ENABLENCE TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

FOR THE YEAR ENDED JUNE 30, 2021

DATED: October 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. ("Enablence" or the "Company") as at June 31, 2021 compared to June 30, 2020 and the results of operations for the year ended June 30, 2021 compared to the year ended June 30, 2020 (collectively, the "MD&A").

This MD&A should be read in conjunction with our audited condensed consolidated financial statements and accompanying notes for the years ended June 30, 2021 and June 30, 2020. References made herein to Enablence, the Company, "we" and "our" mean Enablence, its subsidiaries, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as otherwise indicated. References made herein to "financial statements", or "consolidated financial statements" mean the audited consolidated financial statements. All financial amounts are in thousands of U.S. dollars ("US$" or "USD"), unless stated otherwise. Other continuous disclosure filings for the Company are available on www.sedar.com

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent upon its ability to secure additional financing, completion of the recapitalization transaction (the "Recapitalization" - *see Subsequent Events*) and the attainment of profitable business operations. Management is actively addressing these issues, however, there is no assurance that they will be successful. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications. The current situation and the plans to resolve it are contained in the Outlook section of this MD&A.

The effective date of this MD&A is October 21, 2021.

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect management's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations, except as prescribed by applicable securities laws.

Key assumptions made in preparing the forward-looking statements contained in this MD&A include, but are not limited to, the following:

- The Company will receive sufficient affirmative votes at its annual and special meeting of common shareholders on October 26, 2021 (the "AGM") to approve the Recapitalization Transaction (*see Subsequent Events*), which includes, amongst other things, the restructuring of the Company's secured debts, the issuance of shares in exchange for existing debts owed by the Company, a consolidation of its common shares and the issuance of new common

shares through a non-brokered private placement to support ongoing cash needs of the Company
- The Company will be able to raise sufficient financing to meet its financial obligations as they come due
- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability
- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure
- Enablence will be able to attract and retain key people
- The Company will be able to raise additional new capital in the future to allow the Company fully implement its business plan
- The Company will be able to re-open its offices in Ottawa, Canada and Fremont, California to full capacity, as both locations continue to operate primarily on a remote basis for non-essential (i.e. fab plant) workers
- The Company will be able to meet supply chain challenges faced since the start of the COVID-19 pandemic, which have resulted in plant closures and shipping delays for certain suppliers of Enablence raw materials, particularly for suppliers in the Asia Pacific region

SUBSEQUENT EVENTS

The following events happened subsequent to June 30, 2021.

On July 29, 2021 the Cease Trade Order ("CTO") that was put in place by the Ontario Securities Commission ("OSC") was revoked, allowing for the common shares of the Company to resume trading on the TSX Venture Exchange ("TSXV"). The common shares commenced trading on August 5, 2021.

Recapitalization Transaction

On August 23, 2021, the Company announced a recapitalization transaction to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization is subject to a number of shareholder votes which are scheduled to be completed at the Company's Annual and Special Meeting of its Shareholders, scheduled for October 26, 2021. The Recapitalization includes a restructuring of the existing secured loan, an interim promissory note financing, a shares-for-debt settlement, a shares-for-services settlement, a private placement for new capital and a share consolidation, all as summarized below.

Restructuring of Secured Loan

On August 20, 2021 the Company's secured term loan facility originally advanced by EDC was acquired Vortex ENA LP ("Vortex LP"). On September 3, 2021, the Company and Vortex LP entered into an amendment, with key indicative terms as follows:

- All prior defaults are temporarily waived and forgiven until December 31, 2021 and will be permanently forgiven provided that the Recapitalization is approved at the AGM
- Maturity date extended to September 3, 2025, plus one six-month extension option
- No required principal amortization for the loan duration
- Interest rate lowered to a fixed rate of 7.5% per annum, accrued for the first twenty-four (24) months until September 3, 2023, and in cash thereafter

Prior to the acquisition of the EDC loan, but subsequent to June 30, 2021, Vortex LP made approximately C$639 in new loan advances to the Company under short-term promissory notes which carry an interest rate of 10% per annum plus a 2% structuring fee, deducted from each loan advance. The promissory notes are repayable on demand. These notes form part of the debt to be settled under the Shares-for-Debt Settlement detailed below.

A director of the Company is a shareholder, and holds a financial interest in, Vortex LP.

Interim Promissory Note Financing

On August 22, 2021, Vortex LP signed a new grid promissory note with the Company (the “Grid Note”) to make available, under certain conditions and subject to Vortex LP discretion, up to C$3 million in additional short-term promissory notes to cover general working capital needs of the Company prior to the completion of the Recapitalization. Advances under the Grid Note carry a 10% per annum interest rate plus a 2% structuring fee, to be deducted from each loan advance. Amounts due under the Grid Note are repayable on demand on the earlier date of (i) the closing of the Recapitalization, or ii) December 31, 2021.

Vortex LP has agreed to convert the amounts borrowed under the Grid Note into common shares of the Company following the completion of the Recapitalization and the approval of the TSXV to exchange the Grid Note amounts on the same terms and conditions as described in the Shares-for-Debt Settlement section below.

Subsequent to June 30, 2021, the Company has received C$1,020 in advances under the Grid Note.

Shares-for-Debt Settlement

The Company entered into debt settlement agreements with creditors who hold C$41,398 of the total unsecured debt of the Company and have agreed to take settlement of their debts in exchange for the issuance of either (i) common shares, or (ii) units of the Company ("Units"), at the creditors' election and subject to the policies of the TSX Venture Exchange, based on the following Shares-for-Debt Settlement options:

- Option 1 – Exchange of 100% of the debt owed in exchange for common shares at a deemed price of C$0.025 per common share, being the closing price of the common shares on the TSXV as of August 20, 2021 (the "Recap Price");

- Option 2 – Exchange of 100% of the debt owed, at a discount of 20% to such amount owed, in exchange for units of the Company ("Units") at a deemed price equal to the Recap Price, whereby each Unit will entitle the holder thereof to receive one Common Share and one-fifth (1/5th) of one common share purchase warrant (the "Debt Settlement Warrants"). Each full Debt Settlement Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.03 per share for a period of 36 months following the closing date of the Recapitalization.

An additional amount of C$1,956 of unsecured debts that have been proposed for settlement in shares have not yet been agreed to by the creditors holding such debts (the “Remaining Creditors”). A select group of majority creditors holding debts proposed for exchange have a condition to closing of the Recapitalization that 100% of the Remaining Creditors agree to exchange their debt for shares under one of the two options described above. If the Remaining Creditors do not agree to the exchange for shares, and major creditors do not waive the requirement for the full exchange of the remaining debts for shares, then the Recapitalization cannot be completed as planned.

For purposes of the debt-for-shares settlement, a US$:C$ exchange rate of 1.2694:1 was used, being the average Bank of Canada exchange rate for the five days preceding, and inclusive of, August 20, 2021.

Shares-for-Services Settlement

On July 30, 2021, the Company entered into an engagement letter with one of its major creditors (the "Service Provider") whereby the Service Provider will represent the various creditors in the Recapitalization negotiations, will support the restructuring by way of signed support agreements and will waive all prior defaults of debts owed to such creditor. Pursuant to the engagement letter, the Service Provider is entitled to receive a fee equal to C$1 million upon the announcement of the Recapitalization, payable in common shares at the Recap Price, subject to the completion of the Recapitalization. The Service Provider will also be reimbursed in cash for up to C$25 in third

party expenses incurred in the performance of the services. Where tax is applicable, an additional amount equal to the amount of the tax owing will also be paid in cash by the Company at the same time the shares-for-services settlement fee is paid.

Concurrent Private Placement

On August 23, 2021, the Company commenced marketing efforts for a non-brokered private placement of up to 440,000,000 subscription receipts of the Company ("Subscription Receipts") at a price of C$0.025 per Subscription Receipt for aggregate gross proceeds of up to C$11 million (the "Private Placement"). Each Subscription Receipt will automatically convert, without any further action on the part of the holders thereof, into one (1) post-Consolidation Common Share and one-fifth of one common share purchase warrant of the Company (each whole warrant, a "SR Warrant") upon the completion of the Recapitalization. Each SR Warrant will entitle the holder thereof to purchase one post-Consolidation Common Share at a price of $0.03 per share for a period of 36 months following the closing date of the Recapitalization.

Consolidation

In connection with the Recapitalization, and subject to approval of a 2/3 majority of shareholders casting votes at the AGM, the Company will consolidate the outstanding common shares on the basis of one (1) post-Consolidation share in exchange for a number of pre-Consolidation shares within a range of fifty (50) to two-hundred (200), as may be determined by the directors of the Company in its sole discretion (the "Consolidation").

The Consolidation is a condition precedent to completing the Recapitalization as the market price of the common shares issuable pursuant to the shares-for-debt settlements, the shares-for-services settlement and the Private Placement would be, absent the Consolidation, less than the minimum issue price of $0.05 allowed by the TSXV.

Other Subsequent Events

The Company has extended the lease of its Ottawa office and research and development space from October 1, 2021 to September 30, 2022 at the same lease rates as the prior lease.

As of the date hereof and after the end of the year, the Company has received additional advances of C$330 and US$235 under short-term loans from external investors. The loans carry no interest rate and have no fixed repayment terms.

On September 22, 2021, the Company entered into new employment contracts with two executives, including its Co-CEO and Chief Technology Officer (“CTO”) and its Director of Research and Design. Each employee is entitled to received a retention bonus as follows:

- Co-CEO and CTO
  - Eligibility to receive a retention bonus of C$853 (“Retention Bonus 1”)
    - Provided the Recapitalization is completed and the employee remains actively employed by the Company, Retention Bonus 1 will be reduced by quarterly cash payments of $25 per quarter, in arrears, commencing 15 months after the completion of the Recapitalization until the Retention Bonus 1 is fully paid (with the final payment being C$28)
  - In the event of a termination without cause or a resignation with good reason, the employee will be entitled to payment equal to the greater of (i) all remaining amounts due under Retention Bonus 1, payable within 90 days of the termination of employment, or (ii) twelve months base salary plus an amount equal to the average annual bonus paid to employee over the last two fiscal years preceding the termination date
    - The failure to complete the Recapitalization is an event of good reason that would entitle employee to resign with good reason and trigger the Retention Bonus 1 entitlements
- Director of Research and Design
  - Eligibility to receive a retention bonus of C$879 (“Retention Bonus 2”)

   - Provided the Recapitalization is completed and the employee remains actively employed by the Company, Retention Bonus 1 will be reduced by quarterly cash payments of $25 per quarter, in arrears, commencing 3 months after the completion of the Recapitalization until 12 months after the completion of the Recapitalization, and C$50 per quarter commencing 15 months after completion of the Recapitalization until the Retention Bonus 2 is fully paid (with the final payment being C$79)
 - In the event of a termination without cause or a resignation with good reason, the employee will be entitled to payment equal to the greater of (i) all remaining amounts due under Retention Bonus 2, payable within 90 days of the termination of employment, or (ii) twelve months base salary plus an amount equal to the average annual bonus paid to employee over the last two fiscal years preceding the termination date
   - The failure to complete the Recapitalization is an event of good reason that would entitle employee to resign with good reason and trigger the Retention Bonus 2 entitlements

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	**Year ended June 30**		
	2021	2020	2019
Revenue	**$2,521**	$1,101	$1,424
Gross margin	**(345)**	(1,660)	(2,509)
Operating expenses	**3,951**	4,802	5,673
Loss from operations	**(4,296)**	(6,462)	(8,182)
Net loss	**(5,041)**	(9,557)	(10,355)
Basic and diluted loss per share	**($0.01)**	($0.02)	($0.02)

Balance Sheet Data	**Year ended June 30**		
	2021	2020	2019
Total assets	**$1,391**	$1,615	$2,242
Total non-current financial liabilities	**$0**	$350	$260
Total liabilities	**41,130**	33,474	25,171
Cash dividends declared per share	**nil**	nil	nil

OVERVIEW

ENABLENCE'S BUSINESS

Enablence 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. The Company's product lines address access – connecting homes and businesses to the

network; metro – communication rings within cities of different sizes; and long-haul – linking cities, countries and continents. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 400 gigabits per second.

RESULTS OF OPERATIONS

Summary of Fourth Quarter Results

The Company reported revenues of $599 for the quarter ended June 30, 2021 as compared to $367 for the quarter ended June 30, 2020, an increase of $232, or 63%. The increase is primarily due to higher recurring orders ($182) from a mega-cap technology company for fabrication services and higher orders ($95) from a contract manufacturer customer, offset by slightly lower sales from some smaller customers.

The Company also reported a lower net loss from operations of $1,095 for the quarter ended June 30, 2021 as compared to a net loss from operations of $1,370 for the quarter ended June 30, 2020, an improvement of $275, or 20%. The lower loss was primarily due to an increase in revenue of $232 and gross margin of $221 combined with a decrease in research & development expenses (mainly due to a reduction in engineering staff count) of $88, offset by an increase in general & administration costs of $223 stemming mostly from increased professional fees in the 2021 quarter relating to the revocation of the Cease Trade Order and the Recapitalization.

Company management believes that revenue for the current quarter would have been higher, and losses lower, if not for the continued effects of the COVID-19 pandemic. The Company shifted all non-essential workers to "at-home" work in March 2020 and reduced capacity at the Fremont, California fabrication plant following the implementation of Executive Order N-33-20 by the State of California on March 19, 2020 which directed non-essential staff to stay at home. The Company took immediate action to enforce social distancing protocols within the plant, reduced operating hours and overall staffing levels, resulting in decreases in production capacity of goods for the Company. While vaccine rollouts have improved general economic conditions, the Company continues to encourage its non-essential staff to continue to work remotely to protect their health and reduce the risk of possible plant-wide outbreaks. The Company's supply chain has also been disrupted as raw materials, particularly from the Asia Pacific region, have been delayed as our suppliers undergo similar changes to their operations. Customers have also delayed purchases as they work to stabilize their own finances and defer new projects pending some stability in the overall global economy. Management is hopeful that it will see an increase in sales activity and more consistent order patterns from customers now that the global vaccine rollout has begun, and Company customers are largely returning to normal business operations.

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended September 30, 2019 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2021.

All normal recurring adjustments necessary for a fair presentation of information presented, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above-noted consolidated financial statements.

	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	31-Mar 2021	30-Jun 2021
Revenue	$ 281	$ 233	$ 220	$ 367	$ 541	$ 683	$ 698	$ 599
Gross Margin	(428)	(449)	(468)	(317)	(208)	(25)	(16)	(96)
GM %	(151.9%)	(192.7%)	(212.6%)	(86.2%)	(38.4%)	(3.7%)	(2.3%)	(16.0%)
Expenses								
Research & development	535	511	407	459	389	325	397	371
Sales & marketing	32	40	60	55	65	62	69	67
General & administration	549	747	848	545	598	408	431	768
Stock-based compensation	5	4	3	3	1	1	1	(0)
Expenses	1,120	1,302	1,318	1,062	1,052	795	898	1,206
Operating loss	(1,548)	(1,750)	(1,786)	(1,379)	(1,260)	(820)	(914)	(1,302)
Finance and other expense	(756)	(837)	(795)	(406)	(774)	(937)	(31)	25
Gain on sale of property, plant and equip.	-	-	-	-	-	-	-	-
Foreign exchange (loss) gain	(56)	140	(799)	415	169	447	174	183
Net loss	(2,360)	(2,447)	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,095)
Weighted average shares outstanding	641,927	641,927	641,927	641,927	641,927	641,927	641,927	641,927
Basic and diluted income (loss) per share	($0.00)	($0.00)	($0.01)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Adjusted EBITDA[1]	(1,508)	(1,707)	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)

(1) Adjusted EBITDA does not have a standardized meaning according to IFRS and is defined and reconciled to net income (loss) below.

NON-GAAP FINANCIAL MEASURES

Management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income and cash flow from operating activities, are defined by IFRS. Other measures are not defined by IFRS.

One key non-IFRS measure used by management is “Adjusted EBITDA”. The Company discloses Adjusted EBITDA as a supplemental non-GAAP financial performance measure because the Company believes it is a useful metric by which to compare the performance of our business from period to period. The Company understands that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

Adjusted EBITDA comprises net income (loss) excluding the following: finance income and expense, income tax recovery and expense, depreciation, amortization, losses on write-off or sale of equipment, foreign exchange gains and losses in earnings, and stock-based compensation expense. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) is as follows:

	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	31-Mar 2021	30-Jun 2021
Net loss for the period	(2,360)	(2,447)	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,095)
Add (deduct):								
Net interest and other expense	756	837	795	406	774	937	31	(25)
Amortization	35	40	38	37	38	39	38	36
Gain on sale of equipment	-	-	-	-	-	-	-	-
Foreign exchange (gain) loss	56	(140)	799	(415)	(169)	(447)	(174)	(183)
Stock-based compensation expense	5	4	3	3	1	1	1	(0)
"Adjusted EBITDA"	(1,508)	(1,707)	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2021 COMPARED TO THE YEAR ENDED JUNE 30, 2020

The following table sets forth a summary of key earnings information from our consolidated financial statements for the year ended June 30, 2021 and 2020.

	Year ended June 30, 2021	Year ended June 30, 2020	Increase / (Decrease) $	Increase / (Decrease) %
Revenues	**$ 2,521**	$ 1,101	$ 1,420	*129%*
Cost of revenues	**2,866**	2,761	105	*4%*
Gross margin	**(345)**	(1,660)	1,315	*(79%)*
	(14%)	*(151%)*		
Operating expenses:				
Research and development	**1,481**	1,912	(431)	*(23%)*
Sales and marketing	**263**	187	76	*41%*
General and administrative	**2,205**	2,689	(484)	*(18%)*
Stock based compensation	**2**	14	(12)	*(86%)*
Total operating expenses	**3,951**	4,802	(851)	*(18%)*
Loss from operations	**(4,296)**	(6,462)	2,166	*(34%)*
Other income (expenses):				
Finance and other income (expense)	**1,380**	174	1,206	*693%*
Finance expense	**(85)**	(280)	195	*(70%)*
Interest expense	**(3,012)**	(2,894)	(118)	*4%*
Gain on convertible debenture extension	**-**	207	(207)	*(100%)*
Foreign exchange gain (loss)	**972**	(302)	1,274	*(422%)*
Net loss	**(5,041)**	(9,557)	4,516	*(47%)*
Other comprehensive income (net of tax):				
Foreign currency translation gain (loss)	**(3,121)**	1,050	(4,171)	*(397%)*
Comprehensive loss	**$ (8,162)**	$ (8,507)	$ 345	*(4%)*

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar, the Canadian dollar and the Chinese renminbi (“RMB”) can have an impact on the reported results for each fiscal period. The average exchange rate for the year ended June 30, 2021 in terms of the Canadian dollar (“CAD”) equivalent of US$1 was CAD $1.2823 (2020 – CAD $1.3427) and in terms of the Chinese Renminbi (“RMB”) equivalent of US$1 was RMB $0.1512 (2020 – RMB $0.1422).

REVENUE

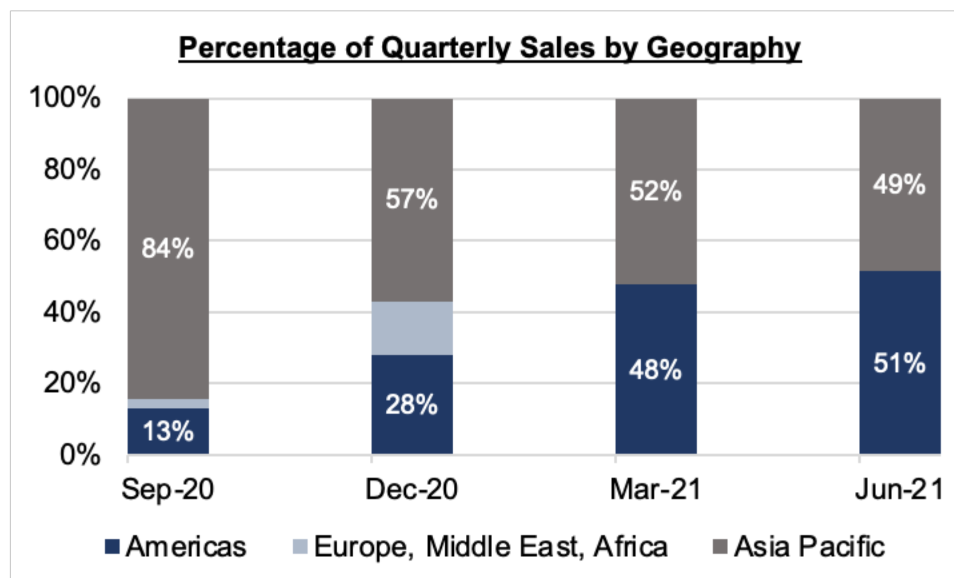
Revenue for the year ended June 30, 2021 was $2,521 as compared to $1,101 for the prior year, an increase of $1,420, or 129%. The increase is due to higher sales of optical chips ($685), an increase in non-recurring engineering (“NRE”) revenue ($406) and the addition of third-party fabrication services work as a component of Product revenue for a mega-cap technology company ($329). In the year ended June 30, 2021, the Company had approximately twenty-five separate customers across its business, which is a similar figure to the prior year.

During the year ended June 30, 2021, eight customers accounted for 81% of the Company's total revenue (2020 – ten, 82%).

The geographic split of revenue (based on ship-to location of the customer) is as follows:

	2021	2020
	$	$
Americas	**904**	284
Europe, Middle East, Africa	**114**	32
Asia Pacific	**1,503**	785
	2,521	1,101

The Company continues to see increasing demand from all geographies, but it has focused efforts on increasing its percentage of business in the Americas since the beginning of 2020, which grew to 49% of total revenue for the three-month period ended June 30, 2021, as compared to 11% for the same period in 2020. For the full year, the Americas business has grown to 36% of total as compared to 26% in 2020. The Company believes that increasing its Americas business is important since it has the only non-captive (i.e. not owned by, or beholden to, one customer) optical chip fabrication plant in North America and it can deliver its products faster to local customers than competitors who primarily manufacture products in Asia. It is the Company's intention to continue to prioritize growth in the Americas business in the near-term.



69% of the Company's revenue for the year ended June 30, 2021 are comprised of product revenue which includes amounts relating to recurring third party fabrication services (2020: 66%) and 31% is comprised of non-recurring engineering revenue (2020: 34%). Product revenue generally results from the sale of wafers/chips to end customers. NRE revenue is comprised of new research and development projects for customers. Often, NRE projects result in long-term recurring product revenue for the Company once it has solved a design challenge for the customer. In this sense, growth in the NRE revenues can be seen as a positive leading indicator for future revenues of the Company as it indicates increasing demand for new engineering services from customers.

Of the $1,741 in Product revenue for the year ended June 30, 2021, approximately 19% is comprised of revenue related to third party fabrication services for a mega-cap technology company. The Company recorded an additional $42 in NRE revenue for this customer in the year ended June 30, 2021 and continues to perform new NRE projects for this customer which may lead to additional Product revenue in the future. Management of the Company believes that this customer is strategically important as growth in fabrication services revenue will offset the overall

fixed costs of operating the fabrication plant and increasing orders from this customer may allow for the introduction of additional staff shifts in the future and higher revenues for the Company; recurring orders from this customer have increased 426% from the three months ended September 30, 2020 (the first quarter of recurring orders) to the three months ended June 30, 2021 (nil orders in the year ended June 30, 2020).

GROSS MARGIN

The Company's cost of revenues is comprised of several elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs. In general, the Company's costs are heavily skewed towards fixed costs because of the operation of its fabrication plant in Fremont, California and the significant number of staff needed at that operation, particularly in the areas of testing and processing once wafers and chips have been completed.

Gross margin for the year ended June 30, 2021 was ($345) as compared to ($1,661) for the prior year, an improvement of $1,316, or 79%. The improvement is due to increased revenues and minor reductions in plant overhead resulting from staff reductions in 2021 where that employee has not yet been replaced.

OPERATING EXPENSES

Research & Development ("R&D") expense for the year ended June 30, 2021 was $1,481 as compared to $1,912 for the prior year, a decrease of $431, or 23%

The decrease in 2021 versus 2020 was primarily the result of staffing reductions that took effect in the first half of the 2021 fiscal year.

Sales & Marketing expense for the year ended June 30, 2021 was $263 as compared to $187 for the prior year, an increase of $76, or 41%

The increase in 2021 versus 2020 is the result of a full year of compensation being included in the current period figures for the Company's Director of Sales who was hired by the Company in December 2019.

General & Administration expense for the year ended June 30, 2021 was $2,205 as compared to $2,689 for the prior year, a decrease of $484, or 18%.

The decrease is due to a reduction in overall salaries due to the departure of the Company's former Chief Executive Officer in May 2020 and lower expected credit losses, offset by increased professional fees related to the revocation of the Cease Trade Order and the proposed Recapitalization.

Stock-Based Compensation expense for the year ended June 30, 2021 was $2 as compared to $2 for the prior year.

No stock-based compensation has been awarded by the Company since February 28, 2019, but the Company does anticipate using this as a compensation tool for employees, officers and directors of the Company in the future. An updated omnibus equity incentive plan has been proposed to shareholders for approval at the Company's upcoming AGM.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with financial institutions. Interest income is a function of prevailing interest rates and the amount of funds invested.

Finance and other income for the year ended June 30, 2021 was $1,380 as compared to $174 for the prior year, an increase of $1,206 or 693%. The increase is a result of the forgiveness in the year of $1,226 of loans provided to the Company's U.S. subsidiary by the U.S. Small Business Administration ("SBA") under the Paycheck Protection Program ("PPP"), offset by small changes in the other amounts contributing to the balance in 2021 versus 2020.

FINANCE AND INTEREST EXPENSE

The Company's interest expense is a function of the balance of debt, and applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar.

Finance expense for the year ended June 30, 2021 was $85 as compared to $280 for the prior year, a decrease of $195, or 70%. The decrease is due to a reduction in commission accruals related to the issuance of notes payable, as no commissions were payable for any capital raised after December 31, 2020.

Interest expense for the year ended June 30, 20201 was $3,012 as compared to $2,894 for the prior year, an increase of $118, or 4%. The increase is a result of higher balances of notes payable, offset by a stronger Canadian dollar for the year which reduced the effect of interest on US$ denominated notes payable.

Notes payable were as follows at June 30, 2021:

	June 30, 2021	June 30, 2020
	$	$
Short-term loans (a)	**20,248**	15,568
Short-term RBC loans (b)	**97**	29
Loan from Export Development Canada (c)	**5,625**	4,497
Loan from Irixi (d)	**386**	321
	26,355	20,415
Less current portion	**26,355**	20,065
Long-term portion	**-**	350

(a) During the year ended June 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $2,615 (2020 - $4,725) of which $Nil (2020 - $391) was from related parties (Note 22). These short-term loans are repayable on demand.

As at June 30, 2021, a total amount of $20,249 (2020 - $15,568) remains owing on these loans which includes $2,808 (2020 - $1,396) of accrued interest and $125 (2020 - $125) of accrued fees. During the year ended June 30, 2021, $1,277 (2020 - $981) of interest was accrued.

During the year ended June 30, 2021, the Company accrued commissions included in finance expense of $85 (2020 - $403) on these loans (Note 14), which commissions are reflected in shares to be issued.

(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 June 30, 2021, the RBC loan balance is $97 (June 30, 2020 - $29). 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 the rate of prime plus 10% resulting in a rate of 12.45% at June 30, 2021 (June 30, 2020 - 12.45%). The loan is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries.

On October 28, 2019, the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made as per the terms of the original and amended loan agreement. The forbearance agreement provided the Company until January 28, 2020 to remedy the ongoing default, subject to the Company meeting certain ongoing terms and conditions. The Company made an interest payment of $191 as part of this agreement. On May 11, 2020, the Company announced a fourth amending and waiver agreement with EDC to capitalize the total amount of outstanding advances and accrued interest, to waive prior events of default, and to commence principal repayments at a to-be-determined point-in-time during the year 2020, according to a mutually agreed schedule. The Company was unable to make such payments and is currently in breach of the agreement, resulting in the receipt of a default notice from EDC. Subsequent to the end of the year, the Company received notice that EDC sold the entire amount of the loan to a third party and the Company entered into an agreement with the new lender to modify the terms of the loan (Note 24) in order to ensure compliance in the future.

During the year ended June 30, 2021, the Company made principal payments on the loan in the amount of $Nil (2020 - $389) and accrued interest during the year of $662 (2020 - $810). As at June 30, 2021, the balance owing on the EDC term facility is $5,625 (June 30, 2020 - $4,497), inclusive of interest.

(d) On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi"), a related party, 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 year ended June 30, 2021, a total of $26 (2020 - $20) of interest has been accrued and the amount owing on the note payable is $386 (2020 - $321).

GAIN ON CONVERTIBLE DEBT EXTENSION

No amounts were recorded for convertible debt extensions in the year ended June 30, 2021 as compared to $207 in the prior year which was incurred a result of the extension of the convertible note maturity date from June 30, 2020 to December 30, 2021.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity into the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period.

During the year ended June 30, 2021, the Company recorded a foreign exchange gain of $972 as compared to a loss of $302 in the prior year. See also – Foreign Currency Translation Gain (Loss). The gain is the result of the strengthening of the Canadian dollar during the year that reduced the Canadian dollar balance owing of the Company's U.S. dollar denominated short-term notes payable.

INCOME TAXES

As a result of the operating losses, there were no income taxes payable or recoverable during the year ended June 30, 2021 or 2020.

NET LOSS

The net loss for the year ended June 30, 2021 was $5,041 as compared to a net loss of $9,764 for the prior year, an improvement of $4,723, or 48%.

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

During the year ended June 30, 2021, the Company recorded a foreign exchange translation loss of $3,121, as compared to a gain of $1,050 for the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US dollar currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is the U.S. dollar.

LOSS PER COMMON SHARE

The table below presents the basic and diluted loss per common share for each of the comparative fiscal periods.

	Year ended June 30,	
	2021	2020
Basic and diluted loss per common share	**$(0.01)**	$(0.01)
Weighted Average Number of Common Shares	**641,927**	641,927

The Company's last reported share price would result in all outstanding options and convertible debentures being out-of-the-money. As such, there is no dilutive impact from these securities which results in no difference between the basic and diluted loss per common share for the periods referenced above.

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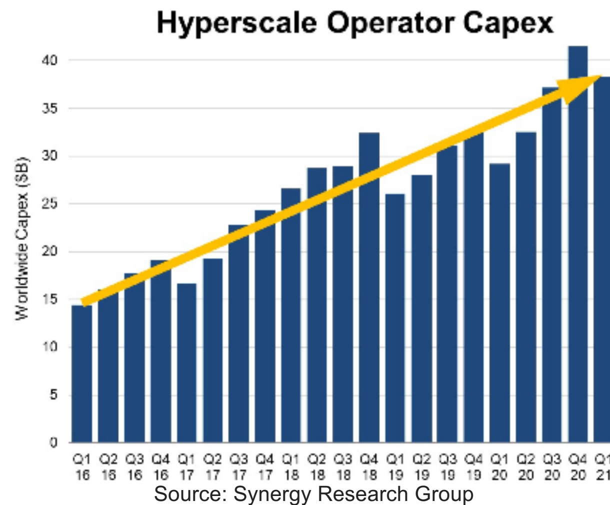
OUTLOOK

The Company continues to develop its core competency in PLC optical chip design and fabrication, targeting high-growth markets – namely data centers and fifth generation (“5G”) wireless networks. Both of these markets are experiencing high-growth rates in equipment sales and the related PLC chips and other components and modules required for their construction and ongoing operation.

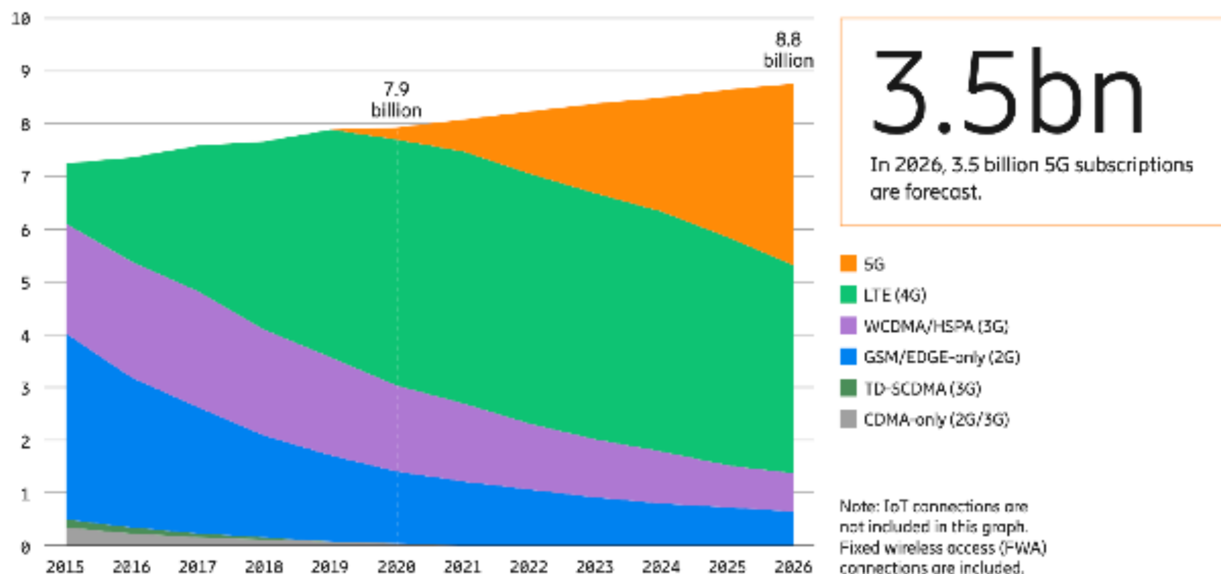
Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. Mega-cap cloud computing companies (Alphabet, Amazon, Apple, Facebook, Microsoft) are achieving 30% p.a. growth rates in revenue, driving similar increases in the capital spending.



Source: Synergy Research Group

Similarly, 5G networks are in the early stages of deployment in major markets around the globe, including the United States, Korea, China, Canada and Europe, with increasing construction, deployment, and consumer usage forecast in 2022 and beyond as these networks are built out.

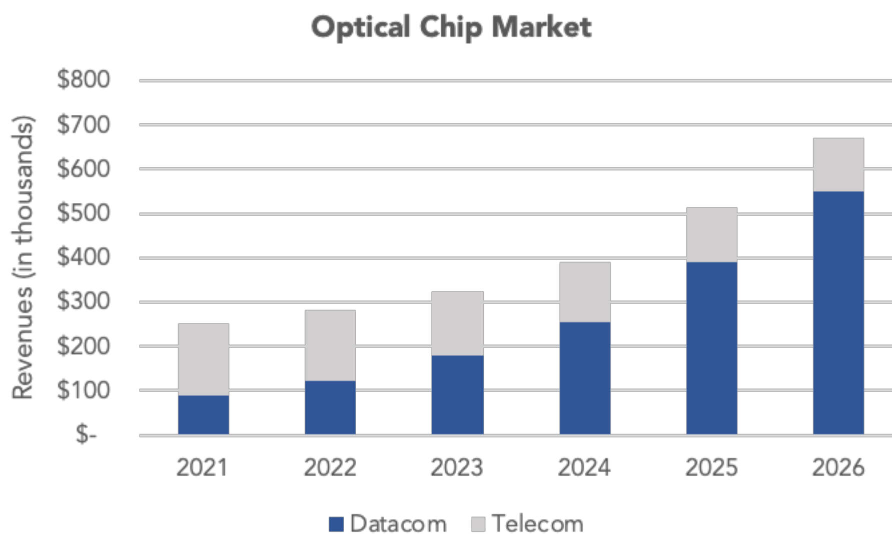
Global Mobile Subscriptions by Technology (billions)



[1] Ericsson and GSA (October 2020).
[2] A 5G subscription is counted as such when associated with a device that supports New Radio (NR), as specified in 3GPP Release 15, and is connected to a 5G-enabled network.

Source: Ericsson Mobility Report, 2020

Enablence has developed a series of compact PLC optical chips - multiplexers and demultiplexers - that are used in multi-channel high-speed optical transceivers in our target markets. In the past three years, we have worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. After completing rigorous product qualifications with several customers, the Company has begun to deliver against larger commercial orders and expects production volumes to continue to increase as existing customers increase their orders and new customers are identified. The combination of growing data centre and 5G markets will drive increasing demand for optical chips such as those manufactured by Enablence.



Source: Yole Development – Optical Transceivers for Datacom & Telecom – 2021. Company Estimates.

Our goal over the upcoming year is to increase the size of recurring chip orders from existing customers while adding new customers, through specific NRE projects and traditional sales channels for existing chip designs. We will also selectively offer our fabrication facility services to strategic third-party customers that we believe are strategic to our business or where the relationship can help Enablence quickly access emerging markets for optical products, increasing our revenue generating capabilities and helping offset our fixed cost operations.

In the normal course, Enablence examines other strategic opportunities in markets other than data center and 5G wireless markets. For example, the Company is currently leveraging its world-class optics knowledge to develop products for customers in need of Light Detection and Ranging ("LiDAR") solutions for autonomous vehicle applications. We are currently working with one customer in the LiDAR industry on a design project and anticipate additional long-term demand increases from this customer as it completes testing of our products and moves forward with the commercial launch of its products in the coming years. The Company is also working with a mega-cap technology company to deliver optical chips for use in augmented and virtual reality devices ("AR/VR"), a market that Enablence expects to grow significantly in the coming years. Other recent projects in the medical device and sensor markets will provide additional opportunities for growth in the future as these markets materialize and grow.

Our challenges include system-level qualification at the end customer level, process level qualification at the contract manufacturers, and scaling our internal production. We have passed a number of customer qualifications and we are confident that we can continue to pass additional customer qualifications as we expand our sales to existing and new customers.

The impact of the COVID-19 pandemic is continuing on the business operations of the Company. The Company's Fremont, California plant operations have been allowed to continue to remain open under the Critical Manufacturing exemption for essential workers enacted by the State of

California, however, the remainder of its office staff in California and in Canada have continued to work remotely in most circumstances, to prevent the potential for outbreaks that could harm employee health and hurt future business operations. In addition, the Company is reliant on raw materials for its products that are in extremely high demand globally which has increased lead times for the Company and made production planning difficult. One example is blank silicon wafers which are sourced from Asia where factories have been closed numerous times during the pandemic started and where we compete against other companies in the extremely busy semiconductor industry for supply. The Company is managing these issues primarily through larger bulk advance orders for these products and in some instances, prepayment which negatively impacts the cash available to support other business operations. The Company has also experienced demand fluctuations for its products as its customers have often delayed orders and shipments for issues faced in their own operations. The Company is hopeful that business operations will return to normal now that vaccine rollouts are widespread globally and hopes to re-open its offices fully to its staff later in 2021 once concerns over a potential “fourth wave” of the pandemic dissipate.

In order to achieve its long-term goals, the Company has commenced marketing for a C$11 million private placement of new capital (the “Private Placement”). Assuming the Private Placement is completed, the Company will implement a US$4 million capital improvement plan. Once completed, the Company believes this will increase production capacity at the Company’s fabrication plant from the current 100-150 wafer per month production rate to 300-400 wafers per month. A portion of the capital improvement plan funds will also be used to purchase testing equipment in Ottawa, allowing the research and design team to more rapidly iterate new designs and expand our customer base. We will also hire additional staff in key operational and sales roles to support the planned ramp-up in customer demand. The failure to raise new funds through the Private Placement will result in slower growth for the Company and will potentially limit our ability to achieve the revenues necessary to achieve profitability from its business operations. The remaining approximately C$6 million in funds from the Private Placement are anticipated to be used for general working capital purposes, including to repay amounts owed in accounts payable and accrued liabilities.

LIQUIDITY

The Company’s objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company’s operating, debt service and organic growth requirements. During the year ended June 30, 2021, the Company obtained short- and long-term debt financing in the amount of $3,325 (inclusive of government loans).

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at June 30, 2021, there are 641,927 common shares and no preferred shares outstanding.

The Company has sustained significant losses since its inception and expects to continue to incur losses until such time as its customer base and their order volumes are sufficient to generate enough revenue for the Company to exceed its expenses. The Company’s ability to reach profitability is dependent on successful introduction of new products, improved margins, revenue growth, the completion of required maintenance and upgrades to its fabrication facility and the securing of additional financing to support this growth. There can be no assurance that Enablence will gain adequate market acceptance for its new products or be able to generate sufficient gross margins to reach profitability.

Enablence has not generated positive cash flow from operations since its inception and has relied on cash from the issuance of equity and debt to fund its operations. The table on the following page sets out the Company’s cash and cash equivalents, and working capital as at June 30, 2021 and 2020.

	June 30, 2021	June 30, 2020
Cash and Cash Equivalents	**$190**	$131
Restricted cash	**4**	4
	194	135
Working capital (deficiency)	**(40,037)**	(31,281)

The working capital deficiency from operations at June 30, 2021 was $40,037 as compared to a working capital deficiency of $31,281 at June 30, 2020, stemming primarily from short-term notes payable and convertible debentures that have been largely used to finance the Company over recent years. This reduction in the working capital during the year ended June 30, 2021 was mainly due to the cash used in operations, increase in notes payable, convertible debentures and accounts payable and accrued liabilities.

The working capital deficiency primarily results from significant amounts of short-term notes payable, convertible debentures, the EDC loan and the accrued liabilities and accounts payable. As part of the Company's proposed Recapitalization (see *Subsequent Events*), the Company has received signed debt settlement agreements from creditors representing 100% of the amounts owed under the notes payable and convertible debentures, and all amounts due will be converted to common shares and/or warrants upon approval of the Recapitalization. A small amount of accounts payable and accrued liabilities will also be satisfied through the exchange of shares-for-debt as part of the Recapitalization.

All debts of the Company are due on demand and any demand for repayment of a portion, or all, of these debts would have severe financial consequences for the Company, as it would be required to either (i) issue new replacement debt, (ii) issue new equity, or (iii) pursue such other alternatives as may be available to the Company to allow for the repayment of the debt. Given the large balances owed, if the Recapitalization is not approved, there can be no guarantee that the Company will be able to successfully execute on any alternative strategies and the Company's ability to operate as a going concern would be challenged. Please refer to the *Appendix A: Risks and Uncertainties* section for further information.

The chart on the following page highlights the Company's cash flows during the year ended June 30, 2021 and 2020.

	Year ended June 30, 2021	2020
Cash used in Operating activities	**(2,340)**	(4,515)
Investing activities		
Purchase of property, plant and equipment	**(64)**	(188)
Proceeds on disposal of equipment	**-**	-
	(64)	(188)
Financing activities		
Advances from (repayments on) short term notes payable	**2,677**	4,365
Advances from long term notes payable	**-**	50
Net proceeds from issuance of shares	**-**	-
	2,677	4,415
Effect of foreign currency translation	**(214)**	374
Net change in cash and cash equivalents	**59**	86

As at June 30, 2021, the Company had cash available of $190 (not including $4 of restricted cash). The Company consumed $2,340 in operating activities for the year ended June 30, 2021 as compared to $4,515 in the prior year. This reduction in cash used in operating activities has allowed the Company to reduce its need for external financing but the Company still needs to increase its revenue in order to fully offset its costs of revenue and operating costs to generate a positive balance in its cash flow from operating activities; this is a key focus area for Company management.

Short Term Loan Financing

During the year ended June 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $2,649, of which $Nil were from related parties. As at June 30, 2021, a total amount of $20,249 remains owing for short-term loans, including the ones issued this year, which includes $2,808 of accrued interest and $125 of accrued fees.

Unsecured short-term loans have been the primary method of obtaining financing for the Company since July 1, 2018. The Company maintains strong relationships with its creditors and believes that it will have the option to raise additional short-term loan financing, if required, to support its operating deficits and growth needs in the future, provided that the proposed Recapitalization is completed. If the Recapitalization is not completed, it may be difficult for the Company to obtain additional short-term loans on similar, or any, terms as compared to the prior short-term loan terms.

Convertible Debenture Financing

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.

As the Debentures are convertible into Shares at the option of the holder, they have been accounted for into their component parts. The Company allocated the proceeds of the Debentures according to their relative fair value, specifically the fair value of the Company's liability to make future payments of principal and interest of $4,694 was allocated as a liability and the fair value of the holders' conversion option to be $1,086 was allocated to contributed surplus. The carrying value of the debentures is accreted to the principal amount over the term to conversion through a charge to interest expense. The Company determined the carrying value of the liability by discounting the stream of future cash payments of interest and principal at an estimated market rate of 18% for a similar liability that does not have an associated conversion/equity component. The carrying value of the debentures will be accreted to the principal amount over the term to conversion through a charge to interest expense. Professional and financing costs of $378 were incurred to complete the issuance of the Debentures. The portion of the financing fees that relate to the Debentures have been split between debt and equity in the same proportion as the Debentures were split between debt and equity. The debt financing costs of $307 were amortized over the initial three-year term of the debt. The equity financing costs of $71 have been charged to contributed surplus.

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. Subsequent to the end of the year, 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 as part of the Recapitalization.

The Company has determined under IFRS 9 Financial Instruments, that the amendment of the Debentures did not meet the tests for substantial modification and as a result, the net present value of the changes to the future contractual cash flows of $207 were recognized as other income during the year ended June 30, 2020, and the adjusted carrying amount was amortized over the remaining term of the Debentures using the original effective interest rate.

During the year ended June 30, 2021, the Company recorded accretion of $832 to interest expense (2020 - $951) and accrued $250 of arrears interest (2020 - $143). Of the $2,917 (2020 - $1,891) interest accrued since June 30, 2017, $81 (2020 - $73) has been paid and the unpaid balance of $2,836 (2020 - $1,817) is overdue and included in accrued interest.

As at June 30, 2021, the total Debenture liability is $8,887 (2020 - $7,115), including accrued and unpaid interest of $2,836 (2020 - $1,817).

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.

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 PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is will be forgiven

once the forgiveness application has been processed by the SBA. The Second PPP Loan has been recognized to Other Income in the year ended June 30, 2021.

BOARD AND MANAGEMENT

Derek H. Burney, Louis De Jong, and Dan Shmitt are the Directors of the Company. Derek H. Burney acts as Chair of the Board of Directors, and Louis De Jong acts as Chair of the Audit Committee.

On May 10, 2021, the Company announced the resignation of its Co-Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), Scott Larin, who elected to take a new position in the capital markets industry. In his place, the Company hired Craig Mode as Co-CEO and CFO to lead all aspects of the Company’s finance, accounting and capital markets strategies going forward. Mr. Mode will work alongside existing Co-CEO Ashok Balakrishnan on all work relating to the Company’s optical components strategy.

CAPITAL RESOURCES

Enablence finances its operations through the issuance of common shares and debt. The Company may also receive cash proceeds on the issue of additional common shares on the exercise of options and warrants depending in part on the market price for its shares.

The Company periodically evaluates the opportunity to raise additional funds through either the public or private placements of equity and debt capital to strengthen its financial position and to provide sufficient cash reserves to protect itself from the effects of the volatile economic conditions that are difficult to predict. Please refer to the section entitled *Risks and Uncertainties* for more information.

See the *Liquidity* and *Subsequent Events* sections above for details on financings completed during the year ended June 30, 2021 and for loans obtained subsequent to the year end. As stated in the Liquidity section above, the Company has been able to raise additional short-term loan financing to support its operating deficits and growth needs; however, the ability to continue to do so in the near term may be difficult unless the proposed Recapitalization is completed. Assuming that the Recapitalization is completed, it is expected that the Company will have the ability to access a number of different financing sources, including traditional debt and equity options, to finance future operations and growth needs.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 641,927 common shares issued and outstanding as of October 13, 2021 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol “ENA” or “ENA.V”.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below presents the Company’s contractual obligations from operations.

	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

The Company is currently in breach of its latest amending agreement with EDC relating to interest and principal payments and has received a default notice from EDC. Subsequent to the end of

the year, EDC notified the Company that it has sold the loan to another party, and the Company entered into an amendment to the loan agreement with the new lender to ensure it can maintain compliance with the loan terms in the future (see *Subsequent Events*).

The Company is also in breach of its agreement with the convertible debenture holders as the debentures matured on December 31, 2020. Subsequent to the end of the year, the Company entered into deb settlement agreements with all of the convertible debenture holders to exchange the full amounts owed (including interest) for common shares and warrants of the Company as part of the Recapitalization (see *Subsequent Events*).

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars and Chinese renminbi. Management continually evaluates foreign exchange risk management strategies; however, at this time, the Company has not entered any forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

Enablence has not entered any other material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, or derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

TRANSACTIONS WITH RELATED PARTIES

China TriComm Ltd., Win Brand Limited, Irixi Holding Limited and related subsidiaries

As at June 30, 2021, the following group of joint actors held ownership in the Company through common shares:

- China TriComm Ltd. ("TriComm"), controlled by a former director of the Company - 30,000 common shares
- Win Brand Limited (“Win Brand”), partially owned by a former CEO and a former CFO of the Company – 3,600 common shares
- Irixi Holding Limited ("Irixi"), a joint-venture controlled by TriComm and Win Brand - 39,408 common shares

On May 31, 2019, Enablence and Irixi signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi to offset certain debts owed by the Company to Irixi at that time. The net remaining amount due to Irixi of $260 was treated as a long term note payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022 (the “Irixi Loan”). During the year ended June 30, 2021, a total of $51 (2020 - $22) has been accrued and the amount owing on the Irixi Loan is $386 (2020 - $321) as at June 30, 2021 (Note 11(d)).

The following transactions took place between Enablence and a China-based subsidiary of Irixi (“Suzhou Irixi”) during the years ended June 30, 2021 and June 30, 2020.

- During the year ended June 30, 2021, Suzhou Irixi provided short-term financing of $Nil (2020 - $50) to Enablence Suzhou.
- As of June 30, 2021, the accounts receivable balance of the Company from Suzhou Irixi is $13 (2020 - $16) which is a result of rental deposit amounts funded by the Company on Suzhou Irixi’s behalf in the year ended June 30, 2019

The Company has recorded additional amounts due to Irixi and its related affiliates and/or subsidiaries as follows:

- $783 (2020 - $783) is included in accrued liabilities for services provided by officers of Irixi to Enablence during their time as consultants, CEO and CFO of Enablence for the periods commencing in November 2013 and ending February 2019

- $482 (2020 - $482) is included in accounts payable, representing amounts paid by Irixi to a contract manufacturer on Enablence's behalf in the year ended June 30, 2018 and for consulting services provided by Irixi to Enablence in the year ended June 30, 2017
- $325 (2020 - $325) for work relating to a services agreement in calendar year 2017

None of the above amounts, except for the Irixi Loan, contain any provision for additional interest on amounts due and no amounts were paid in the years ended June 30, 2021 or 2020.

Other Related Party Transactions

During the year ended June 30, 2021, the Company received $Nil (2020 - $330) in the form of short-term bridge loans from members of the Board of Directors of the Company. Interest totaling $36 (2020 - $17) was accrued in the year on loans previously provided by Directors.

Craig Mode, named co-CEO and CFO of the Company on May 10, 2021, provided the Company with a $50 short-term bridge loan in the twelve-month period ended June 30, 2020, prior to commencing his role as an officer of the Company. The loan is recorded in short-term notes payable and carries an interest rate of 10% per annum. Interest totaling $5 (2020 - $1) was accrued on the loan in the year. The full amount of the loan and interest of $56 (2020 - $51) remains outstanding as of year-end.

RISKS AND UNCERTAINTIES

The Company's financial position remains challenged in a dynamic, rapidly changing environment that involves risks and uncertainties. As a result, management expectations may not be realized. The Company continues to be dependent on additional financing until revenues and gross margins increase to the point that operations are profitable. In addition, the Company has announced a comprehensive Recapitalization that is critical to the long-term success of the business, as it will convert significant amounts of debts owed into equity capital of the Company and will provide much needed new capital to the business. There is no certainty that the approvals required to complete the Recapitalization will be obtained by the Company. As a result, an investment in Enablence is speculative.

Any investor should also consider carefully the risks and the risks and uncertainties that are detailed in *Appendix A*.

CRITICAL ACCOUNTING ESTIMATES

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.

<u>Judgments</u>

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.

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 under the Paycheck Protection Program. The loans are forgivable as long as 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. In order 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.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible debentures and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

Additional information related to the Company can be found on SEDAR at: www.sedar.com.

APPENDIX A

RISKS AND UNCERTAINTIES

An investment in the Enablence common shares is subject to a variety of risks. The Company operates in a rapidly changing environment that involves risks and uncertainties that could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The current global economic uncertainty poses additional risks and uncertainties that may materially affect management's expectations. Any investor should also consider carefully these risks and the risks and uncertainties that are detailed below and available as part of the Company's continuous disclosure record available at www.sedar.ca.

The following are the principal risk factors relating to Enablence and its business:

The Recapitalization requires the completion of a share consolidation prior to the completion of any shares-for-debt exchange
Because the Company's common shares have consistently traded at a price that is below the $0.05 per share minimum allowable by the TSXV for the issuance of new shares, the Company is required to complete a share consolidation in advance. The consolidation requires a 2/3 majority vote of those casting votes at the AGM. The failure to receive such approval will result in the Company not being able to enact both (i) the shares-for-debt component of the Recapitalization which requires the issuance of new common shares, and in select cases, share purchase warrants, to satisfy the debts and (ii) the non-brokered private placement of new common shares and warrants. If the Company cannot complete the debt exchange or raise new capital, its ability to operate as a going concern will be severely compromised.

Significant future capital requirements; need for significant additional financing
The Company's future capital requirements will be significant. There can be no assurances that the Company will be able to raise the additional funds (on commercially reasonable terms, or at all) that it will need to develop and produce its products on a volume basis and remain competitive in its markets. Any inability to obtain additional financing when needed would have a material adverse effect on the Company. In addition, any additional equity financing or conversion of debt obligations may involve substantial dilution to Company's then existing shareholders.

Company's proprietary fab plant and office space in Fremont, California operates under a month-to-month lease
Since October 2018, the Company has been operating its fab operations under a month-to-month lease arrangement with its landlord. While Enablence (and its predecessor companies) has been a tenant in the space since 2003, it is possible that the landlord will elect to terminate the month-to-month lease which would result in the inability of Enablence to operate its fab and to generate revenue for its optical chips until such time as a replacement fab, if any, could be found. This would have a material negative impact on Company operations and there is no assurance that Enablence could find a replacement fab on a timely basis, if at all. The cost to construct a new fab would be significant and well above the cash resources that the Company has on-hand today. No termination notice has been served to Enablence as of the date hereof.

The Company's revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations and cash flows
The Company's revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, the Company's operating results may not follow any past trends. The Company's quarterly revenue is generally dependent upon conversion of opportunities in the sales pipeline during the quarter. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. Accordingly, Enablence must build inventory based in part

on its revenue forecast in order to meet delivery requirements for a major portion of its short lead-time orders. The factors affecting the Company's revenue and results, many of which are outside of its control, include:

- lack of long-term purchase commitments from customers;
- competitive conditions in the industry, including strategic initiatives by the Company or its competitors, new products, product announcements and changes in pricing policy by the Company or its competitors
- market acceptance of the Company's products;
- the Company's ability to maintain existing relationships and to create new relationships with customers;
- the discretionary nature of purchase and budget cycles of the Company's customers;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, strategic investments or changes in business strategy; and
- timing of product development and new product initiatives.

The Company's gross margin and operating results may be adversely affected by lower pricing required to compete successfully and/or if its product cost targets cannot be achieved

The intensely competitive market in which the Company conducts its business may require the Company to reduce its prices. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products and services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes or actions would reduce the Company's margins and could adversely affect the Company's operating results. Many of the Company's competitors have significantly greater financial, technical, marketing or service resources than the Company. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than the Company. Customers and prospective customers of the Company are generally concerned that their suppliers will continue to operate and provide product support, maintenance and warranty services.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Inventory Management

Lead times for the materials and components that the Company orders through its contract manufacturers may vary significantly and depend on numerous factors, including the specific supplier, contract terms and market demand for a component at a given time. If the Company

overestimates its production requirements, its contract manufacturers may purchase excess components and build excess inventory. If the Company's contract manufacturers purchase excess components that are unique to its products or build excess products, the Company could be required to pay for these excess parts or products and recognize related inventory write-down costs. If the Company underestimates its product requirements, its contract manufacturers may have inadequate component inventory, which could interrupt manufacturing of its products and result in delays or cancellation of sales. In prior periods the Company has experienced excess and obsolete inventory write-downs which impact the Company's cost of revenue. This may continue in the future, which would have an adverse effect on the gross margins, consolidated financial condition and consolidated results of operations of the Company.

Accounts Receivable Management
In certain instances, the Company is limited in its ability to evaluate the creditworthiness of direct customers who decline to provide it with financial information. Any collection problems the Company may experience with these customers could have an adverse impact on the business, operating results, or financial condition of the Company. Any material collection issues with the Company's customers could result in increases in bad debt expense or collection costs, inventory impairments, or adjustments to its reported revenues or deferred revenues, any of which could adversely affect the results of operations of the Company and could result in a decline in the price of the Common Shares.

Dependence on Third Party Suppliers
The Company relies heavily on its suppliers and contract manufacturers. If third party suppliers or manufacturers lack sufficient quality control or if there are significant changes in the financial or business conditions of such third parties, it may have a material adverse effect on the Company's business. The Company's profit margins and time to market may be affected by factors beyond its immediate control. The Company's products also use other customized components that are procured from third parties. The performance and ability of these suppliers and the performance of their components are critical to its success. The hybridization of these active components onto the Company's PLC platform requires specialized equipment, the capacity of which cannot be assured through its outsourcing suppliers. Certain packaging of the Company's components is performed through contract manufacturers, and it relies on their ability to achieve the Company's pricing and capacity requirements.

International Operations
The Company generates a significant portion of its sales from customers outside of North America, including emerging markets. Regulations or standards adopted by other countries may require the Company to redesign its existing products or develop new products suitable for sale in those countries. If the Company invests substantial time and resources to expand its international operations and is unable to do so successfully and in a timely manner, the business, financial condition and results of operations of the Company will suffer. In the course of expanding the Company's international operations and operating overseas, it will be subject to a variety of risks, including:

- travel restrictions and/or ongoing temporary plant closures or demand fluctuations stemming from the continuation of the COVID-19 pandemic;
- differing regulatory requirements, including tax laws, trade laws, labour regulations, tariffs, export quotas, custom duties or other trade restrictions and changes thereto;
- greater difficulty supporting and localizing the Company's products;
- different or unique competitive pressures as a result of, among other things, the presence of local equipment suppliers;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- limited or unfavourable intellectual property protection;
- changes in a specific country's or region's political or economic conditions; and

- restrictions on the repatriation of earnings.

Managing Growth

The Company pursues a growth strategy that focuses on organic growth. The Company has undertaken several acquisitions in prior years to allow the Company to expand its product offerings and customer base, and may do so in the future. While the Company has no active plans to acquire other companies, the success with which the Company can integrate companies acquired in the future will be critical in achieving the benefits from them. Failure to properly integrate and save costs and achieve market leadership based on these acquisitions may hinder the Company's ability to be successful in its growth plans. On-going plans for further acquisitions will also be dependent on the Company's ability to fund an acquisition, identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired operations and technology of such companies successfully with its own and maintain the goodwill of the acquired business. The Company is unable to predict whether it will be able to identify further suitable additional acquisition candidates or the likelihood that these potential additional acquisitions will be completed. In addition, efforts to integrate acquisitions entail significant risks including, but not limited to, the possibility that the operations of the acquired business will not be profitable, diversion of the attention of the Company's management from day-to-day operation of the Company's business and the assumption of significant and/or unknown liabilities of the acquired business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Acquisitions could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that the acquisitions made to date will be successfully integrated and future acquisitions will be successfully completed or that, if more acquisitions are completed, the acquired businesses, products or technologies will be integrated successfully or generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Uncertain Global Economic Conditions

Current conditions in the domestic and global economies are uncertain. There continues to be a high level of market instability and market volatility with unpredictable and uncertain financial market projections. The impacts of a global recession or depression will have consequences on the Company's operations in North America and globally, preventing the roll out of optical network deployments or other consequences such as the costs of such roll outs, unavailability of funds for roll outs of new products, or upgrades of the curtailment of expenditures on new optical infrastructure. Global financial problems and lack of confidence in the strength of global financial institutions have created many economic and political uncertainties that have impacted the global economy. As a result, it is difficult to estimate the level of growth for the world economy as a whole. It is even more difficult to estimate growth in various parts of the world economy, including the markets in which the Company participates. All components of the Company's budgeting and forecasting are dependent on estimates of growth of the optical components market and the widespread acceptance of PLC technology throughout the world. The prevailing economic uncertainties render estimates of future income and expenditures difficult.

Political, Economic and Other Risks of Operations in China

The Company has operations in China, as such the Company is subject to political, economic and social risks relating to operating in a foreign jurisdiction, these risks including: (i) nationalization, expropriation of assets or property with or without compensation, forced modification or cancellation of existing contracts, (ii) currency fluctuations and devaluations, unfavourable tax enforcement, changing political conditions, political unrest and civil strife, (iii) changes in governmental regulations or policies with respect to currency, production, price controls, profit repatriation, export controls, labour, taxation, trade, environmental and health and safety matters. Any of these risks could have a material adverse effect on business, results of operations and financial performance of the Company.

Difficulty in enforcement of judgements

Significant assets of the Company are located outside of Canada. Accordingly, it may be difficult for investors to enforce within Canada any judgments obtained against the Company, including judgments predicated upon the civil liability provisions of applicable Canadian securities laws. Consequently, investors may be effectively prevented from pursuing remedies against the Company under Canadian securities laws or otherwise.

The Company previously had a joint venture incorporated in China and the joint venture operations were conducted in China. The Company also has a number of subsidiaries incorporated in the United States. Certain directors reside in the United States, and substantially all of the assets of these persons are located outside of Canada. It may not be possible for shareholders to effect service of process against the Company's directors who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of our directors for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors not resident in Canada. Additionally, it may be difficult for an investor, or any other person or entity, to assert Canadian securities law claims or otherwise in original actions instituted outside of Canada. Courts in such jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

Market Opportunities
The demand for the Company’s products depends in large part on the continued growth of the industries in which it participates, particularly in the deployment of long haul, metro and FTTH markets. A market decline could have an adverse effect on the Company’s business. The speed of FTTH deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the telecommunications industry and the FTTH market in which the Company participates grow is critical to its ability to meet expectations and improve the Company’s financial performance.

Sales Cycles are Long and Unpredictable
The timing of the Company’s revenues is difficult to predict. The Company’s sales efforts often involve educating its customer base about the use and benefits of its products. The Company’s customers often undertake a significant evaluation process, which frequently involves not only the Company’s products but also those of its competitors and this can result in a long sales cycle. The Company spends substantial time, effort and money in its sales efforts without any assurance that its efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales from a specific customer for a particular quarter are not realized in that quarter or at all, the Company may not achieve its revenue forecasts and its business could be materially and adversely affected.

Dependence on Key Customers
A limited number of customers account for a large percentage of the Company’s revenue within any given period. The Company expects that a significant portion of its revenues will continue to be derived from a small number of customers. These customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. If the Company does not effectively respond to the demands of its customers, they could decrease their purchases from the Company, causing the Company’s sales and profits to decline. If the Company ceases doing business with a significant customer or if sales of its products to a significant customer materially decrease, it could have a material adverse effect on the Company’s business, financial condition and results of operations.

In addition, as a result of a significant volume of revenue being generated with any particular customer(s), there is the risk of trade accounts receivable being concentrated to a limited number of customers, whereas any delays or non-payment of such trade accounts receivable, could have a negative impact on the Company's liquidity and/or the Company's cash available to support business operations.

Customer Spending Patterns

Demand for the Company's products depends on the magnitude and timing of capital spending by telecom network and service providers as they construct, expand and upgrade their networks. The Company sells its components to customers that sell to the telecom service providers. Other factors affecting the capital spending patterns of telecom service providers include the following:

- competitive pressures, including pricing pressures;
- consumer demand for new services;
- an emphasis on generating sales from services delivered over existing networks instead of new network construction or upgrades;
- the timing of annual budget approvals;
- evolving industry standards and network architectures;
- free cash flow and access to external sources of capital; and
- completion of major network upgrades.

Competitive Pressures

Competition in the Company's markets is intense, and the Company expects competition to increase. The market for optical components and subsystems is susceptible to price reductions among competitors seeking relationships with large multinational, well-capitalized businesses.

New products may be slow to be accepted into the market or may not be accepted at all. The Company is constantly exposed to the risk that its competitors may implement new technology before the Company does, or may offer lower prices, additional products or services or other incentives that Enablence cannot and will not offer. The Company can give no assurances that it will be able to compete successfully against existing or future competitors.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Many of the Company's existing and potential competitors are larger than the Company, with longer operating histories and substantially greater financial, technical, marketing or other resources, significantly greater name recognition, and a larger installed base of customers. Unlike

some of the Company's competitors, the Company does not provide equipment financing to potential customers. In addition, many of the Company's competitors have broader product lines than it does, so they can offer bundled products, which may appeal to certain customers.

The products that the Company and its competitors sell require a substantial investment of time and funds for our customers to design into their products. Customers are typically reluctant to switch component suppliers once a particular supplier's product has been designed in. As a result, competition among component suppliers to secure contracts with potential customers is particularly intense and will continue to place pressure on product pricing. Some of the Company's competitors have resorted in the past, and may resort in the future, to offering substantial discounts to win new customers and generate cash flows. If the Company is forced to reduce prices in order to secure customers, the Company may be unable to sustain gross margins at desired levels or achieve profitability.

Product Defects and Warranty Obligations

Although the Company's products are tested prior to shipment, they may contain defects or interoperability issues (collectively described as "defects") that may only be detected when tested in the final product of our customer. In addition, defects or other malfunctions or quality control issues may not appear until the equipment has been deployed for an extended period of time. The Company also continues to introduce new products that may have undetected defects. The Company's customers may discover defects in its products at any time after deployment or as their networks are expanded and modified. Any defects in the Company's products discovered in the future, could result in lost sales and market share and negative publicity regarding its products. The Company provides limited warranties on its products. As a result, warranties on a product with a significant product defect could adversely affect the results of operations of the Company.

Product Development and Technological Change

The markets for the Company's products are characterized by rapidly changing technologies, frequent new product introductions and evolving industry standards. The Company's success will depend, in substantial part, on the timely and successful introduction of products and upgrades to those products to comply with emerging industry standards and to address competing technological and product developments carried out by its competitors. The research and development of technologically advanced products is a complex and uncertain process requiring high levels of innovation as well as the accurate anticipation of technological and market trends. The Company may focus its resources on technologies that do not become widely accepted and are not commercially viable. In addition, products may contain defects that are detected only after deployment. If the Company's products are not competitive or do not work properly, its business will suffer. The Company's products are also intended to replace current technologies. Any improvements in the costs of production of current products in the market can negatively impact the Company's margins and its competitive position in the marketplace with prices for its products falling and reducing profit margins.

Product Obsolescence

The Company's market is characterized by rapid technological advances, frequent new product introductions, evolving industry standards and recurring changes in end-user requirements. The Company's future success will depend significantly on its ability to anticipate and adapt to such changes and to offer, on a timely and cost-effective basis, products and features that meet changing customer demands and industry standards. The timely development of new or enhanced products is a complex and uncertain process, and the Company may not be able to accurately anticipate market trends or have sufficient resources to successfully manage long development cycles. The Company may also experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products. The introduction of new or enhanced products also requires that the Company manages the transition from older products to these new or enhanced products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products are

available for delivery to meet anticipated customer demand. If the Company is unable to develop new products or enhancements to its existing products on a timely and cost-effective basis, or if the new products or enhancements fail to achieve market acceptance, the business, consolidated financial condition and consolidated results of operations of the Company would be materially and adversely affected.

Development Stage Products and Customer Expectations
The Company may not be able to successfully demonstrate high yields on large volume production of its components and meet all of the specification requirements of all products in accordance with industry requirements for all of its product lines. There may be potential quality issues on the manufacture of these products resulting from the way the products are designed or manufactured or in the processes used for the design and manufacture of the product(s), or from the software or materials used in the product(s). These factors may cause delays in availability and shipping of products to potential customers, or even the cancellation of orders by customers. Quality issues in the products may have legal and financial implications for the Company, including delays in revenue recognition, loss of revenue or future orders, customer-imposed penalties for failure to meet contractual shipment deadlines, increased costs associated with repairing or replacing products, and a negative impact on goodwill and brand name reputation and higher manufacturing costs.

Intellectual Property
The Company depends on its proprietary technology for its success and ability to compete. The Company currently holds several issued patents and has several patent applications pending. The Company relies on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect its proprietary rights. Existing patent, copyright, trademark and trade secret laws will afford the Company only limited protection. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of Canada. The Company cannot be assured that any pending patent applications will result in issued patents, and issued patents could prove unenforceable. Any infringement of the Company's proprietary rights could result in significant litigation costs. Further, any failure by the Company to adequately protect its proprietary rights could result in the Company's competitors offering similar products, resulting in the loss of its competitive advantage and decreased sales.

Despite the Company's efforts to protect its proprietary rights, attempts may be made to copy or reverse engineer aspects of its products, or to obtain and use information that the Company regards as proprietary. Accordingly, the Company may be unable to protect its proprietary rights against unauthorized third party copying or use. Furthermore, policing the unauthorized use of the Company's intellectual property would be difficult. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the business, consolidated financial condition and consolidated results of operations of the Company.

Intellectual Property Litigation
The Company may be subject to intellectual property infringement claims that are costly to defend and could limit the Company's ability to use some technologies in the future. The Company's industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. From time to time, third parties have asserted against the Company, and may assert against it in the future, patent, copyright, trademark or other intellectual property rights to technologies or rights that are important to the business. In addition, the Company has agreed, and may in the future agree, to indemnify its customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. Any claims asserting that the Company's products infringe, or may infringe on, the proprietary rights of third parties, with or without merit, could be time-consuming, resulting in

costly litigation and diverting the efforts of management. These claims could also result in product shipment delays or require the Company to modify its products or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available to the Company on acceptable terms, if at all.

Currency Fluctuations may Adversely Affect the Company
A substantial portion of the Company's operating costs are recognized in currencies other than US$, specifically the Canadian dollar, and the Chinese Renminbi. The Company carries certain monetary assets and liabilities in these and other currencies, which differ from the Company's U.S. dollar base reporting currency. Fluctuations in the exchange rate between these currencies and the U.S. dollar may have a material adverse impact on the Company's business, financial condition and operating results.

Earnings History
The Company has incurred significant losses since its inception. The Company may continue to incur losses during the current and following fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

A significant portion of the Company's expenses are fixed, and the Company expects to continue to incur significant expenses for research and development, sales and marketing, and general and administrative functions. Given the rate of growth in the Company's customer base, its limited operating history and the intense competitive pressures it faces, the Company may be unable to adequately control operating costs. To achieve and maintain profitability, the Company must increase sales while maintaining control over expense levels.

Key Personnel
Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. The Company cannot be certain that it will be successful in attracting and retaining qualified personnel, or that newly hired personnel, will function effectively, either individually or as a group. In addition, the industry is characterized by frequent claims relating to unfair hiring practices. The Company may become subject to such claims and may incur substantial costs in defending the Company against these claims, regardless of their merits. If the Company is unable to effectively hire, integrate and utilize new personnel, the execution of its business strategy and its ability to react to changing market conditions may be impeded, and the business, financial condition and results of operations of the Company could be materially and adversely affected.

Changes in Accounting and Tax Rules
The Company is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a material adverse effect on the financial results of the Company or the manner in which the Company conducts its business. Requirements as to taxation vary substantially among the jurisdictions in which the Company operates. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could subject the Company to penalties and fees if it inadvertently fails to comply. In the event the Company inadvertently fails to comply with applicable tax laws, it could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Changes in Government Policy
The Company's results may be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of the Canadian and foreign governments, agencies and similar organizations. The Company's results may be affected by social and economic conditions that

impact its operations, including in emerging markets in Asia and in markets subject to ongoing political hostilities.

Share Price Volatility
The Common Shares trade on the TSXV; however, the Company cannot predict the extent to which investor interest will lead to the development of an active and liquid trading market in its common shares and it is possible that an active and liquid trading market will not develop or be sustained. This risk is elevated given the existence of the Cease Trader Order over the Company's common shares that was in place from June 2020 to July 2021. Some companies that have volatile market prices for their securities or that have operated under a Cease Trade Order have had securities class action lawsuits filed against them. If a lawsuit were to be filed against the Company, regardless of its outcome, it could result in substantial costs and a diversion of management's attention and resources.

The price of Common Shares may fluctuate in response to a number of events, including but not limited to:

- its quarterly operating results;
- sales of the Company's common shares by a principal shareholder;
- future announcements concerning the business of the Company or of its competitors;
- the failure of securities analysts to cover the Company and/or changes in financial forecasts and recommendations by securities analysts;
- actions of the Company's competitors;
- actions of the Company's suppliers;
- actions of directors and officers regarding purchase and sale of shares;
- the volatility of the telecommunications and technologies markets as a whole;
- general market, economic and political conditions;
- natural disasters, terrorist attacks and acts of war; and
- the other risks described in this section.

The Impacts of the Coronavirus (COVID-19)
The spread of the COVID-19 virus starting in early 2020 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 impact 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.