Unaudited Interim Consolidated Financial Statements

Enablence Technologies Inc.

For the three months ended September 30, 2021 and 2020
(in thousands of United States dollars and shares)

Notice to Reader

The accompanying unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence" or the "Company") for the three months ended September 30, 2021 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company (the "Board"). These statements have not been reviewed by the Company's external auditors.

Date: November 24, 2021

"Ashok Balakrishnan"
Ashok Balakrishnan
CEO

"Craig Mode"
Craig Mode
CFO

Enablence Technologies Inc.

Consolidated statements of financial position

(in thousands of United States dollars)

	Note	**As at September 30, 2021**	As at June 30, 2021
		$	$
Assets			
Current assets			
Cash and cash equivalents	4	**327**	194
Accounts and other receivables	5	**506**	427
Inventories	6	**275**	301
Prepaid expenses and deposits		**216**	171
		1,324	1,093
Property, plant and equipment	7	**290**	298
		1,614	1,391
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**5,719**	5,666
Notes payable	11, 19, 21	**21,951**	26,355
Convertible debentures	12, 19, 21	**8,866**	8,887
Contract liabilities	9	**191**	222
		36,727	41,130
Government loan	10	**-**	-
Notes payable	11, 21	**3,571**	-
		40,298	41,130
Shareholders' deficiency			
Share capital	13	**106,105**	106,105
Contributed surplus	13	**12,559**	12,558
Shares to be issued	13, 21	**2,655**	2,655
Accumulated other comprehensive income		**(313)**	(1,360)
Deficit		**(159,690)**	(159,697)
		(38,684)	(39,739)
		1,614	1,391

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

Approved by the Board:

"Louis De Jong" — Director

"Derek Burney" — Director

Enablence Technologies Inc.

Consolidated statements of comprehensive loss
for the three months ended September 30

(in thousands of United States dollars and shares, except per share data)

		Three Months Ended September 30	
		2021	2020
		$	$
	Note		
Revenues	9, 18	**575**	541
Cost of revenues	14	**655**	749
Loss on inventory impairment	6	**31**	-
Gross margin		**(111)**	(208)
Operating expenses			
Research and development	14	**315**	389
Sales and marketing	14	**57**	65
General and administration	14	**802**	598
Stock-based compensation	13	**0**	1
		1,174	1,052
Loss from operations		**(1,285)**	(1,260)
Other income (expense)			
Finance and other income	11	**2,495**	17
Finance Expense	11	**-**	(30)
Interest Expense	11, 12	**(877)**	(761)
Gain on convertible debenture extension		**-**	-
Foreign exchange gain (loss)		**(324)**	169
Net Income / (Loss)		**9**	(1,865)
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)		**1,047**	(637)
Comprehensive income / (loss)		**1,056**	(2,502)
Net income / (loss) per share (basic)		**$0.00**	($0.00)
Net income / (loss) per share (diluted)	15	**$0.00**	($0.00)
Weighted average number of outstanding shares (basic)	13	**641,927**	641,927
Weighted average number of outstanding shares (diluted)	15	744,842	745,994

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

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' deficiency
for the three months ended September 30
(in thousands of United States dollars and shares)

	Note	Number of shares	Share capital (Note 13)	Contributed surplus	Shares to be issued	Accumulated other comprehensive income / (loss)	Deficit	Deficiency
			$	$	$	$	$	$
Balance at July 1, 2020		641,927	106,105	12,556	2,375	1,761	(154,656)	(31,859)
Stock-based compensation	13	-	-	1	-	-	-	1
Commissions and advisory fees	13, 19, 21	-	-		232			232
Net loss		-	-	-	-	-	(1,865)	(1,865)
Foreign currency translation gain		-	-	-	-	(637)	-	(637)
Balance at September 30, 2020		**641,927**	**106,105**	**12,557**	**2,608**	**1,124**	**(156,521)**	**(34,128)**
Balance at July 1, 2021		641,927	106,105	12,558	2,655	(1,360)	(159,697)	(39,739)
Stock-based compensation	13	-	-	0	-	-	-	0
Commissions and advisory fees	13, 19, 21	-	-	-	-	-	-	-
Net loss		-	-	-	-	-	9	9
Foreign currency translation gain		-	-	-	-	1,047	-	1,047
Balance at June 30, 2021		**641,927**	**106,105**	**12,559**	**2,655**	**(313)**	**(159,690)**	**(38,684)**

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

Enablence Technologies Inc.

Consolidated statements of cash flows
for the three months ended September 30
(in thousands of United States dollars)

		Three months ended	
		30-Sep	30-Sep
		2021	2020
		$	$
Cash provided by (used in):	**Note**		
Operating activities			
Net loss		**9**	(1,865)
Adjusted for the following non-cash items:			
Depreciation	7	**34**	38
Stock-based compensation	13	**0**	1
Commissions and advisory fees	13, 21	**-**	232
Accrued interest on bridge and short term loans	11	**566**	466
Accretion (net of financing costs) and interest accrual on convertible debenture	12	**222**	292
Unrealized foreign exchange loss (gain)	3	**324**	
Gain on restatement of secured loan	12	**(2,193)**	-
		(1,037)	(835)
Changes in non-cash working capital	20	**(76)**	461
Cash used in operating activities		**(1,113)**	(374)
Investing activities			
Purchase of property, plant and equipment	7	**(27)**	(49)
Proceeds on disposal of property, plant and equipment		**-**	-
Cash provided by (used in) investing activities		**(27)**	(49)
Financing activities			
Advances from short-term notes payable	11, 21	**1,118**	531
Repayments on short-term notes payable	11	**-**	-
Advances from long-term notes payable	11, 21	**-**	-
Net proceeds from issuance of shares		**-**	-
Cash provided by financing activities		**1,118**	531
Effect of foreign currency translation on cash and cash equivalents		**153**	(218)
Increase in cash and cash equivalents		**132**	(110)
Cash and cash equivalents, beginning of period		**194**	135
Cash and cash equivalents, end of period		**327**	26
Supplementary information:			
Interest paid - included in operating activities		**-**	-

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

1. **Description of Business**

Enablence Technologies Inc. is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange ("TSXV" – ENA). The Company designs, manufactures and sells optical components, primarily in the form of planar lightwave circuits ("PLC") on silicon-based chips. Enablence products serve a global customer base, primarily focused today on data centre and telecommunications infrastructure (namely 5G) end markets. Enablence also works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets. In select strategic circumstances, the Company also uses its proprietary, non-captive fabrication plant in Fremont, California to manufacture chips designed by third party customers.

2. Basis of preparation

(i) Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on a going concern basis. This assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

At September 30, 2021, the Company had cash of $327, negative working capital of $35,403 and had used cash of $1,113 in its operating activities for the three months ended September 30, 2021. The Company achieved a comprehensive income of $1,056 for the three months ended September 30, 2021 and as of that date had an accumulated deficit of $159,690. The majority of the income for the three months ended September 30, 2021 was driven by one-time non-cash gains relating to the restatement of the Company's secured debt following a substantial debt modification in the period (Note 11(c)). The Company obtained debt financing during the three months ended September 30, 2021 and subsequent to the quarter end (Note 11(a), 21).

As of September 30, 2021, the Company has outstanding debt from Vortex ENA LP ("Vortex LP", Note 11 (c)) of $3,571. The loan was amended in the current quarter and all prior defaults were temporarily waived by Vortex LP, provided that the Company can complete its recapitalization transaction (the "Recapitalization") prior to December 31, 2021. If the Company fails to complete the Recapitalization by that time, then the temporary waiver of defaults will expire, and all amounts will become due.

On December 31, 2020, the Company's convertible debentures became due in full, along with accrued and unpaid interest. During the three months ended September 30, 2021, the convertible debenture holders entered into debt settlement agreements with the Company to exchange the full amount of the debts owed for common shares in the Company (Note 12). Subsequent to the end of the quarter, the Company met the conditions required to proceed with closing of the Recapitalization (Note 21) which includes these debt settlements.

The spread of the COVID-19 virus has caused an economic downturn on a global scale, as well as significant volatility in the financial markets. In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Our operations have been negatively impacted by the pandemic and are likely to continue to be impacted. The Company has experienced some decreased volumes from customers, a reduced manufacturing capacity, slower collection times from certain customers and reduced capacity from contract manufacturers. The extent and duration of this impact is uncertain and will depend on factors including the extent to which our customers' businesses are impacted by the pandemic.

The extent of the pandemic's effect on our operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closure or disruptions and quarantine/isolation measures that are currently, or may be, put in place by countries to fight the virus. While the ultimate extent of the impact is unknown, this outbreak has caused, and may further cause, reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, which have, and may further, negatively impacted the Company's business and financial condition. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow and the ability to execute its business plan, including funding operating losses, securing future sources of financing and completing the Recapitalization. If the going concern assumption was not appropriate for these consolidated financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments could be material.

(ii) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

(iii) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis.

(iv) Classification of expenses

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 14 for details of expenses by nature.

(v) Approval of consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on November 23, 2021.

(vi) Presentation currency

The presentation currency of the Company's consolidated financial statements is the United States dollar ("US$").

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, Enablence Technologies Inc., is the Canadian dollar ("C$"). However, most of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in US$. Presenting these consolidated financial statements in US$ allows investors to compare the Company's results more easily with most of its direct competitors. Refer to Note 3 for further details on foreign currency treatment.

(vii) Use of estimates and judgements

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates

Expected Credit Loss ("ECL")

The Company calculates ECLs for trade receivables based on the historical default rates over the expected life of the trade receivable and adjusts for forward-looking estimates, which is determined through the exercise of judgment. The Company's ECL model relies on forward looking information and economic inputs, such as default rates, industry growth rate, customers etc. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The allowance the Company records, if any, is the sum of these probability weighted outcomes. In select circumstances, if the Company believes a specific customer has a potential outcome that is outside of the probability weighted outcomes, it may take a specific provision for that customer and exclude it from the overall provision matrix.

Useful lives of depreciable assets

The useful lives of depreciable assets have been determined based on management's estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence and wear and damage of assets.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Management estimates the net realizable value of inventories, considering the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market driven changes that may reduce future selling prices. Management assesses inventory periodically and uses a provision to provide for estimated obsolescence and cost-price erosion.

Stock-based compensation

The estimation of stock-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share price, the forfeiture rate, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Judgments

Recognition of deferred income tax assets

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment.

Accounting for Loan from related parties

Management assesses the likelihood that the terms received on loans from related parties could be replicated in open market, arms-length transactions. If it believes the terms, including the interest rate, offered by the related party are below market, it adjusts the stated fair market value of the loan by discounting the expected cash flows of the loan at what it believes represents a fair market rate. Any difference between the face value of the amount owed and the fair market value are booked into Other Income.

Treatment of Government Loans

Since the start of the COVID-19 pandemic, the Company has received two loans from the U.S. Small Business Administration ("SBA") under the Paycheck Protection Program ("PPP"). The loans are forgivable if the Company meets certain criteria established by the SBA. Once the criteria have been met, the Company records the balance of the government loans into Other Income as it expects the debts to be forgiven by the SBA. To evaluate the likelihood of loan forgiveness, the Company evaluates multiple criteria, including (i) the completion of the PPP forgiveness checklist contained in the loan forgiveness application, and (ii) the ability of the Company to qualify for loan forgiveness from the SBA in the past based on similar circumstances. Once the Company is confident that it has satisfied the criteria, it records the loan amount as Other Income.

Going concern risk assessment

The assessment of the Company's ability to continue as a going concern and raising additional debt or equity financing or attaining sufficient revenues to achieve and sustain profitability for the ensuing year, and to fund planned research and development activities, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Impairment

Impairment of assets; The Company uses judgement to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of assets that may not be recoverable.

Functional currency

An area of judgment that has a significant effect on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries' functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

3. Significant Accounting Policies

<u>Basis of consolidation</u>

The consolidated financial statements include the accounts of Enablence Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at September 30, 2021 and 2020.

Name of entity	Place of incorporation	Percentage of ownership	Functional currency
Enablence Technologies Inc.	Canada	Parent	CAD
Enablence USA Inc.	Delaware, USA	100	USD
Enablence USA Components Inc.	Delaware, USA	100	USD
Enablence Canada Inc.	Canada	100	CAD
Enablence (HK) Limited	Hong Kong	100	HKD
Suzhou Enablence Optoelectronic Technologies Co.,Ltd *	China	100	CNY

** Enablence (HK) Limited is the parent company to Suzhou Enablence Optoelectronic Technologies Co., Ltd.*

(i) Wholly owned subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee; and can use its power to affect its returns. The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Wholly owned subsidiaries are entities controlled by the Company and where the parent owns 100% of the shares. The financial statements of wholly owned subsidiaries are included in the Company's consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated upon consolidation

All intercompany balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

<u>Revenue Recognition</u>

The Company generates revenue from two sources, Products and Non-Recurring Engineering ("NRE").

Products revenue represents revenue generated from the production and sale of Enablence-designed chips and the production of third-party chips using the Company's in-house fabrication plant. NRE revenue is comprised of non-recurring engineering orders where the Company delivers new chip designs and sample products to customers that are in the research and development stage of their product life cycle.

Revenue for both sources is recognized in a manner that depicts the transfer of promised goods to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods, applying the following five steps:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies the performance obligation

The Company's Product and NRE revenue has only one performance obligation which is the transfer of the goods to the customer. In the case of Products, the goods are finished wafers and/or chips and in the case of NRE revenue the goods include design drawings, photo masks and/or sample chips. Revenue is recognized at the point in time that the goods are shipped to the customer as per the Company's standard contract terms, except for sales to a select group of China-based customers where revenue is recognized when the customer has tested the goods and notified the Company that is has accepted the transfer of goods to their inventory. If funds have been received by the Company in advance of completing the performance obligation, the Company recognizes these funds as contract liabilities.

Revenue is measured based on the terms of the contract with the customer, which identify specific prices for the goods. The Company does not make any provisions for variable consideration in its revenue as the Company offers only basic assurance warranties on its products and its contracts do not allow for general returns or refunds on goods purchased.

Warranty expenses and refund or returns, if any, are recorded by the Company in the period in which they are incurred.

Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Net realizable value is the estimated selling price that the Company believes it can achieve for the inventory in the ordinary course of business, less any applicable selling expenses. Write-downs are taken for excess and obsolete inventory and for a reduction in the carrying value of inventory to reflect realizable value based on current cost, production, and sales estimates. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except for items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts determined for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Management assesses the recoverability of deferred tax assets based upon an estimation of the Company's projected taxable income using existing tax laws, and its ability to utilize future tax deductions before they expire. To date, no deferred tax assets have been recognized. Actual results could differ from expectations.

Investment tax credits

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. These credits can be applied against future income taxes payable and are subject to a 20 year carry forward period. An estimate of the refundable investment tax credit on scientific research and development expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the credits will be received. The expenditures are reduced by the amount of the estimated investment tax credit.

Property, plant and equipment

Property, plant, and equipment are measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the related asset. All assets are depreciated using the straight-line method. Depreciation is calculated based on the cost of an asset less its residual value and is recognized over the anticipated useful life of the asset as shown on the following page:

Asset Class	Depreciation Term
Machinery and equipment	3 – 10 years
Lab equipment and tooling	3 – 5 years
Photomasks	3 years
Office furniture and equipment	3 – 5 years
Leasehold improvements	Lease term

Assets under development are not depreciated until available for use.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

Expenditures for repairs and maintenance are expensed as incurred.

Impairment of long-lived assets

The carrying values of all property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit ("CGU")).

The impairment analysis requires management to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, discount rates, tax rates, and annual growth rates. Actual operating results and the related cash flows could differ from the estimates used for the impairment analysis.

An impairment loss is recorded when the recoverable amount of an asset or its CGU is less than its carrying amount. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years.

The reversal of impairment requires management to re-assess several indicators that led to the impairment. It requires the valuation of the recoverable amount by estimating the future cash flows expected to arise from the CGU and the determination of a suitable discount rate to calculate its present value. Significant judgment is made in establishing these assumptions.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Classification

On initial recognition, the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss ("FVTPL")
3. Measured at fair value through other comprehensive income ("FVOCI")

The Company's classification of financial assets is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVPTL. For all other equity investments that are not held for trading, the Company may irrevocably elect, on initial recognition, to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives), or if the Company has chosen to evaluate them at FVTPL.

The Company has assessed the classification and measurement of its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables (excl. amounts due from government agencies)	Amortized cost
	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Notes payable	Amortized cost
Convertible debentures	Amortized cost

Measurement

Initial recognition - A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost - The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss - Changes in fair value after initial recognition, whether realized or not, are recognized through net loss. Income arising in the form of interest, dividends, or similar, is recognized through net loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income - Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the comprehensive income when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its accounts receivable. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items.

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity net of the tax implications, and the attributed amount remains over the term of the related convertible debentures. Convertible debenture issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire noncurrent assets are treated as a reduction of the plant and equipment costs. Other government grants are recognized as other income over the periods necessary to correspond with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in net loss in the period in which they become receivable.

Stock-based compensation

The Company accounts for stock-based compensation arrangements using the fair value method of accounting. When employees are rewarded using stock-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date. The stock-based compensation cost is recorded as an expense in net loss and credited to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of awards expected to vest. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if awards ultimately exercised are different to that estimated on vesting. An award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective grants. When share options are exercised, any consideration paid by employees is credited to share capital in addition to the amount previously recorded in contributed surplus. The Company’s stock option plan does not feature any options for cash settlement.

Research and development costs

All research and development expenditures are expensed as incurred unless a development project meets the criteria for capitalization. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No internally generated intangible assets have been recognized to date.

Foreign currency transactions

Items included in the consolidated financial statements of Enablence and 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 net loss for the year.

Foreign currency translation

Assets and liabilities of entities with functional currencies other than United States dollars are translated at the period end rates of exchange, and the results of their operations are translated at the average exchange rates for the period. The resulting translation adjustments are included in accumulated other comprehensive income / (loss) in deficiency.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similarly to basic earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares for the effects of all dilutive potential common shares, which comprise convertible notes, warrants and shares options granted to employees and directors in accordance with the treasury stock method. The effects of anti-dilutive potential common shares are ignored in calculating diluted EPS.

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting used for the consolidated financial statements. The Company has determined that it only has one operating segment, which is the fabrication of planar lightwave circuit optical chips.

Recent Accounting Pronouncements and Future Changes in Accounting Policies

New Accounting Policies

During the three-month period ended September 30, 2021, no new standards or policies came into effect that would have had a material effect on the Company's financial position or results of operations.

(in thousands of U.S. dollars and shares)

Future Accounting Policies

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to *IAS 1 – Presentation of Financial Statements*. The amendments clarify the classification of liabilities as current or non-current, and are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company has not yet determined the impact of the amendments on its financial position or results of operations.

Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before intended use

On May 14, 2020, the IASB issued amendments to *IAS 16 – Property, Plant and Equipment*. The amendments prohibit the deduction, from the cost of an item of property, plant or equipment, of any proceeds received from selling items produced while bringing the asset to the location and condition necessary for it to operate. Such proceeds, and the costs associated with producing the items, are recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The Company has not yet determined the impact of the amendments on its financial position or results of operations.

Annual improvements to IFRS Standards 2018 – 2020

In May 2020, the IASB issued narrow-scope amendments to IFRS standards as part of its annual improvement process. The Accounting Standards Board completed its endorsement process and incorporated the amendments into Part I of the CPA Canada Handbook – Accounting in September 2020.

IFRS 9 Financial Instruments

The amendments clarify which fees an entity includes when performing to 10 percent test use to determine whether to derecognize a financial liability. An entity shall include only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

4. Cash and cash equivalents

The cash and cash equivalents balance includes restricted cash. Restricted cash represents cash that has been provided as security against guarantees or is otherwise not currently available for use.

	September 30, 2021	June 30, 2021
	$	$
Cash	**323**	190
Restricted Cash	**4**	4
	327	194

(in thousands of U.S. dollars and shares)

5. Accounts and other receivables

Trade and other receivables consist of the following:

	September 30, 2021	June 30, 2021
	$	$
Trade	**415**	378
Allowance for expected credit loss	**(118)**	(103)
	297	275
Other	**209**	152
	506	427

Included in other receivables is an amount of $70 (June 30, 2021 - $56) related to investment tax credits receivable and $124 (June 30, 2021 - $81) of amounts due from government agencies.

The age of trade accounts receivable is summarized as follows:

	September 30, 2021	June 30, 2021
	$	$
Current or under 60 days	**315**	305
Past due 61 to 90 days	**-**	-
Past due more than 90 days	**100**	73
	415	378

Note 16 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and prior year impairment provisions apply the IFRS 9 expected loss model.

6. Inventories

	September 30, 2021	June 30, 2021
	$	$
Raw materials	**140**	134
Work-in-progress	**238**	239
Finished goods	**-**	-
Allowance for obsolescence	**(103)**	(72)
	275	301

During the three months ended September 30, 2021, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, $31 (June 30, 2021 - $5) of obsolete and impaired inventory was provided for through cost of sales A continuity of the provision is presented below:

	September 30, 2021	June 30, 2021
	$	$
Opening balance	**72**	67
Write-off of unrealizable inventory	**-**	-
Additional impairment provision recorded	**31**	5
Closing balance	**103**	72

(in thousands of U.S. dollars and shares)

The amount of inventory recognized as cost of revenues for the three months ended September 30, 2021 was $203 (three months ended September 30, 2020 - $206).

7. Property, plant and equipment

Depreciation expense for the three months ended September 30, 2021 of $34 (three months ended September 30, 2020 - $38) was allocated in the consolidated statements of net loss as follows: $31 (three months ended September 30, 2020 - $34) in cost of revenues; $1 (three months ended September 30, 2020 - $1) in general and administration; and $3 (three months ended September 30, 2020 - $4) in research and development.

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of $301 (June 30, 2021 - $309) relating to royalty-bearing government funding received for approved research and development projects, of which $Nil was paid during the three months ended September 30, 2021. The repayment of this amount is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company. The Company has discontinued the production of all products relating to this funding and has requested forgiveness on the remaining amount from the funding organization.

9. Contract liabilities

The following table provides information about contract liabilities from contracts with customers. Contract liabilities primarily relate to the advance consideration received from customers for non-recurring engineering services, for which revenue is recognized upon delivery of set items within the service contracts.

	Twelve months ended September 30, 2021	Twelve months ended June 30, 2021
	$	$
Balance, beginning of year	**222**	234
New contract additions in year	**83**	238
Revenue recognized in year - from opening balance	**(39)**	(63)
Revenue recognized in year - from current year additions	**(75)**	(187)
Balance, end of year	**191**	222

10. Government loan (deferred income)

The Paycheck Protection Program is a loan program that originated from the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. Loans provided under the PPP have a term of two years from the date of issue, are unsecured and are guaranteed by the SBA. PPP loans carry an interest rate of 1% per annum, with payments of principal and interest deferred for six months. The Company may apply to have the loan forgiven if the loan proceeds are used to cover payroll costs (including benefits), rent and utilities. The Company has accounted for the proceeds received under the PPP loans under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

(in thousands of U.S. dollars and shares)

In May 2020, the Company entered into its first PPP loan in the amount of $613 (the "First PPP Loan"). The Company applied for forgiveness of this loan in March 2021 and received notice of the approval of forgiveness on May 17, 2021. The amount of the forgiveness is recognized into Other Income for the year ended June 30, 2021.

In February 2021, the Company entered into its second PPP loan in the amount of $613 (the "Second PPP Loan"). Similar to the First PPP Loan, the Company has met the PPP eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As such, the amount of forgiveness is recognized into Other Income for the year ended June 30, 2021.

No additional PPP loans were advanced to the Company in the three months ended September 30, 2021 and no amounts are owing.

11. Notes payable

	September 30, 2021	June 30, 2021
	$	$
Short-term loans (a)	**21,466**	20,248
Short-term RBC loans (b)	**94**	97
Secured loan from Vortex ENA LP (c)	**3,571**	5,625
Loan from Irixi (d)	**391**	385
	25,522	26,355
Less current portion	**21,951**	26,355
Long-term portion	**3,571**	-

a) During the three months ended September 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,106 (three months ended September 30, 2020 - $500) of which $1,106 (three months ended September 30, 2020 - $Nil) was from related parties (Note 19). These short-term loans are repayable on demand.

As at September 30, 2021, a total amount of $21,466 (June 30, 2021 - $20,249) remains owing on these loans which includes $3,137 (June 30, 2021 - $2,808) of accrued interest and $125 (June 30, 2021 - $125) of accrued fees. During the three months ended September 30, 2021, $372 of interest was accrued (three months ended September 30, 2020 - $300).

During the three months ended September 30, 2021, the Company accrued commissions included in finance expense of $Nil (three months ended September 30, 2020 - $30) on these loans (Note 13), which commissions are reflected in shares to be issued.

On August 20, 2021, the Company announced the Recapitalization to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization is subject to certain conditions that were met by the Company subsequent to the end of the quarter (Note 21). As part of the Recapitalization, all holders of short-term loans under this section (a) have agreed to settle their debts in exchange for common shares of the Company on the basis of either (i) exchange of 100% of the debt owed for common shares of the Company at a deemed price of C$0.025 per share, being the closing price of the common shares on the TSXV as of August 20, 2021, or (ii) exchange of 100% of the debt owed, at a discount of 20% to such amount owed, in exchange for units of the Company at a deemed price of C$0.025 per unit, with each unit containing one common share and 1/5 of a share purchase warrant (the "Debt Settlement Offer"). Each full share purchase warrant will allow the holder of such warrant to purchase one common share of the Company for up to three years following closing of the Recapitalization at a price of C$0.03 per common share. Any difference between the carrying value of the loans at the closing date and the value of shares being issued at that time will be recognized as a gain (if the share value is below the loan carrying value) or loss (if the share value is above the loan carrying value) for the Company.

b) In April 2020, the Company received $29 from the Royal Bank of Canada ("RBC") as an interest-free loan to cover operating costs. In August 2020, the Company received another RBC loan in the amount of $31, and in January 2021 the Company received an aggregate of $32 in additional RBC loans. As at September 30, 2021, the RBC loan balance is $94 (June 30, 2021 - $97). The Company plans to repay the loan balance over the next 12 months.

c) In March 2016, the Company closed a secured term loan facility with Export Development Canada ("EDC") of C$3 million which was subsequently increased to C$5 million in August 2016. The loan facility was designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE (HK) Limited, a strategic investor and common shareholder in the Company. The loan facility was available in the form of a term loan for a period of 18 months from the date of the initial draw down which was in March 2016. Repayment of principal was to commence 18 months after the first draw on the loan. Principal then was to be repaid in 17 equal monthly instalments. Interest is payable monthly at an annual rate of prime plus 10% resulting in a rate of 12.45% per annum as at September 30, 2021 (June 30, 2021 - 12.45%). The loan is secured against all the assets of the Company and is guaranteed by the Company's subsidiaries.

The Company received notification from EDC that the loan was sold to Vortex ENA LP on August 20, 2021. The Company entered into a fifth amendment to the loan agreement with Vortex LP on September 3, 2021, which resulted in the following changes: interest rate was lowered to a fixed rate of 7.5% per annum on a go-forward basis; interest can be accrued for the first 24 monthly payment periods after the amendment date, with interest payable in cash thereafter; no required payments of principal during the life of the loan and; an extended maturity date of September 3, 2025, with the Company having one option to extend the maturity date for an additional six months (collectively, the "Secured Loan Amendments"). In addition, all prior events of default were temporarily waived by Vortex LP, provided that the Company is able to complete the Recapitalization by December 31, 2021. If the Company fails to complete the Recapitalization by this date, then all amounts are immediately due.

As the Secured Loan Amendments meet the criteria for a significant modification of the loan under the terms of IAS 9 – Financial Instruments, the Company recognized a gain in the three months ended September 30, 2021 relating to the restatement of the fair market value of the loan in its financial statements. The Company utilized an estimated fair market interest rate of 20% per annum in computing the fair value of the loan as of the September 3, 2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the restatement, the Company recognized a gain to Other Income of $2,181 for the three months ended September 30, 2021. Following the amendment date, interest will be accreted to the loan balance based on the 20% per annum fair market interest rate.

During the three months ended September 30, 2021, the Company made principal payments on the loan in the amount of $Nil (three months ended September 30, 2020 - $Nil), accrued interest of $178 (three months ended September 30, 2020 - $171) and incurred fees relating to the loan of $89 (three months ended September 30, 2020 - $Nil). As at September 30, 2021, the balance owing on the Vortex LP term facility is $3,571 (June 30, 2021 - $5,625), inclusive of interest and fees.

d) On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi") signed an Asset Transfer Agreement which resulted in Suzhou Enablence Optoelectronic Technologies Co. Ltd. ("Enablence Suzhou") selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence USA Components Inc. ("Enablence USA") also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 is treated as a note payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the three months ended September 30, 2021, a total of $6 (three months ended September 30, 2020 - $6) of interest has been accrued and the amount owing on the note payable is $391 (June 30, 2021 - $385).

12. Convertible debentures

On June 30, 2017, the Company issued a total of $5,780 (C$7,500) of unsecured convertible debentures (the “Debentures”) of which $4,624 of the Debentures were issued through a private placement for cash, and $1,156 were issued as a result of a debt settlement agreement to settle outstanding short-term loans received by the Company during the year ended June 30, 2017. The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder, into common shares of the Company (the “Shares”) at a price of C$0.08 per Share. The Debentures had an initial maturity date of June 30, 2020.

On June 30, 2020, the Company entered into an amending agreement with all of the holders of its Debentures to extend the original maturity date from June 30, 2020 to December 31, 2020. Other than the extension of the maturity date of the Debentures, the other terms of the Debentures remained unchanged. On December 31, 2020, the Company’s convertible debentures became due in full, along with accrued and unpaid interest.

On August 20, 2021, the convertible debenture holders unanimously agreed to enter into debt settlement agreements with the Company to exchange the full amount of the debts owed for common shares in the Company as part of the Recapitalization. The Recapitalization is subject to certain conditions that were met by the Company subsequent to the end of the quarter (Note 21). All holders of convertible debts have agreed to settle their debts on the same basis as the Debt Settlement Offer referenced in Note 11(a) above.

During the three months ended September 30, 2021, the Company recorded interest expense of $82 (three months ended September 30, 2020 - $245) and accrued $57 of arrears interest (three months ended September 30, 2020 - $47). Of the $3,058 (June 30, 2021 - $2,917) interest accrued since June 30, 2017, $79 (June 30, 2021 - $81) has been paid and the unpaid balance of $2,979 (June 30, 2021 - $2,836) is overdue and included in accrued interest.

As at September 30, 2021, the total Debenture liability is $8,866 (June 30, 2021 - $8,887), including accrued and unpaid interest of $2,979 (June 30, 2021 - $2,836).

13. Share capital

Authorized capital stock consists of:

Unlimited number of preferred shares; NIL preferred shares outstanding

Unlimited number of common shares with no par value; 641,927 (June 30, 2021 – 641,927) common shares issued and outstanding

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At September 30, 2021, the available option pool was 55,028 (June 30, 2021 – 55,028) and outstanding stock options totaled 9,165 (June 30, 2021 – 9,165).

Options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options generally vest in four equal annual portions starting one year after the date of grant. Options granted to directors vest over a two-year period. All options expire on the tenth anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days after termination, unless otherwise agreed to by the Board of Directors. The Board administers the stock option plan.

Total stock-based compensation expense during the three months ended September 30, 2021 relating to prior year grants was $0 (three months ended September 30, 2020 - $1) of which 100% (three months ended September 30, 2020 – 100%) was attributable to general and administrative personnel.

Subsequent to the end of the quarter, shareholders of the Company approved a new omnibus equity incentive plan that is effective as of October 26, 2021 (Note 21).

Shares to be Issued

The Company entered into an engagement letter on July 26, 2017 with a financial advisory firm (the "Financial Advisor") for exclusive financial and capital markets advisory services. The agreement was subsequently amended on September 10, 2020. Under the terms of the agreement, the Company can satisfy the amounts owed (exclusive of tax) to the Financial Advisor through the issuance of common shares of the Company, upon approval of the TSX Venture Exchange. During the three months ended September 30, 2021, the Company incurred $Nil (three months ended September 30, 2020 - $232) of commissions, advisory fees and related expenses related to the Financial Advisor. As of September 30, 2021, the total amount owed is $2,814 (June 30, 2021 – $2,814), which is split between $2,655 (June 30, 2021 - $2,655) that is recognized in contributed surplus and $154 (June

30, 2021 - $158) for taxes payable in cash which are shown in Accounts Payable and Accrued Liabilities.

As of September 30, 2021, the total dollar value of the shares to be issued related to the above fees is $2,655 (June 30, 2021 - $2,655). The TSXV has provided conditional approval to the Company to issue common shares in exchange for the amounts owed as part of the Recapitalization.

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(in thousands of U.S. dollars and shares)

14. Expenses by Nature

Operating expenses are presented on the face of the consolidated statements of net loss using a classification based on function. Operating expenses distributed by nature are as follows:

	Three months ended September 30	
	2021	**2020**
Cost of revenues		
Materials/components	203	206
Labour	234	298
Inventory write downs/provision	31	-
Equipment and Freight	-	-
Allocation of overhead	187	211
Depreciation - COGS	31	34
Total	686	749
Research & Development		
Staff compensation	316	375
Travel	-	-
Contractors	(16)	(11)
Materials/supplies	5	11
Depreciation	3	4
Rent/Utilities	7	11
Total	315	389
Sales & Marketing		
Staff compensation	51	53
Travel	-	0
Trade shows		
Materials/supplies/other	5	10
Rent/Utilities	1	1
Total	57	65
General & Administrative		
Staff compensation	192	164
Rent/Utilities	269	286
Taxes (Property tax/Use tax)	12	15
Insurance	25	19
HR management fee	5	3
Phone & Internet	7	8
Travel	6	-
Professional fees	424	328
Bad Debt expense	15	(37)
Other	40	34
Depreciation	1	1
G&A Allocation (Rent/utilities)	(194)	(222)
Total	802	598

(in thousands of U.S. dollars and shares)

15. Income/(Loss) per Share

The potential effect of the exercise of stock options and convertible debentures are anti-dilutive as all stock options and convertible debenture conversion rights are out-of-the-money based on the Company's last reported share price; therefore, as of September 30, 2021, 102,915 potentially dilutive shares from the exercise of stock options and convertible debentures (June 30, 2021 – 102,915) have not been included in the calculation of net income/(loss) per share (diluted).

16. Financial Instruments

Carrying values and fair values

Financial instruments are classified into one of the following categories: amortized costs, fair value through profit or loss and fair value through other comprehensive income. The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

	September 30, 2021	June 30, 2021
	$	$
Assets - based on amortized cost	**639**	484
Liabilities - based on amortized cost	**40,107**	40,908

Notes:

Assets includes cash and cash equivalents and accounts and other receivables, excluding amounts due from government agencies and investment tax credits.

Liabilities includes accounts payable and accrued liabilities, notes payable and convertible debentures.

The carrying values of cash and cash equivalents, accounts and other receivables and accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity. The fair value of the notes payable, convertible debentures, the RBC Loans and the EDC loan are equal to their carrying values, as all of these amounts are current liabilities and repayable on demand.

Financial Risk Management

The Company has exposure to counterparty credit risk, foreign currency, liquidity risk and market risk associated with its financial assets and liabilities.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company's maximum credit risk is $639 (June 30, 2021 - $484). The Company maintains its cash balances in operating accounts with large, high quality financial institutions.

Accounts receivable

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due over and above the 30-day standard credit terms. The expected loss rates are based on the payment profiles of sale over a period of 36 months before September 30, 2021. The historical loss rates are adjusted to reflect current and forward-looking information based on factors affecting the ability of the customers to settle the receivables. The Company has identified the credit worthiness for current and future customers to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade accounts receivables consists primarily of trade receivables (Note 5) from billings of product delivered and services performed. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables to mitigate any possible credit losses. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade accounts receivables are reduced using an expected credit loss and the amount of the loss is recognized in the consolidated statement of net loss in general and administrative expenses. Trade receivables are written off (i.e. de-recognized) when there is no reasonable expectation of recovery. Failing to engage with the Company on payment or alternative payment arrangements, among other things, are considered indicators of no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the consolidated statement net loss.

A certain portion of the Company's sales were to a limited number of customers and consequently the Company is exposed to a concentration of credit risk. The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance, after expected credit loss (Note 5).

As at September 30, 2021, four customers accounted for more than 10% of the trade receivable, totaling $284, (June 30, 2021 – four customers, $276), which is approximately 83% (June 30, 2021 – 90%) of the trade receivable total, net of the specific customer allowance for Customer A described below. The Company has taken an expected credit loss of $28 (June 30, 2021 - $28) against these over 10% customers.

In the year ended June 30, 2021, the Company determined that it is not likely that it will recover any amounts receivable from one customer ("Customer A") with a receivable that is greater than 90 days old. As such, the Company has taken a specific 100% provision for the amounts owed by Customer A as shown in the chart on the following page. In aggregate, as of September 30, 2021, it was determined that an expected credit loss of $118 (June 30, 2021 - $104) was required (as shown on the following page):

(in thousands of U.S. dollars and shares)

As at Sep 30, 2021	Current	More than 30 days	More than 60 days	More than 90 days	Total
	$	$	$	$	$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	315	-	-	100	415
Lifetime Expected Credit Loss	31	-	-	13	44
Specific Impairment Allowance - Customer A	-	-	-	73	73
Total Expected Credit Loss	31	-	-	87	118

As at June 30, 2021	Current	More than 30 days	More than 60 days	More than 90 days	Total
	$	$	$	$	$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	305	-	-	-	305
Lifetime Expected Credit Loss	30	-	-	-	30
Specific Impairment Allowance - Customer A	-	-	-	73	73
Total Expected Credit Loss	30	-	-	73	104

The closing balance of trade receivables loss allowance as at September 30, 2021 reconciles with the trade receivables loss allowance as at June 30, 2021 as follows:

	$
Loss Allowance June 30, 2021	104
Plus: Increased (decreased) allowance on trade receivables	14
Less: Write-offs of trade receivables	-
Loss Allowance September 30, 2021	118

Interest rate risk

The Company is exposed to interest rate risk on the Vortex LP loan only, as all other debt obligations have fixed interest rates. Subsequent to the loan amendment date of September 3, 2021, the Vortex LP loan interest is also based on a fixed interest rate and will not be subject to interest rate risk. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense during the three months ended September 30, 2021 of $9 (three months ended September 30, 2020 - $12).

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, China, Hong Kong and Canada and is, therefore, subject to foreign currency risk. Enablence reports its financial results in U.S. dollars. Most of the Company's revenues are transacted in U.S. dollars and Chinese Renminbi, and the Company incurs expenses in Canadian dollars, Chinese Renminbi and U.S. dollars. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the C$ again the US$ and a 10% strengthening of the Chinese Renminbi ("RMB") against the US$ would have affected net losses from operations and the other comprehensive gain ("OCI") by the total amounts shown below. A weakening of the Canadian dollar and the Chinese Renminbi against the US$ would have the opposite effect.

(in thousands of U.S. dollars and shares)

10% strengthening of the Canadian dollar against the U.S. dollar

Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
261	**134**	**(109)**	**(65)**

10% strengthening of the Chinese Renminbi against the U.S. dollar

Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
6	**(30)**	**13**	**1**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts and other receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Company's ability to settle its financial obligations are also dependent on the Company's ability to secure additional financing.

The Company is currently operating under a temporary waiver of defaults from Vortex LP (Note 11(c)), that will remain in-place until the Recapitalization is completed, with an outside date for completion of December 31, 2021. Failure to complete the Recapitalization by that time will result in debts to Vortex LP under the secured loan becoming immediately due and payable with prior debt defaults reinstated.

The Company is currently in breach of its agreement with the convertible debt holders as the loans are past their maturity date of December 31, 2020. The convertible debt holders have agreed to exchange their debts for common shares in the Company as part of the Recapitalization; if the Recapitalization is not completed, then the convertible debts will remain in default.

At September 30, 2021 and June 30, 2021, the Company has financial liabilities which are due as follows:

	Current		**Non-Current**		
As at September 30, 2021	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$		$
Accounts payable and accrued liabilities	5,719	-	-	-	5,719
Notes payable	21,560	391	3,571	-	25,522
Convertible debentures	8,866	-	-	-	8,866
Total	36,145	391	3,571	-	40,107

	Current		**Non-Current**		
As at June 30, 2021	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$		$
Accounts payable and accrued liabilities	5,666	-	-	-	5,666
Notes payable	25,970	386	-	-	26,355
Convertible debentures	8,887	-	-	-	8,887
Total	40,523	386	-	-	40,908

(in thousands of U.S. dollars and shares)

17. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain customer, supplier, investor, creditor, and market confidence and to sustain future development of the business through organic growth and selective acquisitions.

Management defines capital as the Company's total deficiency and debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

The ability to continue to raise new capital is dependent upon, amongst other things, the ability of the Company to complete the Recapitalization prior to December 31, 2021.

18. Segmented Information

The Company operates in one segment, Optical Components.

Property, plant and equipment assets are analyzed geographically as follows:

	September 30, 2021	June 30, 2021
	$	$
United States	**290**	298
Canada	**-**	
	290	298

Revenue is analyzed geographically as follows:

	For The Three Months Ended	
	September 30, 2021	September 30, 2020
	$	$
Americas	**482**	71
Europe, Middle East, Africa	**-**	14
Asia Pacific	**93**	456
	575	541

During the three months ended September 30, 2021, four customers accounted for 87% of the Company's total revenue (three months ended September 30, 2020 – eight, 81%).

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from Non-Recurring Engineering services for clients.

	September 30, 2021	September 30, 2020
	$	$
Product	**436**	396
NRE	**139**	145
	575	541

19. Related Party Transactions

Vortex Entities

Vortex ENA LP is a related party as a result of its general partner being controlled by an affiliate of Paradigm Capital Inc., a company for which a Director of Enablence sits on the advisory board. In addition, a Director of the Company is a minority investor in Vortex ENA LP. As at September 30, 2021, the following group of joint actors holding common shares of the Company as of September 30, 2021 are deemed to be part of the Vortex Entities:

- Paradigm Capital Inc. ("PCI"), which owns 13,695 shares
- Paradigm Capital Partners Limited ("PCPL"), which owns 11,308 shares
- David Roland ("Roland"), a director of PCI and PCPL, who owns 33,214 shares

The following transactions took place between Enablence and the Vortex Entities in the three months ended September 30, 2021 and September 30, 2020.

- Vortex LP acquired the secured loan previously held by EDC. Interest and fees of $267 was accrued on the loan in the three months ended September 30, 2021 (three months ended September 30, 2020 - $Nil to Vortex LP) and the balance owing as of September 30, 2021 is $3,571 (June 30, 2021 - $Nil to Vortex LP).
- Vortex LP advanced $1,106 under short-term promissory notes to the Company (three months ended September 30, 2020 - $Nil from Vortex LP). Vortex LP also acquired $1,485 in promissory notes of the Company from existing holders in exchange for units of Vortex LP, including a portion acquired from a Director of the Company. Interest on short-term promissory notes held by Vortex LP for the three months ended September 30, 2021 totaled $48 (three months ended September 30, 2020 - $Nil to Vortex LP). Total amounts owed to Vortex LP under short-term promissory notes as of September 30, 2021 is $2,696 (June 30, 2021 - $Nil to Vortex LP). The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.
- Vortex Entities made additional unsecured advances to the Company of $412 (three months ended September 30, 2020 - $Nil from Vortex LP); such amounts are recorded in the accounts payable and accrued liabilities of the Company and have no fixed repayment terms and carry no interest rate.
- PCI earned commissions and advisory fees relating to financing transactions of $Nil in 2021 (three months ended September 30, 2020 - $232); PCI is owed $2,655 relating to past commissions that are expected to be paid in common shares of the Company (June 30, 2021 - $2,655), subject to TSXV approval, and an additional $154 for taxes related to the commissions and advisory fees that are recorded in the Company's accounts payable and accrued liabilities (June 30, 2021 - $158). The amounts, exclusive of taxes, are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

The following additional amounts are owed to Vortex Entities as of September 30, 2021:

- $3,145 (June 30, 2021 - $3.909) are owed to Roland under short-term promissory notes, including interest of $62 incurred in the three months ended September 30, 2021 (three months ended September 30, 2020 - $59); note that $966 of notes were transferred to Vortex LP in the three months ended September 30, 2021, as referenced above. The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

(in thousands of U.S. dollars and shares)

- $1,794 (June 30, 2021 - $1,671) are owed to Roland under convertible debentures, including interest of $44 incurred in the three months ended September 30, 2021 (three months ended September 30, 2020 – $38). The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

Other Related Party Transactions

Interest totaling $13 was accrued for the three months ended September 30, 2021 on short-term promissory notes previously provided by Directors and officers of the Company (three months ended September 30, 2020 - $15). Total amounts owed to Directors and officers under short-term promissory notes as of September 30, 2021 is $626 (June 30, 2021 - $712); note that $118 of notes were transferred to Vortex LP in the three months ended September 30, 2021, as referenced above. The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

A Director of the Company holds certain amounts of the convertible debentures owed by the Company. In the three months ended September 30, 2021, the Company incurred interest expense of $9 (three months ended September 30, 2020 - $8) relating to convertible debentures held by this Director. As of September 30, 2021, the amount owed is $373 (June 30, 2021 - $348). The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

20. Supplemental Disclosures of Cash Flow Information

Net change in non-cash operating working capital items:

	September 30, 2021	June 30, 2021
	$	$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	**(79)**	215
Inventories	**26**	(2)
Prepaid expenses and deposits	**(45)**	(17)
Accounts payable and accrued liabilities	**53**	569
Contract Liabilities	**(31)**	(12)
Deferred Income	**-**	(613)
	(76)	140

21. Subsequent Events

The following events happened subsequent to September 30, 2021.

Annual and Special Meeting of Shareholders

On October 26, 2021, the Company held its annual and special meeting of shareholders to consider a number of resolutions proposed by the Company for adoption by shareholders. All resolutions were approved, including the following items which will impact financial statements of the Company in subsequent quarters:

- Approval of the consolidation of the Company's common shares on the basis of one post-consolidation common share for a number of pre-consolidation common shares within a range of 50 to 200, such ratio to be determined by the Board of Directors in its sole discretion

- Approval of the Company's revised omnibus equity incentive plan that allows for the Board to make awards of up to 330,000,000 common share equivalents, subject to a maximum limit of 20% of the common shares of the Company outstanding at that time
- Approval of shares-for-debt settlements in conjunction with the Recapitalization
- Approval of Mr. Dan Bordessa as a new control person of the Company, by way of he and his joint actors being expected to own over 20% of the common shares of the Company following the completion of the Recapitalization
- Approval of Vortex ENA LP as a potential new control person of the Company, by way of Vortex LP and its related joint actors being expected to own over 20% of the common shares of the Company following the completion of the Recapitalization

The Company notes that the creation of Mr. Bordessa as a new control persons will result in Mr. Bordessa and his affiliates being reported on as Related Parties of the Company following closing of the Recapitalization as required under IAS 24 – Related Party Disclosures.

Other Subsequent Events

Vortex LP made additional advances of $322. These amounts, together with the prior amounts advanced under the grid promissory note, will be exchanged for common shares in the Company as part of the shares-for-debt exchange in the Recapitalization.

The Company has received additional advances of $361 from Vortex LP outside of the terms of the short-term loans described in Note 11(a). Upon advance, these loans carried no interest rate and have no fixed repayment terms (the "Additional Short-Term Loan") and were recorded by the Company in its accounts payable and accrued liabilities.

On November 15, 2021, the Company announced that the consolidation ratio of its common shares, as approved by the Board, will be 120:1.

On November 15, 2021, the Company announced that it has received waivers from certain major creditors participating in the Recapitalization to waive the requirement for all proposed participants in the shares-for-debt exchange to enter into debt settlement agreements with the Company (the "Major Creditor Waivers"). In aggregate, the Company obtained debt settlement agreements with creditors holding approximately 96% of the amounts proposed for settlement, representing $34,195 of the total $35,730 proposed for conversion (based on a September 30, 2021 USD:CAD exchange rate of 1.2741). The receipt of the Major Creditor Waivers allows the Company to proceed with closing of the shares-for-debt transactions and will allow the Company to satisfy the secured loan condition that the Recapitalization be completed prior to December 31, 2021 (Note 11(c)), pending approval of the TSXV. As such, the temporary waiver of defaults under the loan will become permanent if closing occurs before December 31, 2021.

As part of the Major Creditor Waivers signed with Vortex LP, Vortex LP and the Company have agreed to modify the terms of the secured loan (Note 11(c)) on the following basis:

a) The Additional Short-Term Loan, along with prior amounts of C$275 advanced to the Company prior to September 30, 2021 and recorded in the Company's accounts payable and accrued liabilities are transferred to Vortex LP

b) Up to C$2 million of additional funds will be made available under the secured loan, subject to the sole discretion of Vortex LP
c) The Company and Vortex LP have agreed to enter into an amended and restated senior loan agreement within 30 business days of the execution of the waiver that will reflect that the amounts reference in (a) and (b) above will become part of the balance owing to Vortex LP under the secured loan, and will accrue interest and be repayable at the same time as the other amounts due