



**POET
TECHNOLOGIES INC.**

**Consolidated Financial Statements
For the Year Ended December 31, 2020, 2019 and 2018**

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, 2020, 2019 and 2018, 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, 2020, 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 December 31, 2020, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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 are required to be independent with respect to the Company in accordance with 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, CT
March 30, 2021

POET TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

December 31,	2020	2019	2018
Assets			
Current			
Cash and cash equivalents (Note 2)	\$ 6,872,894	\$ 1,428,129	\$ 2,567,868
Accounts receivable (Notes 2 and 4)	-	-	946,944
Receivable from the sale of discontinued operations (Notes 3 and 23)	-	18,000,000	-
Prepays and other current assets (Note 5)	618,717	831,265	2,936,619
Inventory (Note 6)	-	-	436,833
	7,491,611	20,259,394	6,888,264
Property and equipment (Note 7)	3,185,754	3,143,060	9,299,513
Patents and licenses (Note 8)	438,677	452,384	466,714
Right of use asset (Note 9)	520,686	222,517	-
Intangible assets (Note 10)	-	-	802,409
Goodwill (Note 24)	-	-	7,681,003
	\$ 11,636,728	\$ 24,077,355	\$ 25,137,903
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 11)	\$ 1,730,361	\$ 1,725,708	\$ 3,040,422
Covid-19 government support loans (Note 26)	147,841	-	-
Lease liability (Note 9)	172,949	90,504	-
Convertible debentures (Note 12)	3,341,246	3,089,033	-
	5,392,397	4,905,245	3,040,422
Non-current covid-19 government support (Note 26)	70,310	-	-
Non-current lease liability (Note 9)	359,048	133,254	-
Deferred tax liability (Note 24)	-	-	1,000,427
Deferred rent	-	-	1,814
	5,821,755	5,038,499	4,042,663
Shareholders' Equity			
Share capital (Note 13(b))	114,586,260	112,144,172	112,028,194
Equity component of convertible debentures (Note 12)	565,121	627,511	-
Warrants and compensation options (Note 14)	5,557,002	8,525,358	8,303,738
Contributed surplus (Note 15)	44,407,679	38,799,337	36,042,754
Accumulated other comprehensive loss	(1,983,212)	(1,908,715)	(2,083,514)
Deficit	(157,317,877)	(139,148,807)	(133,195,932)
	5,814,973	19,038,856	21,095,240
	\$ 11,636,728	\$ 24,077,355	\$ 25,137,903

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)**

For the Years Ended December 31,	2020	2019	2018
Operating expenses			
Selling, marketing and administration (Note 22)	8,137,998	6,697,387	6,173,875
Research and development (Note 22)	6,634,317	2,083,815	2,262,476
Operating expenses	14,772,315	8,781,202	8,436,351
Impairment of long lived assets (Notes 10 and 24)	-	1,764,459	-
Interest expense (Notes 9 and 12)	937,903	819,911	-
Amortization of debt issuance costs (Note 12)	-	372,340	-
Other income, including interest	(41,148)	(10,540)	(14,234)
Credit loss on receivable from sale of discontinued operation (Notes 3 and 23)	2,500,000	-	-
Net loss from continuing operations, before taxes	(18,169,070)	(11,727,372)	(8,422,117)
Income tax recovery (Note 25)	-	292,740	-
Net loss from continuing operations	(18,169,070)	(11,434,632)	(8,422,117)
Income (loss) from discontinued operations, net of taxes (Notes 23 and 25)	-	5,481,757	(7,900,662)
Net loss	(18,169,070)	(5,952,875)	(16,322,779)
Deficit, beginning of year	(139,148,807)	(133,195,932)	(116,873,153)
Net loss	(18,169,070)	(5,952,875)	(16,322,779)
Deficit, end of year	\$ (157,317,877)	\$ (139,148,807)	\$ (133,195,932)
Basic and diluted loss per share, continuing operations (Note 16)	\$ (0.06)	\$ (0.04)	\$ (0.03)
Basic and diluted income (loss) per share, discontinued operations (Note 16)	\$ -	\$ 0.02	\$ (0.03)
Basic and diluted net loss per share (Note 16)	\$ (0.06)	\$ (0.02)	\$ (0.06)

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

For the Years Ended December 31,	2020	2019	2018
Net loss	\$(18,169,070)	\$ (5,952,875)	\$(16,322,779)
Other comprehensive income (loss) - net of income taxes			
Exchange differences on translating foreign operations, continuing operations	(74,497)	3,109	(543,557)
Exchange differences on translating foreign operations, discontinued operations	-	171,690	218,675
Comprehensive loss	\$(18,243,567)	\$ (5,778,076)	\$(16,647,661)

POET TECHNOLOGIES INC.

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

For the Years Ended December 31,	2020	2019	2018
Share Capital			
Beginning balance	\$ 112,144,172	\$ 112,028,194	\$ 103,616,221
Funds from the exercise of stock options	794,808	60,028	87,974
Fair value of stock options exercised	768,356	55,950	82,330
Funds from the exercise of warrants and compensation warrants	293,642	-	1,028,471
Fair value of warrants and compensation warrants exercised	127,964	-	447,270
Conversion of convertible debentures	369,545	-	-
Fair value of warrants issued on conversion of convertible debentures	(146,858)	-	-
Exercise of warrants issued in conjunction with debt financing	221,620	-	-
Common shares issued to settle accounts payable	13,011	-	-
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,	114,586,260	112,144,172	112,028,194
Equity Component of convertible debentures			
Beginning balance	627,511	-	-
Fair value of equity component of convertible debentures	(62,390)	627,511	-
December 31,	565,121	627,511	-
Warrants and Compensation Options			
Beginning balance	8,525,358	8,303,738	5,985,378
Fair value of warrants issued in conjunction with of debt financing	(221,620)	221,620	-
Fair value of warrants and compensation warrants exercised	(127,964)	-	(447,270)
Fair value of expired warrants and compensation options	(2,765,630)	-	-
Fair value of warrants issued on the exercise of convertible debentures	146,858	-	-
Fair value of warrants issued on public offering	-	-	2,286,426
Fair value of compensation options issued to brokers	-	-	479,204
December 31,	5,557,002	8,525,358	8,303,738
Contributed Surplus			
Beginning balance	38,799,337	36,042,754	32,102,967
Stock-based compensation	3,612,945	2,812,533	4,022,117
Fair value of stock options exercised	(768,356)	(55,950)	(82,330)
Fair value of expired warrants and compensation options	2,765,630	-	-
Fair value of early conversion of convertible debentures	(1,877)	-	-
December 31,	44,407,679	38,799,337	36,042,754
Accumulated Other Comprehensive Loss			
Beginning balance	(1,908,715)	(2,083,514)	(1,758,632)
Other comprehensive income (loss) attributable to common shareholders - translation adjustment	(74,497)	174,799	(324,882)
December 31,	(1,983,212)	(1,908,715)	(2,083,514)
Deficit			
Beginning balance	(139,148,807)	(133,195,932)	(116,873,153)
Net loss	(18,169,070)	(5,952,875)	(16,322,779)
December 31,	(157,317,877)	(139,148,807)	(133,195,932)
Total Shareholders' Equity	\$ 5,814,973	\$ 19,038,856	\$ 21,095,240

POET TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US Dollars)

For the Years Ended December 31,

	2020	2019	2018
CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:			
OPERATING ACTIVITIES			
Net loss	\$ (18,169,070)	\$ (5,952,875)	\$ (16,322,779)
Discontinued operations, net of tax	-	(5,481,757)	7,900,662
Net loss, continuing operations	(18,169,070)	(11,434,632)	(8,422,117)
Adjustments for:			
Depreciation of property and equipment (Note 7)	631,263	166,342	96,452
Amortization of patents and licenses (Note 8)	65,782	61,671	56,792
Amortization of debt issuance cost (Note 12)	-	372,340	-
Amortization of right of use asset (Note 9)	116,057	15,683	-
Impairment of long lived assets (Notes 10 and 24)	-	1,764,459	-
Accretion of debt discount on convertible debentures (Note 12)	524,095	280,829	-
Stock-based compensation (Note 15)	3,612,945	2,888,141	3,602,879
Income tax recovery (Notes 25)	-	(292,740)	-
Non-cash settled operating costs (Notes 7 and 13)	910,738	-	-
Credit loss on receivable from the sale of discontinued operations (Note 3)	2,500,000	-	-
Gain on lease modification (Note 9)	(786)	-	-
Non-cash foreign exchange	161,000	-	-
	(9,647,976)	(6,177,907)	(4,665,994)
Net change in non-cash working capital accounts:			
Prepaid and other current assets (Note 5)	232,522	(685,667)	(75,855)
Accounts payable and accrued liabilities (Note 11)	(22,510)	420,457	244,054
Cash flows from operating activities, continuing operations	(9,437,964)	(6,443,117)	(4,497,795)
Cash flows from operating activities, discontinued operations	-	(2,951,104)	(4,790,793)
	(9,437,964)	(9,394,221)	(9,288,588)
INVESTING ACTIVITIES			
Proceeds from the sale of discontinued operations (Note 23)	15,500,000	-	-
Purchase of property and equipment (Note 7)	(1,521,788)	(445,678)	-
Purchase of patents and licenses (Note 8)	(52,075)	(65,806)	(67,608)
Cash flows from investing activities, continuing operations	13,926,137	(511,484)	(67,608)
Cash flow from investing activities, discontinued operations	-	5,908,623	(3,467,992)
	13,926,137	5,397,139	(3,535,600)
FINANCING ACTIVITIES			
Issue of common shares for cash, net of issue costs (Note 13)	1,088,450	60,028	10,648,003
Payment of lease liability (Note 9)	(144,142)	(19,162)	-
Proceeds from covid-19 government support loans (Note 26)	218,151	-	-
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)	-
Cash flows from financing activities, continuing operations	1,162,459	3,393,715	10,648,003
Cash flow from financing activities, discontinued operations	-	(258,460)	-
	1,162,459	3,135,255	10,648,003
Effect of exchange rate on cash, continuing operations	(205,867)	(263,902)	(256,915)
Effect of exchange rate on cash, discontinued operations	-	(14,010)	26,490
	(205,867)	(277,912)	(230,425)
Net change in cash and cash equivalents, continuing operations	5,444,765	(3,824,788)	5,825,685
Net change in cash and cash equivalents, discontinued operations	-	2,685,049	(8,232,295)
Cash and cash equivalents, beginning of year	1,428,129	2,567,868	4,974,478
Cash and cash equivalents, end of year	\$ 6,872,894	\$ 1,428,129	\$ 2,567,868

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

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES

Purchase of property and equipment financed through accounts payable	\$	-	\$	-	\$	250,160
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POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

1. DESCRIPTION OF BUSINESS

POET Technologies Inc. is incorporated in the Province of Ontario. POET Technologies Inc. and its subsidiaries (the "Company") design and develop the POET Optical Interposer and Photonic Integrated Circuits for the data center and tele-communications markets. The Company's head office is located at 120 Eglinton Avenue East, Suite 1107, Toronto, Ontario, Canada M4P 1E2. These audited consolidated financial statements of the Company were approved by the Board of Directors of the Company on March 25, 2021.

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"), POET Technologies Pte Ltd. ("PTS") and POET Optoelectronics Shenzhen Co., Ltd ("POET Shenzhen"). 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	Original classification under IAS 39	New classification under IFRS 9
Financial Assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	FVTPL	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized costs	Amortized cost
Convertible debentures		Amortized cost
Covid-19 government support loans		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.

Cash and cash equivalents

Cash and cash equivalents consist of cash in current accounts of \$722,894 (2019 - \$1,278,129, 2018 - \$2,267,868) and funds invested in US Term Deposits of \$6,150,000 (2019 - \$150,000, 2018 - \$300,000) earning interest at 1.31% and maturing in less than 90 days.

Cash and cash equivalents include restricted funds of \$184,569 (2019 - \$93,800, 2018 - \$218,888) which serves as a bank guarantee for the purchase of certain equipment. A bank guarantee was discharged in 2020 and a new bank guarantee was put in place. The bank guarantee is reduced on a monthly basis by \$14,197 (2019 - \$10,424, 2018 - \$10,424) which is the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 no impairment loss for the year ended December 31, 2020 (2019 - \$714,000, 2018 - 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 performs its annual test for goodwill impairment annually in the fourth quarter. 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 2019. No provision for impairment of goodwill was made in 2020 or 2018 (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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 would not exceed a certain dollar value over a three year period. Recoverable amounts at December 31, 2018 related to expenditures at DenseLight. There was no recoverable amount at December 31, 2020 or 2019 because the Company sold DenseLight on November 8, 2019.

Wage subsidies

Wages subsidies received from the Singaporean government are netted against payroll costs on the consolidated statements of operations and deficit.

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 2020 or 2018 (Note 10).

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, 2020 and 2019 because the asset was disposed of with the sale of DenseLight on November 8, 2019.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. RECEIVABLE FROM THE SALE OF DISCONTINUED OPERATIONS

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 with the remaining \$18,000,000 expected over three tranche payments in 2020. Payments received in the first quarter were as follows: \$4,750,000 received on February 14, 2020 and \$8,250,000 received on March 30, 2020.

The Company received payments of \$1,500,000 and \$1,000,000 on June 29, 2020 and July 3, 2020 respectively. After taking into consideration the length of time it had taken the Buyer to make the foregoing payments and the Company's expectations regarding the likelihood of receiving an additional payment, the Company determined that it was in its best interest to accept partial payments as final payment on the Company's receivable. As a result, the Company recognized a credit loss of \$2,500,000 during the year ended December 31, 2020 (nil - 2019 and nil - 2018).

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:

		2020	2019	2018
Product sales	United States dollar	\$ -	\$ -	\$ 713,744
Product sales	Singapore dollar	-	-	273,815
Loss allowance		-	-	(40,615)
		\$ -	\$ -	\$ 946,944

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 20). Trade receivables at December 31, 2018 related to DenseLight. Trade receivables were nil at December 31, 2020 and 2019 because DenseLight was sold on November 8, 2019.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

5. PREPAIDS AND OTHER CURRENT ASSETS

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

	2020	2019	2018
Sales tax recoverable and other current assets	\$ 122,353	\$ 81,265	\$ 85,658
Research and development credit	-	-	1,905,593
Security deposits on leased properties	-	-	233,983
Prepaid expenses	496,364	750,000	711,385
	\$ 618,717	\$ 831,265	\$ 2,936,619

Research and development credit, security deposits on leased properties and certain prepaid expenses were disposed of upon the sale of DenseLight on November 8, 2019.

6. INVENTORY

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

	2020	2019	2018
Raw materials	\$ -	\$ -	\$ 98,370
Finished goods	-	-	212,361
Work in process	-	-	126,102
	\$ -	\$ -	\$ 436,833

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
Cost					
Balance, January 1, 2018	\$ 581,074	\$ 667,342	\$ 10,795,468	\$ 373,913	\$ 12,417,797
Additions	3,667,894	-	-	50,258	3,718,152
Reclassification ⁽¹⁾	(1,086,895)	-	881,221	202,674	(3,000)
Impairment and disposals ⁽¹⁾	-	-	(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 ⁽²⁾	(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
Additions	888,726	68,961	525,685	38,416	1,521,788
Reclassification	(519,366)	-	516,111	3,255	-
Disposals ⁽³⁾	(897,727)	-	-	-	(897,727)
Effect of changes in foreign exchange rates	(8,828)	2,967	79,606	1,281	75,026
Balance, December 31, 2020	\$ 227,147	\$ 71,928	\$ 3,994,657	\$ 128,185	\$ 4,421,917

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

7. PROPERTY AND EQUIPMENT (Continued)

Accumulated Depreciation

Balance, January 1, 2018	-	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 ⁽¹⁾⁽²⁾	-	-	(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
Impairment and disposals ⁽²⁾	-	(350,497)	(5,044,288)	(341,195)	(5,735,980)
Balance, December 31, 2019	-	-	511,806	67,964	579,770
Depreciation for the year	-	10,332	609,803	11,128	631,263
Effect of changes in foreign exchange rates	-	445	24,405	280	25,130
Balance, December 31, 2020	-	10,777	1,146,014	79,372	1,236,163

Carrying Amounts

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
At December 31, 2020	\$ 227,147	\$ 61,151	\$ 2,848,643	\$ 48,813	\$ 3,185,754

(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.

(3) During 2020, the Company settled certain R&D expenses by transferring \$897,727 worth of equipment to the supplier. The equipment was initially installed in the fabrication facility of the supplier who provided discounted R&D services to the Company. The equipment will be used by the supplier for volume production primarily for the benefit of the Company.

8. PATENTS AND LICENSES

Cost

Balance, January 1, 2018	\$ 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
Additions	52,075
Balance, December 31, 2020	837,102

Accumulated Amortization

Balance, January 1, 2018	214,180
Amortization	56,792
Balance, December 31, 2018	270,972
Amortization	61,671
Balance, December 31, 2019	332,643
Amortization	65,782
Balance, December 31, 2020	398,425

POET TECHNOLOGIES INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Expressed in US Dollars)**8. PATENTS AND LICENSES (Continued)****Carrying Amounts**

At December 31, 2018	\$ 466,714
At December 31, 2019	\$ 452,384
At December 31, 2020	\$ 438,677

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

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%. During 2020, the Company modified its lease resulting in reducing the space it leased for the operations at PTS. The Company recognized a gain of \$786 on the lease modification which is included in selling, general and marketing on the consolidated statements of operations and deficit.

Right of use asset **Building****Cost**

Balance, January 1, 2019	\$ -
Additions	1,127,534
Disposal ⁽¹⁾	(892,300)
Effect of changes in foreign exchange rates	2,966
Balance, December 31, 2019	238,200
Additions	465,068
Lease modification	(47,939)
Effect of changes in foreign exchange rates	(2,097)
Balance, December 31, 2020	\$ 653,232

Accumulated Amortization

Balance, January 1, 2019	-
Amortization	15,683
Balance, December 31, 2019	15,683
Amortization	116,057
Effect of changes in foreign exchange rates	806
Balance, December 31, 2020	132,546

Carrying Amounts

At December 31, 2019	\$ 222,517
At December 31, 2020	\$ 520,686

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

9. RIGHT OF USE ASSET AND LEASE LIABILITY (Continued)

Lease liability

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 ⁽¹⁾	(695,733)
Effect of changes in foreign exchange rates	(9,620)
Balance, December 31, 2019	223,758
Interest expense	44,655
Lease modification	(48,725)
Additions	452,385
Lease payments	(144,142)
Effect of changes in foreign exchange rates	4,066
Balance, December 31, 2020	\$ 531,997

(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 on November 8, 2019 (Note 23).

10. INTANGIBLE ASSETS

	Technology	Customer Relationships	Total
Cost			
Balance, January 1, 2018 and December 31, 2018	\$ 714,000	\$ 186,131	\$ 900,131
Impairment	(714,000)	-	(714,000)
Disposals ⁽¹⁾	-	(186,131)	(186,131)
Balance, December 31, 2019 and 2020	-	-	-
Accumulated Amortization			
Balance, January 1, 2018 and December 31, 2018	-	97,722	97,722
Disposals ⁽¹⁾	-	(97,722)	(97,722)
Balance, December 31, 2019 and 2020	-	-	-
Carrying Amounts			
At December 31, 2018	\$ 714,000	\$ 88,409	\$ 802,409
At December 31, 2019	\$ -	\$ -	\$ -
At December 31, 2020	\$ -	\$ -	\$ -

(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:

	2020	2019	2018
Trade payables	\$ 1,603,284	\$ 1,507,644	\$ 2,269,845
Payroll related liabilities	60,455	44,677	595,720
Accrued liabilities	66,622	173,387	174,857
	\$ 1,730,361	\$ 1,725,708	\$ 3,040,422

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

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. In 2019, 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 12,457,500 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 four years from the date upon which the convertible debenture is issued. 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.

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.

During 2020, holders of certain convertible debentures converted \$369,545 (2019 - nil) worth of convertible debentures into 1,235,000 units of the Company.

The following table reflects the details of convertible debentures at December 31, 2020:

Convertible Debentures	Loan	Equity Component	Accretion	Debt Component
Issued April 3, 2019 (net of issue costs)	\$ 1,293,519	\$ (242,004)	\$ 338,988	\$ 1,390,503
Issued May 3, 2019 (net of issue costs)	806,893	(151,842)	218,159	873,210
Issued June 3, 2019 (net of issue costs)	496,995	(93,278)	117,481	521,198
Issued August 2, 2019 (net of issue costs)	290,365	(54,978)	62,683	298,070
Issued September 19, 2019 (net of issue costs)	122,965	(23,019)	22,905	122,851
Effect of foreign exchange rate changes	-	-	-	135,414
Balance December 31, 2020	\$ 3,010,737	\$ (565,121)	\$ 760,216	\$ 3,341,246

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

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

The following table reflects the details of convertible debentures at December 31, 2019:

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 in 2019 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 bore 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 was 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.

In 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 bore interest at 15% per annum. The Promissory Note and accrued interest were 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 in 2019 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, 2018	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
Funds from the exercise of stock options	3,302,835	794,808
Fair value of stock options exercised	-	768,356
Funds from the exercise of warrants	744,000	293,642
Fair value of exercised warrants (Notes 12 and 13)	-	127,964
Issued on the conversion of convertible debentures (Note 12)	1,235,000	369,545
Fair value of warrants issued on conversion of convertible debentures	-	(146,858)
Exercise of warrants issued in conjunction with debt financing	942,448	221,620
Shares issued to settle accounts payable	30,268	13,011
Balance, December 31, 2020	294,618,104	\$ 114,586,260

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).

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

13. SHARE CAPITAL (Continued)

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.

During 2020, holders of certain convertible debentures converted \$369,545 worth of convertible debentures into 1,235,000 units of the Company. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.38 (CAD\$0.50) per share for a period of four years from the date upon which the convertible debenture was issued.

The fair value of the share purchase warrants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, risk-free interest rate of 1.32%, volatility of 76.55%, and estimated life of 2 years. The estimated fair value assigned to the warrants was \$146,858.

During 2020, the Company engaged with a firm to assist with its shareholder communications strategy. The terms of the agreement require the Company to issue common shares at certain pre-determined dates in satisfaction of past services rendered. The Company settled \$13,011 in accounts payable related to past services rendered under this agreement by issuing 30,268 common shares at a price of \$0.43 (CAD\$0.56) per share to the firm.

14. WARRANTS AND COMPENSATION OPTIONS

The following table reflects the continuity of warrants and compensation options:

	Historical Average Exercise Price	Number of Warrants/ Compensation options	Historical Fair value
Balance, January 1, 2018	\$ 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
Fair value of warrants issued on conversion of convertible debentures (Notes 12 and 13)	0.38	1,235,000	146,858
Fair value of expired compensation options issued to brokers	0.43	(1,505,442)	(479,204)
Fair value related to the exercise of warrants issued as cost of debt financing ⁽¹⁾	0.27	(3,289,500)	(221,620)
Fair value of expired warrants issued on public offering	0.58	(12,545,350)	(2,286,426)
Historical fair value assigned to warrants exercised	0.39	(744,000)	(127,964)
Balance, December 31, 2020	\$ 0.39	32,690,500	\$ 5,557,002

(1) These warrants had a cashless exercise feature. The warrant holder utilized the cashless exercise feature to exercise the warrants, which resulted in the Company issuing 942,448 common shares to the warrant holders.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

15. STOCK OPTIONS AND CONTRIBUTED SURPLUS

Stock Options

On August 26, 2020, shareholders of the Company approved amendments to the Company's fixed 20% stock option plan (as amended, previously referred to as the "2018 plan", now referred to as the "2020 Plan"). Under the 2020 Plan, the board of directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and consultants. The 2020 Plan provides that the number of common shares issuable pursuant to options granted under the 2020 Plan and pursuant to other previously granted options is limited to 58,538,554 (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 2020 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, 2018	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 ⁽¹⁾	(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
Expired/cancelled	(8,287,937)	1.02
Exercised	(3,302,835)	0.24
Granted	9,474,926	0.36
Balance, December 31, 2020	51,144,492	\$ 0.33

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

During the year ended December 31, 2020, the Company recorded stock-based compensation of \$3,612,945 (2019 - \$2,888,141, 2018 - \$3,602,879) relating to stock options that vested during the year. The stock-based compensation applicable to employees of DenseLight in the amount of nil (2019 - \$(75,608), 2018 - \$419,238) 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:

	2020	2019	2018
Weighted average exercise price	\$0.36	\$0.27	\$0.34
Weighted average risk-free interest rate	0.52% - 1.52%	1.57%	2.17%
Weighted average dividend yield	0%	0%	0%
Weighted average volatility	94.77%	95.48%	103.47%
Weighted average estimated life	10 years	10 years	10 years
Weighted average share price	\$0.36	\$0.27	\$0.34
Share price on the various grant dates:	\$0.22 - \$0.39	\$0.24 - \$0.28	\$0.18 - \$0.40
Weighted average fair value	\$0.30	\$0.24	\$0.30

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

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

15. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at December 31, 2020 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	496,750	\$ 0.18	6.72	496,750	\$ 0.18	
\$0.21 - \$0.24	9,226,250	\$ 0.22	7.14	6,624,688	\$ 0.22	
\$0.25 - \$0.29	10,270,238	\$ 0.26	8.37	4,201,176	\$ 0.26	
\$0.30 - \$0.86	31,026,254	\$ 0.35	7.88	16,750,991	\$ 0.36	
\$0.87 - \$1.64	125,000	\$ 0.92	0.92	125,000	\$ 0.92	
	51,144,492	\$ 0.31	7.82	28,198,605	\$ 0.31	

16. INCOME (LOSS) PER SHARE

	2020	2019	2018
Numerator			
Net loss from continuing operations	\$ (18,169,070)	\$ (11,434,632)	\$ (8,422,117)
Net income (loss) from discontinued operations	\$ -	\$ 5,481,757	(7,900,662)
Net loss	\$ (18,169,070)	\$ (5,952,875)	\$ (16,322,779)
Denominator			
Weighted average number of common shares outstanding	291,696,534	288,216,378	282,098,432
Weighted average number of common shares outstanding - diluted	291,696,534	288,216,378	282,098,432
Basic and diluted loss per share, continuing operations	\$ (0.06)	\$ (0.04)	\$ (0.03)
Basic and diluted income (loss) per share, discontinued operations	\$ -	\$ 0.02	\$ (0.03)
Basic and diluted loss per share	\$ (0.06)	\$ (0.02)	\$ (0.06)

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2020, 2019 and 2018 is not reflected as they are anti-dilutive.

17. COMMITMENTS AND CONTINGENCIES

The Company has operating leases on four facilities; head office located in Toronto, Canada, design and testing operations located in Allentown, Pennsylvania (formerly in San Jose, California) and operating facilities located in Singapore and China. 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 in Singapore was initiated on November 1, 2019 and expires April 30, 2022. The lease on the Company's operating facilities in China was initiated in November 19, 2020 and expires on November 18, 2023. As at December 31, 2020, the Company's head office was on a month to month lease term.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

17. COMMITMENTS AND CONTINGENCIES (Continued)

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

2021	\$	238,002
2022 and beyond		441,450
	\$	679,452

18. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

	2020	2019	2018
Salaries	\$ 1,501,058	\$ 1,251,277	\$ 1,216,250
Share-based payments ⁽¹⁾	2,144,930	2,135,579	2,449,683
Total	\$ 3,645,988	\$ 3,386,856	\$ 3,665,933

(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.

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, POET Shenzhen and PTS

OPEL, ODIS, POET Shenzhen 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, China (collectively "Asia"), the United States and Canada. Geographical information is as follows:

	2020			
As of December 31,	Asia	US	Canada	Consolidated
Current assets	\$ 304,450	\$ 69,874	\$ 7,117,287	\$ 7,491,611
Property and equipment	2,982,496	203,258	-	3,185,754
Patents and licenses	-	438,677	-	438,677
Right of use asset	289,542	231,144	-	520,686
Total Assets	\$ 3,576,488	\$ 942,953	\$ 7,117,287	\$ 11,636,728

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

19. SEGMENT INFORMATION (Continued)

Year Ended December 31,	Asia	US	Canada	Consolidated
Selling, marketing and administration	\$ 1,182,054	\$ 5,495,161	\$ 1,460,783	\$ 8,137,998
Research and development	3,269,873	1,447,729	1,916,715	6,634,317
Interest expense	20,181	24,474	893,248	937,903
Credit loss on receivable from the sale of discontinued operation	-	-	2,500,000	2,500,000
Other income, including interest	-	-	(41,148)	(41,148)
Net loss	\$ (4,472,108)	\$ (6,967,364)	\$ (6,729,598)	\$ (18,169,070)

2019

As of December 31,	Asia	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
Total Assets	\$ 3,365,272	\$ 562,061	\$ 20,150,022	\$ 24,077,355

The Year Ended December 31,	Asia	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	-	-	(10,540)	(10,540)
Income tax recovery	-	(292,740)	-	(292,740)
Net loss from continuing operations	(441,021)	(4,940,681)	(6,052,930)	(11,434,632)
Income from discontinued operations, net of taxes	5,481,757	-	-	5,481,757
Net income (loss)	\$ 5,040,736	\$ (4,940,681)	\$ (6,052,930)	\$ (5,952,875)

2018

As of December 31,	Asia	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
Total Assets	\$ 20,157,119	\$ 2,677,933	\$ 2,302,851	\$ 25,137,903

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

19. SEGMENT INFORMATION (Continued)

Year Ended December 31,	Asia	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)

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:

	2020	2019	2018
Fair value through profit or loss, measured at amortized cost:			
Cash and cash equivalents	\$ 6,872,894	\$ 1,428,129	\$ 2,567,868
Accounts receivable, measured at amortized cost:			
Accounts receivable	\$ -	\$ -	\$ 946,944
Receivable from the sale of discontinued operations	\$ -	\$ 18,000,000	\$ -
Other liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	\$ (1,730,361)	\$ (1,725,708)	\$ (3,040,422)
Convertible debentures	\$ (3,341,246)	\$ (3,089,033)	\$ -
Covid-19 government support loans	\$ (218,151)	\$ -	\$ -

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:

	2020	2019	2018
Current	\$ -	\$ -	\$ 892,343
31 - 60 days	-	-	34,331
61 - 90 days	-	-	60,885
> 90 days	-	-	-
Expected credit losses ⁽¹⁾	-	-	(40,615)
	\$ -	\$ -	\$ 946,944

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(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 \$229,088.

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, 2020 were:

Cash and cash equivalents	\$ 6,872,894
Shareholders' equity	\$165,116,062

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:

	2020	2019	2018
Wages and benefits	\$ 1,586,900	\$ 874,673	\$ 822,258
Subcontract fees	3,802,919	834,598	888,566
Stock-based compensation	567,859	237,311	395,468
Supplies	676,639	137,233	156,184
	\$ 6,634,317	\$ 2,083,815	\$ 2,262,476

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

Stock-based compensation	\$ 3,045,086	\$ 2,650,830	\$ 3,207,411
Wages and benefits	2,233,449	1,619,719	1,433,286
Professional fees	800,551	1,120,805	735,604
General expenses	1,188,712	813,951	392,901
Depreciation and amortization	813,103	243,674	153,244
Management and consulting fees	-	154,357	155,169
Rent and facility costs	57,097	94,051	96,260
	\$ 8,137,998	\$ 6,697,387	\$ 6,173,875

23. DISCONTINUED OPERATIONS

On November 8, 2019, the Company sold 100% of the issued and outstanding shares of DenseLight for \$26,000,000. The Buyer assumed control of DenseLight on November 8, 2019 and is responsible for all operations of DenseLight. Upon closing, the Company recognized a gain on the sale of \$8,707,280. The sale proceeds were to be paid over multiple tranches. The first tranche payment was received on November 8, 2019 in the amount of \$8,000,000. The second tranche payment was payment was made in two installments, with first paid on February 14, 2020 in the amount of \$4,750,000 and the second on March 30, 2020 in the amount of \$8,250,000.

The Company received payments of \$1,500,000 and \$1,000,000 on June 29, 2020 and July 3, 2020 respectively. After taking into consideration the length of time it had taken the Buyer to make the foregoing payments and the Company's expectations regarding the likelihood of receiving an additional payment, the Company determined that it was in its best interest to accept partial payments as final payment on the Company's receivable. As a result, the Company recognized a credit loss of \$2,500,000 during the year ended December 31, 2020 (nil - 2019 and nil - 2018).

The Company received an additional \$2,000,000, in excess of the sale proceeds 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 were removed from the results of continuing operations and are shown as a single line item on the face of the consolidated statements of operations and deficit. 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

	For the Period From January 1 to November 8, 2019	For the year ended December 31, 2018
Revenue	\$ 4,426,355	\$ 3,888,185
Cost of revenue	1,201,373	1,475,969
Gross margin	3,224,982	2,412,216
Operating expenses		
Research and development	5,677,222	6,430,328
Selling, marketing and administration	1,950,526	5,515,329
Interest expense	74,494	-
Impairment loss	-	156,717
Other income	(1,251,737)	(1,491,556)
Operating expenses	6,450,505	10,610,818
Loss from discontinued operations	(3,225,523)	(8,198,602)
Gain on sale of discontinued operations, net of taxes	8,707,280	-
Income tax recovery	-	(297,940)
Net income (loss), net of taxes	\$ 5,481,757	\$ (7,900,662)

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:

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

(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

	Contract Receivables	Contract Liabilities
Balance, January 1, 2018	\$ 40,000	\$ -
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
Wages and benefits	\$ 3,565,076	\$ 3,818,980
Supplies	1,412,572	2,070,495
Subcontract fees	728,457	400,000
Stock-based compensation	(28,883)	140,853
	\$ 5,677,222	\$ 6,430,328

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

Wages and benefits	\$ 887,860	\$ 1,034,715
Rent and facility costs	604,442	975,467
General expenses	458,465	785,635
Stock-based compensation	(46,725)	278,385
Professional fees	46,484	31,747
Depreciation and amortization	-	2,409,380
	\$ 1,950,526	\$ 5,515,329

Cash flows from (used in) discontinued operations

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

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	584,902	(508,093)
Prepaid and other current assets	497,259	(949,401)
Inventory	(334,425)	78,733
Accounts payable and accrued liabilities	(470,378)	1,782,612
<hr/>		
Cash flows provided by (used in) operating activities	(2,951,104)	(4,790,793)
<hr/>		
INVESTING ACTIVITIES		
Proceeds from the sale of discontinued operations, net of cash given up ⁽¹⁾		
	7,519,126	-
Purchase of property and equipment (Note 7)	(1,599,272)	(3,467,992)
Purchase of patents and licenses (Note 8)	(11,231)	-
<hr/>		
Cash flows from investing activities	5,908,623	(3,467,992)
<hr/>		
FINANCING ACTIVITIES		
Payment of lease liability (Note 9)		
	(258,460)	-
<hr/>		
Cash flows from financing activities	(258,460)	-
<hr/>		
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(14,010)	26,490
<hr/>		
NET CHANGE IN CASH	\$ 2,685,049	\$ (8,232,295)

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)
<hr/>	
Net assets disposed	\$ 16,811,846
<hr/>	
(1) Consideration received in cash	\$ 8,000,000
(1) Cash given up	(480,874)
Consideration receivable	18,000,000
<hr/>	
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 January 1, 2018 and December 31, 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 and 2020	\$ -	\$ -	\$ -

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, 2018	\$ 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 and 2020	\$ -	\$ -	\$ -

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 2020 (2019 - 26.5%, 2018 - 26.5%) to the amounts recognized in operations.

For the Year Ended December 31,	2020	2019	2018
Net loss, continuing operations	\$ (18,169,070)	\$ (11,727,372)	\$ (8,422,117)
Net income (loss), discontinued operations	-	5,481,757	(8,198,602)
Net loss before taxes	\$ (18,169,070)	\$ (6,245,615)	\$ (16,620,719)
Expected current income tax recovery	4,814,804	1,655,088	4,404,491
Deferred tax recovery ⁽²⁾	-	292,740	297,940
	4,814,804	1,947,828	4,702,431

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

25. INCOME TAXES (Continued)

For the Year Ended December 31,	2020	2019	2018
Adjustments to income tax recovery:			
Amounts not deductible for tax purposes	\$ (957,400)	\$ (1,212,900)	\$ (1,065,900)
Other non-deductible items	(137,000)	(173,000)	(509,900)
Other deductible items	115,000	216,000	77,000
Non-taxable gain	-	2,307,000	-
Foreign tax differential	(221,000)	591,000	(592,000)
Non-recognizable permanent capital loss	-	(1,175,000)	-
Unusable foreign tax recoveries ⁽¹⁾	-	(7,040,081)	-
Unrecognized tax recovered (losses)	(3,614,404)	4,831,893	(2,313,691)
Income tax recovery recognized ⁽²⁾	\$ -	\$ 292,740	\$ 297,940

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

(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.

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

	2020	2019	2018
Resource assets	\$ 1,024,271	\$ 1,024,271	\$ 1,024,271
Gross unamortized share issue costs	325,600	385,000	669,000
Canadian non-capital losses	22,969,000	16,545,000	12,431,000
Canadian capital losses	4,432,532	4,432,500	-
US non-capital losses	78,829,000	75,060,000	71,594,000
Singapore non-capital losses	3,753,000	378,000	46,894,000
Unrecognized deferred tax assets	111,333,403 (111,333,403)	97,824,771 (97,824,771)	132,612,271 (132,612,271)
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. COVID-19 GOVERNMENT SUPPORT LOANS

In March 2020, the United States Congress passed the Paycheck Protection Program ("PPP"), authorizing loans to small businesses for use in paying employees that they continue to employ throughout the COVID-19 pandemic and for rent, utilities and interest on mortgages. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. On May 3, 2020, the Company received a loan in the amount of \$186,747 through the PPP. Management expects that the entire loan will be used for payroll, utilities and interest; therefore, management anticipates that the loan will be substantially forgiven. To the extent it is not forgiven, the Company would be required to repay that portion at an interest rate of 1% over a period of two years, beginning July 2021 with a final installment in May 2022. The Company may prepay the PPP loan at any time prior to maturity with no penalty.

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26. COVID-19 GOVERNMENT SUPPORT LOANS (Continued)

On April 9, 2020, the Canadian government launched the Canada Emergency Business Account ("CEBA") which is intended to support businesses during COVID-19 by providing interest free financing of up to \$31,404 (CA\$40,000) until December 31, 2022. If 75% of the loan is repaid by December 31, 2022, the loan recipient will be eligible for a loan forgiveness of the remaining 25% of the amount loaned. On April 15, 2020, the Company received a loan in the amount of \$31,404 through the CEBA. If the loan has not been repaid by December 31, 2022, the outstanding amount will be automatically extended for an additional three years at 5% interest per annum payable monthly and maturing on December 31, 2025. The Company expects to repay 75% of the amount borrowed prior to December 31, 2022.

27. FORMATION OF JOINT VENTURE

On October 22, 2020, the Company signed a Joint Venture Agreement ("JVA") with Sanan IC to manufacture cost-effective, high-performance optical engines based on POET's proprietary CMOS compatible Optical Interposer platform technology. In conjunction with the signing of the JVA, Sanan IC and the Company formed a joint venture company, Super Photonics Xiamen Co., Ltd. ("JVC"). The JVC will assemble, test, package and sell optical engines, a primary component of optical transceivers that transmit data between switches and servers in data centers and between data centers and metro areas.

28. SUBSEQUENT EVENTS

On February 11, 2021, the Company completed a brokered private placement offering of 17,647,200 units at a price of \$0.67 (CAD\$0.85) per unit for gross proceeds of \$11,811,118 (CAD\$15,000,120). Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.90 (CAD\$1.15) per share until February 11, 2023. At any time after June 12, 2021, the Company reserves the right to accelerate the expiry of the warrants if the Company's average stock price exceeds \$1.81 (CAD\$2.30) for a period of 10 consecutive trading days. The broker was paid a cash commission of \$708,667 (CAD\$900,007) equating to 6% of the gross proceeds and received 1,058,832 broker warrants. Each broker warrant is exercisable into one common share of the Company at a price of \$0.67 (CAD\$0.85) per broker warrant until February 11, 2023.

In addition to funds received from the brokered private placement, subsequent to December 31, 2020, the Company received \$8,441,240 (CAD\$10,714,953) from the exercise of stock options and warrants. The Company also improved its liquidity by \$1,709,526 (CAD\$2,170,000) through the conversion of convertible debentures into common shares of the Company.