



**POET
TECHNOLOGIES INC.**

**Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016**

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, 2018, 2017 and 2016, 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, 2018, 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, 2018, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 both the Public Company Accounting Oversight Board (United States) (“PCAOB”) and the Canadian Public Accounting Board (“CPAB”) and are required to be independent 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, CT
April 29, 2019

POET TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

December 31,	2018	2017	2016
Assets			
Current			
Cash and cash equivalents	\$ 2,567,868	\$ 4,974,478	\$ 14,376,282
Short-term investments (Note 2)	-	-	589,275
Accounts receivable (Notes 2 and 4)	946,944	493,925	292,849
Prepays and other current assets (Note 5)	2,936,619	1,957,727	758,917
Inventory (Note 6)	436,833	524,582	1,116,880
	6,888,264	7,950,712	17,134,203
Property and equipment (Note 7 and 21)	9,299,513	8,278,170	9,364,210
Patents and licenses (Note 8)	466,714	456,250	449,676
Intangible assets (Note 9)	802,409	839,637	876,865
Goodwill (Note 22)	7,681,003	7,681,003	7,681,003
	\$ 25,137,903	\$ 25,205,772	\$ 35,505,957
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 10)	\$ 3,040,422	\$ 810,593	\$ 1,624,344
	3,040,422	810,593	1,624,344
Deferred tax liability (Notes 22 and 23)	1,000,427	1,298,367	1,596,307
Deferred rent	1,814	24,031	42,665
	4,042,663	2,132,991	3,263,316
Shareholders' Equity			
Share capital (Note 11(b))	112,028,194	103,616,221	103,357,862
Warrants (Note 12)	8,303,738	5,985,378	5,985,378
Contributed surplus (Note 13)	36,042,754	32,102,967	29,062,874
Accumulated other comprehensive loss	(2,083,514)	(1,758,632)	(2,088,117)
Deficit	(133,195,932)	(116,873,153)	(104,075,356)
	21,095,240	23,072,781	32,242,641
	\$ 25,137,903	\$ 25,205,772	\$ 35,505,957

Commitments and contingencies (Note 15)

On behalf of the Board of Directors

(signed) Chris Tsiofas

Director

(signed) Suresh Venkatesan

Director

POET TECHNOLOGIES INC.

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

For the Years Ended December 31,	2018	2017	2016
Revenue	\$ 3,888,185	\$ 2,794,044	\$ 1,861,747
Cost of revenue	1,475,969	1,342,691	946,001
Gross margin	2,412,216	1,451,353	915,746
Operating expenses			
Selling, marketing and administration (Note 20)	11,689,204	10,870,741	11,421,604
Research and development (Note 20)	8,692,804	5,442,873	3,165,825
Impairment loss (Notes 2, 7 and 21)	156,717	-	63,522
Loss on disposal of property and equipment (Note 7)	-	-	46,738
Other income, including interest (Note 2)	(1,505,790)	(1,766,524)	(66,872)
Operating expenses	19,032,935	14,547,090	14,630,817
Net loss from operations	(16,620,719)	(13,095,737)	(13,715,071)
Change in fair value of contingent consideration (Note 22)	-	-	(283,130)
Net loss before income tax recovery	(16,620,719)	(13,095,737)	(13,431,941)
Income tax recovery (Note 23)	(297,940)	(297,940)	(207,257)
Net loss	(16,322,779)	(12,797,797)	(13,224,684)
Deficit, beginning of year	(116,873,153)	(104,075,356)	(90,850,672)
Net loss	(16,322,779)	(12,797,797)	(13,224,684)
Deficit, end of year	\$(133,195,932)	\$(116,873,153)	\$(104,075,356)
Basic and diluted net loss per share (Note 14)	\$ (0.06)	\$ (0.05)	\$ (0.06)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in US Dollars)

For the Years Ended December 31,	2018	2017	2016
Net loss	\$(16,322,779)	\$(12,797,797)	\$(13,224,684)
Other comprehensive (loss) income - net of income taxes			
Exchange differences on translating foreign operations	(324,882)	329,485	300,870
Comprehensive loss	\$(16,647,661)	\$(12,468,312)	\$(12,923,814)

POET TECHNOLOGIES INC.

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

For the Years Ended December 31,	2018	2017	2016
Share Capital			
Beginning balance	\$ 103,616,221	\$ 103,357,862	\$ 81,027,171
Funds from the exercise of warrants and compensation warrants	1,028,471	-	1,943,919
Fair value of warrants and compensation warrants exercised	447,270	-	901,417
Funds from the exercise of stock options	87,974	123,528	1,654,988
Fair value of stock options exercised	82,330	134,831	1,737,879
Common shares issued on business acquisitions	-	-	12,050,000
Common shares issued to settle liabilities	-	-	1,843,629
Common shares issued on public offering	10,663,548	-	9,349,254
Share issue costs	(1,131,990)	-	(1,165,017)
Fair value of warrants issued on public offering	(2,286,426)	-	(5,985,378)
Fair value of compensation options issued to brokers	(479,204)	-	-
December 31,	112,028,194	103,616,221	103,357,862
Warrants			
Beginning balance	5,985,378	5,985,378	2,013,747
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,	8,303,738	5,985,378	5,985,378
Contributed Surplus			
Beginning balance	32,102,967	29,062,874	25,618,159
Stock-based compensation	4,022,117	3,174,924	4,070,264
Fair value of stock options exercised	(82,330)	(134,831)	(1,737,879)
Fair value of expired warrants	-	-	1,112,330
December 31,	36,042,754	32,102,967	29,062,874
Accumulated Other Comprehensive Loss			
Beginning balance	(1,758,632)	(2,088,117)	(2,388,987)
Other comprehensive (loss) income attributable to common shareholders - translation adjustment	(324,882)	329,485	300,870
December 31,	(2,083,514)	(1,758,632)	(2,088,117)
Deficit			
Beginning balance	(116,873,153)	(104,075,356)	(90,850,672)
Net loss	(16,322,779)	(12,797,797)	(13,224,684)
December 31,	(133,195,932)	(116,873,153)	(104,075,356)
Total Shareholders' Equity	\$ 21,095,240	\$ 23,072,781	\$ 32,242,641

POET TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US Dollars)

For the Years Ended December 31,

2018

2017

2016

CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:

OPERATING ACTIVITIES

Net loss	\$ (16,322,779)	\$ (12,797,797)	\$ (13,224,684)
Adjustments for:			
Depreciation of property and equipment (Note 7)	2,468,604	2,183,963	1,448,525
Amortization of patents and licenses (Note 8)	56,792	53,969	49,775
Amortization of intangibles (Note 9)	37,228	37,228	23,266
Loss on disposal of property and equipment (Note 7)	-	-	46,738
Impairment loss (Notes 2, 7 and 21)	156,717	-	63,522
Stock-based compensation (Note 13)	4,022,117	3,174,924	4,070,264
Change in fair value of contingent consideration (Note 22)	-	-	(283,130)
Income tax recovery (Notes 22 and 23)	(297,940)	(297,940)	(207,257)
Deferred rent	(21,992)	-	42,665
Expected credit loss allowance (Notes 2 and 4)	40,615	-	-
	(9,860,638)	(7,645,653)	(7,970,316)
Net change in non-cash working capital accounts:			
Accounts receivable	(508,094)	(171,257)	(77,415)
Prepaid and other current assets	(1,025,256)	(1,116,758)	(443,590)
Inventory	78,733	663,992	(841,806)
Accounts payable and accrued liabilities	2,026,667	(894,013)	(628,292)
Cash flows from operating activities	(9,288,588)	(9,163,689)	(9,961,419)

INVESTING ACTIVITIES

Cash proceeds from acquisitions	-	-	18,791
Proceeds from the disposal of property and equipment (Note 7)	-	-	37,195
Purchase of property and equipment (Note 7)	(3,467,992)	(969,797)	(1,208,532)
Purchase of patents and licenses (Note 8)	(67,608)	(60,543)	(72,638)
Advances made prior to acquisition (Note 22)	-	-	(500,000)
Proceeds from the sale of short-term investments	-	589,275	(598,148)
Cash flows from investing activities	(3,535,600)	(441,065)	(2,323,332)

FINANCING ACTIVITIES

Issue of common shares for cash, net of issue costs (Note 11)	10,648,003	123,528	11,783,144
Cash flows from financing activities	10,648,003	123,528	11,783,144

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(230,425)	79,422	467,893
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,406,610)	(9,401,804)	(33,714)
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CASH AND CASH EQUIVALENTS, beginning of year	4,974,478	14,376,282	14,409,996
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CASH AND CASH EQUIVALENTS, end of year	\$ 2,567,868	\$ 4,974,478	\$ 14,376,282
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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 AND LIQUIDITY

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 29, 2019.

The financial statements have been prepared on the going concern basis which assumes that the Company will have sufficient cash to pay its debts, as and when they become payable, for a period of at least 12 months from the date the financial report was authorised for issue.

As at December 31, 2018, the Company has accumulated losses of \$(133,195,932) and working capital of \$3,847,842. During the year ended December 31, 2018, the Company had negative cash flows from operations of \$(9,288,588). The Company has prepared a cash flow forecast which indicates that it does not have sufficient cash to meet its minimum expenditure commitments and therefore needs to raise additional funds to continue as a going concern. As a result, there is substantial doubt about the Company's ability to continue as a going concern.

To address the future funding requirements, management has undertaken the following initiatives:

1. Entered into discussions to secure debt financing.
2. Initiated a strict working capital monitoring program.
3. Continued their focus on maintaining an appropriate level of corporate overheads in line with the Company's available cash resources.
4. Filed a preliminary short-form prospectus to raise a maximum \$50 million through a public offering of either equity securities, debt securities or a combination of both.

In line with its needs for additional financing, on April 3, 2019, the Company closed the first tranche of a private placement of convertible debentures that raised gross proceeds of CAD\$1,929,000 (the "Debentures"). The Debentures are unsecured, bear interest at 12% per annum, compounded annually with 1% payable at the beginning of each month and mature on April 3, 2021.

Additionally, the Company arranged for a credit facility (the "Bridge Loan") to be provided by Espresso Capital Ltd which will grant the Company access to a maximum US\$5,000,000. The Company signed the loan documents on April 18, 2019 and was advanced US\$2,000,000 on April 23, 2019.

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., BB Photonics Inc., BB Photonics UK Limited (collectively "BB Photonics") and DenseLight Semiconductors Pte. Ltd ("DenseLight"). All intercompany balances and transactions have been eliminated on consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

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)

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:

	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
Accounts receivable	Loans and receivables	Amortized cost
Financial Liabilities		
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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash in current accounts of \$2,267,868 and funds invested in US Term Deposits of \$300,000 earning interest at 1.31% and maturing in less than 90 days.

Cash and cash equivalents include restricted funds of \$218,888 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.

Short-term investments

The short-term investments of nil at December 31, 2018, nil at December 31, 2017 and \$589,275 at December 31, 2016 consisted of guaranteed investment certificates ("GICs") held with one Canadian chartered bank and earn interest at a rate of 0.50%.

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 (Note 4).

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.

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)

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 \$156,717 for the year ended December 31, 2018 (2017 - nil, 2016 - \$63,522) (Note 21).

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, 2018. 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 32%.

Based on the impairment tests, the value in-use of the CGU to which goodwill is applicable exceeds the carrying amount. As a result, no provision for impairment of goodwill was provided.

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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Enacted U.S. Federal Tax Legislation

Introduced initially as the Tax Cuts and Jobs Act, the Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (the "Act") was enacted on December 22, 2017. The Act applies to corporations generally beginning with taxable years starting after December 31, 2017 and reduces the corporate tax rate from a graduated set of rates with a maximum 35% tax rate to a flat 21% tax rate. Additionally, the Act introduces other changes that impact corporations, including a net operating loss ("NOL") deduction annual limitation, an interest expense deduction annual limitation, elimination of the alternative minimum tax, and immediate expensing of the full cost of qualified property. The Act also introduces an international tax reform that moves the U.S. toward a territorial system, in which income earned in other countries will generally not be subject to U.S. taxation. However, the accumulated foreign earnings of certain foreign corporations will be subject to a one-time transition tax, which can be elected to be paid over an eight-year tax transition period, using specified percentages, or in one lump sum. NOL and foreign tax credit ("FTC") carryforwards can be used to offset the transition tax liability. As a result of this new regulation, the Company reduced its deferred tax assets by \$9,472,000 in 2017. See note 23.

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.

The Company recently adopted IFRS 15 - *Revenue from Contracts from Customers*, further explained in notes 3 and 24.

Other income

Interest income

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

Government Grants

Grants received exclusively from governmental agencies such as the Department of Defense of the United States of America, NASA and Productivity and Innovation Credit Scheme Singapore ("PIC Grant"), relating to research and development or expenditure on technology, are recognized as other income.

PIC Grants are offered as a percentage of qualifying expenditures. PIC Grants are paid out in cash. Other income earned on government grants in 2018 was nil (2017 - nil, 2016 - \$14,027).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development Credits

The Company is 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 the three year period. At December 31, 2018, the Company has a recoverable amount of \$1,905,593 relating to these research and development credits (2017 - \$1,287,539, 2016 - nil) and is classified as prepaid and other current assets. Qualifying recovery of \$1,481,260 have been recorded for the year ended December 31, 2018 (2017 - \$1,695,383, 2016 - nil) and is included in other income.

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. The development of this IPR&D is still incomplete, therefore no amortization has been charged against IPR&D.

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.

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.

Loss per share

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting policy

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which will affect the amount and/or timing of revenue recognized. The Company adopted the policy using the modified retrospective method (Note 24).

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires entities to classify financial assets as being measured either at amortized cost or fair value through profit or loss or fair value through other comprehensive income depending on the business model and contractual cash flow characteristics of the asset. Financial liabilities are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. The Company adopted IFRS 9 on January 1, 2018 using the retrospective approach. IFRS 9 includes a new "expected credit loss" model which impacted accounts receivable in the current year. The adoption of IFRS 9 did not impact the carrying amounts of the Company's financial assets or liabilities on the adoption date (Note 2).

The following is a summary of recent accounting pronouncements that may affect the Company:

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 will replace 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 intends to adopt this new standard using the modified retrospective method. The adoption of this new standard will result in a right of use asset and liability of approximately \$890,000 applicable to leases that will be renewed in 2019. Due to the near term expiry of the Company's current leases 2018 carrying values will not be impacted. The adoption of the new standard will have no impact on the Company's cash flows.

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:

		2018	2017	2016
Product sales	United States dollar	\$ 713,744	\$ 493,925	\$ 292,849
Product sales	Singapore dollar	273,815	-	-
Loss allowance		(40,615)	-	-
		\$ 946,944	\$ 493,925	292,849

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).

POET TECHNOLOGIES INC.

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5. PREPAIDS AND OTHER CURRENT ASSETS

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

	2018	2017	2016
Sales tax recoverable and other current assets	\$ 85,658	\$ 119,482	\$ 147,119
Research and development credit	1,905,593	1,287,539	-
Security deposits on leased properties	233,983	228,170	272,026
Prepaid expenses	711,385	322,536	339,772
	\$ 2,936,619	\$ 1,957,727	\$ 758,917

6. INVENTORY

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

	2018	2017	2016
Raw materials	\$ 98,370	\$ 112,768	\$ 662,458
Finished goods	212,361	260,105	358,386
Work in process	126,102	151,709	96,036
	\$ 436,833	\$ 524,582	\$ 1,116,880

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.

7. PROPERTY AND EQUIPMENT

	Equipment not ready for use	Leasehold improvements	Machinery and equipment	Office equipment	Total
Cost					
Balance, January 1, 2016	\$ -	\$ 16,072	\$ 1,400,103	\$ 81,691	\$ 1,497,866
Additions (1) (Note 21)	602,830	667,342	8,498,051	244,860	10,013,083
Disposals (1) (Note 21)	-	(16,072)	(64,747)	(11,734)	(92,553)
Reclassification (1)(2)	-	-	(98,522)	-	(98,522)
Balance, December 31, 2016	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 (3)	(1,086,895)	-	881,221	202,674	(3,000)
Impairment and disposals (3) (Note 21)	-	-	(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

POET TECHNOLOGIES INC.

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7. PROPERTY AND EQUIPMENT (Continued)

Accumulated Depreciation

Balance, January 1, 2016	-	3,104	523,198	24,457	550,759
Depreciation for the year	-	83,189	1,320,050	45,286	1,448,525
Impairment and disposals (1)(2)	-	(3,104)	(34,940)	(5,576)	(43,620)
Balance, December 31, 2016	-	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 (3)	-	-	(455,158)	(3,665)	(458,823)
Balance, December 31, 2018	-	350,497	5,411,757	387,154	6,149,408

Carrying Amounts

At December 31, 2016	\$ 602,830	\$ 584,153	\$ 7,926,577	\$ 250,650	\$ 9,364,210
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

(1) During 2016, the Company (a) reduced its operations in Toronto and disposed of \$27,806 of its property and equipment for proceeds of \$2,195 and recorded a loss on the disposal of property and equipment of \$16,931. The Company disposed of an additional \$64,747 of machinery and equipment at a loss of \$29,807 (b) added \$217,722 of new equipment, however, only \$119,200 was purchased during the year, \$98,522 was purchased in 2016 but was classified as a prepaid deposit as it was not placed in use at December 31, 2016 (c) through the acquisition of DenseLight and BB Photonics, the Company acquired \$8,706,029 of leaseholds improvements, machinery and office equipment (d) purchased an additional \$1,089,332 of machinery and office equipment at DenseLight, \$602,830 of which has not yet been placed into service.

(2) During 2016, \$35,000 was reclassified to non-current assets held for sale and was sold in July 2016, while \$63,522 was recorded as an impairment loss on the consolidated statements of operations and deficit (Note 21).

(3) 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 on the consolidated statements of operations and deficit (Note 21).

8. PATENTS AND LICENSES

Cost

Balance, January 1, 2016	\$ 537,249
Additions	72,638
Balance, December 31, 2016	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

Accumulated Amortization

Balance, January 1, 2016	110,436
Amortization	49,775
Balance, December 31, 2016	160,211
Amortization	53,969
Balance, December 31, 2017	214,180
Amortization	56,792
Balance, December 31, 2018	270,972

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8. PATENTS AND LICENSES (Continued)

Carrying Amounts

At December 31, 2016	\$ 449,676
At December 31, 2017	\$ 456,250
At December 31, 2018	\$ 466,714

9. INTANGIBLE ASSETS

	Technology	Customer Relationships	Total
Cost			
Balance, January 1, 2016	\$ -	\$ -	\$ -
Acquired through the acquisition of DenseLight	-	186,131	186,131
Acquired through the acquisition of BB Photonics	714,000	-	714,000
Balance, December 31, 2016, 2017 and 2018	714,000	186,131	900,131
Accumulated Amortization			
Balance, January 1, 2016	-	-	-
Amortization for the year	-	23,266	23,266
Balance, December 31, 2016	-	23,266	23,266
Amortization for the year	-	37,228	37,228
Balance, December 31, 2017	-	60,494	60,494
Amortization for the year	-	37,228	37,228
Balance, December 31, 2018	-	97,722	97,722
Carrying Amounts			
At December 31, 2016	\$ 714,000	\$ 162,865	\$ 876,865
At December 31, 2017	\$ 714,000	\$ 125,637	\$ 839,637
At December 31, 2018	\$ 714,000	\$ 88,409	\$ 802,409

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2018	2017	2016
Trade payable	\$ 2,269,845	\$ 504,229	\$ 768,066
Payroll related liabilities ⁽¹⁾	595,720	112,913	628,378
Accrued liabilities	174,857	193,451	183,037
Lease commitment	-	-	44,863
	\$ 3,040,422	\$ 810,593	\$ 1,624,344

(1) Payroll related liabilities at December 31, 2016 includes \$450,000 of bonus payable to the CEO along with \$87,751 of past salaries due to some current and former employees of DenseLight.

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11. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of common shares

One special voting share

(b) COMMON SHARES ISSUED

	Number of Shares	Amount
Balance, January 1, 2016	197,097,815	\$ 81,027,171
Common shares issued on public offering	34,800,000	9,349,254
Share issue costs	-	(1,165,017)
Fair value of warrants issued on public offering	-	(5,985,378)
Common shares issued to settle liabilities	2,386,386	1,843,629
Common shares issued on business acquisitions	15,607,240	12,050,000
Funds from the exercise of stock options	5,648,000	1,654,988
Fair value of stock options exercised	-	1,737,879
Funds from the exercise of warrants and compensation warrants	3,794,412	1,943,919
Fair value of warrants and compensation warrants exercised	-	901,417
Balance, December 31, 2016	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

On November 2, 2016 the Company completed a Short Form Base Shelf and Supplemental Prospectus offering of 34,800,000 units at a price of \$0.269 (CAD\$0.36) per unit for gross proceeds of \$9,349,254 (CAD\$12,528,000). Each unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.388 (CAD\$0.52) per share for a period of five years. The agents received cash commissions in the aggregate of \$654,447 (CAD\$876,960). Additional issue costs approximated \$510,570 (CAD\$666,618).

The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%, interest rate of 0.68%, volatility of 91.37% and estimated life of 5 years. The estimated fair value assigned to the warrants was \$5,985,378 (\$8,015,323 CAD).

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

11. SHARE CAPITAL (Continued)

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.

12. WARRANTS

The following table reflects the continuity of warrants:

	Historical Average Exercise Price	Number of Warrants/ Compensation options	Historical Fair value
Balance, January 1, 2016	\$ 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, 2016 and 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

13. 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.

POET TECHNOLOGIES INC.

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13. STOCK OPTIONS AND CONTRIBUTED SURPLUS (Continued)

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

	Number of Options	Historical Weighted Average Exercise Price
Balance, January 1, 2016	26,718,500	\$ 0.89
Expired/cancelled	(1,290,000)	0.96
Exercised	(5,648,000)	0.37
Granted	4,025,000	0.62
Balance, December 31, 2016	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

During the year ended December 31, 2018, the Company recorded stock-based compensation of \$4,022,117 (2017 - \$3,174,924, 2016 - \$4,070,264) relating to stock options that vested during the year.

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

	2018	2017	2016
Weighted average exercise price	\$0.34	\$0.24	\$0.62
Weighted average risk-free interest rate	2.17%	1.87%	1.05%
Weighted average dividend yield	0%	0%	0%
Weighted average volatility	103.47%	102.73%	104.3%
Weighted average estimated life	10 years	10 years	10 years
Weighted average share price	\$0.34	\$0.24	\$0.62
Share price on the various grant dates:	\$0.18 - \$0.40	\$0.21 - \$0.32	\$0.46 - \$0.75
Weighted average fair value	\$0.30	\$0.22	\$0.55

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.

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13. 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, 2018 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	7.13	576,563	\$ 0.20
\$0.21 - \$0.24	10,773,750	\$ 0.22	8.63	5,773,438	\$ 0.22
\$0.25 - \$0.29	3,909,499	\$ 0.26	9.12	1,724,440	\$ 0.26
\$0.30 - \$0.86	16,604,730	\$ 0.40	8.71	3,473,861	\$ 0.45
\$0.87 - \$1.64	12,482,000	\$ 1.24	1.29	11,302,527	\$ 1.28
	44,463,729	\$ 0.58	6.61	22,850,829	\$ 0.78

Contributed Surplus

The following table reflects the continuity of contributed surplus:

	Amount
Balance, January 1, 2016	\$ 25,618,159
Stock-based compensation	4,070,264
Fair value of stock options exercised	(1,737,879)
Fair value of expired warrants	1,112,330
Balance, December 31, 2016	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

14. LOSS PER SHARE

	2018	2017	2016
Numerator			
Net loss	\$ (16,322,779)	\$ (12,797,797)	\$ (13,224,684)
Denominator			
Weighted average number of common shares outstanding	282,098,432	259,771,793	220,058,321
Weighted average number of common shares outstanding - diluted	282,098,432	259,771,793	220,058,321
Basic and diluted loss per share	\$ (0.06)	\$ (0.05)	\$ (0.06)

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2018, 2017 and 2016 is not reflected as they are anti-dilutive.

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15. 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, 2017 and initiated a new lease on February 1, 2017 which expires on January 31, 2020. The lease on the Company's operating facilities expires on February 15, 2019. As at December 31, 2018, the Company's head office was on a month to month lease term.

Rent expense under these leases was \$429,674 for the year ended December 31, 2018 (2017 - \$421,316, 2016 - \$312,842).

Subsequent to December 31, 2018, the Company renewed the lease of its operating facilities in Singapore.

Remaining minimum annual rental payments to the lease expiration date is as follows:

2019	\$	416,348
2020 and beyond		808,754
	\$	1,225,102

16. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

	2018	2017	2016
Salaries	\$ 1,216,250	\$ 932,133	\$ 2,047,634
Share-based payments (1)	2,449,683	2,110,773	3,061,686
Total	\$ 3,665,933	\$ 3,042,906	\$ 5,109,320

(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.

In 2016, the Company paid or accrued \$150,000 in consulting fees to a director for strategic, technology, integration and general business consulting services.

The Company paid or accrued \$115,740 in fees for the year ended December 31, 2018 (2017 - \$115,660, 2016 - \$113,250) to a law firm, of which a director is counsel, for legal services rendered to the Company.

17. 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:

ODIS

Odus is the developer 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.

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17. SEGMENT INFORMATION (Continued)

DenseLight

DenseLight designs, manufactures, and delivers photonic optical light source products and packaging solutions to the communications, medical, instrumentation, industrial, and security industries. DenseLight processes III-V based optoelectronic devices and photonic integrated circuits through its in-house wafer fabrication and assembly & test facilities.

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

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
Total Assets	\$ 20,157,119	\$ 2,677,933	\$ 2,302,851	\$ 25,137,903

Year Ended December 31,	Singapore	US	Canada	Consolidated
Revenue	\$ 3,888,185	\$ -	\$ -	\$ 3,888,185
Cost of revenue	1,475,969	-	-	1,475,969
Selling, marketing and administration	8,252,278	2,337,342	1,099,584	11,689,204
Research and development	3,533,994	4,706,817	451,993	8,692,804
Impairment loss	156,717	-	-	156,717
Other income including interest income	(1,491,556)	-	(14,234)	(1,505,790)
Net loss from operations before income tax recovery	\$ 8,039,217	\$ 7,044,159	\$ 1,537,343	\$ 16,620,719

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

Year Ended December 31,	Singapore	US	Canada	Consolidated
Revenue	\$ 2,794,044	\$ -	\$ -	\$ 2,794,044
Cost of revenue	1,342,691	-	-	1,342,691
Selling, marketing and administration	4,955,497	4,872,902	1,042,342	10,870,741
Research and development	3,237,713	1,877,966	327,194	5,442,873
Other income including interest income	(1,748,244)	-	(18,280)	(1,766,524)
Net loss from operations before income tax recovery	\$ 4,993,613	\$ 6,750,868	\$ 1,351,256	\$ 13,095,737

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

17. SEGMENT INFORMATION (Continued)

2016				
As of December 31,	Singapore	US	Canada	Consolidated
Current assets	\$ 2,118,561	\$ 10,058,018	\$ 4,957,624	\$ 17,134,203
Property and equipment	9,039,069	322,633	2,508	9,364,210
Patents and licenses	-	449,676	-	449,676
Goodwill and intangible assets	6,793,409	1,764,459	-	8,557,868
Total Assets	\$ 17,951,039	\$ 12,594,786	\$ 4,960,132	\$ 35,505,957

Year Ended December 31,	Singapore	US	Canada	Consolidated
Revenue	\$ 1,861,747	\$ -	\$ -	\$ 1,861,747
Cost of revenue	946,001	-	-	946,001
Selling, marketing and administration	3,242,703	7,027,033	1,151,868	11,421,604
Research and development	1,042,842	2,122,983	-	3,165,825
Impairment loss	-	63,522	-	63,522
Loss on disposal of property and equipment	-	29,807	16,931	46,738
Other income including interest income	(14,027)	-	(52,845)	(66,872)
Changes in fair value of contingent consideration	(283,130)	-	-	(283,130)
Net loss from operations before income tax recovery	\$ 3,072,642	\$ 9,243,345	\$ 1,115,954	\$ 13,431,941

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, non-current assets held for sale, accounts receivable, 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:

	2018	2017	2016
Fair value through profit or loss, measured at amortized cost:			
Cash	\$ 2,567,868	\$ 4,974,478	\$ 14,376,282
Short-term investments	-	-	589,275
Accounts receivable, measured at amortized cost:			
Accounts receivable	946,944	493,925	292,849
Other liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	(3,040,422)	(810,593)	(1,624,344)

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

18. 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:

	2018	2017	2016
Current	\$ 892,343	\$ 330,731	\$ 125,610
31 - 60 days	34,331	56,094	16,346
61 - 90 days	60,885	-	75,816
> 90 days	-	107,100	75,077
Expected credit losses ⁽¹⁾	(40,615)	-	-
	\$ 946,944	\$ 493,925	\$ 292,849

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

The allowance is included in selling, general and administrative expenses in the consolidated statements of operations and deficit. Amounts charged to the loss allowance account are generally written off when there is no reasonable expectation of recovery.

In prior years, the impairment of trade receivables was assessed based on the incurred loss model and determined by management in accordance with its assessment of recoverability. Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

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 \$386,391.

Liquidity Risk

The Company currently does not maintain credit facilities. The Company's existing cash and cash resources are not considered sufficient to fund operating and investing activities beyond one year from the issuance of these consolidated financial statements. The Company will need to seek additional financing to continue as a going concern.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

19. 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, 2018 were:

Cash	\$ 2,567,868
Shareholders' equity	\$156,374,686

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.

20. EXPENSES

Research and development costs can be analysed as follows:

	2018	2017	2016
Wages and benefits	\$ 4,641,238	\$ 2,839,088	\$ 1,572,567
Subcontract fees	1,288,566	1,044,936	1,013,539
Stock-based compensation	536,321	369,007	373,196
Supplies	2,226,679	1,189,842	206,523
	\$ 8,692,804	\$ 5,442,873	\$ 3,165,825

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

Stock-based compensation	\$ 3,485,796	\$ 2,805,917	\$ 3,697,068
Wages and benefits	2,468,001	2,574,978	2,800,878
Depreciation and amortization	2,562,624	2,275,160	1,521,566
General expenses	1,178,536	1,038,857	1,292,341
Professional fees	767,351	624,941	715,716
Management and consulting fees	155,169	229,577	611,861
Rent and facility costs	1,071,727	1,321,311	782,174
	\$ 11,689,204	\$ 10,870,741	\$ 11,421,604

21. NON CURRENT ASSET HELD FOR SALE

During the year ended December 31, 2016, the Company reclassified \$98,522 from prepaids and other current assets to property and equipment. During that year management determined that the equipment would not be used to generate future cash flows and committed to a plan to dispose of the equipment by December 31, 2016.

Management used a market approach to determine the equipment's fair value less cost of sell. Key assumptions included the cost of similar assets, the impact of customization and unique use. The fair value less cost to sell was determined to be \$35,000 which is greater than its value in use. The Company recorded an impairment loss of \$63,522 on the equipment and reclassified \$35,000 from property and equipment to non current assets held for sale. The equipment was sold for \$35,000 in July 2016. The Company recorded a loss \$29,807 on the disposal of the equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

21. NON CURRENT ASSET HELD FOR SALE (Continued)

During the year ended December 31, 2018, management determined that certain property and equipment would not be used to generate future cash flows and committed to a plan to dispose of the property and equipment by December 31, 2018.

Management used a market approach to determine the property and equipment's fair value less cost to sell. Key assumptions included the cost of similar assets, the impact of customization and unique use. The fair value less cost to sell was determined to be \$3,000 which is greater than its value in use. The Company recorded an impairment loss of \$156,717 on the property and equipment and reclassified \$3,000 from property and equipment to non current assets held for sale.

22. BUSINESS ACQUISITIONS

DenseLight

On May 11, 2016, the Company acquired all the issued and outstanding shares of DenseLight, a designer, manufacturer and distributor of photonic sensing and optical light source products for consideration of \$10,500,000. The all stock purchase was accomplished with the issuance of 13,611,150 common share of the Company at a price of \$0.7714 per share. The Company also committed to issuing shares representing \$1,000,000 to the sellers in the event that DenseLight meets or exceeds a pre-determined revenue target during calendar 2016. The shares were not issued because the revenue target was not met.

This acquisition provides the Company with direct and preferred access to a fab infrastructure for future product development, access to product sales and channel distribution networks and a broader product portfolio of photonic products, technology and know-how.

Upon closing the acquisition, the Company negotiated a settlement agreement relating to obligations that were due to past or current employees of DenseLight. As part of the settlement agreement, the Company issued 1,738,236 common shares at a price of \$0.7714 per share for a total of \$1,343,629. The Company also paid \$240,266 to current and past employees as part of the debt settlement. Accounts payable and accrued liabilities included \$184,570 that was due to past and current employees have been settled.

The Company also settled a loan of \$500,000 owing to EDB Investments Pte. Ltd., an investor in DenseLight, with the issuance of 648,150 shares at a price of 0.771 per share.

Former management shareholders of DenseLight agreed not to sell, transfer, pledge or otherwise dispose of 50% of their shares of the Company for periods up to twelve months, which have since expired. All management shareholders will be able to sell their remaining 50% after 24 months from closing. Former non-management shareholders of DenseLight are no longer restricted from selling their shares.

On acquisition, DenseLight held accounts receivable and unbilled revenue in the amount of \$198,898 which reflected their fair value. The Company does not expect that there will be any contractual cash flows that may not be realized. The billed receivables at closing have been subsequently collected.

The acquisition has been accounted for using the acquisition method of accounting. Acquisition related costs of \$197,284 were expensed in the year and included in selling, marketing and administrative expenses.

A final assessment of the fair value of identifiable assets and liabilities acquired has been completed. The assessment of the purchase price allocation on the date of purchase has been determined as follows:

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

22. BUSINESS ACQUISITIONS (Continued)

Fair value of consideration paid

Fair value of 13,611,150 shares issued	\$ 10,500,000
Contingent consideration payable	283,130
<hr/>	
Total consideration	\$ 10,783,130

Recognised amounts of identifiable net assets:

Cash	\$ 2,971
Accounts receivables and unbilled revenue	198,898
Prepaid and other current assets	293,386
Inventory	319,257
Property and equipment	8,635,650
Customer relationships	186,131
Goodwill	6,630,544
Trade payables	(2,979,546)
Loans and advances	(1,000,000)
Deferred tax liability	(1,504,161)
<hr/>	
Net assets acquired	\$ 10,783,130

Loans and advances include \$500,000 that was advanced to Denselight by the Company prior to its acquisition. This advance was used by Denselight to cover the expenses required for the development under the Development Services Agreement between Denselight and the Company, based on the special pricing negotiated between the parties.

The purchase and sale agreement provides for an additional \$1,000,000 worth of shares to be issued to the sellers should gross revenue from Denselight exceed certain targets for 2016. The fair value of this contingent consideration payable is determined by estimating the probability of the Company making that future payment and then discounting it to present value using a discount rate of 9% being the estimated cost of debt for the Company. At December 31, 2016, Denselight did not exceed the established revenue targets for 2016. The Company therefore adjusted the fair value of contingent consideration to nil through earnings on December 31, 2016.

From the date of acquisition through December 31, 2016, Denselight contributed \$1,861,747 to consolidated revenues and \$3,355,772 to consolidated net loss. Had the acquisition occurred on January 1, 2016, the Company estimates that Denselight's contribution to consolidated revenue would have been \$2,316,169 (unaudited) and would have contributed net loss of \$2,344,976 (unaudited). In determining these amounts, the Company assumed that the preliminary fair value adjustments that arose on the acquisition date would have been the same had the acquisition occurred on January 1, 2016.

A deferred tax liability of \$1,504,161 was created on the date of purchase and related to the fair value adjustment of the assets acquired. The change in the fair value assets acquired arising from amortization or the sale of assets resulted in a deferred tax recovery of \$297,940 in 2018, \$297,940 in 2017 and \$206,596 in 2016. Deferred tax liability related to this transaction at December 31, 2018, 2017 and 2016 was \$707,687, \$1,005,627 and \$1,303,567 respectively.

BB Photonics

On June 22, 2016, the Company acquired all the issued and outstanding shares of BB Photonics, a designer of integrated photonic solutions for the data communications market for consideration of \$1,550,000. The all stock purchase was accomplished with the issuance of 1,996,090 common share of the Company at a price of \$0.777 per share.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

22. BUSINESS ACQUISITIONS (Continued)

The acquisition of BB Photonics provides the Company with additional differentiated intellectual property and know-how for product development which will enable the Company to better service its first identified commercialization market, the end-to-end data communications market, and augment its sensing roadmap.

The acquisition has been accounted for using the acquisition method of accounting. Acquisition related costs of \$59,930 were expensed in the year and included in selling, marketing and administrative expenses.

A final assessment of the fair value of identifiable assets and liabilities acquired has been completed. The assessment of the purchase price allocation on the date of purchase has been determined as follows:

Fair value of consideration paid

Fair value of 1,996,090 shares issued	\$ 1,550,000
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Recognised amounts of identifiable net assets:

Cash	\$ 15,820
Property and equipment	70,379
Intangibles	714,000
Goodwill	1,050,459
Trade payables	(7,918)
Deferred tax liability	(292,740)

Net assets acquired	\$ 1,550,000
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From the date of acquisition through December 31, 2016, BB Photonics contributed nil to consolidated revenues and \$181,782 to consolidated net loss. Had the acquisition occurred on January 1, 2016, the Company estimates that BB Photonics' contribution to consolidated revenue would have been nil (unaudited) and it would have contributed net loss of \$272,793 (unaudited). In determining these amounts, the Company assumed that the preliminary fair value adjustments that arose on the acquisition date would have been the same had the acquisition occurred on January 1, 2016.

A deferred tax liability of \$292,740 was created on the date of purchase and related to the fair value adjustment of the assets acquired. There was no amortization of related intangible assets in 2018, 2017 or 2016, therefore there has been no amortization of the deferred tax liability. Deferred tax liability of \$6,663 assumed by the Company on acquisition was applied to deferred tax recovery.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

23. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 26.5% for 2018 (2017 - 26.5%, 2016 - 26.5%) to the amounts recognized in operations.

For the Year Ended December 31,	2018	2017	2016
Net loss before taxes	\$ 16,620,719	\$ 13,095,737	\$ 13,431,941
Expected current income tax recovery	4,404,491	3,470,370	3,559,000
Deferred tax recovery	297,940	297,940	207,257
	4,702,431	3,768,310	3,766,257
Adjustments to income tax recovery:			
Amounts not deductible for tax purposes	(1,065,900)	(841,000)	(1,079,000)
Other non-deductible items	(509,900)	(463,000)	-
Deductible share issuance costs	77,000	94,000	118,000
Fair value consideration	-	-	116,000
Impact of US statutory income tax rate change ⁽¹⁾	-	(9,472,000)	-
Foreign tax differential	(592,000)	(69,000)	507,213
Unrecognized tax recovered (losses)	(2,313,691)	7,280,630	(3,221,213)
Income tax recovery recognized	\$ 297,940	\$ 297,940	\$ 207,257

(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.

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

	2018	2017	2016
Resource assets	\$ 1,024,271	\$ 1,024,271	\$ 1,024,271
Gross unamortized share issue costs	669,000	705,351	1,050,599
Canadian non-capital losses	12,431,000	11,100,672	10,137,652
US non-capital losses	71,594,000	67,654,438	63,725,982
Singapore non-capital losses	46,894,000	43,671,200	37,448,290
	132,612,271	124,155,932	113,386,794
Unrecognized deferred tax assets	(132,612,271)	(124,155,932)	(113,386,794)
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.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

24. REVENUE

On January 1, 2018, the Company adopted IFRS 15 - *Revenue from Contracts with Customers*, using the modified retrospective method. The adoption of this standard did not materially impact the timing of revenue recognition for customer sales prior to fiscal 2018.

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:

	2018	2017	2016
Non-contract revenue (at a point in time) ⁽¹⁾⁽³⁾	\$ 3,261,518	\$ 2,714,044	\$ 1,861,747
Contract revenue (revenue over time) ⁽²⁾⁽³⁾	441,667	80,000	-
Contract revenue (at a point in time) ⁽²⁾⁽³⁾	185,000	-	-
	\$ 3,888,185	\$ 2,794,044	\$ 1,861,747

(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	Liabilities
Opening balance, January 1, 2016	\$ -	\$ -
Revenues recognized	-	-
Changes due to payment, fulfillment of performance obligations or other	-	(20,000)
Balance, December 31, 2016	-	(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	40,000	-
Revenues recognized	626,667	(626,667)
Changes due to payment, fulfillment of performance obligations or other	(606,667)	626,667
Balance, December 31, 2018	\$ 60,000	\$ -

The timing and satisfaction of the the Company's performance obligations under contracts with customers is generally in line with the timing of payments from customers, as a result the Company will either not have material contract assets or liabilities or payment for contract assets will be current.

POET TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Expressed in US Dollars)

24. REVENUE (Continued)

Performance Obligations

The Company typically satisfies its performance obligations when services are rendered or products are delivered and accepted by the customer. Consideration is fixed and payment terms are consistent with the Company's terms for the sale of its products.

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of December 31, 2018 was \$2,600,000 (2017 - nil, 2016 - \$80,000). The Company expects to satisfy this amount over the next 12 months.

Judgements were used in determining the amount and timing of revenue from contracts with customers. The timing of satisfaction of performance obligations was determined by the delivery of products or services that met the customer's expectations. The transaction price and the amount allocated to performance obligations was determined using market rates that would be reasonable for the services or products provided.

25. SUBSEQUENT EVENTS

On February 1, 2019, the Company signed a non-binding Letter of Intent (LOI) for the sale of all the outstanding shares of DenseLight. Key terms of the LOI include proposed cash consideration in the range of \$26 - \$30 million, including a \$4 million earn-out provision, no-shop and confidentiality clauses, and an undertaking to enter into key operating agreements, including a preferred supply agreement and a long-term strategic cooperation agreement among the parties. The parties expect to complete the signing of the definitive transaction agreements on or before September 15, 2019. The broad terms of the LOI and the consummation of any transaction are subject to further due diligence, the negotiation of definitive agreements and obtaining required approvals by all parties, including but not limited to the TSX Venture Exchange and a majority of the Company's shareholders.

On February 1, 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. The divestiture of DenseLight will 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, all saleable assets and liabilities relating to DenseLight will be classified as "assets of disposal group held for sale" or "disposal group liabilities".

As at December 31, 2018, the disposal group comprised the following assets and liabilities:

Assets of disposal group held for sale

Accounts receivable	\$ 946,944
Prepays and other current assets	2,792,750
Inventories	436,833
Equipment	9,123,459
Intangible assets	106,873
Goodwill	6,630,544
Assets of disposal group held for sale	\$ 20,037,403

Disposal group liabilities

Accounts payable and accrued liabilities	\$ 2,558,805
Deferred liabilities	709,501
Disposal group liabilities	\$ 3,268,306

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

25. SUBSEQUENT EVENTS (Continued)

On April 1, 2019 the Company announced that it arranged for certain financing required to bridge the Company to the previously announced anticipated sale of its DenseLight subsidiary. That sale is scheduled to be completed in September 2019, subject to certain conditions including shareholder and other approvals. The Company expects to generate cash proceeds of approximately CAD\$34.5 million to CAD\$40 million upon completion of the DenseLight sale.

The first component of the financing consists of the issuance of up to CAD\$14 million principal amount of 12% convertible unsecured debentures (the "Convertible Debentures") of the Company. The Convertible Debentures will be sold in multiple tranches over upcoming months, as needed, on a brokered private placement basis through the Company's financial advisors, IBK Capital. The Company closed the first tranche of Convertible Debentures, for gross proceeds of CAD\$1,929,000 on April 3, 2019. Further indications of interest amounting to approximately CAD\$1.6 million from parties who could not participate in the first tranche are expected to be included in subsequent tranches.

The Debentures are unsecured, bearing interest at 12% per annum, compounded annually with 1% payable at the beginning of each month and mature on April 3, 2021. The 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 4,822,500 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 two years from the date upon which the convertible debenture is converted into units. In the event that the sale of the Company's DenseLight subsidiary is completed, holders of Debentures have the right to cause the Company to repurchase the Debentures at face value, subject to certain restrictions. The Debentures are governed by a trust indenture dated April 3, 2019 between the Company and TSX Trust Company as trustee.

Insiders of the Company subscribed for 37% or \$710,000 of the first tranche of Convertible Debentures, including the Company's board of directors and senior management team. Insiders of IBK Capital subscribed for 10% or \$200,000 of this first tranche. Successive tranche closings in the coming months are each subject to approval by the TSX Venture Exchange.

The second component of the financing consists of a credit facility (the "Bridge Loan") to be provided by Espresso Capital Ltd which will grant the Company access to a maximum US\$5,000,000. The Company signed the loan documents on April 18, 2019 and was advanced US\$2,000,000 on April 23, 2019. In partial consideration of the US\$5,000,000 gross credit facility available to the Company, and in connection with the initial advance of US\$2,000,000, the Company issued to Espresso Capital warrants for the purchase of 3,289,500 common shares at a price of C\$0.35 per share. The Warrants expire on April 18, 2020.