



POET  
TECHNOLOGIES INC.

Unaudited Consolidated  
Financial Statements  
6-months ended June 30, 2015

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**NOTICE TO SHAREHOLDERS**  
**For the Six Months Ended June 30, 2015**  
(Unaudited and Expressed in US Dollars)

**POET TECHNOLOGIES INC.**

Auditors' involvement

The auditors of POET Technologies Inc. have not performed a review of these condensed unaudited consolidated financial statements for the three and six months ended June 30, 2015 and June 30, 2014.

**POET TECHNOLOGIES INC.**

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

Audited  
 December 31,  
 2014

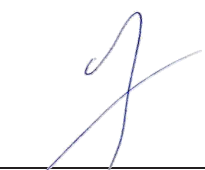
June 30,  
 2015

<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 15,276,119	\$ 11,287,864
Prepays and other current assets	135,662	243,501
	<b>15,411,781</b>	<b>11,531,365</b>
Property and equipment (Note 4)	951,131	1,058,860
Patents and licenses (Note 5)	363,609	260,721
	<b>\$ 16,726,521</b>	<b>\$ 12,850,946</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 514,476	\$ 451,724
<b>Shareholders' Equity</b>		
Share capital (Note 7(b))	73,029,109	61,688,953
Warrants (Note 8)	3,070,484	6,458,659
Contributed surplus (Note 9)	25,060,506	23,616,664
Accumulated other comprehensive loss	(1,166,205)	(584,552)
Deficit	(83,781,849)	(78,780,502)
	<b>16,212,045</b>	<b>12,399,222</b>
	<b>\$ 16,726,521</b>	<b>\$ 12,850,946</b>

Commitments and contingencies (Note 11)

On behalf of the Board of Directors

  
 Director

  
 Director

**POET TECHNOLOGIES INC.**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Costs and expenses				
General and administration (Note 16)	2,022,063	2,410,980	\$ 3,457,298	\$ 3,833,755
Research and development (Note 16)	916,709	613,001	1,581,313	1,095,063
Investment income, including interest	(22,793)	-	(37,264)	-
Loss before the following	2,915,979	3,023,981	5,001,347	4,928,818
Other income (Note 2)	-	85,204	-	169,832
Net loss	(2,915,979)	(2,938,777)	(5,001,347)	(4,758,986)
Deficit, beginning of period	(80,865,870)	(68,814,911)	(78,780,502)	(66,994,702)
Net loss	(2,915,979)	(2,938,777)	(5,001,347)	(4,758,986)
Deficit, end of period	<b>\$(83,781,849)</b>	<b>\$(71,753,688)</b>	<b>\$(83,781,849)</b>	<b>\$(71,753,688)</b>
Basic and diluted loss per share (Note 10)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.01)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Expressed in US Dollars)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	\$ (2,915,979)	\$ (2,938,777)	\$ (5,001,347)	\$ (4,758,986)
Other comprehensive loss - net of income taxes				
Exchange differences on translating foreign operations	222,649	291,200	(581,653)	142,316
Comprehensive loss	<b>\$(2,693,330)</b>	<b>\$(2,647,577)</b>	<b>\$(5,583,000)</b>	<b>\$(4,616,670)</b>

**POET TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in US Dollars)

For the Six Months Ended June 30,

2015 2014

	2015	2014
<b>Share Capital</b>		
Beginning balance	\$ 61,688,953	\$ 42,911,455
Funds from the exercise of warrants and compensation warrants	7,439,038	6,881,285
Fair value of warrants and compensation warrants exercised	3,388,175	3,063,038
Funds from the exercise of stock options	252,129	63,450
Fair value assigned to stock options exercised	260,814	47,826
Funds from private placements	-	4,546,000
Fair value of warrants and compensation warrants issued	-	(1,869,231)
Common shares issued for reduction of license fee	-	1,439,898
June 30,	73,029,109	57,083,721
<b>Warrants</b>		
Beginning balance	6,458,659	8,135,590
Fair value of warrants and compensation warrants issued	-	1,869,231
Fair value of warrants and compensation warrants exercised	(3,388,175)	(3,063,038)
June 30,	3,070,484	6,941,783
<b>Contributed Surplus</b>		
Beginning balance	23,616,664	20,261,067
Stock-based compensation	1,704,656	958,332
Fair value of stock options exercised	(260,814)	(47,826)
June 30,	25,060,506	21,171,573
<b>Accumulated Other Comprehensive Income</b>		
Beginning balance	(584,552)	(11,593)
Other comprehensive loss attributable to common shareholders - translation adjustment	(581,653)	142,316
June 30,	(1,166,205)	130,723
<b>Deficit</b>		
Beginning balance	(78,780,502)	(66,994,702)
Net loss	(5,001,347)	(4,758,986)
June 30,	(83,781,849)	(71,753,688)
<b>Total shareholders' equity</b>	<b>\$ 16,212,045</b>	<b>\$ 13,574,112</b>

**POET TECHNOLOGIES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Expressed in US Dollars)**

**For the Six Months Ended June 30,**

**2015**

**2014**

CASH (USED IN) PROVIDED BY:

OPERATING ACTIVITIES

Net loss	<b>\$ (5,001,347)</b>	\$ (4,758,986)
Adjustments for:		
Depreciation of property and equipment (Note 4)	<b>136,153</b>	100,684
Amortization of patents and licenses (Note 5)	<b>18,162</b>	8,861
Stock-based compensation (Note 9)	<b>1,704,656</b>	958,332
Shares issued for reduction of license fee (Note 19)	<b>-</b>	1,439,898

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**(3,142,376)**      (2,251,211)

Net change in non-cash working capital accounts:

Prepaid and other current assets	<b>107,839</b>	209,026
Accounts payable and accrued liabilities	<b>62,752</b>	(17,631)

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Cash flows from operating activities **(2,971,785)**      (2,059,816)

INVESTING ACTIVITIES

Purchase of property and equipment (Note 4)	<b>(28,424)</b>	(47,470)
Purchase of patents and licenses (Note 5)	<b>(121,050)</b>	(59,085)

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Cash flow from investing activities **(149,474)**      (106,555)

FINANCING ACTIVITIES

Issue of common shares for cash, net of issue costs	<b>7,691,167</b>	11,459,024
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Cash flow from financing activities **7,691,167**      11,459,024

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EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS **(581,653)**      142,316

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NET CHANGE IN CASH AND CASH EQUIVALENTS **3,988,255**      9,434,969

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CASH AND CASH EQUIVALENTS, beginning of period **11,287,864**      3,260,967

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CASH AND CASH EQUIVALENTS, end of period **\$ 15,276,119**      \$ 12,695,936

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

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#### 1. DESCRIPTION OF BUSINESS

POET Technologies Inc. is incorporated in the Province of Ontario. POET Technologies Inc. and ODIS Inc. ("ODIS"), a subsidiary of Opel Solar Inc., (collectively, the "Company") is the developer of the planar opto-electronic technology ("POET") platform semiconductor process IP for monolithic fabrication of integrated circuit devices containing both electronic and optical elements on a single die. Opel Solar Inc. is a wholly owned subsidiary of POET Technologies Inc. The Company's head office is located at 121 Richmond Street West, Suite 501, Toronto, Ontario, Canada M5H 2K1. These consolidated financial statements of the Company were approved by the Board of Directors of the Company on August 10, 2015.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed unaudited 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").

These condensed unaudited interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated audited financial statements for the year ended December 31, 2014.

The preparation of financial statements in accordance with IAS 34 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. All intercompany balances and transactions have been eliminated on consolidation.

##### **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.



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

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

**Financial Instruments**

Financial instruments are required to be classified as one of the following: held-to-maturity; loans and receivables, fair value through profit or loss; available-for-sale or other financial liabilities.

The Company's financial instruments include cash and cash equivalents, accounts payable and accrued liabilities. The Company designated its cash and cash equivalents as fair value through profit or loss and its accounts payable and accrued liabilities as other financial liabilities.

Fair value through profit or loss financial assets are measured at fair value with gains and losses recognized in operations. Financial assets, loans and receivables and other financial liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive loss.

Fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of a financial instrument that is quoted in active markets is based on the bid price for a financial asset held and the offer price for a financial liability. When an independent price is not available, fair value is determined by using a valuation methodology that refers to observable market data. Such a valuation technique includes comparisons with a similar financial instrument where an observable market price exists, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. If no reliable estimate can be made, the Company measures the financial instrument at cost less impairment as a last resort.

**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
Office equipment	Straight Line, 5 years

**Patents and licenses**

Patents and licenses are recorded at cost and amortized on a straight line basis over their estimated useful lives. Ongoing maintenance costs are expensed as incurred. The expiry of the patents and licenses range from 6 - 12 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 did not record an impairment loss in 2015 or 2014.

**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. Valuation allowances are provided to reduce deferred income tax assets to the amount expected to be realized.

**Other income - Government Grants**

Government grants received exclusively from the Department of Defense of the United States of America and NASA, relating to research and development, are recognized as other income, net, based on the agreed upon milestones of the projects. Other income earned on government grants in 2015 was nil (2014 - \$85,204 and \$169,832 for the three and six months ended June 30.).

**Interest income**

Interest income on cash and cash equivalents classified as fair value through profit or loss is recognized as earned using the effective interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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. The Company has not met the the criteria set out in IAS 38, therefore no deferral has been recognized.

**Stock-based compensation**

Stock options and warrants awarded to non employees are accounted for using the fair value of the instrument awarded or service provided whichever is considered more reliable. Stock options and warrants awarded to employees are accounted for using the fair value method. The fair value of such stock options and warrants granted is recognized as an expense on a proportionate basis consistent with the vesting features of each tranche of the grant. The fair value is calculated using the Black-Scholes option pricing model with assumptions applicable at the date of grant.

**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 period after giving effect to potentially dilutive financial instruments. The dilutive effect of stock options and warrants is determined using the treasury stock method.

**The following new accounting policy was adopted on January 1, 2015:**

**Financial instruments**

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 depending on the business model and contractual cash flow characteristics of the asset. For financial liabilities, IFRS 9 requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to change in the entity's own credit risk in the other comprehensive income rather than in the statement of profit or loss. The adoption of this policy did not impact the Company's condensed unaudited consolidated financial statements.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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, 2017. 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 may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

**POET TECHNOLOGIES INC.**

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

**4. PROPERTY AND EQUIPMENT**

	Construction in progress	Leashold improvements	Machinery and equipment	Office equipment	Total
<b>Cost</b>					
Balance, January 1, 2014	\$ -	\$ -	\$ 958,949	\$ 8,746	\$ 967,695
Additions	3,152	-	314,973	47,660	365,785
Balance, December 31, 2014	3,152	-	1,273,922	56,406	1,333,480
Additions	7,024	5,896	-	15,504	28,424
Reclassification	(10,176)	10,176	-	-	-
Balance, June 30, 2015	-	16,072	1,273,922	71,910	1,361,904
<b>Accumulated Depreciation</b>					
Balance, January 1, 2014	-	-	62,000	1,903	63,903
Depreciation for the year	-	-	203,008	7,709	210,717
Balance, December 31, 2014	-	-	265,008	9,612	274,620
Depreciation for the period	-	1,606	132,754	1,793	136,153
Balance, June 30, 2015	-	1,606	397,762	11,405	410,773
<b>Carrying Amounts</b>					
At December 31, 2014	\$ 3,152	\$ -	\$ 1,008,914	\$ 46,794	\$ 1,058,860
At June 30, 2015	\$ -	\$ 14,466	\$ 876,160	\$ 60,505	\$ 951,131

**5. PATENTS AND LICENSES**

<b>Cost</b>	
Balance, January 1, 2014	\$ 166,152
Additions	161,283
Balance, December 31, 2014	327,435
Additions	121,050
Balance, June 30, 2015	448,485
<b>Accumulated Depreciation</b>	
Balance, January 1, 2014	40,476
Amortization	26,238
Balance, December 31, 2014	66,714
Amortization	18,162
Balance, June 30, 2015	84,876
<b>Carrying Amounts</b>	
At December 31, 2014	\$ 260,721
At June 30, 2015	\$ 363,609

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in US Dollars)**

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30,</b>	December 31,
	<b>2015</b>	2014
Trade payable	<b>\$ 210,909</b>	\$ 79,406
Payroll related liabilities	<b>57,699</b>	113,338
Accrued liabilities	<b>245,868</b>	258,980
	<b>\$ 514,476</b>	\$ 451,724

**7. SHARE CAPITAL**

(a) AUTHORIZED

Unlimited number of common shares  
One special voting share

(b) COMMON SHARES ISSUED

	Number of Shares	Amount
Balance, January 1, 2014	132,676,115	\$ 42,911,455
Shares issued on the exercise of stock options	4,824,950	1,481,716
Fair value of stock options exercised	-	1,261,156
Shares issued on private placements	7,692,307	4,546,000
Fair value of warrants and compensation warrants issued	-	(1,869,231)
Shares issued on the exercise of warrants and compensation warrants	19,384,712	8,404,265
Fair value of warrants and compensation warrants exercised	-	3,545,406
Warrant exercise incentive	-	(31,712)
Shares issued for reduction of license fee	2,000,000	1,439,898
Balance, December 31, 2014	166,578,084	61,688,953
Shares issued on the exercise of stock options	1,071,300	252,129
Fair value of stock options exercised	-	260,814
Shares issued on the exercise of warrants and compensation warrants	15,299,544	7,439,038
Fair value of warrants exercised	-	3,388,175
Balance, June 30, 2015	182,948,928	\$ 73,029,109

On February 13, 2014, the Company completed a \$4,546,000 private placement financing. The financing consisted of 7,692,307 units at a price of \$0.59 per unit. Each unit comprised one common share and one common share purchase warrant. One warrant allows the holder to acquire one additional common share of the Company at an exercise price of \$0.91 per share for a period of 2 years, expiring on February 12, 2016. No commission was payable with respect to this financing.

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 1.017%, volatility of 92.22% and estimated life of 2 years. The estimated fair value assigned to the warrants was \$1,869,231.

During 2014, the Company paid \$31,712 as incentives for the exercise of warrants.

**POET TECHNOLOGIES INC.**

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

**8. WARRANTS**

The following table reflects the continuity of warrants:

	Average Exercise Price	Number of Warrants	Historical Fair value
Balance, January 1, 2014	\$ 0.48	42,478,569	\$ 8,135,590
Warrants issued	0.91	7,692,307	1,869,231
Expired	0.29	(3,500)	(756)
Exercised	0.43	(19,384,712)	(3,545,406)
Balance, December 31, 2014	0.61	30,782,664	6,458,659
Warrants and compensation warrants exercised	0.51	(15,299,544)	(3,388,175)
Balance, June 30, 2015	\$ 0.63	15,483,120	\$ 3,070,484

As at June 30, 2015 the following warrants were outstanding:

	Number of Warrants	Historical Fair Value (\$)	Exercise Price (\$)	Expiry Date
	900,000	121,026	0.34	July 31, 2015
	1,385,387	189,272	0.34	September 7, 2015
	2,825,000	391,596	0.34	September 13, 2015
	1,602,000	220,141	0.35	September 27, 2015
	6,734,577	1,636,402	0.91	February 12, 2016
Compensation warrants	916,855	307,601	0.50	February 14, 2016
Compensation warrants	38,040	6,659	0.22	June 22, 2016
Compensation warrants	11,250	2,006	0.22	July 31, 2016
Compensation warrants	33,111	5,998	0.22	September 7, 2016
Compensation warrants	536,900	98,681	0.22	September 13, 2016
Compensation warrants	500,000	91,102	0.22	September 27, 2016
	15,483,120	3,070,484	0.63	

These warrants were issued in Canadian dollars and are exercisable at prices ranging from \$0.23 CAD and \$1.00 CAD.

**9. STOCK OPTIONS AND CONTRIBUTED SURPLUS**

**Stock Options**

On June 12, 2015, shareholders of the Company approved amendments to the Company's fixed 20% stock option plan (as amended, referred to as the "2015 Plan"). Under the 2015 Plan, the board of directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and consultants. The 2015 Plan provides that the number of common shares issuable pursuant to options granted under the 2015 Plan and pursuant to other previously granted options is limited to 36,326,000 (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. Options granted under the 2015 Plan generally vest 25% every six months from the date of issue and will become fully vested over 24 months. The Board of Directors may alter the vesting provisions of 2015 plan at their discretion.

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in US Dollars)**

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

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

	Number of Options	Weighted average Exercise Price
Balance, January 1, 2014	23,732,750	\$ 0.38
Expired/cancelled	(825,000)	1.01
Exercised	(4,824,950)	0.31
Granted	6,155,000	1.26
Balance, December 31, 2014	24,237,800	0.61
Expired/cancelled	(387,500)	1.00
Exercised	(1,071,300)	0.28
Granted	10,430,000	1.21
Balance, June 30, 2015	33,209,000	\$ 0.81

During the period, the Company granted 10,430,000 (2014 - 215,000) stock options to officers, employees and consultants of the Company to purchase common shares at an average price of \$1.21 (2014 - \$1.31) per share.

During the period, the Company recorded stock-based compensation of \$1,704,656 (2014 - \$958,332) relating to stock options that vested during the period.

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

	<u>2015</u>	<u>2014</u>
Weighted average exercise price	<b>\$1.21</b>	\$1.31
Weighted average risk-free interest rate	<b>1.02%</b>	1.82%
Weighted average dividend yield	<b>0%</b>	0%
Weighted average volatility	<b>102.5%</b>	102%
Weighted average estimated life	<b>5 years</b>	5.13 years

Share price on the various grant dates were:

First grant	<b>\$ 1.31</b>	\$ 1.31
Second grant	<b>1.59</b>	1.10
Third grant	<b>1.33</b>	-
Fourth grant	<b>1.14</b>	-
Fifth grant	<b>1.13</b>	-
Sixth grant	<b>1.25</b>	-

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)

**9. 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 June 30, 2015 are as follows:

Options Outstanding			Options Exercisable		
Exercise Range	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
\$0.11 - \$0.25	2,890,000	\$ 0.23	2.57	2,890,000	\$ 0.23
\$0.28 - \$0.31	592,500	\$ 0.28	2.83	592,500	\$ 0.28
\$0.34 - \$0.37	780,000	\$ 0.33	5.13	780,000	\$ 0.33
\$0.38 - \$0.86	13,274,000	\$ 0.46	3.02	13,274,000	\$ 0.46
\$0.87 - \$1.64	15,672,500	\$ 1.21	4.65	2,810,000	\$ 1.10
	33,209,000	\$ 0.81	3.80	20,346,500	\$ 0.48

**Contributed Surplus**

The following table reflects the continuity of contributed surplus:

	Amount
Balance, January 1, 2014	\$ 20,261,067
Stock-based compensation	4,615,997
Fair value of stock options exercised	(1,261,156)
Fair value of expired warrants	756
Balance, December 31, 2014	23,616,664
Stock-based compensation	1,704,656
Fair value of stock options exercised	(260,814)
Balance, June 30, 2015	\$ 25,060,506



**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in US Dollars)**

**10. LOSS PER SHARE**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator				
Net loss	\$ (2,915,979)	\$ (2,938,777)	\$ (5,001,347)	\$ (4,758,986)
Denominator				
Weighted average number of common shares outstanding	180,201,853	157,608,068	176,809,323	148,728,474
Weighted average number of common shares outstanding - diluted	180,201,853	157,608,068	176,809,323	148,728,474
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.03)

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2015 and 2014 is not reflected as they are anti-dilutive.

**11. COMMITMENTS AND CONTINGENCIES**

The Company has two operating leases for research facilities and office space expiring March 31, 2016 and March 14, 2018 respectively.

Rent expense under these leases was \$39,987 and \$80,578 for the three and six months ended June 30, 2015 (2014 - \$31,554 and \$56,301).

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

June 30, 2016	\$ 119,962
July 1, 2016 through 2019	34,488
	<b>\$ 154,450</b>

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

#### 12. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Salaries	\$ 428,849	\$ 183,006	\$ 801,023	\$ 558,660
Share-based payments (1)	327,993	171,319	830,364	399,867
Total	\$ 756,842	\$ 354,325	\$ 1,631,387	\$ 958,527

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

The Company paid or accrued \$34,633 and \$58,435 in fees and disbursements for the three and six months ended June 30, 2015 (2014 - \$32,243 and \$85,227) to a law firm, of which a director is counsel, for legal services rendered to the Company.

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

#### 13. SEGMENT INFORMATION

The Company and its subsidiary operates in a single segment; the design of semi-conductor products for military and industrial 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 operating segment is below:

##### **ODIS Inc. ("ODIS")**

Odis 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.

**POET TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in US Dollars)**

**13. SEGMENT INFORMATION (Continued)**

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

2015

As of June 30,	US	Canada	Consolidated
Current assets	\$ 5,358,838	\$ 10,052,943	\$ 15,411,781
Property and equipment	924,506	26,625	951,131
Patents and licenses	363,609	-	363,609
<b>Total Assets</b>	<b>\$ 6,646,953</b>	<b>\$ 10,079,568</b>	<b>\$ 16,726,521</b>

	US	Canada	Consolidated
For the six months ended June 30,			
General and administration	\$ 1,473,376	\$ 1,983,922	\$ 3,457,298
Research and development	1,581,313	-	1,581,313
Investment income	-	(37,264)	(37,264)
<b>Net Loss</b>	<b>\$ 3,054,689</b>	<b>\$ 1,946,658</b>	<b>\$ 5,001,347</b>

2014

As of June 30,	US	Canada	Consolidated
Current assets	\$ 3,635,285	\$ 9,119,034	\$ 12,754,319
Property and equipment	850,579	-	850,579
Patents and licenses	175,900	-	175,900
<b>Total Assets</b>	<b>\$ 4,661,764</b>	<b>\$ 9,119,034</b>	<b>\$ 13,780,798</b>

	US	Canada	Consolidated
For the six months ended June 30,			
General and administration	\$ 2,074,782	\$ 1,758,973	\$ 3,833,755
Research and development	1,095,063	-	1,095,063
Other income	(169,832)	-	(169,832)
<b>Net Loss</b>	<b>\$ 3,000,013</b>	<b>\$ 1,758,973</b>	<b>\$ 4,758,986</b>

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

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#### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

	<b>June 30, 2015</b>	December 31, 2014
<hr/>		
Fair value through profit or loss, measured at fair value:		
Cash	<b>\$ 15,276,119</b>	\$ 11,287,864
Other liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	<b>(514,476)</b>	(451,724)
<hr/>		

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents were determined using level 1 inputs.

#### **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 and Canadian dollar. Most transactions 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 dollar. A 10% change in the Canadian dollar would increase or decrease other comprehensive income by \$967,942.

#### **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 through 2016.

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

#### 15. CAPITAL MANAGEMENT

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income and deficit) and cash. The components of capital on June 30, 2015 were:

Cash and cash equivalents	\$ 15,276,119
Shareholders' equity	\$101,160,099

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. There were no changes in the Company's approach to capital management during the year.

#### 16. EXPENSES

Research and development costs can be analysed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Wages and benefits	\$ 377,135	\$ 288,583	\$ 704,895	\$ 466,686
Subcontract fees	281,569	50,090	466,958	158,180
Stock-based compensation	200,977	250,153	300,979	419,913
Supplies	57,028	24,175	108,481	50,284
	<b>916,709</b>	613,001	<b>\$ 1,581,313</b>	\$ 1,095,063

General and administrative costs can be analysed as follows:

Stock-based compensation	\$ 909,781	\$ 118,405	\$ 1,403,677	\$ 538,419
General expenses	214,325	187,116	533,899	345,012
Professional fees	353,892	146,057	476,608	447,760
Wages and benefits	269,015	366,368	467,980	717,517
Management and consulting fees	168,700	65,084	349,314	165,300
Rent	26,763	37,776	71,505	79,166
Depreciation and amortization	79,587	50,276	154,315	100,683
Shares issued as reduction of license fee	-	1,439,898	-	1,439,898
	<b>\$ 2,022,063</b>	\$ 2,410,980	<b>\$ 3,457,298</b>	\$ 3,833,755

#### 17. SUBSEQUENT EVENTS

Subsequent to June 30, 2015, the 900,000 warrants expiring on July 31, 2015 were exercised for CAD \$315,000.

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