



**POET  
TECHNOLOGIES INC.**

**Consolidated Financial Statements  
For the Year Ended December 31, 2019, 2018 and 2017**



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of POET Technologies Inc. (the "Company") as of December 31, 2019, 2018 and 2017, the related consolidated statements of operations and deficit, comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and the Canadian Public Accounting Board ("CPAB") and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

We have served as the Company's auditor since 2009, such date takes into account the acquisition of a portion of UHY LLP by Marcum LLP in April 2010.

New Haven, Connecticut  
April 29, 2020



**POET TECHNOLOGIES INC.**

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


December 31,	2019	2018	2017
<b>Assets</b>			
Current			
Cash and cash equivalents	\$ 1,428,129	\$ 2,567,868	\$ 4,974,478
Accounts receivable (Notes 2 and 4)	-	946,944	493,925
Receivable from the sale of discontinued operations (Note 23)	18,000,000	-	-
Prepays and other current assets (Note 5)	831,265	2,936,619	1,957,727
Inventory (Note 6)	-	436,833	524,582
	<b>20,259,394</b>	6,888,264	7,950,712
Property and equipment (Note 7)	3,143,060	9,299,513	8,278,170
Patents and licenses (Note 8)	452,384	466,714	456,250
Right of use asset (Note 9)	222,517	-	-
Intangible assets (Note 10)	-	802,409	839,637
Goodwill (Note 24)	-	7,681,003	7,681,003
	<b>\$ 24,077,355</b>	\$ 25,137,903	\$ 25,205,772
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities (Note 11)	\$ 1,725,708	\$ 3,040,422	\$ 810,593
Lease liability (Note 9)	90,504	-	-
Convertible debentures (Note 12)	3,089,033	-	-
	<b>4,905,245</b>	3,040,422	810,593
Lease liability (Note 9)	133,254	-	-
Deferred tax liability (Note 24)	-	1,000,427	1,298,367
Deferred rent	-	1,814	24,031
	<b>5,038,499</b>	4,042,663	2,132,991
<b>Shareholders' Equity</b>			
Share capital (Note 13(b))	112,144,172	112,028,194	103,616,221
Equity component of convertible debentures (Note 12)	627,511	-	-
Warrants (Note 14)	8,525,358	8,303,738	5,985,378
Contributed surplus (Note 15)	38,799,337	36,042,754	32,102,967
Accumulated other comprehensive loss	(1,908,715)	(2,083,514)	(1,758,632)
Deficit	(139,148,807)	(133,195,932)	(116,873,153)
	<b>19,038,856</b>	21,095,240	23,072,781
	<b>\$ 24,077,355</b>	\$ 25,137,903	\$ 25,205,772

Commitments and contingencies (Note 17)

On behalf of the Board of Directors



Director



Director

**POET TECHNOLOGIES INC.**

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

<b>For the Years Ended December 31,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Operating expenses			
Selling, marketing and administration (Note 22)	<b>6,697,387</b>	6,173,875	5,887,709
Research and development (Note 22)	<b>2,083,815</b>	2,262,476	2,039,421
Impairment of long lived assets (Notes 10 and 24)	<b>1,764,459</b>	-	-
Interest expense (Notes 9 and 12)	<b>819,911</b>	-	-
Amortization of debt issuance costs (Note 12)	<b>372,340</b>	-	-
Other income, including interest	<b>(10,540)</b>	(14,234)	(18,279)
<b>Operating expenses</b>	<b>11,727,372</b>	8,422,117	7,908,851
Net loss from continuing operations, before taxes	<b>(11,727,372)</b>	(8,422,117)	(7,908,851)
Income tax recovery (Note 25)	<b>(292,740)</b>	-	-
<b>Net loss from continuing operations</b>	<b>(11,434,632)</b>	(8,422,117)	(7,908,851)
Income (loss) from discontinued operations, net of taxes (Notes 23 and 25)	<b>5,481,757</b>	(7,900,662)	(4,888,946)
<b>Net loss</b>	<b>(5,952,875)</b>	(16,322,779)	(12,797,797)
Deficit, beginning of year	<b>(133,195,932)</b>	(116,873,153)	(104,075,356)
Net loss	<b>(5,952,875)</b>	(16,322,779)	(12,797,797)
<b>Deficit, end of year</b>	<b>\$ (139,148,807)</b>	\$ (133,195,932)	\$ (116,873,153)
Basic and diluted loss per share, continuing operations (Note 16)	<b>\$ (0.04)</b>	\$ (0.03)	\$ (0.03)
Basic and diluted income (loss) per share, discontinued operations (Note 16)	<b>\$ 0.02</b>	\$ (0.03)	\$ (0.02)
Basic and diluted net loss per share (Note 16)	<b>\$ (0.02)</b>	\$ (0.06)	\$ (0.05)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Expressed in US Dollars)**

<b>For the Years Ended December 31,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net loss	<b>\$ (5,952,875)</b>	\$(16,322,779)	\$(12,797,797)
Other comprehensive income (loss) - net of income taxes			
Exchange differences on translating foreign operations, continuing operations	<b>3,109</b>	(543,557)	362,679
Exchange differences on translating foreign operations, discontinued operations	<b>171,690</b>	218,675	(33,194)
<b>Comprehensive loss</b>	<b>\$ (5,778,076)</b>	\$(16,647,661)	\$(12,468,312)

**POET TECHNOLOGIES INC.**

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

<b>For the Years Ended December 31,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Share Capital</b>			
Beginning balance	\$ 112,028,194	\$ 103,616,221	\$ 103,357,862
Funds from the exercise of stock options	60,028	87,974	123,528
Fair value of stock options exercised	55,950	82,330	134,831
Funds from the exercise of warrants and compensation warrants	-	1,028,471	-
Fair value of warrants and compensation warrants exercised	-	447,270	-
Common shares issued on public offering	-	10,663,548	-
Share issue costs	-	(1,131,990)	-
Fair value of warrants issued on public offering	-	(2,286,426)	-
Fair value of compensation options issued to brokers	-	(479,204)	-
December 31,	<b>112,144,172</b>	<b>112,028,194</b>	<b>103,616,221</b>
<b>Equity Component of convertible debentures</b>			
Beginning balance	-	-	-
Fair value of equity component of convertible debentures	627,511	-	-
December 31,	<b>627,511</b>	<b>-</b>	<b>-</b>
<b>Warrants</b>			
Beginning balance	8,303,738	5,985,378	2,013,747
Fair value of warrants issued in conjunction with of debt financing	221,620	-	-
Fair value of warrants issued on public offering	-	2,286,426	5,985,378
Fair value of compensation options issued to brokers	-	479,204	-
Fair value of warrants and compensation warrants exercised	-	(447,270)	(901,417)
Fair value of expired warrants	-	-	(1,112,330)
December 31,	<b>8,525,358</b>	<b>8,303,738</b>	<b>5,985,378</b>
<b>Contributed Surplus</b>			
Beginning balance	36,042,754	32,102,967	29,062,874
Stock-based compensation	2,812,533	4,022,117	3,174,924
Fair value of stock options exercised	(55,950)	(82,330)	(134,831)
December 31,	<b>38,799,337</b>	<b>36,042,754</b>	<b>32,102,967</b>
<b>Accumulated Other Comprehensive Loss</b>			
Beginning balance	(2,083,514)	(1,758,632)	(2,088,117)
Other comprehensive income (loss) attributable to common shareholders - translation adjustment	174,799	(324,882)	329,485
December 31,	<b>(1,908,715)</b>	<b>(2,083,514)</b>	<b>(1,758,632)</b>
<b>Deficit</b>			
Beginning balance	(133,195,932)	(116,873,153)	(104,075,356)
Net loss	(5,952,875)	(16,322,779)	(12,797,797)
December 31,	<b>(139,148,807)</b>	<b>(133,195,932)</b>	<b>(116,873,153)</b>
<b>Total Shareholders' Equity</b>	<b>\$ 19,038,856</b>	<b>\$ 21,095,240</b>	<b>\$ 23,072,781</b>

**POET TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Expressed in US Dollars)**

**For the Years Ended December 31,**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:			
OPERATING ACTIVITIES			
Net loss	\$ (5,952,875)	\$ (16,322,779)	\$ (12,797,797)
Discontinued operations, net of tax	(5,481,757)	7,900,662	4,888,946
Net loss, continuing operations	<b>(11,434,632)</b>	(8,422,117)	(7,908,851)
Adjustments for:			
Depreciation of property and equipment (Note 7)	166,342	96,452	128,283
Amortization of patents and licenses (Note 8)	61,671	56,792	53,969
Amortization of debt issuance cost (Note 12)	372,340	-	-
Amortization of right of use asset (Note 9)	15,683	-	-
Impairment of long lived assets (Notes 10 and 24)	1,764,459	-	-
Accretion of debt discount on convertible debentures (Note 12)	280,829	-	-
Stock-based compensation (Note 15)	2,888,141	3,602,879	2,958,358
Income tax recovery (Notes 25)	(292,740)	-	-
	<b>(6,177,907)</b>	(4,665,994)	(4,768,241)
Net change in non-cash working capital accounts:			
Prepaid and other current assets (Note 5)	(685,667)	(75,855)	78,011
Accounts payable and accrued liabilities (Note 11)	420,457	244,054	(544,809)
Cash flows from operating activities, continuing operations	<b>(6,443,117)</b>	(4,497,795)	(5,235,039)
Cash flows from operating activities, discontinued operations	<b>(2,951,104)</b>	(4,790,793)	(3,928,651)
	<b>(9,394,221)</b>	(9,288,588)	(9,163,690)
INVESTING ACTIVITIES			
Purchase of property and equipment (Note 7)	(445,678)	-	(57,023)
Purchase of patents and licenses (Note 8)	(65,806)	(67,608)	(41,728)
Proceeds from the sale of short-term investments	-	-	589,275
Cash flows from investing activities, continuing operations	<b>(511,484)</b>	(67,608)	490,524
Cash flow from investing activities, discontinued operations	<b>5,908,623</b>	(3,467,992)	(931,589)
	<b>5,397,139</b>	(3,535,600)	(441,065)
FINANCING ACTIVITIES			
Proceeds from convertible debentures, net of issue costs paid in cash (Note 12)	3,352,849	-	-
Proceeds from loan payable and promissory note (Note 12)	4,000,000	-	-
Repayment of loan payable and promissory note (Note 12)	(4,000,000)	-	-
Issue of common shares for cash, net of issue costs (Note 13)	60,028	10,648,003	123,528
Payment of lease liability (Note 9)	(19,162)	-	-
Cash flows from financing activities, continuing operations	<b>3,393,715</b>	10,648,003	123,528
Cash flow from financing activities, discontinued operations	<b>(258,460)</b>	-	-
	<b>3,135,255</b>	10,648,003	123,528
Effect of exchange rate on cash, continuing operations	(263,902)	(256,915)	144,761
Effect of exchange rate on cash, discontinued operations	(14,010)	26,490	(65,338)
Effect of exchange rate on cash	<b>(277,912)</b>	(230,425)	79,423
Net change in cash and cash equivalents, continuing operations	<b>(3,824,788)</b>	5,825,685	(4,476,226)
Net change in cash and cash equivalents, discontinued operations	<b>2,685,049</b>	(8,232,295)	(4,925,578)
Cash and cash equivalents, beginning of year	<b>2,567,868</b>	4,974,478	14,376,282
Cash and cash equivalents, end of year	<b>\$ 1,428,129</b>	\$ 2,567,868	\$ 4,974,478
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES			
Purchase of property and equipment financed through accounts payable	\$ -	\$ 250,160	\$ -

# POET TECHNOLOGIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

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### 1. DESCRIPTION OF BUSINESS

POET Technologies Inc. is incorporated in the Province of Ontario. POET Technologies Inc. and its subsidiaries (the "Company") are developers and manufacturers of optical source products and photonic integrated devices for the sensing, datacom and telecom markets. The Company's head office is located at 120 Eglinton Avenue East, Suite 1107, Toronto, Ontario, Canada M4P 1E2. These consolidated financial statements of the Company were approved by the Board of Directors of the Company on April 28, 2020.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Basis of presentation**

These consolidated financial statements include the accounts of POET Technologies Inc. and its subsidiaries; ODIS Inc. ("ODIS"), Opel Solar Inc. ("OPEL"), BB Photonics Inc., BB Photonics UK Limited (collectively "BB Photonics") and POET Technologies Pte Ltd. ("PTS"). They also include the accounts of DenseLight Semiconductor Pte Ltd. ("DenseLight") up-to November 8, 2019. All intercompany balances and transactions have been eliminated on consolidation.

On November 8, 2019, the Company sold 100% of the issued and outstanding shares of DenseLight for \$26,000,000. The Company received \$8,000,000 upon the consummation of the sale. The Company expects to receive the remaining \$18,000,000 over three tranches, with \$4,750,000 received on February 14, 2020 and \$8,250,000 received on March 30, 2020. The remaining \$5,000,000 is expected to be received on or before May 31, 2020. Shares were placed into escrow in the name of the Buyer, to be released to the Buyer upon receipt of the remaining payments. The Buyer assumed control of DenseLight on November 8, 2019 and will be responsible for all operations of DenseLight thenceforth. Upon closing, the Company recognized a gain on the sale of \$8,707,280. The Company received an additional \$2,000,000, in excess of the sale proceeds, with the most recently paid two tranches which was immediately paid to Oak Capital on behalf of the Buyer for due diligence, legal and other expenses.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The acquisition cost is measured at the acquisition date at the fair value of the consideration transferred, including all contingent consideration.

Subsequent changes in contingent consideration are accounted for through the consolidated statements of operations and deficit and consolidated statements of comprehensive loss in accordance with the applicable standards.

Goodwill arising on acquisition is initially measured at cost, being the difference between the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree and the net recognized amount (generally fair value) of the identifiable assets and liabilities assumed at the acquisition date. If the net of the amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the consolidated statements of operations and deficit as a bargain purchase gain.

Acquisition-related costs, other than those that are associated with the issue of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

**Foreign currency translation**

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

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

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

**Financial instruments**

IFRS 9 introduced new classification and measurement models for financial assets. The investment classifications held-to-maturity and available-for-sale are no longer used and financial assets at fair value through other comprehensive income ("FVTOCI") were introduced. Financial assets held with an objective to hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest are measured at amortised cost using the effective interest method. Debt investments held with an objective to hold both assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of fair value are measured at FVTOCI. All other financial assets are classified and measured at fair value through profit or loss ("FVTPL"). Financial liabilities are classified as either FVTPL or other financial liabilities, and the portion of the change in fair value that relates to the Company's credit risk is presented in other comprehensive income (loss). Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net income (loss). Other financial liabilities are subsequently measured at amortised cost using the effective interest method.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in consolidated net income (loss).

**Derecognition**

***Financial assets***

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

***Financial liabilities***

A financial liability is derecognized from the balance sheet when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities.

The following table outlines the classification of financial instruments under IAS 39 and the revised classification on the adoption of IFRS 9:

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>
<b>Financial Assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	FVTPL	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Amortized costs	Amortized cost

Convertible debentures are accounted for as a compound financial instrument with a debt component and a separate equity component. The debt component of these compound financial instruments is measured at fair value on initial recognition by discounting the stream of future interest and principal payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The debt component is subsequently deducted from the total carrying value of the compound instrument to derive the equity component. The debt component is subsequently measured at amortized cost using the effective interest rate method. Interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption are recognized through profit or loss as a finance cost.

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Cash and cash equivalents**

Cash and cash equivalents consist of cash in current accounts of \$1,278,129 (2018 - \$2,267,868, 2017- \$4,974,478) and funds invested in US Term Deposits of \$150,000 (2018 - \$300,000, 2017 - nil) earning interest at 1.31% and maturing in less than 90 days.

Cash and cash equivalents include restricted funds of \$93,800 (2018 - \$218,888, 2017 - nil) which serves as a bank guarantee for the purchase of certain equipment. The bank guarantee is reduced on a monthly basis by \$10,424 which is amount paid monthly in settlement of the outstanding balance on the equipment.

##### **Accounts receivable**

Accounts receivable are amounts due from customers from the sale of products or services in the ordinary course of business. Accounts receivables are classified as current (on the consolidated statements of financial position) if payment is due within one year of the reporting period date, and are initially recognized at fair value and subsequently measured at amortized cost.

In determining a default provision, the Company utilizes a provision matrix, as permitted under the simplified approach to measure expected credit losses. In doing so management considered historical credit losses, forward-looking factors specific to the Company's debtors and other macro-economic factors to arrive at expected default rates. The default rates are then applied to the Company's aging to determine expected credit losses. The carrying amount of trade receivables is reduced by the expected credit losses. If the financial conditions of these customers were to deteriorate and the Company determines that no recovery of a trade receivable is possible, the amount is deemed irrecoverable and subsequently written-off. Accounts receivable at December 31, 2018 and 2017 related to revenue earned by DenseLight. DenseLight was sold on November 8, 2019 (see Note 23).

##### **Inventory**

Inventory consists of raw material inventory, work in process, and finished goods and are recorded at the lower of cost and net realizable value. Cost is determined on a first in first out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present condition.

An assessment is made of the net realizable value of inventory at each reporting period. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of any write down previously recorded is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. Raw materials are not written down unless the goods in which they are incorporated are expected to be sold for less than cost, in which case, they are written down by reference to replacement cost of the raw materials, as this is the best indicator of net realizable value. Inventory at December 31, 2018 and 2017 related to inventory held by DenseLight. DenseLight was sold on November 8, 2019 (see Note 23).

##### **Property and equipment**

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

Machinery and equipment	Straight Line, 5 years
Leasehold improvements	Straight Line, 5 years or life of the lease, whichever is less
Office equipment	Straight Line, 3 - 5 years

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in US Dollars)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Patents and licenses**

Patents and licenses are recorded at cost and amortized on a straight line basis over 12 years. Ongoing maintenance costs are expensed as incurred.

**Impairment of long-lived assets**

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

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the year. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The Company reported an impairment loss of \$714,000 for the year ended December 31, 2019 (2018 - nil, 2017 - nil) (Note 10).

**Goodwill**

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable assets acquired net of liabilities assumed. Goodwill is measured at cost less accumulated impairment losses and is not amortized. Goodwill is tested for impairment on an annual basis or whenever facts or circumstances indicate that the carrying amount may exceed its recoverable amount.

The Company performed its annual test for goodwill impairment at December 31, 2019. The Company utilized a five-year cash flow forecast using the annual budget approved by the Board of Directors as a basis for such forecasts. Cash flow forecasts beyond that of the budget were prepared using a stable growth rate for future periods. These forecasts were based on historical data and future trends expected by the Company. The Company's valuation model also takes into account working capital and capital investments required to maintain the condition of the assets. Forecasted cash flows were discounted using an after-tax rate of 30%.

Based on the impairment tests, the value in-use of the CGU to which goodwill is applicable is less than the carrying amount. As a result goodwill of \$1,050,459 was impaired in the current year. No provision for impairment of goodwill was made in 2018 or 2017 (Note 24).

**Income taxes**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in US Dollars)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue recognition**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

**Sale of goods**

Revenue from the sale of goods is recognized, net of discounts and customer rebates, at the point in time the transfer of control of the related products has taken place as specified in the sales contract and collectability is reasonably assured.

**Service revenue**

The Company provides contract services, primarily in the form of non-recurring revenue ("NRE") where control is passed to the customer over time. The contracts generally provide agreed upon milestones for customer payment which include but are not limited to the delivery of sample products, design reports and test reports. The customer makes payment when it has approved the delivery of the milestone. The Company must determine if the contract is made up of a series of independent performance obligations or a single performance obligation. Where NRE contracts contain multiple performance obligations for which a standalone transaction price can be assessed, revenue is recognized as each performance obligation is satisfied. Where NRE contracts contain a single performance obligation to be settled over time, revenue is recognized progressively based on the output method.

**Other income**

**Interest income**

Interest income on cash is recognized as earned using the effective interest method.

**Research and Development Credits**

Through DenseLight, the Company was eligible to receive cash credits for certain qualifying research and development expenses based on actual spending over a three year period, with an expectation that the credits will not exceed a certain dollar value over a three year period. Recoverable amounts at December 31, 2018 and 2017 related to expenditures at DenseLight. Recoverable amount at December 31, 2019 was nil because the Company sold DenseLight on November 8, 2019.

**Intangible assets**

**Research and development costs**

Research costs are expensed in the year incurred. Development costs are also expensed in the year incurred unless the Company believes a development project meets IFRS criteria as set out in IAS 38, *Intangible Assets*, for deferral and amortization. IAS 38 requires all research costs be charged to expense while development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits. Development costs are tested for impairment whenever events or changes indicate that its carrying amount may not be recoverable.

**In-Process Research and Development**

Under IFRS, in-process research and development ("IPR&D") acquired in a business combination that meets the definition of an intangible asset is capitalized with amortization commencing when the asset is ready for use (i.e., when development is complete). The Company acquired \$714,000 of IPR&D when it acquired BB Photonics Inc. in 2016. During 2019, management observed indicators that suggested that IPR&D may be impaired. IPR&D acquired with BB Photonics was no longer useable with the novel POET Interposer platform. BB Photonics IPR&D would not generate sufficient cash flow to support its value in use. Management completed an assessment of IPR&D and determined that the amount of \$714,000 was impaired. An impairment loss of \$714,000 was recorded during the year ended December 31, 2019. No impairment was recorded in 2018 or 2017 (Note 10).

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Customer relationships

Intangible assets include customer relationships acquired with the acquisition of DenseLight. Customer relationships is an externally acquired intangible asset and is measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationships are amortized on a straight-line basis over their estimated useful lives and is tested for impairment whenever events or changes indicate that their carrying amount may not be recoverable. The useful life of customer relationships was determined to be 5 years. Customer relations was nil at December 31, 2019 as because the asset was disposed of with the sale of DenseLight on November 8, 2019.

##### Stock-based compensation

Stock options and warrants awarded to non employees are measured using the fair value of the goods or services received unless that fair value cannot be estimated reliably, in which case measurement is based on the fair value of the stock options. Stock options and warrants awarded to employees are accounted for using the fair value method. The fair value of such stock options and warrants granted is recognized as an expense on a proportionate basis consistent with the vesting features of each tranche of the grant. The fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

##### Income (loss) per share

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

#### 3. RECENT ACCOUNTING PRONOUNCEMENTS

##### Recently adopted accounting policy

IFRS 16, Leases ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). This replaces IAS 17, Leases ("IAS 17") and related Interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right of use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets is reported separately from interest on lease liabilities in the income statement. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers. The Company adopted this new standard using the modified retrospective method on January 1, 2019. The adoption of IFRS 16, resulted in a right of use asset and liability of \$1,127,534. The carrying value of the right of use asset and lease liability relating to Denselight were disposed of upon the sale of DenseLight on November 8, 2019 (notes 9 and 23).

#### 4. ACCOUNTS RECEIVABLE

The carrying amounts of accounts receivable approximate their fair value and are originally denominated in Singapore dollars before conversion to US dollars at December 31:

		2019	2018	2017
Product sales	United States dollar	\$ -	\$ 713,744	\$ 493,925
Product sales	Singapore dollar	-	273,815	-
Loss allowance		-	(40,615)	-
		\$ -	\$ 946,944	\$ 493,925

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 4. ACCOUNTS RECEIVABLE (Continued)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The trade receivables that are neither past due nor impaired relates to customers that the company has assessed to be creditworthy based on the credit evaluation process performed by management which considers both customers' overall credit profile and its payment history with the Company. The loss allowance is determined in accordance IFRS 9 (Note 18). Trade receivables at December 31, 2018 and 2017 related to DenseLight. Trade receivable is nil at December 31, 2019 because DenseLight was sold on November 8, 2019.

#### 5. PREPAIDS AND OTHER CURRENT ASSETS

The following table reflects the details of prepaids and other current assets at December 31:

	2019	2018	2017
Sales tax recoverable and other current assets	\$ 81,265	\$ 85,658	\$ 119,482
Research and development credit	-	1,905,593	1,287,539
Security deposits on leased properties	-	233,983	228,170
Prepaid expenses	750,000	711,385	322,536
	\$ 831,265	\$ 2,936,619	\$ 1,957,727

Research and development credit, security deposit on leased properties and certain prepaid expenses were disposed of during the year upon the sale of DenseLight.

#### 6. INVENTORY

The following table reflects the details of inventory at December 31:

	2019	2018	2017
Raw materials	\$ -	\$ 98,370	\$ 112,768
Finished goods	-	212,361	260,105
Work in process	-	126,102	151,709
	\$ -	\$ 436,833	\$ 524,582

In 2017, the Company recorded an inventory write-down of \$353,476. Raw materials related to products under development represented the most significant portion of the write-down.

The Company disposed of its inventory upon the sale of DenseLight on November 8, 2019.

#### 7. PROPERTY AND EQUIPMENT

	Equipment not ready for use	Leasehold improvements	Machinery and equipment	Office equipment	Total
<b>Cost</b>					
Balance, January 1, 2017	\$ 602,830	\$ 667,342	\$ 9,734,885	\$ 314,817	\$ 11,319,874
Additions	806,182	-	113,433	50,182	969,797
Reclassification	(874,371)	-	874,371	-	-
Effect of changes in foreign exchange rates	46,433	-	72,779	8,914	128,126
Balance, December 31, 2017	581,074	667,342	10,795,468	373,913	12,417,797
Additions	3,667,894	-	-	50,258	3,718,152
Reclassification <sup>(1)</sup>	(1,086,895)	-	881,221	202,674	(3,000)
Impairment and disposals <sup>(1)</sup>	-	-	(611,875)	(3,665)	(615,540)
Effect of changes in foreign exchange rates	(19,920)	-	(46,829)	(1,739)	(68,488)
Balance, December 31, 2018	3,142,153	667,342	11,017,985	621,441	15,448,921
Additions	1,986,210	-	39,260	19,480	2,044,950
Disposals <sup>(2)</sup>	(4,388,762)	(667,342)	(8,198,519)	(555,688)	(13,810,311)
Effect of changes in foreign exchange rates	24,741	-	14,529	-	39,270
Balance, December 31, 2019	\$ 764,342	\$ -	\$ 2,873,255	\$ 85,233	\$ 3,722,830

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**7. PROPERTY AND EQUIPMENT (Continued)**

**Accumulated Depreciation**

Balance, January 1, 2017	-	83,189	1,808,308	64,167	1,955,664
Depreciation for the year	-	133,499	1,857,474	192,990	2,183,963
Balance, December 31, 2017	-	216,688	3,665,782	257,157	4,139,627
Depreciation for the year	-	133,809	2,201,133	133,662	2,468,604
Impairment and disposals <sup>(1)</sup>	-	-	(455,158)	(3,665)	(458,823)
Balance, December 31, 2018	-	350,497	5,411,757	387,154	6,149,408
Depreciation for the year	-	-	144,337	22,005	166,342
Disposals (2)	-	(350,497)	(5,044,288)	(341,195)	(5,735,980)
Balance, December 31, 2019	-	-	511,806	67,964	579,770

**Carrying Amounts**

At December 31, 2017	\$ 581,074	\$ 450,654	\$ 7,129,686	\$ 116,756	\$ 8,278,170
At December 31, 2018	\$ 3,142,153	\$ 316,845	\$ 5,606,228	\$ 234,287	\$ 9,299,513
At December 31, 2019	\$ 764,342	\$ -	\$ 2,361,449	\$ 17,269	\$ 3,143,060

(1) During 2018, \$3,000 relating to certain property and equipment were reclassified to non-current assets held for sale and was sold in December 2018 while \$156,717 was recorded as an impairment loss and was included in discontinued operations.

(2) On November 8, 2019, the Company disposed of property and equipment used in the operations DenseLight.

**8. PATENTS AND LICENSES**

**Cost**

Balance, January 1, 2017	\$ 609,887
Additions	60,543
Balance, December 31, 2017	670,430
Additions	67,608
Effect of changes in foreign exchange rates	(352)
Balance, December 31, 2018	737,686
Additions	77,037
Disposals (1)	(29,696)
Balance, December 31, 2019	785,027

**Accumulated Amortization**

Balance, January 1, 2017	160,211
Amortization	53,969
Balance, December 31, 2017	214,180
Amortization	56,792
Balance, December 31, 2018	270,972
Amortization	61,671
Balance, December 31, 2019	332,643

**Carrying Amounts**

At December 31, 2017	\$ 456,250
At December 31, 2018	\$ 466,714
At December 31, 2019	\$ 452,384

(1) On November 8, 2019, the Company disposed of certain patents unrelated to the Company's technology on the sale of DenseLight.

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**9. RIGHT OF USE ASSET AND LEASE LIABILITY**

On January 1, 2019, the Company adopted IFRS, 16 Leases. Upon adoption of IFRS 16, the Company recognized a lease liability and right of use asset relating to new leases entered into on February 15, 2019 related to DenseLight, and November 1, 2019 related to PTS. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 12%.

<b>Right of use asset</b>	<b>Building</b>
<b>Cost</b>	
Balance, January 1, 2019	\$ -
Additions	1,127,534
Disposal <sup>(1)</sup>	(892,300)
Effect of changes in foreign exchange rates	2,966
<b>Balance, December 31, 2019</b>	<b>238,200</b>
<b>Accumulated Amortization</b>	
Balance, January 1, 2019	-
Amortization	15,683
<b>Balance, December 31, 2019</b>	<b>15,683</b>
<b>Carrying Amounts</b>	
At December 31, 2019	\$ 222,517
<b>Lease liability</b>	
Balance, January 1, 2019	\$ -
Additions	1,127,534
Interest expense	4,705
Interest included in discontinued operations	74,494
Lease payments	(19,162)
Lease payments included in discontinued operations	(258,460)
Disposal <sup>(1)</sup>	(695,733)
Effect of changes in foreign exchange rates	(9,620)
<b>Balance, December 31, 2019</b>	<b>\$ 223,758</b>

(1) The Company disposed of \$892,000 of right of use asset and \$695,733 of lease liability on November 8, 2019 with the sale of DenseLight (Note 23).

**10. INTANGIBLE ASSETS**

	Technology	Customer Relationships	Total
<b>Cost</b>			
Balance, December 31, 2017 and 2018	\$ 714,000	\$ 186,131	\$ 900,131
Impairment	(714,000)	-	(714,000)
Disposals <sup>(1)</sup>	-	(186,131)	(186,131)
<b>Balance, December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Accumulated Amortization</b>			
Balance, January 1, 2017	-	23,266	23,266
Amortization for the year	-	37,228	37,228
<b>Balance, December 31, 2017</b>	<b>-</b>	<b>60,494</b>	<b>60,494</b>
Amortization for the year	-	37,228	37,228
<b>Balance, December 31, 2018</b>	<b>-</b>	<b>97,722</b>	<b>97,722</b>
Disposals <sup>(1)</sup>	-	(97,722)	(97,722)
<b>Balance, December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>



## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 10. INTANGIBLE ASSETS (Continued)

<b>Carrying Amounts</b>			
At December 31, 2017	\$	714,000	\$ 125,637 \$ 839,637
At December 31, 2018	\$	714,000	\$ 88,409 \$ 802,409
At December 31, 2019	\$	-	\$ - \$ -

(1) The Company disposed of its customer relationships intangible assets and related amortization on November 8, 2019 with the sale of DenseLight (Note 23).

#### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31 was as follows:

	2019	2018	2017
Trade payables	\$ 1,507,644	\$ 2,269,845	\$ 504,229
Payroll related liabilities	44,677	595,720	112,913
Accrued liabilities	173,387	174,857	193,451
	\$ 1,725,708	\$ 3,040,422	\$ 810,593

#### 12. CONVERTIBLE DEBENTURES, LOAN PAYABLE AND PROMISSORY NOTE

On April 1, 2019 the Company announced that it arranged for certain financing required to bridge the Company up to the sale of its DenseLight subsidiary.

##### Convertible Debentures

The first component of the financing consists of the issuance of up to \$10.5 million (CAD\$14 million) of unsecured convertible debentures (the "Convertible Debentures") of the Company. The Convertible Debentures were sold in multiple tranches, on a brokered private placement basis through the Company's financial advisors, IBK Capital. During the year the Company closed five tranches of the private placement of the Convertible Debentures that raised gross proceeds of \$3,729,921 (CAD\$4,988,292). The Convertible Debentures, bear interest at 12% per annum, compounded annually with 1% payable at the beginning of each month and mature two years from the date of issue. The Company paid \$377,072 (CAD\$499,462) in brokerage fees and other costs related to the closing of these five tranches.

The Convertible Debentures are convertible at the option of the holders thereof into units at any time after October 31, 2019 at a conversion price of CAD\$0.40 per unit for a total 12,470,730 units of the Company. Each unit will consist of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share of the Company at a price of CAD\$0.50 per share for a period of two years from the date upon which the convertible debenture is converted into units. Upon completing the sale of DenseLight, holders of Convertible Debentures will have the right to cause the Company to repurchase the Convertible Debentures at face value, subject to certain restrictions. The Convertible Debentures are governed by a trust indenture between the Company and TSX Trust Company as trustee.

Insiders of the Company subscribed for 14.3% or \$535,000 (CAD\$710,000) of the Convertible Debentures, including the Company's board of directors and senior management team. Insiders of IBK Capital subscribed for 4% or \$146,000 (CAD\$200,000) of the Convertible Debentures.

IAS 32 *Financial Instruments: Presentation* define these debt securities as compound financial instruments made up of both a liability component and an equity component. The debt component of the Convertible Debentures were fair valued using effective discount rates ranging from 28.74% to 29.71% which the Company determined would be the interest rate of the debts without a conversion feature. The difference between the fair value of the debt component and the loan is allocated to the equity component and is included in shareholders' equity.

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 12. CONVERTIBLE DEBENTURES, LOAN PAYABLE AND PROMISSORY NOTE (Continued)

Because the Convertible Debentures are denominated in Canadian dollars and the conversion price is also denominated in Canadian dollars, the number of equity instruments that would be issued upon exercise of the convertible debentures are fixed. As a result, the equity component of the convertible debentures will not be periodically remeasured.

The following table reflects the details of convertible debentures:

Convertible Debentures	Loan	Equity Component	Accretion	Debt Component
Issued April 3, 2019 (net of issue costs)	\$ 1,293,519	\$ (242,004)	\$ 128,240	\$ 1,179,755
Issued May 3, 2019 (net of issue costs)	979,256	(183,317)	84,708	880,647
Issued June 3, 2019 (net of issue costs)	582,356	(109,017)	42,855	516,194
Issued August 2, 2019 (net of issue costs)	374,753	(70,154)	19,690	324,289
Issued September 19, 2019 (net of issue costs)	122,965	(23,019)	5,336	105,282
Effect of foreign exchange rate changes	-	-	-	82,866
Balance December 31, 2019	\$ 3,352,849	\$ (627,511)	\$ 280,829	\$ 3,089,033

#### Loan Payable and Promissory Note

The second component of the financing consisted of a credit facility (the "Bridge Loan") provided by Espresso Capital Ltd which granted the Company access to a maximum \$5,000,000. The Company signed the loan documents on April 18, 2019 and was advanced \$3,100,000 shortly thereafter.

Funds drawn on the Credit Facility bear interest at a rate of 17.25% per annum (the "Interest Rate"), calculated daily from the date of each advance until the earlier of the due date of each such advance, if any, and December 31, 2019 (the "Maturity Date"). The Interest Rate is comprised of 15% cash interest and 2.25% deferred interest. Per the agreement, the interest rate was retroactively increased to 19.25% because the Company did not consummate the sale of Denselight by October 15, 2019.

The Company paid \$147,077 in costs related to the Bridge Loan. Additionally, the Company issued to Espresso Capital Ltd, warrants for the purchase of 3,289,500 common shares at a price of CAD\$0.35 per share. The Warrants expire on April 18, 2020. The fair value of the warrants was estimated on the date of issue using the Black-Scholes option pricing model with the following assumptions: volatility of 78.91%, interest rate of 1.62% and an expected life of 1 year. The estimated fair value assigned to the warrants was \$221,620. The total cost of \$368,697 along with the foreign exchange impact of \$3,543 was deferred and charged against the Bridge Loan and subsequently amortized over the life of the Bridge Loan. The Bridge loan was repaid on November 8, 2019.

Additionally, on August 30, 2019, the Company signed a term promissory note (the "Promissory Note") for up-to \$1,000,000 with Century Prosper Investment Corporation (the "Lender"). The Promissory Note bears interest at 15% per annum. The Promissory Note and accrued interest are repayable on the six-month anniversary of each advance. At the option of the Lender, the advances and accrued interest may be repaid in full five days after the sale of the Company's Denselight subsidiary. The Company was advanced \$900,000 on this Promissory Note. The \$900,000 advance and related interest of \$17,160 were repaid on November 8, 2019.

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**13. SHARE CAPITAL**

- (a) AUTHORIZED  
 Unlimited number of common shares  
 One special voting share

- (b) COMMON SHARES ISSUED

	Number of Shares	Amount
Balance, January 1, 2017	259,333,853	\$103,357,862
Funds from the exercise of stock options	685,000	123,528
Fair value of stock options exercised	-	134,831
Balance, December 31, 2017	260,018,853	103,616,221
Common shares issued on public offering	25,090,700	10,663,548
Share issue costs	-	(1,131,990)
Fair value of warrants issued on public offering	-	(2,286,426)
Fair value of compensation options issued to brokers	-	(479,204)
Funds from the exercise of stock options	372,250	87,974
Fair value of stock options exercised	-	82,330
Funds from the exercise of warrants and compensation warrants	2,600,500	1,028,471
Fair value of warrants and compensation warrants exercised	-	447,270
Balance, December 31, 2018	288,082,303	112,028,194
Funds from the exercise of stock options	281,250	60,028
Fair value of stock options exercised	-	55,950
Balance, December 31, 2019	288,363,553	\$112,144,172

On March 21, 2018, the Company completed a brokered "bought deal" public offering of 25,090,700 units at a price of \$0.425 (CAD\$0.55) per unit for gross proceeds of \$10,663,548 (CAD\$13,799,885). Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.58 (CAD\$0.75) per share until March 21, 2020. The broker was paid a cash commission of \$639,813 (6%) of the gross proceeds and received 1,505,442 compensation options. Each compensation option is exercisable into one compensation unit of the Company at a price of \$0.425 (CAD\$0.55) per compensation unit until March 21, 2020 with each compensation unit comprising one common share and one-half compensation share purchase warrant. Each whole compensation share purchase warrant entitles the broker to purchase one common share of the Company at a price of \$0.425 (CAD\$0.55) per share until March 21, 2020. The Company paid an additional \$492,177 in other costs related to this financing.

Certain management participated in the "bought-deal" public offering, by acquiring 281,000 units at a price of \$0.425 (CAD\$0.55) per unit for gross proceeds of \$119,425 (CAD\$154,550).

The fair value of the share purchase warrants and compensation options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, risk-free interest rate of 1.86%, volatility of 94.77%, and estimated life of 2 years. The estimated fair values assigned to the warrants and compensation options were \$2,286,426 and \$479,204, respectively.

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**14. WARRANTS**

The following table reflects the continuity of warrants:

	Historical Average Exercise Price	Number of Warrants/ Compensation options	Historical Fair value
Balance, January 1, 2017	\$ 0.79	8,369,233	\$ 2,013,747
Warrants issued	0.39	34,800,000	5,985,378
Warrants and compensation warrants exercised	(0.51)	(3,794,412)	(901,417)
Expired	(1.02)	(4,574,821)	(1,112,330)
Balance, December 31, 2017	0.39	34,800,000	5,985,378
Fair value of warrants issued on public offering	0.58	12,545,350	2,286,426
Historical fair value assigned to warrants exercised	0.39	(2,600,500)	(447,270)
Fair value of compensation options issued to brokers	0.43	1,505,442	479,204
Balance, December 31, 2018	0.44	46,250,292	8,303,738
Fair value of warrants issued as cost of debt financing	0.27	3,289,500	221,620
Balance, December 31, 2019	\$ 0.43	49,539,792	\$ 8,525,358

**15. STOCK OPTIONS AND CONTRIBUTED SURPLUS**

**Stock Options**

On June 21, 2018, shareholders of the Company approved amendments to the Company's fixed 20% stock option plan (as amended, previously referred to as the "2016 plan", now referred to as the "2018 Plan"). Under the 2018 Plan, the board of directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and consultants. The 2018 Plan provides that the number of common shares issuable pursuant to options granted under the 2018 Plan and pursuant to other previously granted options is limited to 57,611,360 (the "Number Reserved"). Any subsequent increase in the Number Reserved must be approved by shareholders of the Company and cannot, at the time of the increase, exceed 20% of the number of issued and outstanding shares. The stock options vest in accordance with the policies determined by the Board of Directors from time to time consistent with the provisions of the 2018 Plan which grants discretion to the Board of Directors.

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

	Number of Options	Historical Weighted Average Exercise Price
Balance, January 1, 2017	23,805,500	\$ 0.96
Expired/cancelled	(5,455,209)	0.73
Exercised	(685,000)	0.19
Granted	15,425,000	0.24
Balance, December 31, 2017	33,090,291	0.68
Expired/cancelled	(1,944,791)	0.74
Exercised	(372,250)	0.26
Granted	13,690,479	0.34
Balance, December 31, 2018	44,463,729	0.58
Expired/cancelled <sup>(1)</sup>	(8,707,811)	0.90
Exercised	(281,250)	0.22
Granted	17,785,670	0.27
Balance, December 31, 2019	53,260,338	\$ 0.43

(1) 2,277,186 cancelled options related to staff employed at DenseLight

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**15. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)**

During the year ended December 31, 2019, the Company recorded stock-based compensation of \$2,888,141 (2018 - \$3,602,879, 2017 - \$2,958,358) relating to stock options that vested during the year. The stock-based compensation applicable to employees of Denselight in the amount of \$(75,608) (2018 - \$419,238, 2017 - 216,566) has been allocated to discontinued operations (see note 23).

The stock options granted were valued using the Black-Scholes option pricing model using the following assumptions:

	2019	2018	2017
Weighted average exercise price	<b>\$0.27</b>	\$0.34	\$0.24
Weighted average risk-free interest rate	<b>1.57%</b>	2.17%	1.87%
Weighted average dividend yield	<b>0%</b>	0%	0%
Weighted average volatility	<b>95.48%</b>	103.47%	102.73%
Weighted average estimated life	<b>10 years</b>	10 years	10 years
Weighted average share price	<b>\$0.27</b>	\$0.34	\$0.24
Share price on the various grant dates:	<b>\$0.24 - \$0.28</b>	\$0.18 - \$0.40	\$0.21 - \$0.32
Weighted average fair value	<b>\$0.24</b>	\$0.30	\$0.22

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

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at December 31, 2019 are as follows:

Options Outstanding				Options Exercisable		
Exercise Range	Number Outstanding	Historical Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Historical Weighted Average Exercise Price	
\$0.11 - \$0.20	693,750	\$ 0.19	6.14	693,750	\$ 0.19	
\$0.21 - \$0.24	9,020,313	\$ 0.22	7.63	6,887,501	\$ 0.22	
\$0.25 - \$0.29	10,888,259	\$ 0.25	9.18	3,504,188	\$ 0.25	
\$0.30 - \$0.86	24,844,766	\$ 0.35	8.38	9,542,718	\$ 0.40	
\$0.87 - \$1.64	7,813,250	\$ 1.13	0.57	7,789,813	\$ 1.13	
	53,260,338	\$ 0.43	7.24	28,417,970	\$ 0.53	

**Contributed Surplus**

The following table reflects the continuity of contributed surplus:

	Amount
Balance, January 1, 2017	\$ 29,062,874
Stock-based compensation	3,174,924
Fair value of stock options exercised	(134,831)
Balance, December 31, 2017	32,102,967
Stock-based compensation	4,022,117
Fair value of stock options exercised	(82,330)
Balance, December 31, 2018	36,042,754
Stock-based compensation	2,812,533
Fair value of stock options exercised	(55,950)
Balance, December 31, 2019	\$ 38,799,337

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**16. INCOME (LOSS) PER SHARE**

	2019	2018	2017
<b>Numerator</b>			
Net loss from continuing operations	\$ (11,434,632)	\$ (8,422,117)	\$ (7,908,851)
Net income (loss) from discontinued operations	\$ 5,481,757	\$ (7,900,662)	\$ (4,888,946)
<b>Net loss</b>	<b>\$ (5,952,875)</b>	<b>\$ (16,322,779)</b>	<b>\$ (12,797,797)</b>
<b>Denominator</b>			
Weighted average number of common shares outstanding	288,216,378	282,098,432	259,771,793
Weighted average number of common shares outstanding - diluted	288,216,378	282,098,432	259,771,793
Basic and diluted loss per share, continuing operations	\$ (0.04)	\$ (0.03)	\$ (0.03)
Basic and diluted income (loss) per share, discontinued operations	\$ 0.02	\$ (0.03)	\$ (0.02)
<b>Basic and diluted loss per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>	<b>\$ (0.05)</b>

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2019, 2018 and 2017 is not reflected as they are anti-dilutive.

**17. COMMITMENTS AND CONTINGENCIES**

The Company has operating leases on three facilities; head office located in Toronto, Canada, design and testing operations located in San Jose, California and operating facilities located in Singapore. The Company's design and testing operations terminated a lease on January 31, 2020. A new lease was initiated on April 1, 2020 and expires on March 31, 2025. The lease on the Company's operating facilities was initiated on November 1, 2019 and expires April 30, 2022. As at December 31, 2019, the Company's head office was on a month to month lease term.

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

2020	\$ 170,759
2021 and beyond	494,732
	<b>\$ 665,491</b>

**18. RELATED PARTY TRANSACTIONS**

Compensation to key management personnel were as follows:

	2019	2018	2017
Salaries	\$ 1,251,277	\$ 1,216,250	\$ 932,133
Share-based payments (1)	2,135,579	2,449,683	2,110,773
<b>Total</b>	<b>\$ 3,386,856</b>	<b>\$ 3,665,933</b>	<b>\$ 3,042,906</b>

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

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

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**19. SEGMENT INFORMATION**

The Company and its subsidiaries operate in a single segment; the design, manufacture and sale of semi-conductor products and services for commercial applications. The Company's operating and reporting segment reflects the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision making purposes, including the allocation of resources. A summary of the Company's operations is below:

**OPEL, ODIS and PTS**

OPEL, ODIS and PTS are the developers of the POET platform semiconductor process IP for monolithic fabrication of integrated circuit devices containing both electronic and optical elements on a single die.

**BB Photonics**

BB Photonics develops photonic integrated components for the datacom and telecom markets utilizing embedded dielectric technology that enables the low-cost integration of active and passive devices into photonic integrated circuits.

On a consolidated basis, the Company operates geographically in Singapore, the United States and Canada. Geographical information is as follows:

2019

As of December 31,	Singapore	US	Canada	Consolidated
Current assets	\$ 86,849	\$ 22,523	\$ 20,150,022	\$ 20,259,394
Property and equipment	3,055,906	87,154	-	3,143,060
Patents and licenses	-	452,384	-	452,384
Right of use asset	222,517	-	-	222,517
<b>Total Assets</b>	<b>\$ 3,365,272</b>	<b>\$ 562,061</b>	<b>\$ 20,150,022</b>	<b>\$ 24,077,355</b>

Year Ended December 31,	Singapore	US	Canada	Consolidated
Selling, marketing and administration	\$ 217,416	\$ 5,126,260	\$ 1,353,711	\$ 6,697,387
Research and development	218,900	107,161	1,757,754	2,083,815
Impairment of long lived assets	-	-	1,764,459	1,764,459
Interest expense	4,705	-	815,206	819,911
Amortization of debt issuance costs	-	-	372,340	372,340
Other income including interest income	-	-	(10,540)	(10,540)
Income taxes	-	(292,740)	-	(292,740)
<b>Net loss from continuing operations, net of taxes</b>	<b>(441,021)</b>	<b>(4,940,681)</b>	<b>(4,288,471)</b>	<b>(11,434,632)</b>
<b>Income from discontinued operations, net of taxes</b>	<b>5,481,757</b>	<b>-</b>	<b>-</b>	<b>5,481,757</b>
<b>Net income (loss)</b>	<b>\$ 5,040,736</b>	<b>\$ (4,940,681)</b>	<b>\$ (4,288,471)</b>	<b>\$ (5,952,875)</b>

2018

As of December 31,	Singapore	US	Canada	Consolidated
Current assets	\$ 4,283,008	\$ 302,405	\$ 2,302,851	\$ 6,888,264
Property and equipment	9,136,694	162,819	-	9,299,513
Patents and licenses	18,464	448,250	-	466,714
Goodwill and intangible assets	6,718,953	1,764,459	-	8,483,412
<b>Total Assets</b>	<b>\$ 20,157,119</b>	<b>\$ 2,677,933</b>	<b>\$ 2,302,851</b>	<b>\$ 25,137,903</b>

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**19. SEGMENT INFORMATION (Continued)**

Year Ended December 31,	Singapore	US	Canada	Consolidated
Selling, marketing and administration \$	-	\$ 5,169,619	\$ 1,004,256	\$ 6,173,875
Research and development	-	1,715,154	547,322	2,262,476
Other income including interest	-	-	(14,234)	(14,234)
Net loss from continuing operations	-	(6,884,773)	(1,537,344)	(8,422,117)
Loss from discontinued operations, net of taxes	(7,900,662)	-	-	(7,900,662)
Net loss	\$ (7,900,662)	\$ (6,884,773)	\$ (1,537,344)	\$ (16,322,779)

2017

As of December 31,	Singapore	US	Canada	Consolidated
Current assets	\$ 3,190,298	\$ 4,621,318	\$ 139,096	\$ 7,950,712
Property and equipment	8,018,900	259,270	-	8,278,170
Patents and licenses	18,816	437,434	-	456,250
Goodwill and intangible assets	6,756,181	1,764,459	-	8,520,640
Total Assets	\$ 17,984,195	\$ 7,082,481	\$ 139,096	\$ 25,205,772

The Year Ended December 31,	Singapore	US	Canada	Consolidated
Selling, marketing and administration \$	-	\$ 4,837,859	\$ 1,049,850	\$ 5,887,709
Research and development	-	1,719,734	319,687	2,039,421
Other income including interest	-	-	(18,279)	(18,279)
Net loss from continuing operations	-	(6,557,593)	(1,351,258)	(7,908,851)
Loss from discontinued operations, net of taxes	(4,888,946)	-	-	(4,888,946)
Net loss	\$ (4,888,946)	\$ (6,557,593)	\$ (1,351,258)	\$ (12,797,797)

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, receivable from the sale of discontinued operations, convertible debentures, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest risk arising from these financial instruments. The Company estimates that the fair value of these instruments approximates fair value due to their short term nature.

The Company has classified financial assets and (liabilities) as follows at December 31:

	2019	2018	2017
Fair value through profit or loss, measured at amortized cost:			
Cash and cash equivalents	\$ 1,428,129	\$ 2,567,868	\$ 4,974,478
Accounts receivable, measured at amortized cost:			
Accounts receivable	\$ -	\$ 946,944	\$ 493,925
Receivable from the sale of discontinued operations	\$ 18,000,000	\$ -	\$ -
Other liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	\$ (1,725,708)	\$ (3,040,422)	\$ (810,593)
Convertible debentures	\$ (3,089,033)	\$ -	\$ -



## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

##### Credit Risk

The Company is exposed to credit risk associated with its accounts receivable. The Company has accounts receivable from both governmental and non-governmental agencies. Credit risk is minimized substantially by ensuring the credit worthiness of the entities with which it carries on business. Credit terms are provided on a case by case basis. The Company has not experienced any significant instances of non-payment from its customers.

The Company's accounts receivable ageing at December 31 was as follows:

	2019	2018	2017
Current	\$ -	\$ 892,343	\$ 330,731
31 - 60 days	-	34,331	56,094
61 - 90 days	-	60,885	-
> 90 days	-	-	107,100
Expected credit losses <sup>(1)</sup>	-	(40,615)	-
	\$ -	\$ 946,944	\$ 493,925

(1) The Company applies IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss allowance for trade receivables.

##### Exchange Rate Risk

The functional currency of each of the entities included in the accompanying consolidated financial statements is the local currency where the entity is domiciled. Functional currencies include the US, Singapore and Canadian dollar. Most transactions within the entities are conducted in functional currencies. As such, none of the entities included in the consolidated financial statements engage in hedging activities. The Company is exposed to a foreign currency risk with the Canadian and Singapore dollar. A 10% change in the Canadian and Singapore dollar would increase or decrease other comprehensive loss by \$290,950.

##### Liquidity Risk

The Company currently does not maintain credit facilities. The Company's existing cash and cash resources are considered sufficient to fund operating and investing activities beyond one year from the issuance of these consolidated financial statements. The Company may, however, need to seek additional financing in the future.

#### 21. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive loss and deficit) and cash. The components of capital on December 31, 2019 were:

Cash and cash equivalents and receivable from the sale of discontinued operations	\$ 19,428,129
Shareholders' equity	\$160,096,378

The Company's objective in managing capital is to ensure that financial flexibility is present to increase shareholder value through growth and responding to changes in economic and/or market conditions; to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and to safeguard the Company's ability to obtain financing should the need arise.

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

The Company reviews its capital management approach on an ongoing basis.

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 22. EXPENSES

Research and development costs can be analysed as follows:

	2019	2018	2017
Wages and benefits	\$ 874,673	\$ 822,258	\$ 703,759
Subcontract fees	834,598	888,566	1,044,936
Stock-based compensation	237,311	395,468	218,896
Supplies	137,233	156,184	71,830
	<b>\$ 2,083,815</b>	<b>\$ 2,262,476</b>	<b>\$ 2,039,421</b>

Selling, marketing and administration costs can be analysed as follows:

Stock-based compensation	\$ 2,650,830	\$ 3,207,411	\$ 2,739,462
Wages and benefits	1,619,719	1,433,286	1,443,656
Professional fees	1,120,805	735,604	597,865
General expenses	813,951	392,901	598,600
Depreciation and amortization	243,674	153,244	182,252
Management and consulting fees	154,357	155,169	229,577
Rent and facility costs	94,051	96,260	96,297
	<b>\$ 6,697,387</b>	<b>\$ 6,173,875</b>	<b>\$ 5,887,709</b>

#### 23. DISCONTINUED OPERATIONS

On February 3, 2019, management committed to a plan to sell its subsidiary, DenseLight. The decision was taken in line with a strategy to focus on the Company's opportunities related to its Optical Interposer. Management determined that the divestiture of DenseLight would immediately reduce the Company's operating losses and cash burn, while allowing the Company to pursue a "fab-light" strategy with a less capital-intensive business model that is focused on growing the Optical Interposer business through targeted investments in the design, development and sale of vertical market solutions. Consequently, after the plan and prior to the actual sale, all saleable assets and liabilities relating to DenseLight were classified as "Non-current assets held for sale" or "disposal group liabilities". An impairment assessment was done on the assets that were held for sale. It was determined that no assets were impaired either on the date management committed to a plan of sale or on November 8, 2019 when the sale was consummated.

On November 8, 2019, the Company sold 100% of the issued and outstanding shares of DenseLight for \$26,000,000. The Company received \$8,000,000 upon the consummation of the sale. The Company expects to receive the remaining \$18,000,000 over three tranches, with \$4,750,000 received on February 14, 2020 and \$8,250,000 received on March 30, 2020. The remaining \$5,000,000 is expected to be received on or before May 31, 2020. Shares were placed into escrow in the name of the Buyer, to be released to the Buyer upon receipt of the remaining payments. The Buyer assumed control of DenseLight on November 8, 2019 and will be responsible for all operations of DenseLight thenceforth. Upon closing, the Company recognized a gain on the sale of \$8,707,280. The Company received an additional \$2,000,000, in excess of the sale proceeds, with the most recently paid two tranches which was immediately paid to Oak Capital on behalf of the Buyer for due diligence, legal and other expenses.

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

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**23. DISCONTINUED OPERATION (Continued)**

**Results of discontinued operations**

	<b>For the Period From January 1 to November 8, 2019</b>	<b>For the Year Ended December 31, 2018                      2017</b>	
Revenue	\$ 4,426,355	\$ 3,888,185	\$ 2,794,044
Cost of revenue	1,201,373	1,475,969	1,342,691
Gross margin	<b>3,224,982</b>	2,412,216	1,451,353
Operating expenses			
Research and development	5,677,222	6,430,328	3,403,452
Selling, marketing and administration	1,950,526	5,515,329	4,983,032
Interest expense	74,494	-	-
Impairment loss	-	156,717	-
Other income	(1,251,737)	(1,491,556)	(1,748,245)
Operating expenses	<b>6,450,505</b>	10,610,818	6,638,239
Loss from discontinued operations	<b>(3,225,523)</b>	(8,198,602)	(5,186,886)
Gain on sale of discontinued operations, net of taxes	8,707,280	-	-
Income tax recovery	-	(297,940)	(297,940)
Net income (loss), net of taxes	<b>\$ 5,481,757</b>	\$ (7,900,662)	\$ (4,888,946)

**Disaggregated Revenues**

The Company disaggregates revenue by timing of revenue recognition, that is, at a point in time and revenue over time. Disaggregated revenue is as follows:

	<b>For the Period From January 1 to November 8, 2019</b>	<b>For the Year Ended December 31, 2018                      2017</b>	
Non-contract revenue (at a point in time) <sup>(1)(3)</sup>	\$ 2,092,426	\$ 3,261,518	\$ 2,714,044
Contract revenue (revenue over time) <sup>(2)(3)</sup>	2,221,429	441,667	80,000
Contract revenue (at a point in time) <sup>(2)(3)</sup>	112,500	185,000	-
	<b>\$ 4,426,355</b>	\$ 3,888,185	\$ 2,794,044

(1) Revenue from the sale of products.

(2) Revenue from long-term projects or non-recurring engineering (NRE).

(3) All revenue was generated from the Singapore geographic region.

**Revenue Contract Balances**

	<b>Contract</b>	
	<b>Receivables</b>	<b>Liabilities</b>
Opening balance, January 1, 2017	\$ -	\$ (20,000)
Revenues recognized	80,000	(60,000)
Changes due to payment, fulfillment of performance obligations or other	(40,000)	80,000
Balance, December 31, 2017	<b>\$ 40,000</b>	<b>\$ -</b>
Revenues recognized	626,667	(626,667)
Changes due to payment, fulfillment of performance obligations or other	(606,667)	626,667

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**23. DISCONTINUED OPERATION (Continued)**

	Contract Receivables	Liabilities
Balance, December 31, 2018	60,000	-
Revenues recognized	2,333,929	(2,333,929)
Changes due to payment, fulfillment of performance obligations or other	(1,293,929)	2,333,929
Balance, November 8, 2019	\$ 1,100,000	\$ -

Research and development costs included in discontinued operations can be analysed as follows:

	For the Period From January 1 to November 8, 2019	For the Year Ended December 31,	
		2018	2017
Wages and benefits	\$ 3,565,076	\$ 3,818,980	\$ 2,135,329
Supplies	1,412,572	2,070,495	1,118,011
Subcontract fees	728,457	400,000	-
Stock-based compensation	(28,883)	140,853	150,112
	\$ 5,677,222	\$ 6,430,328	\$ 3,403,452

Selling, marketing and administration costs included in discontinued operations can be analysed as follows:

Wages and benefits	\$ 887,860	\$ 1,034,715	\$ 1,131,322
Rent and facility costs	604,442	975,467	1,079,635
General expenses	458,465	785,635	585,637
Stock-based compensation	(46,725)	278,385	66,454
Professional fees	46,484	31,747	27,076
Depreciation and amortization	-	2,409,380	2,092,908
	\$ 1,950,526	\$ 5,515,329	\$ 4,983,032

**Cash flows from (used in) discontinued operations**

	2019	2018	2017
<b>CASH (USED IN) PROVIDED BY:</b>			
<b>OPERATING ACTIVITIES</b>			
Net loss	\$ 5,481,757	\$ (7,900,662)	\$ (4,888,946)
Adjustments for:			
Depreciation of property and equipment	-	2,372,152	2,055,680
Gain on sale of discontinued operations	(8,707,280)	-	-
Amortization of intangibles	-	37,228	37,228
Interest expense	74,494	-	-
Impairment loss	-	156,717	-
Stock-based compensation	(75,608)	419,238	216,566
Income tax recovery	-	(297,940)	(297,940)
Deferred rent	(1,825)	(21,992)	-
Expected credit loss	-	40,615	-
	(3,228,462)	(5,194,644)	(2,877,412)

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**23. DISCONTINUED OPERATION (Continued)**

Net change in non-cash working capital accounts:			
Accounts receivable	<b>584,902</b>	(508,093)	(171,257)
Prepaid and other current assets	<b>497,259</b>	(949,401)	(927,685)
Inventory	<b>(334,425)</b>	78,733	663,992
Accounts payable and accrued liabilities	<b>(470,378)</b>	1,782,612	(616,289)
Cash flows from operating activities	<b>(2,951,104)</b>	(4,790,793)	(3,928,651)
<b>INVESTING ACTIVITIES</b>			
Proceeds from the sale of discontinued operations, net of cash given up <sup>(1)</sup>			
Purchase of property and equipment (Note 7)	<b>7,519,126</b>	-	-
Purchase of patents and licenses (Note 8)	<b>(1,599,272)</b>	(3,467,992)	(912,774)
	<b>(11,231)</b>	-	(18,815)
Cash flows from investing activities	<b>5,908,623</b>	(3,467,992)	(931,589)
<b>FINANCING ACTIVITIES</b>			
Payment of lease liability (Note 9)	<b>(258,460)</b>	-	-
Cash flows from financing activities	<b>(258,460)</b>	-	-
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<b>(14,010)</b>	26,490	(65,338)
NET CHANGE IN CASH	<b>\$ 2,685,049</b>	\$ (8,232,295)	\$ (4,925,578)

**Effect of Disposal on the Financial Position of the Group**

Accounts receivable	\$ 396,037
Prepaid and other current assets	2,303,014
Inventory	774,404
Property and equipment	8,424,638
Right of use asset	880,577
Patents	29,696
Goodwill and customer list	6,718,953
Trade payables	(1,312,053)
Lease Liability	(695,733)
Deferred tax liability	(707,687)
Net assets disposed	\$ 16,811,846
(1) Consideration received in cash	\$ 8,000,000
(1) Cash given up	(480,874)
Consideration receivable	18,000,000
Net inflows	\$ 25,519,126

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

#### 24. GOODWILL AND DEFERRED TAX LIABILITY

On May 11 and June 22, 2016 the Company acquired DenseLight and BB photonics for \$10,500,000 and \$1,550,000 respectively. The all stock purchases were accomplished with the issuance of 13,611,150 common shares and 1,996,090 common shares of the Company at a price of \$0.7714 and \$0.777 per share, respectively. The purchase price in both acquisitions exceeded the net assets acquired which resulted in the difference being accounted for as goodwill on the consolidated statements of financial position.

The continuity of goodwill is as follows:

	DenseLight	BB Photonics	Total
Balance, December 31, 2017 and 2018	\$ 6,630,544	\$ 1,050,459	\$ 7,681,003
Impairment	-	(1,050,459)	(1,050,459)
Disposed on the sale of DenseLight	(6,630,544)	-	(6,630,544)
Balance, December 31, 2019	\$ -	\$ -	\$ -

Deferred tax liability was created on the date of purchase for both DenseLight and BB Photonics. The following is a continuity of deferred tax liability.

	DenseLight	BB Photonics	Total
Balance, January 1, 2017	\$ 1,303,567	\$ 292,740	\$ 1,596,307
Tax effect of amortization	(297,940)	-	(297,940)
Balance, December 31, 2017	1,005,627	292,740	1,298,367
Tax effect of amortization	(297,940)	-	(297,940)
Balance, December 31, 2018	707,687	292,740	1,000,427
Tax effect of Impairment	-	(292,740)	(292,740)
Disposed on the sale of DenseLight	(707,687)	-	(707,687)
Balance, December 31, 2019	\$ -	\$ -	\$ -

Included in the sale of DenseLight on November 8, 2019 was \$6,630,544 of goodwill and \$707,687 of deferred liability.

#### 25. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 26.5% for 2019 (2018 - 26.5%, 2017 - 26.5%) to the amounts recognized in operations.

For the Year Ended December 31,	2019	2018	2017
Net loss, continuing operations	\$ (11,727,372)	\$ (8,422,117)	\$ (7,908,851)
Net income (loss), discontinued operations	5,481,757	(8,198,602)	(5,186,886)
Net loss before taxes	\$ (6,245,615)	\$ (16,620,719)	\$ (13,095,737)
Expected current income tax recovery	1,655,088	4,404,491	3,470,370
Deferred tax recovery <sup>(2)</sup>	292,740	297,940	297,940
	1,947,828	4,702,431	3,768,310

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in US Dollars)**

**25. INCOME TAXES (Continued)**

For the Year Ended December 31,	2019	2018	2017
Adjustments to income tax recovery:			
Amounts not deductible for tax purposes	\$ (1,212,900)	\$ (1,065,900)	\$ (841,000)
Other non-deductible items	(173,000)	(509,900)	(463,000)
Deductible share and debt issuance costs	216,000	77,000	94,000
Non-taxable gain	2,307,000	-	-
Impact of US statutory income tax rate change <sup>(1)</sup>	-	-	(9,472,000)
Foreign tax differential	591,000	(592,000)	(69,000)
Non-recognizable permanent capital loss	(1,175,000)	-	-
Unusable foreign tax recoveries <sup>(3)</sup>	(7,040,081)	-	-
Unrecognized tax recovered (losses)	4,831,893	(2,313,691)	7,280,630
Income tax recovery recognized <sup>(2)</sup>	\$ 292,740	\$ 297,940	\$ 297,940

(1) Due to the reduction of US corporate tax rates from 35% to 21%, the Company will not be able to apply \$9,472,000 against any future US taxes payable.

(2) Deferred tax recovery and income tax recovery recognized for 2018 and 2017 are included Income (loss) from discontinued operations, net of taxes on the consolidated statements of operations and deficit.

(3) Deferred tax assets applicable to DenseLight and no longer available to the Company.

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

	2019	2018	2017
Resource assets	\$ 1,024,271	\$ 1,024,271	\$ 1,024,271
Gross unamortized share issue costs	385,000	669,000	705,351
Canadian non-capital losses	16,545,000	12,431,000	11,100,672
Canadian capital losses	4,432,500	-	-
US non-capital losses	75,060,000	71,594,000	67,654,438
Singapore non-capital losses	378,000	46,894,000	43,671,200
	97,824,771	132,612,271	124,155,932
Unrecognized deferred tax assets	(97,824,771)	(132,612,271)	(124,155,932)
Deferred income tax assets recognized	\$ -	\$ -	\$ -

In accordance with Section 382 of the Internal Revenue Code, the usage of the Company's net operating loss carry forward related to the BB Photonics acquisition in 2016 of approximately \$928,000 could be subject to annual limitation since there was greater than 50% ownership change.

**26. SUBSEQUENT EVENTS**

On February 14, 2020 and March 30, 2020 the Company collected \$4,750,000 and \$8,250,000 respectively for a cumulative \$13,000,000 representing two tranches of an agreed three tranche payment plan for the outstanding balance due from DL Shanghai from the sale of DenseLight. The escrow agent transferred additional shares from escrow to the Buyer. The Buyer now directly holds a cumulative 81% of the shares of DenseLight. The Company collected an additional \$2,000,000, in excess of the sale proceeds, which was immediately paid to Oak Capital on behalf of the DL Shanghai for due diligence, legal and other expenses.