



# POET TECHNOLOGIES INC.

Consolidated Financial Statements Years  
ended December 31, 201**5**, **2014** and 201**3**

## TABLE OF CONTENTS

|  |    |
|--|----|
| Independent Auditors' Report .....                               | 1  |
| Consolidated Statement of Financial Position .....               | 2  |
| Consolidated Statements of Operation and Deficit .....           | 3  |
| Consolidated Statements of Changes in Shareholders' Equity ..... | 4  |
| Consolidated Statements of Cash Flows .....                      | 5  |
| Notes to Consolidated Financial Statements .....                 | 6  |
| 1. Description of Business .....                                 | 6  |
| 2. Summary of Significant Accounting Policies .....              | 6  |
| 3. Recent Accounting Pronouncements .....                        | 9  |
| 4. Marketable Securities .....                                   | 9  |
| 5. Property and Equipment .....                                  | 10 |
| 6. Accounts Payable and Accrued Liabilities .....                | 11 |
| 7. Share Capital .....   | 11 |
| 8. Warrants .....  | 12 |
| 9. Stock Options and Contributed Surplus .....                   | 13 |
| 10. Loss Per Share .....   | 15 |
| 11. Commitments and Contingencies .....                          | 15 |
| 12. Related Party Transactions .....                             | 16 |
| 13. Segmented Information .....                                  | 16 |
| 14. Financial Instruments and Risk Management .....              | 18 |
| 15. Capital Management .....                                     | 19 |
| 16. Expenses .....   | 19 |
| 17. Income Taxes .....   | 20 |
| 18. Reduction of License Fee .....                               | 20 |
| 19. Subsequent Event .....                                       | 20 |



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of POET Technologies Inc., which comprise the consolidated statements of financial position as at December 31, 2015, 2014 and 2013, and the consolidated statements of operations and deficit, comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2015, 2014 and 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of POET Technologies Inc. as at December 31, 2015, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015, 2014 and 2013 in accordance with IFRS.

*Marcum LLP*

Hartford, CT  
March 17, 2016



**POET TECHNOLOGIES INC.**

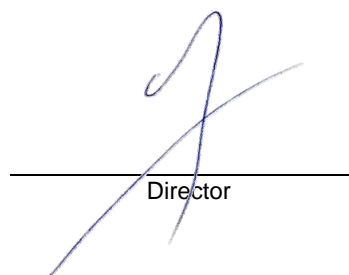
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in US Dollars)**

| <b>December 31,</b>                               | <b>2015</b>          | <b>2014</b>          | <b>2013</b>         |
|---|----------------------|----------------------|---------------------|
| <b>Assets</b>                                     |                      |                      |                     |
| Current   |                      |                      |                     |
| Cash and cash equivalents                         | \$ 14,409,996        | \$ 11,287,864        | \$ 3,260,967        |
| Prepays and other current assets                  | 150,923              | 243,501              | 267,012             |
| Marketable securities                             | -                    | -                    | 397                 |
|   | <b>14,560,919</b>    | <b>11,531,365</b>    | <b>3,528,376</b>    |
| Property and equipment (Note 4)                   | 947,107              | 1,058,860            | 903,792             |
| Patents and licenses (Note 5)                     | 426,813              | 260,721              | 125,676             |
|   | <b>\$ 15,934,839</b> | <b>\$ 12,850,946</b> | <b>\$ 4,557,844</b> |
| <b>Liabilities</b>                                |                      |                      |                     |
| Current   |                      |                      |                     |
| Accounts payable and accrued liabilities (Note 6) | \$ 515,421           | \$ 451,724           | \$ 256,027          |
| <b>Shareholders' Equity</b>                       |                      |                      |                     |
| Share capital (Note 7(b))                         | 81,027,171           | 61,688,953           | 42,911,455          |
| Warrants (Note 8)                                 | 2,013,747            | 6,458,659            | 8,135,590           |
| Contributed surplus (Note 9)                      | 25,618,159           | 23,616,664           | 20,261,067          |
| Accumulated other comprehensive loss              | (2,388,987)          | (584,552)            | (11,593)            |
| Deficit   | (90,850,672)         | (78,780,502)         | (66,994,702)        |
|   | <b>15,419,418</b>    | <b>12,399,222</b>    | <b>4,301,817</b>    |
|   | <b>\$ 15,934,839</b> | <b>\$ 12,850,946</b> | <b>\$ 4,557,844</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)**

| <b>For the Years Ended December 31,</b>    | <b>2015</b>    | <b>2014</b>    | <b>2013</b>    |
|--|----------------|----------------|----------------|
| Costs and expenses                         |                |                |                |
| General and administration (Note 16)       | \$ 8,614,109   | \$ 9,677,705   | \$ 6,284,288   |
| Research and development (Note 16)         | 3,532,492      | 2,277,927      | 1,925,974      |
| Investment income, including interest      | (76,431)       | -              | (18,371)       |
| Loss before the following                  | 12,070,170     | 11,955,632     | 8,191,891      |
| Other income (Note 2)                      | -              | 169,832        | 342,874        |
| Net loss                                   | (12,070,170)   | (11,785,800)   | (7,849,017)    |
| Deficit, beginning of year                 | (78,780,502)   | (66,994,702)   | (59,145,685)   |
| Net loss                                   | (12,070,170)   | (11,785,800)   | (7,849,017)    |
| Deficit, end of year                       | \$(90,850,672) | \$(78,780,502) | \$(66,994,702) |
| Basic and diluted loss per share (Note 10) | \$ (0.07)      | \$ (0.08)      | \$ (0.06)      |

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

| <b>For the Years Ended December 31,</b>                | <b>2015</b>    | <b>2014</b>    | <b>2013</b>    |
|--|----------------|----------------|----------------|
| Net loss   | \$(12,070,170) | \$(11,785,800) | \$ (7,849,017) |
| Other comprehensive loss - net of income taxes         |                |                |                |
| Exchange differences on translating foreign operations | (1,804,435)    | (572,959)      | (255,422)      |
| Comprehensive loss                                     | \$(13,874,605) | \$(12,358,759) | \$ (8,104,439) |

**POET TECHNOLOGIES INC.**

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

**(Expressed in US Dollars)**

**For the Years Ended December 31,**

|   | <b>2015</b>          | <b>2014</b>          | <b>2013</b>         |
|---|----------------------|----------------------|---------------------|
| <b>Share Capital</b>  |                      |                      |                     |
| Beginning balance   | \$ 61,688,953        | \$ 42,911,455        | \$ 40,225,401       |
| Funds from the exercise of warrants and compensation warrants                         | 9,373,245            | 8,404,265            | 37,111              |
| Fair value of warrants and compensation warrants exercised                            | 4,444,912            | 3,545,406            | 23,387              |
| Warrant exercise incentive  | -                    | (31,712)             | -                   |
| Funds from the exercise of stock options  | 2,703,436            | 1,481,716            | 152,502             |
| Fair value assigned to stock options exercised  | 2,816,625            | 1,261,156            | 121,368             |
| Funds from private placements   | -                    | 4,546,000            | 7,189,200           |
| Fair value of warrants and compensation warrants issued                               | -                    | (1,869,231)          | (4,308,292)         |
| Share issue costs   | -                    | -                    | (529,222)           |
| Common shares issued for reduction of license fee                                     | -                    | 1,439,898            | -                   |
| December 31,  | <b>81,027,171</b>    | <b>61,688,953</b>    | <b>42,911,455</b>   |
| <b>Special Voting Share</b>   |                      |                      |                     |
| Beginning balance   | -                    | -                    | 100                 |
| Cancellation of special voting share  | -                    | -                    | (100)               |
| December 31,  | <b>-</b>             | <b>-</b>             | <b>-</b>            |
| <b>Warrants</b>   |                      |                      |                     |
| Beginning balance   | 6,458,659            | 8,135,590            | 3,850,685           |
| Fair value of warrants and compensation warrants issued                               | -                    | 1,869,231            | 4,308,292           |
| Fair value of warrants and compensation warrants exercised                            | (4,444,912)          | (3,545,406)          | (23,387)            |
| Fair value of expired warrants  | -                    | (756)                | -                   |
| December 31,  | <b>2,013,747</b>     | <b>6,458,659</b>     | <b>8,135,590</b>    |
| <b>Contributed Surplus</b>  |                      |                      |                     |
| Beginning balance   | 23,616,664           | 20,261,067           | 16,361,282          |
| Stock-based compensation  | 4,818,120            | 4,615,997            | 4,021,153           |
| Fair value of stock options exercised   | (2,816,625)          | (1,261,156)          | (121,368)           |
| Fair value of expired warrants  | -                    | 756                  | -                   |
| December 31,  | <b>25,618,159</b>    | <b>23,616,664</b>    | <b>20,261,067</b>   |
| <b>Accumulated Other Comprehensive Income</b>   |                      |                      |                     |
| Beginning balance   | (584,552)            | (11,593)             | 243,829             |
| Other comprehensive loss attributable to common shareholders - translation adjustment | (1,804,435)          | (572,959)            | (255,422)           |
| December 31,  | <b>(2,388,987)</b>   | <b>(584,552)</b>     | <b>(11,593)</b>     |
| <b>Deficit</b>  |                      |                      |                     |
| Beginning balance   | (78,780,502)         | (66,994,702)         | (59,145,685)        |
| Net loss  | (12,070,170)         | (11,785,800)         | (7,849,017)         |
| December 31,  | <b>(90,850,672)</b>  | <b>(78,780,502)</b>  | <b>(66,994,702)</b> |
| <b>Total shareholders' equity</b>   | <b>\$ 15,419,418</b> | <b>\$ 12,399,222</b> | <b>\$ 4,301,817</b> |

**POET TECHNOLOGIES INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Expressed in US Dollars)**
**For the Years Ended December 31,**
**2015**
**2014**
**2013**

CASH (USED IN) PROVIDED BY:

**OPERATING ACTIVITIES**

Net loss **\$ (12,070,170)** \$ (11,785,800) \$ (7,849,017)

Adjustments for:

Depreciation of property and equipment (Note 4) **276,139** 210,717 60,738

Amortization of patents and licenses (Note 5) **43,722** 26,238 12,797

Product warranty reserve - - (25,999)

Stock-based compensation (Note 9) **4,818,120** 4,615,997 4,021,153

Shares issued for reduction of license fee (Note 7(b)) - 1,439,898 -

**(6,932,189)** (5,492,950) (3,780,328)

Net change in non-cash working capital accounts:

Accounts receivable - - 96,749

Prepaid and other current assets **92,578** 23,908 (163,726)

Accounts payable and accrued liabilities **63,697** 195,697 24,124

Cash flows from operating activities **(6,775,914)** (5,273,345) (3,823,181)

**INVESTING ACTIVITIES**

Purchase of property and equipment (Note 4) **(164,386)** (365,785) (882,860)

Purchase of patents and licenses (Note 5) **(209,814)** (161,283) (62,923)

Cash flow from investing activities **(374,200)** (527,068) (945,783)

**FINANCING ACTIVITIES**

Issue of common shares for cash, net of issue costs **12,076,681** 14,400,269 6,849,591

Cash flow from financing activities **12,076,681** 14,400,269 6,849,591

**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH**
**EQUIVALENTS** **(1,804,435)** (572,959) (255,422)

**NET CHANGE IN CASH AND CASH EQUIVALENTS** **3,122,132** 8,026,897 1,825,205

**CASH AND CASH EQUIVALENTS, beginning of year** **11,287,864** 3,260,967 1,435,762

**CASH AND CASH EQUIVALENTS, end of year** **\$ 14,409,996** \$ 11,287,864 \$ 3,260,967

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

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**1. DESCRIPTION OF BUSINESS**

POET Technologies Inc. is incorporated in the Province of Ontario. POET Technologies Inc. (and its subsidiaries ODIS Inc. ("ODIS") and Opel Solar Inc., both operating in the US, 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. 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 March XXX, 2016.

**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. 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 or life of the lease, whichever is less |
| Office equipment        | Straight Line, 5 years   |

**Patents and licenses**

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

**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, 2014 or 2013.

**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 - \$169,832, 2013 - \$342,874).

**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 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 year 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 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 years 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<br>progress | Leashold<br>improvements | Machinery and<br>equipment | Office<br>equipment | Total        |
|---------------------------------|-----------------------------|--------------------------|----------------------------|---------------------|--------------|
| <b>Cost</b>                     |                             |                          |                            |                     |              |
| Balance, January 1, 2013        | \$ -                        | \$ -                     | \$ 27,500                  | \$ 2,335            | \$ 29,835    |
| Additions (1)                   |                             |                          | 931,449                    | 6,411               | 937,860      |
| Balance, December 31, 2013      | -                           | -                        | 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                    | 126,181                    | 25,285              | 164,386      |
| Reclassification                | (10,176)                    | 10,176                   | -                          | -                   | -            |
| Balance, December 31, 2015      | -                           | 16,072                   | 1,400,103                  | 81,691              | 1,497,866    |
| <b>Accumulated Depreciation</b> |                             |                          |                            |                     |              |
| Balance, January 1, 2013        |                             | -                        | 2,750                      | 415                 | 3,165        |
| Depreciation for the year       |                             | -                        | 59,250                     | 1,488               | 60,738       |
| Balance, December 31, 2013      | -                           | -                        | 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 year       | -                           | 3,104                    | 258,190                    | 14,845              | 276,139      |
| Balance, December 31, 2015      | -                           | 3,104                    | 523,198                    | 24,457              | 550,759      |
| <b>Carrying Amounts</b>         |                             |                          |                            |                     |              |
| At December 31, 2013            | \$ -                        | \$ -                     | \$ 896,949                 | \$ 6,843            | \$ 903,792   |
| At December 31, 2014            | \$ 3,152                    | \$ -                     | \$ 1,008,914               | \$ 46,794           | \$ 1,058,860 |
| At December 31, 2015            | \$ -                        | \$ 12,968                | \$ 876,905                 | \$ 57,234           | \$ 947,107   |

(1) Included in 2013 additions is \$55,000 in deposits that were paid in 2012 and included in prepaids and other current assets.

### 5. PATENTS AND LICENSES

|                                 |            |
|---------------------------------|------------|
| <b>Cost</b>                     |            |
| Balance, January 1, 2013        | \$ 103,229 |
| Additions                       | 62,923     |
| Balance, December 31, 2013      | 166,152    |
| Additions                       | 161,283    |
| Balance, December 31, 2014      | 327,435    |
| Additions                       | 209,814    |
| Balance, December 31, 2015      | 537,249    |
| <b>Accumulated Depreciation</b> |            |
| Balance, January 1, 2013        | 27,679     |
| Amortization                    | 12,797     |
| Balance, December 31, 2013      | 40,476     |
| Amortization                    | 26,238     |
| Balance, December 31, 2014      | 66,714     |
| Amortization                    | 43,722     |
| Balance, December 31, 2015      | 110,436    |
| <b>Carrying Amounts</b>         |            |
| At December 31, 2013            | \$ 125,676 |
| At December 31, 2014            | \$ 260,721 |
| At December 31, 2015            | \$ 426,813 |

# POET TECHNOLOGIES INC.

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

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| December 31,                | 2015              | 2014              | 2013              |
|-----------------------------|-------------------|-------------------|-------------------|
| Trade payable               | \$ 337,564        | \$ 79,406         | \$ 94,824         |
| Payroll related liabilities | 104,788           | 113,338           | 89,243            |
| Accrued liabilities         | 73,069            | 258,980           | 71,960            |
|                             | <b>\$ 515,421</b> | <b>\$ 451,724</b> | <b>\$ 256,027</b> |

### 7. SHARE CAPITAL

#### (a) AUTHORIZED

Unlimited number of common shares

One special voting share

#### (b) COMMON SHARES ISSUED

|   | Number of<br>Shares | Amount        |
|---|---------------------|---------------|
| Balance, January 1, 2013  | 117,528,615         | \$ 40,225,401 |
| Shares issued on the exercise of stock options                      | 607,500             | 152,502       |
| Fair value of stock options exercised                               | -                   | 121,368       |
| Shares issued on private placement                                  | 14,400,000          | 7,189,200     |
| Fair value of warrants and compensation warrants issued             | -                   | (4,308,292)   |
| Share issue costs   | -                   | (529,222)     |
| Shares issued on the exercise of warrants and compensation warrants | 140,000             | 37,111        |
| Fair value of warrants exercised                                    | -                   | 23,387        |
| Balance, December 31, 2013  | 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                      | 8,106,300           | 2,703,436     |
| Fair value of stock options exercised                               | -                   | 2,816,625     |
| Shares issued on the exercise of warrants and compensation warrants | 22,413,431          | 9,373,245     |
| Fair value of warrants exercised                                    | -                   | 4,444,912     |
| Balance, December 31, 2015  | 197,097,815         | \$ 81,027,171 |

On February 14, 2013, the Company completed a brokered private placement financing for gross proceeds aggregating \$7,189,200 (\$7,200,000 CAD). The Company issued 14,400,000 units, at a price of \$0.499 (\$0.50 CAD) per unit. 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 \$0.748 (\$0.75 CAD) per share for a period of two years. The agents received cash commissions in the aggregate of \$503,244 (\$504,000 CAD) and 1,440,000 compensation warrants in connection with the private placement. Each compensation warrant entitles the holder to purchase one common share of the Company at \$0.499 (\$0.50 CAD) per share for a period of three years. Additional issue costs amounted to \$25,978 (\$26,017 CAD).

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

#### 7. SHARE CAPITAL (Continued)

The fair value of the warrants and compensation warrants was estimated using the Black-scholes option pricing model with the following assumptions: dividend yield of 0%, interest rate of 1.16% and 1.24%, volatility of 121% and 111.35% and estimated life of 2 and 3 years. The estimated fair value assigned to the warrants and compensation warrants was \$3,825,178 (\$3,844,400 CAD) and \$483,114 (\$483,840 CAD) respectively.

On February 13, 2014, the Company completed a \$4,546,000 (\$5,000,000 CAD) private placement financing. The financing consisted of 7,692,307 units at a price of \$0.59 (\$0.65 CAD) 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 (\$1.00 CAD) per share for a year 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 (\$2,076,923 CAD).

During 2014, the Company paid \$31,712 (\$35,000 CAD) as incentives for the exercise of warrants.

##### (c) SPECIAL VOTING SHARE

On June 5, 2007, one (1) special voting share was issued in conjunction with a Support and Trust Agreement entered into amongst POET Technologies Inc, OPEL Solar Inc ("OSI"). and Equity Transfer & Trust Company. The special voting share was returned to treasury and cancelled on June 21, 2013.

#### 8. WARRANTS

The following table reflects the continuity of warrants:

|  | Average Exercise Price | Number of Warrants | Historical Fair value |
|--|------------------------|--------------------|-----------------------|
| Balance, January 1, 2013                     | \$ 0.33                | 26,778,569         | \$ 3,850,685          |
| Warrants issued                              | 0.75                   | 14,400,000         | 3,825,178             |
| Compensation warrants issued                 | 0.50                   | 1,440,000          | 483,114               |
| Exercised                                    | 0.17                   | (140,000)          | (23,387)              |
| Balance, December 31, 2013                   | 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 | 0.42                   | (22,413,431)       | (4,444,912)           |
| Balance, December 31, 2015                   | \$ 0.79                | 8,369,233          | \$ 2,013,747          |

# POET TECHNOLOGIES INC.

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

### 8. WARRANTS (Continued)

As at December 31, 2015 the following warrants were outstanding:

|                       | Number<br>of Warrants | Historical<br>Fair Value (\$) | Historical<br>Exercise<br>Price (\$) | Expiry Date        |
|-----------------------|-----------------------|-------------------------------|--------------------------------------|--------------------|
| Warrants              | 6,734,577             | 1,636,402                     | 0.91                                 | February 12, 2016  |
| Compensation warrants | 515,355               | 172,899                       | 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 |
|                       | 8,369,233             | 2,013,747                     | 0.79                                 |                    |

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. 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 2015 Plan which grants discretion to the Board of Directors.

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

|                            | Number of<br>Options | Weighted average<br>Exercise<br>Price |
|----------------------------|----------------------|---------------------------------------|
| Balance, January 1, 2013   | 17,602,750           | \$ 0.35                               |
| Expired/cancelled          | (572,500)            | 0.53                                  |
| Exercised                  | (607,500)            | 0.25                                  |
| Granted                    | 7,310,000            | 0.46                                  |
| Balance, December 31, 2013 | 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          | (1,068,000)          | 1.13                                  |
| Exercised                  | (8,106,300)          | 0.43                                  |
| Granted <sup>(1)</sup>     | 11,655,000           | 1.19                                  |
| Balance, December 31, 2015 | 26,718,500           | \$ 0.89                               |

(1) Of the 11,655,000 options granted during the year, 187,000 options granted at \$0.65 per share have been granted conditional on TSX Venture Exchange and shareholder approval of an increase to the Company's stock option plan at the Company's 2016 annual general meeting.

# POET TECHNOLOGIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

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

During the year, the Company granted 11,655,000 (2014 - 6,155,000, 2013 - 7,310,000) stock options to officers, employees and consultants of the Company to purchase common shares at an average price of \$1.19 (2014 - \$1.26, 2013 - \$0.46) per share.

During the year, the Company recorded stock-based compensation of \$4,818,120 (2014 - \$4,615,997, 2013 - \$4,021,153) 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:

|  | <u>2015</u>    | <u>2014</u> | <u>2013</u> |
|--|----------------|-------------|-------------|
| Weighted average exercise price          | <b>\$1.19</b>  | \$1.26      | \$0.46      |
| Weighted average risk-free interest rate | <b>0.98%</b>   | 1.58%       | 1.75%       |
| Weighted average dividend yield          | <b>0%</b>      | 0%          | 0%          |
| Weighted average volatility              | <b>102.7%</b>  | 102%        | 113%        |
| Weighted average estimated life          | <b>5 years</b> | 5 years     | 5 years     |
| Weighted average share price             | <b>\$1.19</b>  | \$1.26      | \$0.46      |

Share price on the various grant dates were:

|                  | <u>2015</u>    | <u>2014</u> | <u>2013</u> |
|------------------|----------------|-------------|-------------|
| First grant      | <b>\$ 1.31</b> | \$ 1.31     | \$ 0.53     |
| Second grant     | <b>1.59</b>    | 1.10        | 0.50        |
| Third grant      | <b>1.33</b>    | 1.64        | 0.44        |
| Fourth grant     | <b>1.14</b>    | 1.13        | 0.46        |
| Fifth grant      | <b>1.13</b>    | -           | 0.47        |
| Sixth grant      | <b>1.25</b>    | -           | 0.42        |
| Seventh grant    | <b>1.19</b>    | -           | 0.43        |
| Eight grant      | <b>0.83</b>    | -           | -           |
| Ninth grant      | <b>0.72</b>    | -           | -           |
| Tenth grant      | <b>0.63</b>    | -           | -           |
| Eleventh grant   | <b>0.74</b>    | -           | -           |
| Twelfth grant    | <b>0.62</b>    | -           | -           |
| Thirteenth grant | <b>0.65</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.

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at December 31, 2015 are as follows:

| <u>Options Outstanding</u> |                    |                                 |   | <u>Options Exercisable</u> |                                 |  |
|----------------------------|--------------------|---------------------------------|---|----------------------------|---------------------------------|--|
| Exercise Range             | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Number Exercisable         | Weighted Average Exercise Price |  |
| \$0.11 - \$0.25            | 2,860,000          | \$ 0.23                         | 2.03  | 2,860,000                  | \$ 0.23                         |  |
| \$0.28 - \$0.31            | 532,500            | \$ 0.28                         | 1.92  | 532,500                    | \$ 0.28                         |  |
| \$0.34 - \$0.37            | 65,000             | \$ 0.33                         | 4.64  | 65,000                     | \$ 0.33                         |  |
| \$0.38 - \$0.86            | 7,219,000          | \$ 0.46                         | 2.44  | 7,119,000                  | \$ 0.46                         |  |
| \$0.87 - \$1.64            | 16,042,000         | \$ 1.19                         | 4.19  | 4,332,500                  | \$ 1.21                         |  |
|                            | 26,718,500         | \$ 0.89                         | 3.44  | 14,909,000                 | \$ 0.63                         |  |



# POET TECHNOLOGIES INC.

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

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

#### Contributed Surplus

The following table reflects the continuity of contributed surplus:

|                                       | Amount        |
|---------------------------------------|---------------|
| Balance, January 1, 2013              | \$ 16,361,282 |
| Stock-based compensation              | 4,021,153     |
| Fair value of stock options exercised | (121,368)     |
| Balance, December 31, 2013            | 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              | 4,818,120     |
| Fair value of stock options exercised | (2,816,625)   |
| Balance, December 31, 2015            | \$ 25,618,159 |

### 10. LOSS PER SHARE

| December 31,   | 2015            | 2014            | 2013           |
|--|-----------------|-----------------|----------------|
| Numerator  |                 |                 |                |
| Net loss   | \$ (12,070,170) | \$ (11,785,800) | \$ (7,849,017) |
| Denominator  |                 |                 |                |
| Weighted average number of common shares outstanding           | 185,091,882     | 156,488,296     | 130,743,149    |
| Weighted average number of common shares outstanding - diluted | 185,091,882     | 156,488,296     | 130,743,149    |
| Basic and diluted loss per share                               | \$ (0.07)       | \$ (0.08)       | \$ (0.06)      |

The effect of common share purchase options, warrants, compensation warrants and shares to be issued on the net loss in 2015, 2014 and 2013 is not reflected as they are anti-dilutive.

### 11. COMMITMENTS AND CONTINGENCIES

The Company has two operating leases for development operations expiring March 31, 2016 and January 31, 2017 and one operating lease for its head office space expiring March 31, 2016.

Rent expense under these leases was \$204,987 for the year ended December 31, 2015 (2014 - \$153,398, 2013 - \$118,068).

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

|                              |            |
|------------------------------|------------|
| December 31, 2016            | \$ 133,612 |
| January 1, 2017 through 2019 | 28,380     |
|                              | \$ 161,992 |

## POET TECHNOLOGIES INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

#### 12. RELATED PARTY TRANSACTIONS

Compensation to key management personnel were as follows:

| December 31.             | 2015         | 2014         | 2013         |
|--------------------------|--------------|--------------|--------------|
| Salaries                 | \$ 1,979,601 | \$ 1,363,417 | \$ 867,231   |
| Share-based payments (1) | 3,283,361    | 1,167,245    | 1,481,517    |
| Total                    | \$ 5,262,962 | \$ 2,530,662 | \$ 2,348,748 |

(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.

During the year ended December 31, 2014, the Company settled \$100,000 that was advanced to the former CEO of the Company. The amount was non interest bearing and short-term in nature. The Company settled the amount due from the former CEO in return for a reduction in his compensation and certain other entitlements.

In 2014, the former CEO of the Company received a severance package of \$185,000 to be paid over one year. The full amount of the severance package was accounted for in 2014.

The Company paid or accrued \$104,790 in fees and disbursements for the year ended December 31, 2015 (2014 - \$174,549, 2013 - \$91,316) 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")

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.

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

|                        | 2015         |               |               |
|------------------------|--------------|---------------|---------------|
| As of December 31,     | US           | Canada        | Consolidated  |
| Current assets         | \$ 3,055,947 | \$ 11,504,972 | \$ 14,560,919 |
| Property and equipment | 924,443      | 22,664        | 947,107       |
| Patents and licenses   | 426,813      | -             | 426,813       |
| Total Assets           | \$ 4,407,203 | \$ 11,527,636 | \$ 15,934,839 |

**POET TECHNOLOGIES INC.**

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

**13. SEGMENT INFORMATION (Continued)**

| 2015                            |                      |                     |                      |  |
|---------------------------------|----------------------|---------------------|----------------------|--|
|                                 | US                   | Canada              | Consolidated         |  |
| For the year ended December 31, |                      |                     |                      |  |
| General and administration      | \$ 6,622,514         | \$ 1,991,595        | \$ 8,614,109         |  |
| Research and development        | 3,532,492            | -                   | 3,532,492            |  |
| Investment income               | -                    | (76,431)            | (76,431)             |  |
| <b>Net Loss</b>                 | <b>\$ 10,155,006</b> | <b>\$ 1,915,164</b> | <b>\$ 12,070,170</b> |  |
| 2014                            |                      |                     |                      |  |
| As of December 31,              | US                   | Canada              | Consolidated         |  |
| Current assets                  | \$ 3,106,274         | \$ 8,425,091        | \$ 11,531,365        |  |
| Property and equipment          | 1,054,636            | 4,224               | 1,058,860            |  |
| Patents and licenses            | 260,721              | -                   | 260,721              |  |
| <b>Total Assets</b>             | <b>\$ 4,421,631</b>  | <b>\$ 8,429,315</b> | <b>\$ 12,850,946</b> |  |
| 2013                            |                      |                     |                      |  |
| As of December 31,              | US                   | Canada              | Consolidated         |  |
| For the year ended December 31, |                      |                     |                      |  |
| General and administration      | \$ 5,827,262         | \$ 3,850,443        | \$ 9,677,705         |  |
| Research and development        | 2,277,927            | -                   | 2,277,927            |  |
| Other income                    | (169,832)            | -                   | (169,832)            |  |
| <b>Net Loss</b>                 | <b>\$ 7,935,357</b>  | <b>\$ 3,850,443</b> | <b>\$ 11,785,800</b> |  |
| 2012                            |                      |                     |                      |  |
| As of December 31,              | US                   | Canada              | Consolidated         |  |
| Current assets                  | \$ 640,538           | \$ 2,887,838        | \$ 3,528,376         |  |
| Property and equipment          | 903,792              | -                   | 903,792              |  |
| Patents and licenses            | 125,676              | -                   | 125,676              |  |
|                                 | \$ 1,670,006         | \$ 2,887,838        | \$ 4,557,844         |  |
| 2011                            |                      |                     |                      |  |
| As of December 31,              | US                   | Canada              | Consolidated         |  |
| For the year ended December 31, |                      |                     |                      |  |
| General and administration      | \$ 2,922,008         | \$ 3,362,280        | \$ 6,284,288         |  |
| Research and development        | 1,925,974            | -                   | 1,925,974            |  |
| Investment income               | (18,371)             | -                   | (18,371)             |  |
| Other income                    | (342,874)            | -                   | (342,874)            |  |
|                                 | \$ 4,486,737         | \$ 3,362,280        | \$ 7,849,017         |  |

Note: Certain 2013 and 2014 amounts have been reclassified to conform with the current year's presentation.

## 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:

| December 31,   | 2015          | 2014          | 2013         |
|--|---------------|---------------|--------------|
| <hr/>  |               |               |              |
| Fair value through profit or loss, measured at fair value: |               |               |              |
| Cash   | \$ 14,409,996 | \$ 11,287,864 | \$ 3,260,967 |
| Other liabilities, measured at amortized cost:             |               |               |              |
| Accounts payable and accrued liabilities                   | \$ (515,421)  | \$ (451,724)  | \$ (256,027) |
| <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 loss by \$1,135,639.

#### 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 December 31, 2015 were:

|                           |               |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 14,409,996 |
| Shareholders' equity      | \$108,659,077 |

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:

| For the Year Ended December 31, | 2015             | 2014                | 2013                |
|---------------------------------|------------------|---------------------|---------------------|
| Wages and benefits              | \$ 1,241,054     | \$ 899,758          | \$ 692,105          |
| Subcontract fees                | 1,560,819        | 582,943             | 558,073             |
| Stock-based compensation        | 552,416          | 641,176             | 565,246             |
| Supplies                        | 178,203          | 154,050             | 110,550             |
|                                 | <b>3,532,492</b> | <b>\$ 2,277,927</b> | <b>\$ 1,925,974</b> |

General and administrative costs can be analysed as follows:

|   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| Stock-based compensation                            | \$ 4,265,704        | \$ 3,974,821        | \$ 3,455,907        |
| General expenses                                    | 1,012,340           | 662,672             | 558,560             |
| Professional fees                                   | 812,115             | 907,794             | 632,159             |
| Wages and benefits                                  | 1,306,051           | 1,700,600           | 831,950             |
| Management and consulting fees                      | 665,771             | 595,667             | 581,203             |
| Rent  | 232,265             | 159,298             | 150,974             |
| Depreciation and amortization                       | 319,863             | 236,955             | 73,535              |
| Shares issued as reduction of license fee (Note 18) | -                   | 1,439,898           | -                   |
|   | <b>\$ 8,614,109</b> | <b>\$ 9,677,705</b> | <b>\$ 6,284,288</b> |

# POET TECHNOLOGIES INC.

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

### 17. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 26.5% for 2015 (2014 - 26.5%, 2013 - 26.5%) to the amounts recognized in operations.

| For the Year Ended December 31,         | 2015          | 2014          | 2013         |
|---|---------------|---------------|--------------|
| Net loss                                | \$ 12,070,170 | \$ 11,785,800 | \$ 7,849,017 |
| Expected income tax recovery            | 3,198,595     | 3,123,200     | 2,566,600    |
| Changes from:                           |               |               |              |
| Amounts not deductible for tax purposes | (1,276,802)   | (1,604,700)   | (1,052,000)  |
| Other non-deductible items              | (2,700)       | (6,100)       | (18,400)     |
| Deductible share issuance costs         | 56,000        | 100,000       | 99,000       |
| Effect of prior years' loss adjustment  | -             | 171,600       | -            |
| Unrecognized tax losses                 | (2,854,093)   | (2,347,300)   | (1,422,513)  |
| Foreign tax differential                | 879,000       | 563,300       | (172,687)    |
| Income tax recovery recognized          | \$ -          | \$ -          | \$ -         |

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

|                                     | 2015                       | 2014                       | 2013                       |
|-------------------------------------|----------------------------|----------------------------|----------------------------|
| Resource assets                     | \$ 1,024,271               | \$ 1,024,271               | \$ 1,024,271               |
| Gross unamortized share issue costs | 328,119                    | 544,278                    | 884,000                    |
| Canadian non-capital losses         | 9,451,357                  | 7,544,985                  | 3,931,000                  |
| Canadian capital losses             | -                          | -                          | 2,950,943                  |
| US non-capital losses               | 58,742,322                 | 52,682,069                 | 48,797,000                 |
| Unrecognized deferred tax assets    | 69,546,069<br>(69,546,069) | 61,795,603<br>(61,795,603) | 57,587,214<br>(57,587,214) |
| Future income tax assets recognized | \$ -                       | \$ -                       | \$ -                       |

Note: 2013 future tax assets have been adjusted to reflect the gross value of the assets.

### 18. REDUCTION OF LICENSE FEE

In 2014 the University of Connecticut agreed to convert certain royalty rights into a significant investment in the Company. The parties agreed to restructure the payment provisions of the License Agreement by reducing royalty payments to three percent (3%) of amounts received from unaffiliated third parties in respect of the exploitation of the Intellectual Property defined in the License Agreement, in consideration for 2,000,000 common shares of the Company. The common shares were valued at \$1,439,898 (CAD \$1,580,000). The market value of shares was determined using the quoted market price of the Company's stock on the TSX.V on the date of the agreement between the Company and the University of Connecticut.

### 19. SUBSEQUENT EVENT

Subsequent to the year end, the company received \$1,965,327 from the exercise of 2,686,947 warrants and 628,000 stock options.

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