted	\$ (0.15)	\$ (0.12)
Weighted average number of common shares		
Basic	120,856,511	121,451,967
Diluted	<u>120,856,511</u>	<u>121,451,967</u>

See accompanying notes to consolidated financial statements

### Wi-LAN Inc.

#### Consolidated Balance Sheets

(in thousands of United States dollars)

As at	December 31, 2013	December 31, 2012
<b>Current assets</b>		
Cash and cash equivalents	\$ 130,394	\$ 175,246
Short-term investments	1,457	1,617
Accounts receivable (Note 12)	11,999	1,139
Prepaid expenses and deposits	593	314
	<u>144,443</u>	<u>178,316</u>
Loan receivable (Note 4)	1,075	911
Furniture and equipment, net (Note 5)	2,159	1,272
Patents, net (Note 6)	150,025	116,846
Deferred tax asset (Note 3)	26,876	20,817
Goodwill	12,623	12,623
	<u>\$ 337,201</u>	<u>\$ 330,785</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 25,012	\$ 22,406
Current portion of patent finance obligations (Note 8)	19,480	2,547
	<u>44,492</u>	<u>24,953</u>
Patent finance obligations (Note 8)	32,552	2,670
Success fee obligation (Note 10)	7,048	10,900
	<u>84,092</u>	<u>38,523</u>
<i>Commitments and contingencies (Note 13)</i>		
<b>Shareholders' equity</b>		
Capital stock (Note 11 (c))	425,238	431,067
Additional paid-in capital (Note 11(d))	14,635	11,074
Accumulated other comprehensive income	16,225	16,225
Deficit	(202,989)	(166,104)
	<u>253,109</u>	<u>292,262</u>
	<u>\$ 337,201</u>	<u>\$ 330,785</u>

See accompanying notes to consolidated financial statements

On behalf of the Board:



Richard Shorkey  
Director



William Jenkins  
Director

### Wi-LAN Inc.

#### Consolidated Statements of Cash Flow

(in thousands of United States dollars)

	Year ended December 31, 2013	Year ended December 31, 2012
Cash generated from (used in)		
Operations		
Net loss	\$ (18,093)	\$ (14,520)
Non-cash items		
Stock-based compensation	4,192	3,894
Depreciation and amortization	29,682	25,693
Foreign exchange gain (loss)	(1,350)	7,910
Deferred financing costs	-	1,746
Accretion of debt discount	-	25,175
Discount on loan receivable	-	121
Disposal of assets	80	-
Disposal of patents	43	-
Deferred income tax recovery	(6,059)	(4,583)
Accrued investment income	(156)	(32)
	<u>8,339</u>	<u>45,404</u>
Change in non-cash working capital balances		
Accounts receivable	(10,860)	1,014
Prepaid expenses and deposits	(279)	(475)
Payments associated with success fee obligation	(3,897)	(12,685)
Due to related party	-	7,831
Accounts payable and accrued liabilities	(2,779)	(7,102)
Cash (used in) generated from operations	<u>(9,476)</u>	<u>33,987</u>
Financing		
Dividends paid	(18,370)	(14,617)
Repayment of convertible debentures	-	(233,247)
Common shares repurchased under normal course issuer bid	(7,134)	(15,729)
Common shares issued for cash on the exercise of options	478	3,078
Common shares issued for cash from Employee Share Purchase Plan	196	231
Cash used in financing	<u>(24,830)</u>	<u>(260,284)</u>
Investing		
Sale (purchase) of short-term investments	160	(93)
Loan receivable	-	(1,000)
Purchase of furniture and equipment	(1,795)	(403)
Purchase of patents	(10,261)	(25,425)
Cash used in investing	<u>(11,896)</u>	<u>(26,921)</u>
Foreign exchange (gain) loss on cash held in foreign currency	<u>1,350</u>	<u>(3,722)</u>
Net cash and cash equivalents used in the year	<u>(44,852)</u>	<u>(256,940)</u>
Cash and cash equivalents, beginning of year	<u>175,246</u>	<u>432,186</u>
Cash and cash equivalents, end of year	<u>\$ 130,394</u>	<u>\$ 175,246</u>

See accompanying notes to consolidated financial statements

**Wi-LAN Inc.**  
**Consolidated Statement of Shareholders' Equity**  
(in thousands of United States dollars)

	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Deficit</u>	<u>Total Equity</u>
Balance - December 31, 2011	\$ 436,606	\$ 14,061	\$ 16,225	\$ (135,736)	\$ 331,156
Comprehensive loss:					
Net loss	-	-	-	(14,520)	(14,520)
Shares issued:					
Stock-based compensation expense (Note 11(d))	-	3,894	-	-	3,894
Exercise of stock options (Note 11 (c))	4,592	(1,514)	-	-	3,078
Sale of shares under Employee Share Purchase Plan (Note 11 (c))	231	-	-	-	231
Shares repurchased under normal course issuer bid (Note 11 (c))	(10,362)	(5,367)	-	-	(15,729)
Dividends declared (Note 11 (c))	-	-	-	(15,848)	(15,848)
Balance - December 31, 2012	<u>431,067</u>	<u>11,074</u>	<u>16,225</u>	<u>(166,104)</u>	<u>292,262</u>
Comprehensive loss:					
Net loss	-	-	-	(18,093)	(18,093)
Shares issued:					
Stock-based compensation expense (Note 11(d))	-	4,192	-	-	4,192
Exercise of stock options (Note 11 (c))	721	(243)	-	-	478
Sale of shares under Employee Share Purchase Plan (Note 11 (c))	196	-	-	-	196
Shares repurchased under normal course issuer bid (Note 11 (c))	(6,746)	(388)	-	-	(7,134)
Dividends declared (Note 11 (c))	-	-	-	(18,792)	(18,792)
Balance - December 31, 2013	<u>\$ 425,238</u>	<u>\$ 14,635</u>	<u>\$ 16,225</u>	<u>\$ (202,989)</u>	<u>\$ 253,109</u>

See accompanying notes to consolidated financial statements

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Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

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**1. NATURE OF BUSINESS**

Wi-LAN Inc. (“WiLAN” or the “Company”) is an intellectual property licensing company which develops, acquires, licenses and otherwise enforces a range of patented technologies which are utilized in products in the communications and consumer electronics markets. The Company generates revenue by licensing its patents to companies that sell products utilizing technologies including: Wi-Fi, WiMAX, LTE, CDMA, DSL, DOCSIS, Bluetooth and V-Chip. The Company also generates revenue by licensing patent portfolios on behalf of third-party patent holders and, if necessary, the enforcement of their patented technologies.

**2. SIGNIFICANT ACCOUNTING POLICIES*****Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements of WiLAN include the accounts of WiLAN and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated in the consolidated financial statements.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. None of these reclassifications had an impact on reported net loss for any of the years presented.

The significant accounting policies are summarized below:

***Estimates and Assumptions***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates.

***Revenue Recognition***

The Company’s revenue consists principally of royalty revenue from licensing its own patent portfolio. The Company may also generate royalty revenue from licensing patent portfolios of third-party patent holders. The Company considers revenue to be earned when it has persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, and collection is reasonably assured. The Company defers recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

The Company’s royalty revenues consist of fixed fee and running royalty payments.

Royalties from running royalty arrangements can be based on either a percentage of sales or number of units sold for which the Company earns royalties at the time the licensees’ sales occur. The licensees are obligated to provide the Company with quarterly or semi-annual royalty reports and these reports are typically received subsequent to the period in which the licensees underlying sales occurred. The Company’s licensees do not, however, report and pay royalties owed for sales in any given reporting period until after the conclusion of that reporting period. As the Company is unable to estimate the licensees’ sales in any given reporting period to determine the royalties due to it, the Company recognizes running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. The Company monitors the receipt of royalty reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

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Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

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Royalties from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, the Company assesses if the deliverables have standalone value upon delivery, and if so, accounts for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. WiLAN determines the relative selling price for a deliverable based on its best estimate of selling price (“BESP”). WiLAN determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

As part of the partnership agreements with third parties, the Company is able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the years which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes assured.

***Stock-based Compensation***

The Company has a share option plan (“Option Plan”) for certain employees, directors and consultants. The Company accounts for stock options using the fair value method. Compensation expense is measured at the estimated fair value of the options at the date of grant and charged to earnings on a straight-line basis over the vesting periods. The amount expensed is credited to additional paid-in capital in the period. Upon the exercise of stock options, cash received is credited to share capital together with any amount previously credited to additional paid-in capital related to the options exercised.

***Deferred Stock Units (“DSUs”)***

The Company has a DSU plan for certain employees and directors. The DSUs vest immediately and the Company has the right to settle the DSUs in either cash or by the issuance of common shares. The liability for outstanding units and related expense for the DSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

***Restricted Share Units (“RSUs”)***

The Company has a RSU plan for certain employees and directors. Under the RSU plan, units are settled in cash based on the market value of WiLAN’s common shares on dates the RSUs vest. The RSUs vest over a three-year period. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

***Income Taxes***

The Company uses the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on the difference between the accounting and tax bases of the assets and liabilities and measured using the substantively enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods prior to the expiration of the associated tax attributes.

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Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

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***Cost of Revenue***

Cost of revenue includes patent licensing expenses, royalty obligations, staff costs (including stock-based compensation) and other costs incurred in conducting license negotiations as well as litigation and amortization expense related to acquired patents, are expensed as incurred.

***Research and Development (“R&D”)***

R&D includes engineering expenses, staff costs (including stock-based compensation) and certain external consultants related to the development efforts, as well as, the expenses related to the management of the patent portfolio, are expensed as incurred.

***Computation of Earnings (Loss) Per Share***

Basic earnings/loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings/loss per share is computed using the treasury stock method.

***Foreign Currency Translation***

The Company’s functional currency is the U.S. dollar; monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date.

The Company enters into forward foreign exchange contracts, from time to time, to manage its exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and it has chosen not to designate them as hedges. Therefore these contracts must be fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is included in net earnings/loss.

***Cash and Cash Equivalents***

Cash and cash equivalents comprise cash in bank accounts, term deposits and Guaranteed Investment Certificates (“GICs”) with maturities of three months or less at the date of the investment.

***Short-term Investments***

Short-term investments are designated as “held to maturity” and accounted for at amortized cost using the effective interest rate method. Short-term investments comprise GICs with maturities of one-year or less at the date of investment and their carrying value approximates their fair value.

***Loan Receivable***

The loan receivable is accounted for at amortized cost using the effective interest rate method.

***Furniture and Equipment***

Furniture and equipment is carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of the lease
Computer equipment and software	3 years
Furniture and equipment	5 years

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Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

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***Patents***

Patents include patents and patent rights (hereinafter, collectively “patents”) and are carried at cost less accumulated amortization. Amortization is calculated on the straight-line basis over the estimated useful life or the remaining term of the patent (up to 20 years), whichever is less. The carrying value of patents is reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. The need for impairment is assessed by comparing the carrying value to the estimated undiscounted future cash flows to be generated by those assets. If this assessment indicates that the carrying value of the patents is not recoverable, the carrying value is then compared with the estimated fair value of the assets and the carrying value is written down to the estimated fair value.

***Goodwill***

Goodwill is recorded as at the date of the business combination and represents the excess of the purchase price of acquired businesses over the fair value assigned to identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired.

The impairment test is carried out in two steps. In the first step, the carrying value of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired and the second step is unnecessary. The Company has one reporting unit.

In the event the fair value of the reporting unit, including goodwill, is less than the carrying value, the implied fair value of the reporting unit’s goodwill is compared with its carrying value to measure the amount of any impairment loss. When the carrying value of goodwill in the reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

***Patent Finance Obligations***

Patent finance obligations have maturities beyond one year. Patent finance obligations, at inception, are recorded at their fair value using an estimated risk-adjusted discount rate and the carrying value is at amortized cost using the effective interest rate method.

***Business Segment Information***

The Company has one operating segment; Intellectual Property. The Company generates the majority of its revenues in U.S. dollars from several geographic regions; however it has allocated its revenues to the location in which the license originated. All licenses are issued in Canada and therefore all revenues are attributed to Canada.

***Adoption of accounting pronouncements***

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued final guidance on the presentation of reclassifications out of other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in a footnote, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, only if the amount reclassified is required by U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide detail about those amounts. This amendment was effective for interim and fiscal years beginning after December 15, 2012. The amended standard did not impact the Company's financial position or results of operations.

Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU No. 2013-11 is a new accounting standard on the financial statement presentation of unrecognized tax benefits. The new accounting standards update provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new standard becomes effective for the Company on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company is required to adopt this guidance in the first quarter of 2014 and the adoption is not expected to have a material impact on the Company’s consolidated financial statements.

**3. TAXES**

The reconciliation of the expected provision for income tax recovery/expense to the actual provision for income tax recovery/expense reported in the consolidated statements of operations for the years ended December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Loss before income taxes	\$ (18,172)	\$ (15,623)
Expected income tax recovery at Canadian statutory income tax rate of 26.5% (2012 - 26.5%)	(4,815)	(4,141)
Permanent differences	1,126	1,040
Effect of change in tax rates	90	(1,199)
Effect of unused tax credits	667	-
Reversal of previously recognized foreign tax credits	-	(84)
Foreign withholding taxes paid	84	129
Foreign rate differential	(588)	-
Increase (decrease) in valuation allowance	3,357	3,152
Provision for income tax recovery	<u>\$ (79)</u>	<u>\$ (1,103)</u>

During the years ended December 31, 2013 and 2012, the reported loss before income taxes includes foreign losses of \$3,239 and \$2,907, respectively.

Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

The significant components of the Company's future income tax assets and liabilities as at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Tax loss carryforwards	\$ 32,981	\$ 20,481
Scientific research and experimental development ("SR&ED") carryforwards	5,345	5,352
Harmonization asset	-	677
Share issue costs	497	831
Investment tax credits	4,571	4,564
Accounts payable and accrued liabilities	3,102	4,759
Difference between tax and book value of finance obligations	(985)	-
Difference between tax and book value of capital and intangible assets	(7,694)	(8,252)
Difference between tax and book value of loan receivable	42	31
Total future income tax asset	<u>37,859</u>	<u>28,443</u>
Valuation allowance	<u>(10,983)</u>	<u>(7,626)</u>
Net future income tax asset	<u>\$ 26,876</u>	<u>\$ 20,817</u>

Management has assigned probabilities to the Company's expected future taxable income based on significant risk factors, sensitivity analysis and timing of non-capital tax losses. The amount of the future income tax asset considered realizable could change materially in the near term, based on future taxable income during the carryforward period. The valuation allowance consists of \$6,327 in Canada and \$4,656 in the US.

As at December 31, 2013, the Company had unused non-capital tax losses of approximately \$108,283 (2012 - \$54,821) and SR&ED expenditure pool totaling \$20,198 (2012 - \$20,198) that are due to expire as follows:

	<u>SR&amp;ED</u>	
	<u>Expenditure Pool</u>	<u>Tax Losses</u>
2022	\$ -	\$ 203
2023	-	603
2024	-	616
2025	-	11,882
2026	-	444
2027	-	91
2028	-	1
2029	-	3,887
2030	-	30,776
2031	-	8,901
2032	-	9,000
2033	-	41,879
Indefinite	20,198	-
	<u>\$ 20,198</u>	<u>\$ 108,283</u>

Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

The Company also has investment tax credits of \$6,171, that expire in various amounts from 2017 to 2032, and \$22,068 of capital losses carried forward with no expiry date. Investment tax credits, which are earned as a result of qualifying SR&ED expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured.

A reconciliation of the beginning and ending amounts of uncertain income tax benefits for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Balance at January 1	\$ -	\$ -
Tax positions related to current year:		
Additions	-	-
Reductions	-	-
Tax positions related to prior years:		
Additions	-	-
Reductions	-	-
Balance at December 31	<u>\$ -</u>	<u>\$ -</u>

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax provision. In the years ended December 31, 2013 and 2012, there were no interest or penalties included in the income tax provision.

The Company files Canadian and U.S. federal and state income tax returns. The Company is subject to examination by the tax authorities for the tax years ended 2008 through 2013.

**4. LOAN RECEIVABLE**

On October 19, 2012 (the “Closing Date”), the Company advanced a term loan facility in the amount of \$1,000 to Montebello Technologies LLC (the “Borrower”). The loan bears interest at 15% per annum, compounded annually and a maturity date of October 18, 2017 at which time the outstanding principal and accrued interest is to be fully repaid. The term loan facility is collateralized by a general security agreement.

In accordance with the terms and conditions of the loan agreement the use of the funds is solely and exclusively for the purchase and monetization of patents and for the period commencing on the Closing Date to and including the tenth anniversary of the Closing Date, the Company will be entitled to receive (a) 15% of the first \$10 million in gross revenue and (b) 10% of all gross revenue over the first \$10 million realized by the Borrower from any patents acquired utilizing the term loan facility.

To estimate the fair value, at inception, the Company considered the estimated future cash flow projections using an effective interest rate of 18%.

Wi-LAN Inc.

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2013 and 2012

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

The carrying value of the term loan facility is as follows:

	<b>As at December 31, 2013</b>	<b>As at December 31, 2012</b>
15% Term loan facility	\$ 1,000	\$ 1,000
Unamortized discount	(110)	(119)
Accrued interest	185	30
Net carrying amount	<b>\$ 1,075</b>	<b>\$ 911</b>

**5. FURNITURE AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>As at December 31, 2013</b>			
Leasehold improvements	\$ 1,211	\$ 48	\$ 1,163
Computer equipment and software	2,632	2,130	502
Furniture and equipment	791	297	494
	<b>\$ 4,634</b>	<b>\$ 2,475</b>	<b>\$ 2,159</b>
<b>As at December 31, 2012</b>			
Leasehold improvements	\$ 585	\$ 483	\$ 102
Computer equipment and software	2,469	1,433	1,036
Furniture and equipment	361	227	134
	<b>\$ 3,415</b>	<b>\$ 2,143</b>	<b>\$ 1,272</b>

The Company purchased furniture and equipment totaling \$1,795 during 2013 (2012 - \$403). During 2013, the Company disposed of leasehold improvements with a cost and accumulated amortization totaling \$576 and \$496, respectively.

**6. PATENTS**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>As at December 31, 2013</b>			
Patents	\$ 283,504	\$ 133,479	\$ 150,025
<b>As at December 31, 2012</b>			
Patents	\$ 222,574	\$ 105,728	\$ 116,846

The Company purchased patents totaling \$61,020 during 2013 (2012 - \$22,676) and recorded amortization expense of \$27,798 (2012 - \$24,794). During 2013, the Company disposed of patents with a cost and accumulated amortization totaling \$90 and \$47, respectively.

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The estimated future amortization expense of patents as of December 31, 2013 is as follows:

Year ending December 31:	Amount
2014	\$ 31,662
2015	31,274
2016	24,106
2017	13,499
2018	9,026
	\$ 109,567

**7. GOODWILL**

At December 31, 2013 and 2012, the fair value of the reporting unit exceeded its carrying value. Accordingly, the Company determined that goodwill was not impaired and no further testing was performed.

**8. PATENT FINANCE OBLIGATIONS**

On January 27, 2011, the Company acquired certain patents for future considerations while entering into a licensing agreement with the same counter-party. The Company has accounted for the non-monetary transaction at fair value using the income approach to value the patents acquired. To estimate the fair value, the Company considered the estimated future royalties, related costs and applied a discount rate of 16.5%. The obligation is based on the quarterly discounted payment stream of \$688 and an effective interest rate of 4.75%.

As at December 31, 2013, the current and long-term portion of this obligation is \$2,670 and nil, respectively.

On June 18, 2013, the Company acquired the right to license certain patents, the consideration for which is to be fully paid on or before June 18, 2023; however, the timing of the payments is subject to the Company entering into certain future license agreements with third-parties. The Company has set up the liability based on its expected payment schedule using a discount rate of 6.0%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for revolving debt with no fixed payments.

As at December 31, 2013, the current and long-term portion of this obligation is \$13,785 and \$13,236, respectively. On September 13, 2013, the Company acquired certain patents to be determined at a future date while entering into a licensing agreement with the same counter-party. The obligation is based on the quarterly payment stream of \$1,389 using a discount rate of 4.5%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for secured term debt with fixed payments over a five year term.

As at December 31, 2013, the current and long-term portion of this obligation is \$3,025 and \$19,316, respectively.

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The current and long-term portions of these obligations are reflected as follows:

	<b>Gross</b>	<b>Unamortized Discount</b>	<b>Net Carrying Amount</b>
<b>As at December 31, 2013</b>			
Patent finance obligation, due December 27, 2014	\$ 2,670	\$ -	\$ 2,670
Patent rights finance obligation, due June 18, 2023	28,000	(979)	27,021
Patent finance obligation, due August 18, 2018	25,000	(2,659)	22,341
	<u>55,670</u>	<u>(3,638)</u>	<u>52,032</u>
Current portion			<u>(19,480)</u>
			<u>\$ 32,552</u>
<b>As at December 31, 2012</b>			
Patent finance obligation, due December 27, 2014	\$ 5,217	\$ -	\$ 5,217
Current portion			<u>(2,547)</u>
			<u>\$ 2,670</u>

Payments are expected to be as follows:

2014	\$ 20,836
2015	19,556
2016	5,556
2017	5,556
2018 and thereafter	4,166
	<u>\$ 55,670</u>

**9. CONVERTIBLE DEBENTURES**

On January 31, 2012, the Company repaid in cash the aggregate principal amount of the outstanding Debentures of CDN \$228,456 and accrued and unpaid interest of CDN \$5,445.

Debenture financing costs for the years ended December 31, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Accretion of debt discount	\$ -	\$ (25,175)
Financing costs	-	(1,746)
Foreign exchange loss on debenture	-	(4,217)
	<u>\$ -</u>	<u>\$ (31,138)</u>

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**10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	As at December 31, 2013	As at December 31, 2012
Trade payables	\$ 4,326	\$ 7,655
Accrued compensation	2,918	2,198
Accrued legal costs	680	2,513
Dividends	4,527	4,272
Success fee obligation	4,358	4,401
Patent acquisition liability	5,000	-
Accrued other	3,203	1,367
	<u>\$ 25,012</u>	<u>\$ 22,406</u>

The success fee obligation is pursuant to the Company's engagement with a law firm, for which the firm is entitled to a percentage of proceeds actually received from certain license agreements signed by the Company related to certain litigation matters concluded in 2011 in which the firm was representing the Company. Should the Company collect these amounts as contemplated in the agreements, the firm will be entitled to the entire success fee of \$27,986. For the year ended December 31, 2011, the Company accrued the full, undiscounted amount of the success fee obligation.

The current and long term portion of this liability is reflected as follows:

	As at December 31, 2013	As at December 31, 2012
Success fee obligation	\$ 11,406	\$ 15,301
Current portion	(4,358)	(4,401)
	<u>\$ 7,048</u>	<u>\$ 10,900</u>

The Company acquired certain patents on December 13, 2013 for \$5,000 of which \$1,000 is due on January 13, 2014 and \$4,000 is due on April 1, 2014.

**11. SHARE CAPITAL**
**a) Authorized**

Unlimited number of common shares.

6,350.9 special preferred, redeemable, retractable, non-voting shares.

An unlimited number of preferred shares, issuable in series.

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**b) Issued and Outstanding**

The issued and outstanding common shares of WiLAN, along with equity instruments convertible into common shares, are as follows:

	<u>As at December 31,</u> <u>2013</u>	<u>As at December 31,</u> <u>2012</u>
Common shares	119,909,016	121,540,562
Securities convertible into common shares		
Stock options	10,340,968	8,185,949
Deferred stock units (DSUs)	89,198	79,792
	<u>130,339,182</u>	<u>129,806,303</u>

As at December 31, 2013, no preferred shares or special preferred shares were issued or outstanding.

**c) Common Shares**

	<u>Number</u>	<u>Amount</u>
<b>December 31, 2011</b>	123,236,813	\$ 436,606
Issued on exercise of stock options	1,173,249	3,078
Transfer from additional paid-in capital on exercise of options	-	1,514
Issued on sale of shares under Employee Share Purchase Plan	55,600	231
Repurchased under normal course issuer bid	<u>(2,925,100)</u>	<u>(10,362)</u>
<b>December 31, 2012</b>	121,540,562	\$ 431,067
Issued on exercise of stock options	205,254	478
Transfer from additional paid-in capital on exercise of options	-	243
Issued on sale of shares under Employee Share Purchase Plan	66,400	196
Repurchased under normal course issuer bid	<u>(1,903,200)</u>	<u>(6,746)</u>
<b>December 31, 2013</b>	<u>119,909,016</u>	<u>\$ 425,238</u>

The Company paid quarterly cash dividends as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>
1st Quarter	\$ 0.035	\$ 4,234	\$ 0.025	\$ 3,041
2nd Quarter	0.040	4,867	0.030	3,679
3rd Quarter	0.040	4,848	0.030	3,663
4th Quarter	0.040	4,421	0.035	4,234
	<u>\$ 0.155</u>	<u>\$ 18,370</u>	<u>\$ 0.120</u>	<u>\$ 14,617</u>

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The Company declared quarterly dividends as follows:

	2013	2012
1st Quarter	\$ 0.040	\$ 0.030
2nd Quarter	0.040	0.030
3rd Quarter	0.040	0.035
4th Quarter	0.040	0.035

On December 13, 2011, the Company received regulatory approval to make a normal course issuer bid (the “2011 NCIB”) through the facilities of the TSX. Under the 2011 NCIB, the Company was permitted to purchase up to 6,183,347 common shares. The 2011 NCIB commenced on December 15, 2011 and was completed on March 3, 2012. The Company repurchased 1,975,100 common shares under the 2011 NCIB during the three months ended March 31, 2012 for a total of \$10,836.

On March 13, 2012, the Company received regulatory approval to make a normal course issuer bid (the “2012 NCIB”) through the facilities of the TSX. Under the 2012 NCIB, the Company is permitted to purchase up to 9,500,000 common shares. The 2012 NCIB commenced on March 15, 2012 and was completed on December 13, 2012. The Company repurchased 950,000 common shares under the 2012 NCIB for a total of \$4,893.

On March 7, 2013, the Company received regulatory approval to make a normal course issuer bid (the “2013 NCIB”) through the facilities of the TSX. Under the 2013 NCIB, the Company is permitted to purchase up to 11,846,843 common shares. The 2013 NCIB commenced on March 11, 2013 and is expected to be completed on March 10, 2014. The Company repurchased 1,903,200 common shares under the 2013 NCIB during the twelve months ended December 31, 2013 for a total of \$7,134.

The Company records share repurchases as a reduction to shareholders’ equity. A portion of the purchase price of the repurchased shares is recorded as a decrease to additional paid-in capital when the price of the shares repurchased exceeds the average original price per share received from the issuance of Common Stock. During the year ended December 31, 2013, the cumulative price of the shares repurchased exceeded the proceeds received from the issuance of the same number of shares. The excess of \$388 was recorded as a decrease to additional paid-in capital for the year ended December 31, 2013 (for the year ended December 31, 2012 - \$5,367).

**d) Stock Options**

WiLAN has an Option Plan, a DSU plan, an Employee Stock Purchase Plan, and a RSU plan for its directors, employees and consultants. The current RSU plan calls for settlement only in cash. The Option Plan, the DSU plan and the Employee Stock Purchase Plan are considered “security based compensation arrangements” for the purposes of the TSX. The Company is authorized to issue up to an aggregate of 10% of its outstanding common shares under these “security based compensation arrangements”, with the common shares authorized for issuance under the DSU plan limited to 246,348 and under the Employee Purchase Plan limited to 360,800. The options vest at various times ranging from immediate vesting on grant to vesting over a three to four year period. Options generally have a six-year life.

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Option activity for the years ended December 31, 2013 and 2012 was as follows:

	Number of Options	Price per Share			Exercisable Options	
		Price Range		Weighted Average	Number	Weighted Average
<b>December 31, 2011</b>	8,821,980	\$ 0.72	\$ 7.09	\$ 4.60	2,657,192	\$ 3.12
Granted	1,660,614	4.94	5.05	5.02		
Exercised	(1,173,249)	1.88	5.01	2.63		
Forfeited	(1,123,396)	1.42	7.09	5.59		
<b>December 31, 2012</b>	8,185,949	\$ 1.42	\$ 7.09	\$ 4.83	3,637,490	\$ 4.21
Granted	<b>2,872,800</b>	<b>3.37</b>	<b>4.37</b>	<b>4.09</b>		
Exercised	<b>(205,254)</b>	<b>1.88</b>	<b>4.50</b>	<b>2.39</b>		
Forfeited	<b>(512,527)</b>	<b>3.33</b>	<b>7.09</b>	<b>5.87</b>		
<b>December 31, 2013</b>	<b>10,340,968</b>	<b>\$ 1.88</b>	<b>\$ 7.09</b>	<b>\$ 4.62</b>	<b>5,314,786</b>	<b>\$ 4.61</b>

The Company uses the Black-Scholes model for estimating the fair value of options granted, with the following weighted average assumptions:

	2013	2012
Risk free interest rate	<b>1.3%</b>	1.3%
Volatility	<b>43%</b>	49%
Expected option life (in years)	<b>3.6</b>	3.6
Dividend yield	<b>3.4%</b>	2.1%
Forfeiture rate	<b>4.5%</b>	9.4%

The weighted average fair value per option granted during the year ended December 31, 2013 was CDN \$1.15 (2012 – CDN \$1.65).

The intrinsic value of options exercised was CDN \$465 for the year ended December 31, 2013 (2012 – CDN \$2,966). Intrinsic value is the total value of exercised options based on the price of the Company's common shares at the time of the exercise less the proceeds received from the employees to exercise the options.

The intrinsic value of the exercisable options was \$1,259 as at December 31, 2013.

The total fair value of options vested was \$3,917 for the year ended December 31, 2013.

As of December 31, 2013, there was \$4,215 of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock-based compensation arrangements granted under the stock option plan. This cost is expected to be recognized over a weighted average period of 1.95 years.

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Details of the outstanding options at December 31, 2013 are as follows:

Range of Exercise Prices	Outstanding Options at December 31, 2013	Remaining Term of Options in Years	Weighted Average	Exercisable Options at December 31, 2013	Weighted Average
\$ - \$ 2.00	367,532	0.42	\$ 1.86	367,532	\$ 1.86
2.01 3.00	694,367	1.96	2.53	694,367	2.53
3.01 4.00	972,488	5.39	3.47	63,988	3.39
4.01 7.09	8,306,581	3.95	5.05	4,188,899	5.21
\$ 1.88 \$ 7.09	10,340,968	3.83	\$ 4.62	5,314,786	\$ 4.61

Stock-based compensation expense for the year ended December 31, 2013 was \$4,192 (2012 - \$3,894). The following provides a summary of the stock-based compensation expense for the years ended December 31, 2013 and 2012:

	2013	2012
Cost of revenue	\$ 1,128	\$ 940
Research and development	611	359
Marketing, general and administration	2,453	2,595
	<u>\$ 4,192</u>	<u>\$ 3,894</u>

During the year ended December 31, 2013, 512,527 stock options were forfeited as they related to former employees.

**e) Deferred Stock Units**

The Company has a Deferred Stock Unit (“DSU”) plan as a tool to assist in the retention of selected employees and directors and to help conserve the Company’s cash position. Under the DSU plan, DSUs may be awarded and will become due when the conditions of retention have been met and employment terminated or completed. The value of each DSU is determined in reference to the Company’s common share price, and the DSU value is payable in either cash or shares at the Company’s option.

DSUs issued and outstanding as at December 31, 2013 were 89,198 (2012 – 79,792). The liability recorded in respect of the outstanding DSUs was \$301 as at December 31, 2013 (2012 - \$366). The change in the liability is recorded as compensation expense.

During the year ended December 31, 2013, DSUs were granted to certain directors in lieu of cash for their quarterly fees earned and dividends paid during the year ended December 31, 2012.

**f) Restricted Share Units**

The Company implemented a Restricted Share Unit (“RSU”) plan for certain employees and directors in January 2007. Under the RSU plan, units are settled in cash based on the market value of WiLAN’s common shares on the dates when the RSUs vest. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each balance sheet date. The liability recorded in respect of the vested RSUs was \$579 as at December 31, 2013 (2012 - \$1,156). The change in the liability is recorded as compensation expense.

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RSU activity for the years ended December 31, 2013 and 2012 was as follows:

	Number of RSUs
<b>December 31, 2011</b>	559,746
Granted	274,900
Settled	(235,879)
Forfeited	(75,581)
<b>December 31, 2012</b>	523,186
Granted	143,365
Settled	(272,989)
Forfeited	(32,248)
<b>December 31, 2013</b>	361,314

During the year ended December 31, 2013, 32,248 RSUs (2012 – 75,581) were forfeited as they related to former employees.

**g) Per Share Amounts**

The weighted average number of common shares outstanding used in the basic and diluted earnings per share (“EPS”) computation was:

	2013	2012
Basic weighted average common shares outstanding	120,856,511	121,451,967
Effect of options	-	-
Diluted weighted average common shares outstanding	120,856,511	121,451,967

The effect of options totaling 487,092 for fiscal 2013 (2012 – 987,893), were anti-dilutive.

**12. FINANCIAL INSTRUMENTS**

The Company is exposed to a number of risks related to changes in foreign currency exchange rates, interest rates, collection of accounts receivable and loan receivable, settlement of liabilities and management of cash and cash equivalents.

**Fair Value**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalent, and short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Loan receivable: The fair value is estimated based on quoted market prices for those or similar investments.

Patent finance obligations: The fair values are estimated based on the quoted market prices for those or similar instruments or on the current rates offered to the Company for debt of similar terms.

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Foreign exchange contracts: The fair value of foreign currency contracts is estimated by obtaining quotes from brokers.

The estimated fair values of the Company's financial instruments are as follows:

	Hierarchy Level	As at December 31, 2013		As at December 31, 2012	
		Carrying		Carrying	
		Amount	Fair Value	Amount	Fair Value
Cash and cash equivalents	1	\$ 130,394	\$ 130,394	\$ 175,246	\$ 175,246
Short-term investments	1	1,457	1,457	1,617	1,617
Loan receivable	2	1,075	1,075	911	911
Patent finance obligations	2	52,032	52,032	5,217	5,217
Foreign exchange contracts	2	( 668 )	( 668 )	-	-

As of December 31, 2013, the Company held foreign exchange forward contracts totaling approximately \$32,000 which mature at various dates through to January 2015. The Company uses quoted market prices for similar instruments in an active market and, therefore, the foreign exchange forward contracts are classified as Level 2 in the fair value hierarchy.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a licensee or counter-party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, loan receivable, and forward foreign exchange contracts.

The Company's cash and cash equivalents, and short-term investments consist primarily of deposit investments that are held only with Canadian chartered banks. Management does not expect any counter-parties to fail to meet their obligations.

The Company's loan receivable is a term loan facility which is collateralized by a general security agreement. Management does not expect the borrower to fail to meet its obligations.

The Company's exposure to credit risk with its accounts receivable from licensees is influenced mainly by the individual characteristics of each licensee. The Company's licensees are for the most part, manufacturers and distributors of telecommunications and consumer electronics products primarily located in the United States, Canada, Taiwan, Korea, Japan, Hong Kong and China. Credit risk from accounts receivable encompasses the default risk of the Company's licensees. Prior to entering into licensing agreements with new licensees the Company assesses the risk of default associated with the particular company. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each licensee and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue. The Company has had no significant bad debts for any periods presented.

Two licensees individually accounted for 20% and 14%, respectively of revenues from royalties for the year ended December 31, 2013 (for the year ended December 31, 2012 – two licensees individually accounted for 23% and 14%, respectively). Management does not believe that there is significant credit risk arising from any of the Company's licensees for which revenue has been recognized. However, should one of the Company's major licensees be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts. At December 31, 2013, three licensees individually accounted for 58%, 17%, and 10%, respectively of total accounts receivable (December 31, 2012 – one licensee individually accounted for 44% of total accounts receivable).

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***Financial assets past due***

The following table provides information regarding the aging and collectability of the Company's accounts receivable balances as at December 31, 2013:

Current	\$	1,480
Past due 1 - 30 days		9,203
Past due 31 - 60 days		5
Past due 61 - 90 days		-
Over 91 days past due		1,504
Less allowance for doubtful accounts		(193)
	<u>\$</u>	<u>11,999</u>

The definition of items that are past due is determined by reference to terms agreed with individual licensees. As at January 30, 2013, approximately \$10,073 of past due amounts have been collected. None of the amounts outstanding have been challenged by the respective licensees and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectable in the future.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. At December 31, 2013, the Company had a provision for doubtful accounts of \$193 (2012 - \$193) which was made against accounts receivable where collection efforts to date have been unsuccessful.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due.

At December 31, 2013, the Company had cash and cash equivalents and short-term investments of \$131,851, credit facilities of \$8,000 and accounts receivable of \$11,999 available to meet its obligations.

***Market risk***

Market risk is the risk to the Company that the fair value of future cash flows from its financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates. Market risk arises as a result of the Company generating revenues in foreign currencies.

***Interest rate risk***

The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short-term investments. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day to day requirements and to place any amounts which are considered in excess of day to day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short-notice. A one percent increase/decrease in interest rates could have resulted in an approximate increase/decrease to investment income of \$1,319.

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### ***Currency risk***

A portion of WiLAN's revenues and operating expenses are denominated in Canadian dollars. Because the Company reports its financial performance in US dollars, WiLAN's operating results are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated operating expenses. Approximately 11% of the Company's cash and cash equivalents and short term investments are denominated in Canadian dollars and are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar.

For the year ended December 31, 2013, the Company had revenues and expenses denominated in Canadian dollars of approximately nil and \$16,412, respectively. Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$16,412 and adversely affect net earnings of the Company.

At December 31, 2013, the Company had Canadian dollar denominated cash and cash equivalents and short-term investments, and accounts receivable balances of approximately \$14,930 and nil respectively, offset by accounts payable and accrued liabilities totaling approximately \$8,561. Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$6,369 and adversely affect net earnings of the Company.

A one cent increase/decrease in foreign currency rates between the U.S. and Canadian dollars could have resulted in an approximate increase/decrease to net and comprehensive loss of \$47.

The Company may manage the risk associated with foreign exchange rate fluctuations by, from time to time, entering into forward foreign exchange contracts and engaging in other hedging strategies. To the extent that WiLAN engages in risk management activities related to foreign exchange rates, it may be subject to credit risks associated with the counterparties with whom it contracts.

The Company's objective in obtaining forward foreign exchange contracts is to manage its risk and exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not use forward foreign exchange contracts for speculative or trading purposes.

## 13. COMMITMENTS AND CONTINGENCIES

### **a) Litigation**

The Company, in the course of its normal operations, is subject to claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Management has evaluated the likelihood of an unfavourable outcome and determined that no amount should be accrued with respect to any outstanding matters.

### **b) Operating lease**

The Company has lease agreements for office space and equipment with terms extending to 2023. The aggregate minimum annual lease payments under these agreements are as follows:

	<b>Amount</b>
2014	\$ 672
2015	674
2016	634
2017	553
2018 and thereafter	2,730
	<u>\$ 5,263</u>

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**c) Other**

In connection with the acquisition of certain patents and patent rights, the Company has agreed to future additional payments to the former owners of the respective patents or patent rights, based on future revenues (as defined in the respective agreements) generated as a result of licensing the respective patents or patent portfolios. To date, no amounts have been accrued.

On December 16, 2013, the Company engaged the services of an external law firm to represent the Company in certain patent infringement litigations. Pursuant to this engagement, in consideration for a discounted fixed fee arrangement, the Company has agreed to pay the firm a success fee which is based on a percentage of proceeds received (as defined in the respective agreements) pursuant to future license agreements resulting from these patent infringement litigations. As at December 31, 2013, the success fees are not yet determinable because the total proceeds have not yet been determined and therefore no amounts have been accrued.

**14. RESTRUCTURING CHARGES**

During June 2012, the Company undertook a workforce reduction which resulted in a restructuring charge of \$418. The components of the charge included \$300 for severance, benefits and other costs associated with the termination of the affected employees, and \$118 for lease obligations. In addition, the Company wrote-off \$209 of assets related to this workforce reduction which was included in marketing, general and administration expense.

The following table summarizes details of the Company's restructuring charges and related reserves:

Description	Workforce Reduction	Lease Obligation	Total
Charges	\$ 300	\$ 118	\$ 418
Cash payments	(300)	(21)	(321)
Balance of provision as at December 31, 2012	\$ -	\$ 97	\$ 97
Charges	-	-	-
Cash payments	-	(59)	(59)
Balance of provision as at December 31, 2013	\$ -	\$ 38	\$ 38

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

	2013	2012
Net interest paid (received) in cash, included in operations	\$ (554)	\$ 4,151
Taxes paid	3,082	3,182
Patents acquired under deferred financing arrangement	48,509	-

During the year ended December 31, 2013, cash utilized to acquire furniture and equipment included leasehold improvements totaling \$1,202.

**16. RELATED-PARTY TRANSACTION**

Dr. Michel Fattouche, a member of the Company's Board of Directors, has provided consulting services to the Company. For the year ended December 31, 2013, consulting services have totaled \$98 (year ended December 31, 2012 – Nil) all of which had been paid as at year end.

**DIRECTORS**

W. Paul McCarten (1,2)  
Chairman of the Board

James Skippen  
President & Chief Executive Officer

Robert Bramson (1)  
Chairman of the Compensation Committee

Dr. Michel Fattouche

John Gillberry (3)

Bill Jenkins  
Chairman of the Governance and Nominating  
Committee (2,3)

Jim Roche (1,2)

Richard Shorkey  
Chairman of the Audit Committee  
(3)

*Member of (1) Compensation Committee, (2) Governance and  
Nominating Committee, (3) Audit Committee*

**OFFICERS**

James Skippen  
President & Chief Executive Officer

Shaun McEwan  
Chief Financial Officer

Michael Vladescu  
Chief Operating Officer

Prashant Watchmaker  
VP, Corporate Legal & Corporate Secretary

**STOCK EXCHANGE LISTINGS**

TORONTO STOCK EXCHANGE  
Symbol: WIN

NASDAQ GLOBAL SELECT MARKET  
Symbol: WILN

**TRANSFER AGENT**

COMPUTERSHARE INVESTOR SERVICES INC

**PUBLIC FILINGS – SEDAR & EDGAR**

WiLAN's publicly filed documents are available on:  
SEDAR at [www.sedar.com](http://www.sedar.com): and on  
EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml).

**AUDITORS**

PRICEWATERHOUSECOOPERS LLP

**COMMERCIAL BANKERS**

ROYAL BANK OF CANADA  
CANADIAN IMPERIAL BANK OF COMMERCE

**HEAD OFFICE**

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**INVESTOR RELATIONS**

TYLER BURNS  
Director, Investor Relations  
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