ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE MONTHS ENDED December 31, 2023

DATED: February 29, 2024

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 December 31, 2023 compared to June 30, 2023 and the results of operations for the three months ended December 31, 2023 compared to the three months ended December 31, 2022 (collectively, the "MD&A").

This MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the three months ended December 31, 2023 and as well as the audited consolidated financial statements and accompanying notes for the year ended June 30, 2023. 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. 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 and to attain profitable 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 February 29, 2023.

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 be able to raise sufficient financing to meet its financial obligations as they come due and to allow it to execute fully on its business plan.
- 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.

- Enablence will continue to maintain an ongoing tenancy for its fabrication facility in Fremont, California, despite the month-to-month nature of its current lease.
- The Company will be able to raise additional new capital in the future to allow the Company to expand its manufacturing capacity as required.
- The Company will be able to maintain production volumes that are sufficient to meet sales demand and expectations of customers.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	Year ended June 30	
	2023	2022
Revenue	**$1,961**	$1,978
Gross margin	**(1,373)**	(463)
Operating expenses	**6,469**	5,321
Loss before other income (expenses)	**(7,842)**	(5,784)
Net income (loss)	**(8,605)**	11,693
Basic income (loss) per share	**($0.47)**	$0.91
Diluted income (loss) per share	**($0.45)**	$0.87

Balance Sheet Data	Year ended June 30	
	2023	2022
Total assets	**$5,970**	$1,434
Total non-current financial liabilities	**$12,109**	$5,493
Total liabilities	**$18,883**	$11,226
Cash dividends declared per share	**Nil**	nil

OVERVIEW

ENABLENCE'S BUSINESS

Enablence Technologies Inc. is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange (TSXV – ENA). 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 infrastructure end markets ("Datacoms"). Enablence also works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets, which the Company refers to as Advanced Vision. 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.

Enablence has spent over 15 years perfecting design and manufacturing processes for photonics chips with a focus on product lines that address access – connecting homes and businesses to the network. The Company's mission is to enable world class optical networking and advanced vision solutions through industry leading design, development, and manufacturing of PLC chips.

RESULTS OF 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 December 31, 2021 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, 2023. 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.

	Q2 2022 31-Dec 2021	Q3 2022 31-Mar 2022	Q4 2022 30-Jun 2022	Q1 2023 30-Sep 2022	Q2 2023 31-Dec 2022	Q3 2023 31-Mar 2023	Q4 2023 30-Jun 2023	Q1 2024 30-Sep 2023	Q2 2024 31-Dec 2023
Revenue	$ 422	$ 442	$ 539	$ 554	$ 422	$ 492	$ 493	$ 225	$ 340
Gross Margin	(139)	(79)	(134)	(380)	(338)	(318)	(337)	(670)	(534)
GM %	(32.9%)	(17.9%)	(24.9%)	(68.6%)	(80.1%)	(64.6%)	(68.4%)	(297.8%)	(157.1%)
Expenses									
Research & development	337	396	314	356	428	520	518	654	602
Sales & marketing	68	65	72	97	148	122	134	169	179
General & administration	323	509	698	784	628	694	893	941	780
Stock-based compensation	903	40	422	258	218	709	(38)	47	129
Expenses	1,631	1,010	1,506	1,495	1,422	2,045	1,507	1,811	1,690
Operating loss	(1,770)	(1,089)	(1,640)	(1,875)	(1,760)	(2,363)	(1,844)	(2,481)	(2,224)
Gain on recapitalization	17,332	-	(826)	-	-	-		-	
Gain on modification of debt	-	149	411	-	-	-		-	
Gain on forgiveness of debt	-	7	-	-	-	-		-	
Finance expense	(6)	-	-	-	-	-		-	(30)
Interest expense	(668)	(194)	(310)	(319)	(386)	(459)	(595)	(12)	(1,570)
Gain on sale of property, plant and equip.	-	-	55	-	-	-	-	-	
Other Income/Loss	-	-	-	-	-	-	19	6	12
Foreign exchange (loss) gain	43	13	(27)	(87)	51	(5)	33	20	8
Income taxes	-	-	204	158	179	211	437	-	
Net income (loss)	14,931	(1,114)	(2,133)	(2,123)	(1,916)	(2,616)	(1,950)	(2,466)	(3,804)
Weighted average shares outstanding	6,228	9,821	12,793	18,590	18,590	18,590	18,590	18,590	18,590
Basic income (loss) per share	$2.40	($0.11)	$0.16	($0.12)	($0.11)	($0.14)	($0.10)	($0.13)	($0.20)
Dlluted income (loss) per share	$2.37	($0.11)	$0.14	($0.12)	($0.11)	($0.14)	($0.10)	($0.13)	($0.20)

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 presentation of Adjusted EBITDA provides useful information to investors. Adjusted EBITDA comprises net income (loss) excluding the following: other income, interest and finance expense, income tax recovery and expense, depreciation, amortization, losses on writeoff 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:

	31-Dec 2022	31-Mar 2022	30-Jun 2022	30-Sep 2022	31-Dec 2022	31-Mar 2023	30-Jun 2023	30-Sep 2023	31-Dec 2023
Net income (loss) for the period	14,931	(1,114)	(2,133)	(2,123)	(1,916)	(2,616)	(1,950)	(2,466)	(3,804)
Add (deduct):									
(Income) loss from discontinued operations									
Gain on recapitalization	(17,332)	-	826	-	-	-	-	-	-
Gain on modification of debt	-	(149)	(411)	-	-	-	-	-	-
Gain on forgiveness of debt	-	(7)	-	-	-	-	-	-	-
Finance expense	6	-	-	-	-	-	-	-	30
Net interest and other expense	668	194	310	319	386	459	595	12	1,570
Amortization	35	35	35	44	49	52	53	53	54
Gain on sale of equipment	-	-	(55)	-	-	-	-	-	-
Foreign exchange (gain) loss	(43)	(13)	27	87	(51)	5	(33)	(20)	(8)
Stock-based compensation expense	903	40	422	258	218	709	(38)	47	129
Income tax (recovery) expense	-	-	(204)	(158)	(179)	(211)	(437)	-	-
"Adjusted EBITDA"	(832)	(1,014)	(1,183)	(1,573)	(1,492)	(1,600)	(1,808)	(2,375)	(2,029)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2023 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2022

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three months ended December 31, 2023 and 2022.

	Three months ended December		*Increase / (Decrease)*		Six months ended December		*Increase / (Decrease)*	
	2023	2022	$	%	2023	2022	$	%
Revenues	**$ 340**	$ 422	$ (82)	*(19%)*	**$ 565**	$ 976	$ (411)	*(42%)*
Cost of revenues	**874**	723	151	*21%*	**1,769**	1,657	112	*7%*
Loss on inventory impairment	**-**	37	(37)	*nmf*	**-**	37	(37)	*(100%)*
Gross margin	**(534)**	(338)	(196)	*(58%)*	**(1,204)**	(718)	(486)	*68%*
Gross margin as % of revenue	*(157%)*	*(80%)*		*(96%)*	*(213%)*	*(74%)*		
Operating expenses:								
Research and development	**602**	428	174	*41%*	**1,256**	784	472	*60%*
Sales and marketing	**179**	148	31	*21%*	**348**	245	103	*42%*
General and administrative	**780**	628	152	*24%*	**1,721**	1,412	309	*22%*
Stock based compensation	**129**	218	(89)	*(41%)*	**176**	476	(300)	*(63%)*
Total operating expenses	**1,690**	1,422	268	*19%*	**3,501**	2,917	584	*20%*
Loss from operations	**(2,224)**	(1,760)	(464)	*26%*	**(4,705)**	(3,635)	(1,070)	*29%*
Other income (expenses):								
Finance expense	**(30)**	-	(30)	30	**(30)**	**-**	(30)	*nmf*
Finance/other income	**12**	-	12	(12)	**18**	**-**	18	*nmf*
Interest expense	**(1,570)**	(386)	(1,184)	*(307%)*	**(1,582)**	(705)	(877)	*55%*
Foreign exchange gain (loss)	**8**	57	(49)	*(86%)*	**28**	(36)	64	*229%*
Income (loss) before taxes	**(3,804)**	(2,089)	(1,715)	*(82%)*	**(6,271)**	(4,376)	(1,895)	*30%*
Income taxes	**-**	179 -	179		**-**	337	(337)	
Net income (loss)	**(3,804)**	(1,910)	(1,894)	*50%*	**(6,271)**	(4,039)	(2,232)	*36%*
Other comprehensive income (net of tax):								
Foreign currency translation gain (loss)	**(427)**	(176)	(251)	*(143%)*	**(165)**	448	(613)	*372%*
Comprehensive income/(loss)	**$ (4,231)**	$ (2,086)	$ (2,145)	*(103%)*	**$ (6,436)**	$ (3,591)	$ (2,845)	*44%*

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 and the Canadian dollar can have an impact on the reported results for each fiscal period as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for three months ended December 31, 2023 in terms of the Canadian dollar equivalent of US$1 was CAD $1.3619 (three months ended December 31, 2022 – CAD $1.3321) and in terms of the Chinese RMB equivalent of US$1 was RMB 0.1886 (three months ended December 31, 2022 – RMB 0.1433)

RECAPITALIZATION

On December 6, 2021, the Company completed its previously disclosed Recapitalization under which certain of the Company's debts were fully satisfied in exchange for common shares and share purchase warrants of the Company. All common share figures and share prices below are disclosed on a post-consolidation basis of 120:1.

(a) Notes payable, convertible debentures, and trade liabilities

Holders of the Company's notes payable, convertible debentures, and certain trade liabilities agreed to settle their debts in exchange for common shares of the Company on the basis of either (i) an exchange of 100% of the debt owed for common shares of the Company at a deemed price of C$3.00 per share, being the closing price of the common shares on the TSXV as of August 20, 2021, or (ii) an exchange of 100% of the debt owed, at a discount of 20% to such amount owed, in exchange for units of the Company at a deemed price of C$3.00 per unit, with each unit containing one common share and 1/5 of a share purchase warrant (the "Debt Settlement Offer"). Each full share purchase warrant will allow the holder of such warrant to purchase one common share of the Company for up to three years following closing of the Recapitalization at a price of C$3.60 per share.

(b) Shares to be issued

Under the Recapitalization plan, the Company issued common shares in exchange for satisfaction of the amount owing by the Company related to finance and advisory fees, under terms as described in (a), above.

(c) Common share consolidation

As part of the Recapitalization, the Company consolidated its issued and outstanding common shares on the basis of one post-consolidation common share for every 120 pre-consolidation common shares.

(d) Transaction costs

The Company incurred transaction costs totaling $1,282 in connection with the Recapitalization plan. Of that amount, $500 (net of $31 in foreign exchange loss) was payable in cash to third parties and $782 related to advisory fees paid to a related party and settled by issuing common shares of the Company. These transaction costs have been netted against the gain on recapitalization.

Under the terms of the Recapitalization plan, the total number of shares and share purchase warrants issued to debt holders were as follows:

	Face value of liability settled for shares	Number of common shares issued	Number of warrants issued
	$	$	$
Notes Payable	21,948	7,918	997
Convertible debt	9,003	3,009	571
Accounts payable and accrued liabilities	1,088	449	10
	32,038	11,376	1,578
Shares to be issued	2,655	1,170	-
	34,693	12,546	1,578

The price of the Company's common shares on August 20, 2021, the date that the Recapitalization agreement was legally agreed to by all parties, was C$3.00 per share. The Recapitalization was completed on December 6, 2021 when the price of the Company's common shares was C$1.50 per share. The decrease in the price of the Company's common shares was accounted for as a gain on settlement of debt.

The composition of the gain on settlement of debt as reported in the statements of comprehensive income (loss) (as Gain on Recapitalization) and changes in shareholders' deficiency for the year ending June 30, 2022 is as follows:

	Value of shares issued	Value of share purchase warrants issued	Gain on exchange - included in comprehensive income	Gain on exchange - included in contributed surplus
	$	$	$	$
Notes Payable	9,287	573	12,088	
Convertible debt	3,528	329	5,146	
Accounts payable and accrued liabilities	527	6	555	
Transaction and associated costs			(1,282)	
	13,342	908	16,506	
Shares to be issued	1,320	-	-	1,335
	14,662	908	16,506	1,335

REVENUE

Revenue for the three months and six months ended December 31, 2023 was $340 and $565 as compared to $422 and $976 for the prior year, a decrease of $82 and $411. The decline was primarily driven by the cyclical nature of the optical semiconductor market. This year saw a decrease in NRE revenue as customers sought out new products in AI, LiDAR, and Medical Imaging. A temporary shift in revenue to NRE is a precursor to future production revenue through the manufacturing of the completed designs.

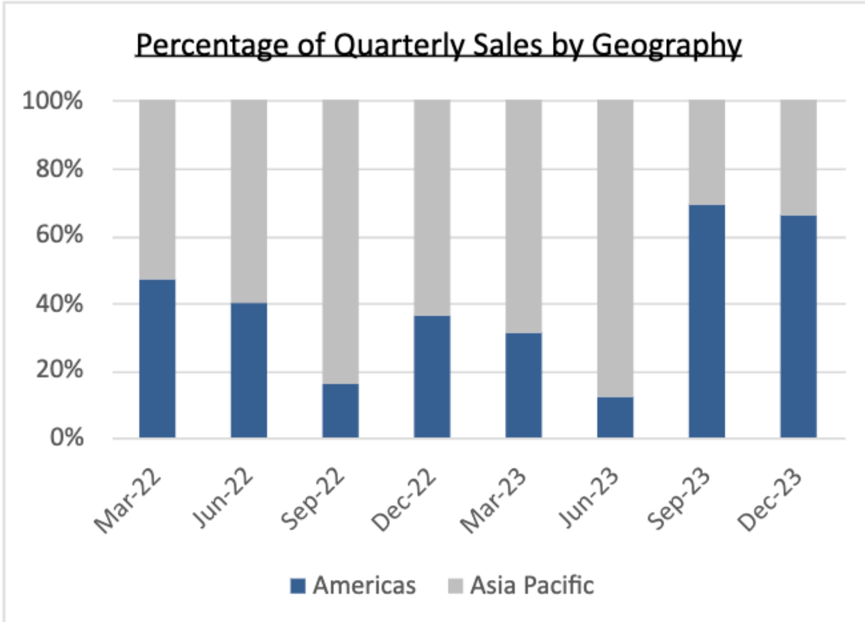
During the three months and six months ended December 31, 2023, the Company's top five customers accounted for 81% and 58% of the Company's total revenue (three months and six months ended December 31, 2022 – five customers, 87% and 75%). Enablence continues to focus on diversifying customers, geographies, and applications through increased sales engagements and global interactions.

In the six months ended December 31, 2023, the Company processed sales to 17 separate customers across its business, an increase in total customers in the same period in the prior year (three months ended December 31, 2022 – 15 customers).

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

	For the three months ended		For the six months ended	
	December 31, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
	$	$	**$**	$
Americas	**218**	150	**374**	241
Europe, Middle East, Africa	**-**	-	**-**	-
Asia Pacific	**122**	272	**191**	735
	340	422	**565**	976

As previously reported, the Company has focused its sales efforts on the Americas markets since the beginning of 2020. For the three months ended December 31, 2023, the Company's Americas business increased by 45% (three months ended December 31, 2022 – decrease of 53%), driven by increased sales to a key US-based global. Over the same period, APAC declined 55% to 122 (three months ended December 31, 2022 – increase of 159%). The Company is regaining traction in its APAC business following an increase in positive customer interactions.



For the six months ended December 31, 2023, 29% of the Company's revenue is comprised of product revenue (three months ended December 31, 2022: 63%) which includes amounts relating to recurring third-party fabrication services revenue from work performed at the Company's Fremont facility, and 45% is comprised of non-recurring engineering revenue (three months ended December 31, 2022: 64%). Product revenue generally results from the sale of wafers/chips to end customers while 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, stability or growth in the percentage of 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.

The split of revenue between product sales of optical chips, NRE and Fab services revenue is as follows:

	For the three months ended		For the six months ended	
	December 31, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
	$	$	**$**	$
Product	**101**	150	**162**	600
NRE	**154**	272	**285**	358
Fab Service	**85**	-	**118**	18
	340	422	**565**	976

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 three months ended December 31, 2023, was ($534) as compared to ($338) for the prior year, a decline of ($196), or (58%). The decline is due primarily to increased investment in wafer fabrication in support of a ramp up in wafer production as well as work in progress inventory. Early investment was necessary to counter any risks to capacity constraints for the pipeline opportunities.

OPERATING EXPENSES

Research & development ("R&D") expense for the three months ended December 31, 2023 was $603 as compared to $429 for the prior year, an increase of $174, or 40%.

The increase in 2023 versus 2022 primarily reflects the full-year effect of staffing in preparation for the new wafer opportunities in LiDAR and AI.

Sales & marketing expense for the three months ended December 31, 2023 was $179 as compared to $149 for the prior year, an increase of $30, or 21%. The increase was driven by investments in sales staff.

General & administration expense for the three months ended December 31, 2023 was $781 as compared to $629 for the prior year, an increase of $152, or 24%.

The increase is due to higher compensation costs relating to an increase in headcount and moderate raises as well as an increase in professional fees as the Company focuses on future growth.

Stock-based compensation expense for the three months ended December 31, 2023 was $129 as compared to $218 for the prior year, an decrease of ($89) or (60%).

During the 2023 fiscal year and the three months ended December 31, 2023, the Company awarded options, RSUs and DSUs to certain employees and the directors of the Company under the terms of the updated omnibus equity incentive plan approved by the Company's common shareholders at the AGM on October 26, 2021.

Total stock-based compensation expense during the six months ended December 31, 2023 relating to current and prior year grants was $176 (six months ended December 31, 2022 - $476) of which $126 relates to stock options (six months ended December 31, 2022– $288), $22 relates to RSU grants (2022 – $42), and $9 (six months ended December 31, 2022 – $145), relates to grants of DSUs. For six months ended December 31, 2023, of the total stock-based compensation expense $148 (six months ended December 31, 2022 – $330) was attributable to general and administrative personnel and $9 (six months ended December 31, 2022 – $145) relates to members of the Company's Board.

INTEREST EXPENSE

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

Interest and finance expense for the six months ended December 31, 2023 was $1,570 as compared to $705 for the same period of the prior year, an increase of $865, or 122%. The increase is due primarily to recognition of interest and interest accretion for existing and new loans provided to the Company to support working capital requirements.

	December 31, 2023	June 30, 2023
	$	$
Short-term RBC loans (a)	**91**	91
Loan from Vortex (b)	**8,916**	7,943
Loan from Irixi (c)	**400**	378
Loan from Others (d)	**333**	-
	9,740	8,412
Less current portion	**824**	469
Long-term portion	**8,916**	7,943

a) 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, 2023, the RBC loan balance is $91 (June 30, 2022 - $93). The loans bear no interest prior to December 31, 2023 and no principal payments are due prior to December 31, 2023. Principal repayments can be voluntarily made at any time without fee or penalties. Balances not paid by December 31, 2023 will be converted to a 3-year term loan at 5% annual interest rate, with interest paid monthly beginning January 1, 2024. The balance of the loan, must be paid in full no later than December 31, 2026.

b) During the year ended June 30, 2022, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,905 for which $1,905 was from related parties (Note 23). These short-term loans were repayable on demand. Of these unsecured short-term loans, $465 were included as part of the amended and restated secured loan agreement with Vortex ENA LP ("Vortex LP") which was completed on December 31, 2022 (See below). The remaining short-term loans were exchanged for common shares of the Company as part of the Recapitalization (Note 10).

   During the year ended June 30, 2022, the Company accrued net commissions included in finance expense of $6 on these loans.

   As at June 30, 2022, a total amount of $Nil remains owing on these loans which includes $Nil of accrued interest and $Nil of accrued fees. During the year ended June 30, 2022, $668 of interest was accrued.

   On August 20, 2021 the Company announced the Recapitalization to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization was completed on December 6, 2022 (Note 10). As part of the Recapitalization, all the holders of short-term loans, except for the $465 advanced by Vortex LP as noted above, agreed as at August 20, 2021 to settle their debts under the terms of the Recapitalization plan. The holders of the short-term loan, in aggregate, received 7,918 common shares and warrants to purchase 997 common shares of the Company for aggregate consideration of $9,860 based on the Company's closing share price on December 6, 2021. The difference between the carrying value of the loans as at the closing date of $21,948 and the value of shares being issued at that time of $12,088 was recognized as a gain to the Company and was included in gain on recapitalization for the current period.

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

As these Secured Loan Amendments meet the criteria for a significant modification of the loan under the terms of IFRS 9 – Financial Instruments, the Company recognized a gain in the year ended June 30, 2022 relating to the extinguishment of the fair market value of the loan in its consolidated financial statements. The Company utilized an estimated fair market interest rate of 20% per annum in computing the fair value of the loan as of the September 3, 2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized a gain on modification of debt of $2,181 for the year ended June 30, 2022. Following the amendment date, interest will be accreted to the loan balance based on the 20% per annum fair market interest rate.

During the year ended June 30, 2022, the Company made principal payments on the loan in the amount of $Nil (2022 - $Nil), accrued interest of $446 recorded accretion to interest expense of $289, and incurred fees relating to the loan of which are included in finance expense.

On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, the $532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term promissory notes and the $465 advanced under the terms of the short-term promissory notes, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). The Company has determined under IFRS 9 *Financial Instruments*, that this amendment and restatement of the secured loan with Vortex meets the test for substantial modification. The Company utilized an estimated fair market interest rate of 21.5% per annum in computing the fair value of the amounts advanced prior to the December 31,2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized gains on modification of debt of $149 relating to the balance of the loan as at December 31, 2021 and $411 on the $997 previously advanced by Vortex for the year ended June 30, 2022. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 21.5% per annum.

During the year ended June 30, 2023, Vortex advanced to the Company an additional $6,333 (2022 - $1,636) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 26.3 to 30.1% (2022 – 24.7% to 27.6%) per annum in computing the fair value of the advances, excluding two bridge loans advanced on June 12, 2023 and June 19, 2023. Management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation.

Of the $6,333 advanced by Vortex LP under the terms of the amended and restated loan agreement, the net present value of future contractual cash flows (discounted using a fair value interest rate) of $3,679 (June 2022 - $868) has been recorded as notes payable and the portion of advances relating to below-market interest rates of $2,654 (June 2022 - $768) is recorded in equity as contributed surplus. Ahead of the June 27 funding event, there were two bridge loans totaling $302 that had been advanced on June 12, 2023 and June 19, 2023. The loans were advanced to assist with working capital until the new debt financing was closed on June 27, 2023. The bridge financing debt was discounted at a rate of 7.5%. This rate approximates the market rate given they were paid back immediately upon the closing of the Pinnacle debt agreement on June 27, 2023 - ref to note 12.

On June 27, 2023, the Company and Vortex LP amended the secured loan agreement by way of a full second amended and restated loan agreement. Under the terms of the second amended and restated agreement, the $8,323 previously advanced by Vortex LP during the period December 31, 2021 to June 27, 2023, the $6,297 original principal amount of the EDC purchase order working facility and accrued and unpaid interest outstanding as at June 27, 2023, and the total loan facilities of $1,077 which includes the original principal amounts of the non-revolving term loans and accrued and unpaid interest as at June 27, 2023, were included in the secured loan for a consolidated total of $15,697.

In addition, the loan maturity was extended to June 30, 2026 (from December 31,2025) and interest accrues and is payable monthly in arrears at a rate of 7.5% following the date of the initial advance. As additional consideration for entering into the second amendment and restated loan agreement, the Company is required to pay an amendment structuring fee in the amount of $755, of which $151 were immediately paid upon the initial advance of the Pinnacle proceeds (Note 12), $264 payable concurrent with the repayment of the working capital facility and the remainder upon the maturity date. The Company was required to immediately pay $3,323 against the outstanding principal amount of the working capital facility. The portion of debt for prepayment is $2,284 and the portion repaid that relates to the below-market interest rates is $1,039 was recorded as contributed surplus in the previous year. The outstanding legal fees and expenses paid have been proportionally allocated to the relative liability and equity component of the convertible debentures issued (Note 12) and the amendment and restated loan agreement.

The Company was also required to pay an outstanding payable in the amount of $223.

The Company also issued 575 common share purchase warrants to Vortex LP as additional consideration. Each warrant is exercisable at CAD $2.00 to acquire one common share of the Company for a period of three years from the date of issuance. The warrants were separately valued using Black-Scholes calculator with risk free interest rate of 3.77%, volatility of 76.2%, was valued at $365, and recorded in warrants.

As at June 30, 2023, the discounted carrying value of the balance owing on the Vortex LP term facility is $7,943 (2022 - $5,493), inclusive of interest of $8 (2022 - $446), accretion of $8 (2022 - 289), and fees of $44 (2022 - $289). The face value of the senior secured loan payable to Vortex was $12,905 as at June 30, 2023 (2022 - $8,664), inclusive of interest and fees.

The Company utilized an estimated fair market interest rate of 27.6% per annum in computing the fair value at the amendment date of the outstanding debt, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the $13,048 face value, $8,078 was allocated as notes payable, $366 to warrants based on the fair value determined above and the residual of $4,604 was allocated to contributed surplus. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 22.8% per annum. In addition, legal fees of $71 were equally allocated, with $44 going to notes payable and $27 being allocated to contributed surplus.

c) On November 16, 2023, the Company received a Demand Promissory Note in exchange for $50, with a $5 issuance fee within the first year and a subsequent 10% interest per annum for outstanding interest beyond the first year. The note was acquired to purchase manufacturing equipment.

   On December 13, 2023, the Company and Pinnacle signed a Demand Promissory Note in exchange for $1,544, with a 10% interest rate per annum, accruing from the date of signature. The funds were issued in support of working capital requirements. From the face value of $1,544, $31 represented a structuring fee (2%) and $1,260 was allocated to contributed surplus. As of December 31, 2023, the loan accrued $3.8 in interest.

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 six months ended December 31, 2023, the Company recorded a foreign exchange gain of $28 compared to a foreign exchange loss of ($36) for the prior year.

Income Taxes and Investment Tax Credits

Income tax expense is recognized based on the annual income tax rate for the fiscal year multiplied by the pre-tax income. Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net income or loss from continuing operations before income taxes.

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those losses can be carried forward and temporary differences are deductible. The amount of the deferred tax assets considered realizable could change materially in the near term, based on future taxable income during the carry-forward period.

During the year ended June 30, 2023, the Company recognized a recovery of previously unrecorded income tax losses carrying forward from prior tax years. The Company has sufficient income losses carried forward to offset the full amount the taxable gain arising from the Company's Recapitalization.

As a result of operating losses, there were no income taxes payable or recoverable during the year ended June 30, 2023.

NET INCOME (LOSS)

The net loss for the three months ended December 31, 2023 was ($4,231) as compared to a loss of ($2,086) for the three month period in the prior year, a decline of ($2145), or (102%). The decline was driven a decline in revenues stemming from the market downturn matched by increased operating and interest expenses as well as foreign currency translation loss.

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

During the three months ended December 31, 2023, the Company recorded a foreign exchange translation loss of $427, as compared to a loss of $176 for the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is the U.S. dollar.

INCOME (LOSS) PER COMMON SHARE

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

	Six months ended December 31	
	2023	2022
Net income / (loss) per share (basic)	**$(0.34)**	$(0.22)
Net income / (loss) per share (diluted)	**$(0.34)**	$(0.22)
Weighted Average Number of Common Shares (basi	**18,590**	18,590
Weighted Average Number of Common Shares (dilut	**18,590**	18,590

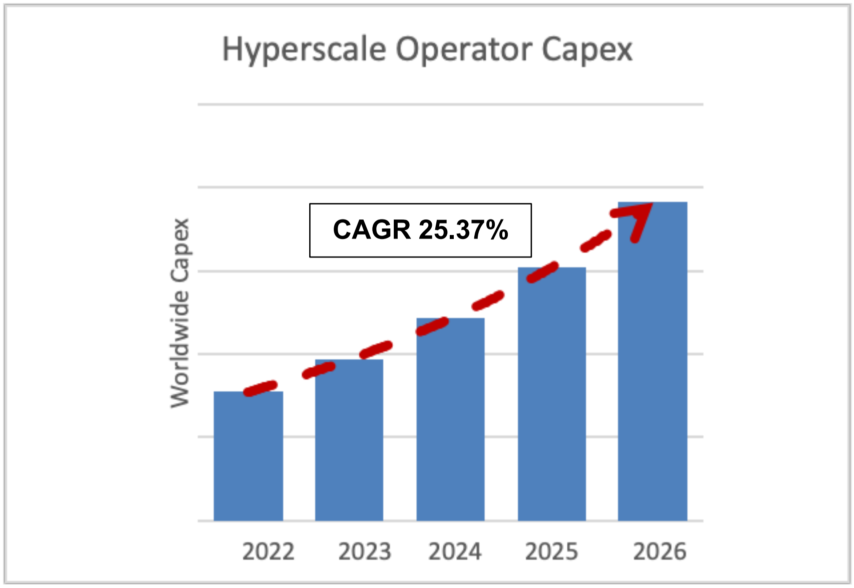
At the discretion of the Board, RSUs and DSUs may be redeemed and settled, all or in portion, in shares issued from treasury. Since the Company experienced a net loss in the three months ended December 31, 2023, the redemption and settlement of RSUs and DSUs are anti-dilutive. In addition, the potential effect of the exercise of stock options, warrants, and convertible debentures are anti-dilutive as all stock options, warrants, and convertible debenture conversion rights are out-of-the-money based on the Company's average share price for the quarter.
All common share information in this MD&A, has been adjusted to reflect the 120:1 effect of consolidation, without a corresponding change in dollar amounts. Comparative income (loss) per share has been adjusted to reflect the impact of the share consolidation.

OUTLOOK

The Company continues to develop its core competency in PLC optical chip design and fabrication, targeting high-growth markets – such as data centers, and the advanced vision applications to which the Company's PLC technology is uniquely suited, including LiDAR, AI OCT, and AR/VR. All 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.

Datacoms:

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, Meta Platforms, Microsoft) continue to spend on the construction of hyperscale data centers. The size of the hyperscale data center market, which directly affects the Company's revenue prospects, is projected to grow at a CAGR more than 25% over the next five years.



Source: Technavio

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 worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. The combination of growing data center and emerging photonics markets will drive increasing demand for optical chips such as those manufactured by Enablence over the coming 5 years. To meet increasing optical networking performance requirements Enablence is releasing a full line of new datacoms products for short, medium, and long-range applications with industry leading speeds up to 800 Gb/sec.

In 2023, the industry saw a massive shift in datacenters as they adjusted roadmaps to support the explosion of AI market demand. AI computing is particularly well suited to PLC technology as it is exceptionally efficient and has a high-power capacity both of which are critical to data center AI deployments. To meet the demands of this market shift, Enablence will deliver a new product line in the coming fiscal year.

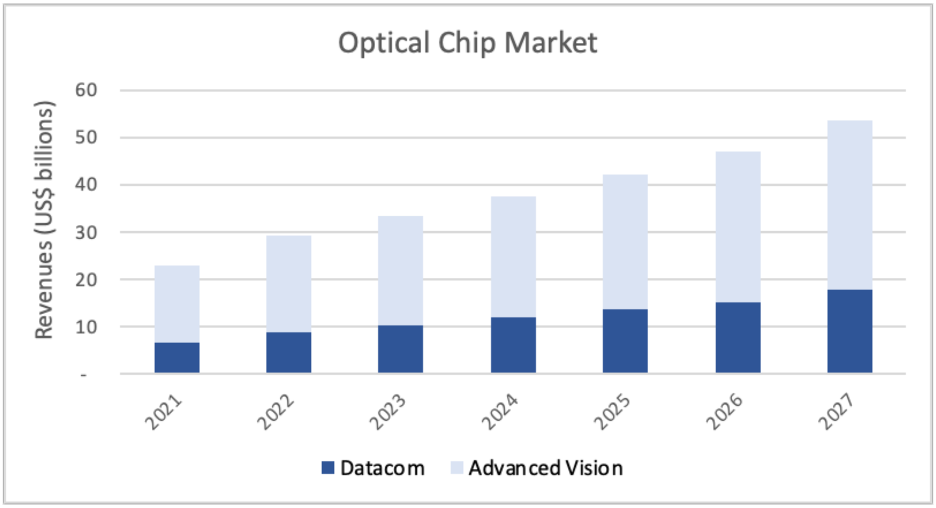
This fiscal year Enablence achieved record monthly output at our fab. We continue to focus on increasing the size of recurring chip orders from existing customers while adding new customers particularly in geographically and industry diversified, through targeted NRE projects and traditional sales channels for existing and new chip designs. We will also selectively offer our fabrication facility services to 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.

Advanced Vision:

In the normal course, Enablence examines other strategic opportunities in markets beyond data centers. 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 and warehousing automation. We are currently working with U.S., European, and Asian customers in the LiDAR industry on design projects and anticipate additional long-term demand increases from these customers as they complete testing of our products and move forward with the commercial launch of products in the coming 12 to 24 months.

In addition, the Company is working with a mega-cap technology company to deliver optical chips for use in augmented and virtual reality devices, a market that Enablence expects to grow significantly in the coming years. Other recent projects in the medical device (including an ongoing project for a startup company backed by a prominent university and consumer products company focused on optical tomography) and sensor markets will provide additional opportunities for growth in the future as these markets materialize and grow.

Both the Datacoms and Advanced Vision sectors of the global optical chip market are expected to experience robust growth over the next several years.



Source: Yole Development; Technavio Market reports (2021-22); Company Estimates.

To meet increasing customer demand, the Company increased production capacity at its fabrication plant from the average 100-150 wafer per month production rate during fiscal 2022, to a potential 400 wafers per month in fiscal 2023. The Company also plans to invest in testing equipment and skilled research staff in the Company's location in Ottawa, allowing the research and design team to more rapidly iterate new designs and expand our customer base. This investment in R&D will support the expected increase in demand for the Company's NRE services, which is critical to the Company future growth in optical chip product sales.

Last year the company highlighted three challenges, stabilizing manufacturing at higher production volumes, decreasing R&D cycle times, and accessing required capital. All areas were successfully addressed. At a 400 wafer per month capacity, the company could deliver 83% yields, up over 10%. The R&D cycle time was reduced by 50% from 12 weeks to 6 weeks. Finally, the company raised $11m in the capital markets.

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. On June 27, 2023, the Company issued a total of $8,308 (C$11,000) of unsecured convertible debentures (the "Debentures"), all of which was issued through a private placement for cash. The Debentures bear interest at a rate of 7.5% per annum, and interest is payable commencing on April 1, 2024, and thereafter, payable semi-annually. They are convertible, at the option of their holder, into common shares of the Company at a price of C$2.00 per common share. The Debentures have an initial maturity date of June 30, 2027. If there is a Change of Control at any time during the term of this Debenture, the Holder will have the right to require the Company to redeem this Debenture at a price equal to 105% of the principal amount of this Debenture then outstanding, plus all accrued and unpaid interest. The fair value of the $4,624 of the debt portion was determined based on a market interest rate of 27.6% and the residual of $3,683 was allocated to contributed surplus The total debt issuance costs of $842 was allocated to debt for $468 and $373 to contributed surplus.

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, 2023, there are 18,590 common shares and no preferred shares outstanding after giving effect to the 120:1 consolidation of common shares which occurred during the year ended June 30, 2022 (see "*Recapitalization*").

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; however, as noted above under "Outlook", management of the Company is focused on addressing these issues.

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 below sets out the Company's cash and cash equivalents and working capital, at December 31, 2023 and June 30, 2023:

	December 31, 2023	**June 30, 2023**
Cash and cash equivalents	**$1,014**	$4,219
Restricted cash	**4**	4
	$1,018	$4,223
Working capital (deficiency)	**($4,554)**	($1,385)

The working capital deficiency from operations at December 31, 2023 was ($4,554) as compared to a working capital deficiency of ($1,385) at June 30, 2023. The decrease in the working capital during the three month period ended December 31, 2023 is due to expenses exceeding revenues over the period with a less than proportionate cash infusion.

As at December 31, 2023, the Company had cash available of $1,014 (not including $4 of restricted cash). The Company consumed $2,008 in operating activities for the three months ended December 31, 2023 as compared to $1,076 in the prior year. The increase in cash used in operations in the three months ended December 31, 2023 as compared to the prior year is primarily the result of the net losses over the period.

The chart below highlights the Company's cash flows for the three months ended December 31, 2023 and 2022:

	Three months ended December 31		Six months ended December 31	
	2023	2022	2023	2022
Cash used in Operating activities	**(2,008)**	(1,076)	**(4,470)**	(2,348)
Investing activities				
Purchase of property, plant, and equipment	**(14)**	(230)	**(155)**	(454)
Total cash used in investing activities	**(14)**	(230)	**(155)**	(454)
Financing activities				
Advances from long-term notes payable	**1,560**	1,411	**1,560**	2,724
Total cash from financing activities	**1,560**	1,411	**1,560**	2,724
Effect of foreign currency translation	**(137)**	(152)	**(140)**	38
Net change in cash and cash equivalents	**(599)**	(47)	**(3,205)**	(40)

Notes Payable Financing:

During the year ended June 30, 2022, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,905 for which $1,905 was from related parties . These short-term loans were repayable on demand. Of these unsecured short-term loans, $465 were included as part of the amended and restated secured loan agreement with Vortex ENA LP (“Vortex LP”) which was completed on December 31, 2022 (See below). The remaining short-term loans were exchanged for common shares of the Company as part of the Recapitalization.

During the year ended June 30, 2022, the Company accrued net commissions included in finance expense of $6 on these loans.

As at June 30, 2022, a total amount of $Nil remains owing on these loans which includes $Nil of accrued interest and $Nil of accrued fees. During the year ended June 30, 2022, $668 of interest was accrued.

On August 20, 2021 the Company announced the Recapitalization to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization was completed on December 6, 2022. As part of the Recapitalization, all the holders of short-term loans, except for the $465 advanced by Vortex LP as noted above, agreed as at August 20, 2021 to settle their debts under the terms of the Recapitalization plan. The holders of the short-term loan, in aggregate, received 7,918 common shares and warrants to purchase 997 common shares of the Company for aggregate consideration of $9,860 based on the Company’s closing share price on December 6, 2021. The difference between the carrying value of the loans as at the closing date of $21,948 and the value of shares being issued at that time of $12,088 was recognized as a gain to the Company and was included in gain on recapitalization for the current period.

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

As these Secured Loan Amendments meet the criteria for a significant modification of the loan under the terms of IFRS 9 – Financial Instruments, the Company recognized a gain in the year ended June 30, 2022 relating to the extinguishment of the fair market value of the loan in its consolidated financial statements. The Company utilized an estimated fair market interest rate of 20% per annum in computing the fair value of the loan as of the September 3, 2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized a gain on modification of debt of $2,181 for the year ended June 30, 2022. Following the amendment date, interest will be accreted to the loan balance based on the 20% per annum fair market interest rate.

During the year ended June 30, 2022, the Company made principal payments on the loan in the amount of $Nil (2022 - $Nil), accrued interest of $446 recorded accretion to interest expense of $289, and incurred fees relating to the loan of which are included in finance expense.
On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, the $532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term promissory notes and the $465 advanced under the terms of the short-term promissory notes, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). The Company has determined under IFRS 9 Financial Instruments, that this amendment and restatement of the secured loan with Vortex meets the test for substantial modification. The Company utilized an estimated fair market interest rate of 21.5% per annum in computing the fair value of the amounts advanced prior to the December 31,2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized gains on modification of debt of $149 relating to the balance of the loan as at December 31, 2021 and $411 on the $997 previously advanced by Vortex for the year ended June 30, 2022. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 21.5% per annum.

During the year ended June 30, 2023, Vortex advanced to the Company an additional $6,333 (2022 - $1,636) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 26.3 to 30.1% (2022 – 24.7% to 27.6%) per annum in computing the fair value of the advances, excluding two bridge loans advanced on June 12, 2023 and June 19, 2023. Management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation.

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In addition, the loan maturity was extended to June 30, 2026 (from December 31,2025) and interest accrues and is payable monthly in arrears at a rate of 7.5% following the date of the initial advance. As additional consideration for entering into the second amendment and restated loan agreement, the Company is required to pay an amendment structuring fee in the amount of $755, of which $151 were immediately paid upon the initial advance of the Pinnacle proceeds, $264 payable concurrent with the repayment of the working capital facility and the remainder upon the maturity date. The Company was required to immediately pay $3,323 against the outstanding principal amount of the working capital facility. The portion of debt for prepayment is $2,284 and the portion repaid that relates to the below-market interest rates is $1,039 was recorded as contributed surplus in the previous year. The outstanding legal fees and expenses paid have been proportionally allocated to the relative liability and equity component of the convertible debentures issued and the amendment and restated loan agreement.

The Company was also required to pay an outstanding payable in the amount of $223. The Company also issued 575 common share purchase warrants to Vortex LP as additional consideration. Each warrant is exercisable at CAD$2.00 to acquire one common share of the Company for a period of three years from the date of issuance. The warrants were separately valued using Black-Scholes calculator with risk free interest rate of 3.77%, volatility of 76.2%, was valued at $365, and recorded in warrants.

As at June 30, 2023, the discounted carrying value of the balance owing on the Vortex LP term facility is $7,943 (2022 - $5,493), inclusive of interest of $8 (2022 - $446), accretion of $8 (2022 - 289), and fees of $44 (2022 - $289). The face value of the senior secured loan payable to Vortex was $12,905 as at June 30, 2023 (2022 - $8,664), inclusive of interest and fees.

The Company utilized an estimated fair market interest rate of 27.6% per annum in computing the fair value at the amendment date of the outstanding debt, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the $13,048 face value, $8,078 was allocated as notes payable, $366 to warrants based on the fair value determined above and the residual of $4,620 was allocated to contributed surplus. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 22.8% per annum. In addition, legal fees of $71 were equally allocated, with $44 going to notes payable and $27 being allocated to contributed surplus.

On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi") signed an Asset Transfer Agreement (“ATA”) which resulted Enablence selling certain assets and liabilities to Irixi including $180 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of certain employee contracts, less costs of $60 owed by Irixi to Enablence. Under the ATA, Enablence and Irixi agreed that the consideration due to Enablence from Irixi 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, 2023. During the year ended June 30, 2023, a total of $23 (2022 - $22) of interest has been accrued and the amount owing on the note payable is $464 (2022 - $393). The Company did not repay the note on its due date of June 30, 2023 and continues to accrue interest at 7.5%. The note payable is classified as a current liability in the consolidated statements of financial position.

On November 16, 2023, the Company received a Demand Promissory Note in exchange for $50, with a $5 issuance fee within the first year and a subsequent 10% interest per annum for outstanding interest beyond the first year. The note was acquired to purchase manufacturing equipment.

On December 13, 2023, the Company and Pinnacle signed a Demand Promissory Note in exchange for $1,544, with a 10% interest rate per annum, accruing from the date of signature. The funds were issued in support of working capital requirements. From the face value of $1,544, $31 represented a structuring fee (2%) and $1,260 was allocated to contributed surplus. As of December 31, 2023, the loan accrued $3.8 in interest.

BOARD AND MANAGEMENT

Derek H. Burney, Louis De Jong, Derek J. Burney, Oded Tal and Dan Huff are the Directors of the Company. Mr. Derek H. Burney acts as Chair of the Board of Directors, Mr. De Jong acts as Chair of the Audit Committee and Mr. Derek J. Burney acts as Chair of the Compensation Committee. Oded Tal and Dan Huff both joined the board in 2023.

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, Interest Expense* and *Subsequent Events* sections above for details on financings completed during the year ended June 30, 2022 and for loans obtained subsequent to year end. As stated in the *Liquidity* section above, the Company has been able to raise additional long-term and short-term loan financing to support its operating deficits and growth needs. 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 18,590 common shares issued and outstanding as of October 5, 2022 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 December 31, 2023	within 6 months	6 to 12 months	1 to 5 years	5+ years	Total
	$	$	$	$	$
Accounts payable and accrued liabilties	6,046	-	-	-	6,046
Notes Payable	541	-	9,199	-	9,740
Convertible debentures	-	-	4,789	-	4,789
Total	6,587	-	13,988	-	20,575

The Company received a temporary waiver of defaults from Vortex LP as part of the fifth amendment signed on September 3, 2021. On December 31, 2021, the Company and Vortex LP entered into an amended and restated loan agreement, under which the temporary waiver of defaults became permanent. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023).

The Company was previously in breach of its agreement with the convertible debenture holders as the debentures had matured on December 31, 2020. On December 6, 2021, the debenture holders executed debt settlement agreements to exchange their debentures for common shares in the Company as part of the Recapitalization.

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

Vortex Entities

Vortex ENA LP ("Vortex LP") is a related party as a result of its general partner being controlled by an affiliate of Paradigm Capital Inc., a company for which a Director of Enablence sits on the advisory board. In addition, a Shareholder of the Company is a minority investor in Vortex ENA LP. As at June 30, 2023 the following group of joint actors ("Vortex Entities") holding common shares of the Company are collectively deemed to be control persons as they own over 20% of the common shares of the Company:

- Vortex ENA LP ("Vortex"), which owns 1,270 shares
- Paradigm Capital Inc. ("PCI"), which owns 1,170 shares
- Paradigm Capital Partners Limited ("PCPL"), which owns 94 shares
- A director of PCI and PCPL owns 1,938 shares and 332 share purchase warrants

The following transactions took place between the Company and the Vortex Entities in the years ended June 30, 2022

- Vortex LP advanced $1,905 under short-term notes payable to the Company. Vortex LP also acquired $1,491 in short-term notes payable of the Company from existing holders in exchange for units of Vortex LP, including a portion acquired from a Director of the Company. On December 6, 2021, Vortex LP exchanged short-term notes payable totalling $3,542 for 1,270 common shares under the terms of the Recapitalization plan. On December 31, 2021, Vortex LP transferred $465 of the amounts it had advanced under short-term notes payable during the six months ending December 31, 2021 to the secured loan (Note 12(b). Interest on short-term notes payable held by Vortex LP for the year ended June 30, 2022 totalled $101.
- During the year ended June 30, 2022, Vortex LP made additional unsecured advances to the Company of $532 outside of the terms of the short-term notes payable described in Note 12(b); such amounts had no fixed repayment terms and carried no interest rate. These amounts were transferred to the secured loan agreement on December 31, 2021, as described below.
- During the period ending June 30, 2022, Vortex LP acquired the secured loan previously held by EDC and entered into a secured loan agreement with the Company on September 3, 2021 (Note 12(b)). On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated

secured loan agreement. Under the terms of the amended and restated agreement, $532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term notes payable and $465 advanced under the terms of the short-term notes payable, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). During the year ended June 30, 2023, Vortex advanced to the Company $1,643 under the terms of the amended and restated loan agreement. Of the $2,633 in total amounts advanced by Vortex LP during the year ended June 30, 2023, $1,454 has been included in notes payable, $768 has been included in contributed surplus, and $411 is recorded as a gain on debt modification.

- During the year ended June 30, 2022, the Company accrued interest of $446 and recorded accretion of $289 relating to the Vortex loan. As at June 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is $5,493 and the face value owing is $8,664, inclusive of interest and fees (Note 12(b)).
- PCI earned commissions and advisory fees relating to financing transactions of $Nil during the year ended June 30, 2022. PCI was owed $2,655 relating to past commissions that were expected to be paid in common shares of the Company, subject to TSXV approval. On December 6, 2021, the Company settled the amounts owing, exclusive of taxes, in exchange for 1,170 common shares of the Company as part of the Recapitalization (Notes 10 and 14). As at June 30, 2023, $158 (2022 - $157) for taxes related to the commissions and advisory fees are recorded in the Company's accounts payable and accrued liabilities.
- On December 6, 2021, a director of PCI exchanged $3,205 owed to him under short-term notes payable for 1,059 common shares and 212 share purchase warrants under the terms of the Recapitalization plan. Interest of $108 was incurred on these short-term notes payable in the year ended June 30, 2022. Prior to completion of the Recapitalization plan, $970 of notes were transferred to Vortex LP during the six months ended December 31, 2021, as referenced above. As at June 30, 2022, the amount due to this Director under the short-term notes payable was $Nil
- On December 6, 2021, a Director of PCI exchanged $1,821 owed to him by the Company under the convertible debentures for 603 common shares and 121 share purchase warrants under the terms of the Recapitalization plan. Interest of $78 was incurred on these convertible debentures in the year ended June 30, 2022. The amount due to the Director of PCI as at June 30, 2022 was $Nil.

The following transactions took place between the Company and the Vortex Entities in the years ended June 30, 2023:

During the year ended June 30, 2023, Vortex advanced to the Company an additional $6,333 (2022 - $1,636) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 26.3 to 30.1% (2022 – 24.7% to 27.6%) per annum in computing the fair value of the advances, excluding two bridge loans advanced on June 12, 2023 and June 19, 2023. Management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation.

Ahead of the June 27, 2023 funding event, there were two bridge loans totaling $302 that had been advanced on June 12, 2023 and June 19, 2023. The loans were advanced to assist with working capital until the new debt financing was closed on June 27, 2023. The bridge financing debt was discounted at a rate of 7.5%. This rate approximates the market rate given they were paid back immediately upon the closing of the Pinnacle debt agreement on June 27, 2023 - ref to note 12.

On June 27, 2023, the Company and Vortex LP amended the secured loan agreement by way of a full second amended and restated loan agreement. Under the terms of the second amended and restated agreement, the $8,323 previously advanced by Vortex LP during the period December 31, 2021 to June 27, 2023, the $6,297 original principal amount of the EDC purchase order working facility and accrued and unpaid interest outstanding as at June 27, 2023, and the total loan facilities of $1,077 which includes the original principal amounts of the non-revolving term loans and accrued and unpaid interest as at June 27, 2023, were included in the secured loan for a consolidated total of $15,697.

In addition, the loan maturity was extended to June 30, 2026 (from December 31, 2025) and interest accrues and is payable monthly in arrears at a rate of 7.5% following the date of the initial advance. As additional consideration for entering into the second amendment and restated loan agreement, the Company is required to pay an amendment structuring fee in the amount of $755, of which $151 were immediately paid upon the initial advance of the Pinnacle proceeds (Note 12), $264 payable concurrent with the repayment of the working capital facility and the remainder upon the maturity date. The Company was required to immediately pay $3,323 against the outstanding principal amount of the working capital facility. The portion of debt for prepayment is $2,284 and the portion repaid that relates to the below-market interest rates is $1,039 was recorded as contributed surplus. The Company was also required to pay an outstanding payable in the amount of $223.

The Company also issued 575 common share purchase warrants to Vortex LP as additional consideration. Each warrant is exercisable at CAD$2.00 to acquire one common share of the Company for a period of three years from the date of issuance. The warrants were separately valued using Black-Scholes calculator with risk free interest rate of 3.77%, volatility of 76.2%, was valued at $365, and recorded in warrants.

As at June 30, 2023, the discounted carrying value of the balance owing on the Vortex LP term facility is $7,943 (2022 - $5,493), inclusive of interest of $8 (2022 - $446), accretion of $8 (2022 - $289), and fees of $44 (2022 - $289). The face value of the senior secured loan payable to Vortex was $12,905 as at June 30, 2023 (2022 - $8,664), inclusive of interest and fees.

The Company utilized an estimated fair market interest rate of 27.6% per annum in computing the fair value at the amendment date of the outstanding debt, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the $13,048 face value, $8,078 was allocated as notes payable, $366 to warrants based on the fair value determined above and the residual of $4,604 was allocated to contributed surplus. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 22.8% per annum. In addition, legal fees of $71 were equally allocated, with $44 going to notes payable and $27 being allocated to contributed surplus.

Private Investor

As a result of the Recapitalization on December 6, 2021, a private investor and his affiliates ("the Investor") became control persons as they own over 20% of the common shares of the Company. As at June 30, 2023 and June 30, 2022, the Investor owns 5,915 common shares and 1,114 share purchase warrants.

The following transactions took place between the Company and the Investor in the year ended June 30, 2022.

- Under the terms of the Recapitalization plan, the Investor exchanged $9,986 owed to him by the Company under short-term notes payable in exchange for 3,322 common shares and 664 share purchase warrants. Interest of $248 was accrued on the notes payable due to the Investor in the year ended June 30, 2022. As at June 30, 2022 and June 30, 2023, no amounts were owed.

- Under the terms of the Recapitalization plan, the Investor exchanged $6,802 of the Company's convertible debentures held by him in exchange for 2,250 common shares and 450 share purchase warrants. Interest of $290 was accrued on the convertible debentures due to the Investor in the year ended June 30, 2022. As at June 30, 2022 and June 30, 2023, no amounts were owed.
- Under the terms of the Recapitalization plan, the Investor exchanged $23 in accounts payable owed to him by the Company for 10 common shares of the Company. As of June 30, 2023, the amount due to the Investor as accounts payable and accrued liabilities was $Nil (June 30, 2022 - $Nil).
- During the period ended June 30, 2022, the Investor provided consulting and advisory services to the Company in connection with the Recapitalization plan for fees of $782, which was included as transaction and additional costs in gain on recapitalization (Note 10). The Company issued 333 common shares in full satisfaction of the fees.

Other Related Party Transactions

Interest totaling $23 was accrued for the year ended June 30, 2022 on short-term notes payable previously provided by Directors and officers of the Company. Nothing was accrued in 2023. On December 6, 2022, the Company settled the full amounts of short-term notes payable owing to Directors and officers of $638 in exchange for 263 common shares of the Company as part of the Recapitalization. The amount owed to Directors and officers under short-term notes payable as of June 30, 2023 and June 30, 2022 is $Nil, including $118 of notes that were transferred to Vortex LP, prior to the Recapitalization, in the six months ended December 31, 2022, as referenced above.

A Director of the Company held certain amounts of the convertible debentures owed by the Company that were settled as part of the Recapitalization. In the year ended June 30, 2022, the Company incurred interest expense of $23 relating to the convertible debentures held by this Director. On December 6, 2022, the Company settled the full amount of $379 in convertible debentures owing to the Director in exchange for 155 common shares of the Company as part of the Recapitalization. As of June 30, 2023 and June 30, 2022, the amount owed is $Nil.

Under the terms of the Recapitalization plan, a Director of the Company exchanged $39 in accounts payable owed to him by the Company for 17 common shares of the Company. As of June 30, 2023 and June 30, 2022, the amount due to the Director as accounts payable and accrued liabilities was $Nil.

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. As a result, an investment in Enablence is speculative.

Any investor should consider carefully these 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.

<u>Estimates</u>

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, restricted and performance share units ("RSUs") and deferred share units ("DSUs") granted, and the time of exercise of those share options and settlement of RSUs and DSUs. The model used by the Company is the Black-Scholes valuation model.

Warrants

The estimation of share purchase warrants 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 purchase warrants, and the time of exercise of those warrants. 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.

Accounting for loans from related parties

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

Treatment of Government Loans

Since the start of the COVID-19 pandemic, the Company has received two loans from the U.S. Small Business Administration ("SBA") under the Paycheck Protection Program ("PPP"). The loans are forgivable 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. 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.

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:

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.

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:

- 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;
- restrictions on the repatriation of earnings; and
- travel restrictions and/or ongoing temporary plant closures or demand fluctuations specifically related to its international operations stemming from the continuation of the COVID-19 pandemic.

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, (iv) continued implementation of lockdowns in metropolitan areas in which the Company's customers and suppliers operate as a result of China's "zero covid" policy. 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 large-scale data centres. A market decline could have an adverse effect on the Company's business. The speed of data centre deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the datacoms industry 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.

Cybersecurity Threats

The reliability and security of the Company's information technology ("IT") systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyberattacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information or intellectual property, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective IT systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

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.