Consolidated Financial Statements

Enablence Technologies Inc.

For the years ended June 30, 2021 and 2020
(in thousands of United States dollars and shares)

MNP LLP

Independent Auditor's Report

To the Shareholders of Enablence Technologies Inc.:

Opinion

We have audited the consolidated financial statements of Enablence Technologies Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021 and June 30, 2020, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 (i) in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss during the year ended June 30, 2021, and, as of that date, had an accumulated deficit. As stated in Note 2 (i), these events or conditions, along with other matters as set forth in Note 2 (i), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter– Related Party Transactions

We draw attention to Note 22 in the consolidated financial statements, which describes the significant services, payables and loans with related parties. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Mincoff.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

October 20, 2021 — Licensed Public Accountants

Enablence Technologies Inc.

Consolidated statements of financial position

(in thousands of United States dollars)

	Note	As at June 30, 2021	As at June 30, 2020
		$	$
Assets			
Current assets			
Cash and cash equivalents	4	**194**	135
Accounts and other receivables	5	**427**	642
Inventories	6	**301**	299
Prepaid expenses and deposits		**171**	154
		1,093	1,230
Property, plant and equipment	7	**298**	385
		1,391	1,615
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**5,666**	5,097
Notes payable	11, 24	**26,355**	20,065
Convertible debentures	12	**8,887**	7,115
Contract liabilities	9	**222**	234
		41,130	32,511
Government loan	10	**-**	613
Notes payable	11, 24	**-**	350
		41,130	33,474
Shareholders' deficiency			
Share capital	14	**106,105**	106,105
Contributed surplus	14	**12,558**	12,556
Shares to be issued	14, 24	**2,655**	2,375
Accumulated other comprehensive income		**(1,360)**	1,761
Deficit		**(159,697)**	(154,656)
		(39,739)	(31,859)
		1,391	1,615

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

Approved by the Board:

"Louis De Jong"	*"Derek Burney"*
Director	Director

Enablence Technologies Inc.

Consolidated statements of comprehensive loss
For the years ended June 30
(in thousands of United States dollars and shares, except per share data)

	Note	2021	2020
		$	$
Revenues	9, 19	**2,521**	1,101
Cost of revenues	15	**2,862**	2,728
Loss on inventory impairment	6	**4**	33
Gross margin		**(345)**	(1,660)
Operating expenses			
Research and development	15	**1,481**	1,912
Sales and marketing	15	**263**	187
General and administration	15	**2,205**	2,689
Stock-based compensation	14	**2**	14
		3,951	4,802
Loss from operations		**(4,296)**	(6,462)
Other income (expense)			
Finance and other income	10	**1,380**	174
Finance Expense	11	**(85)**	(280)
Interest Expense	11, 12	**(3,012)**	(2,894)
Gain on convertible debenture extension	12	**-**	207
Foreign exchange gain (loss)		**972**	(302)
Net loss		**(5,041)**	(9,557)
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)		(3,121)	1,050
Comprehensive loss		(8,162)	(8,507)
Net loss per share (basic)		**($0.01)**	($0.01)
Net loss per share (diluted)	16	**($0.01)**	($0.01)
Weighted average number of outstanding shares (basic)	14	**641,927**	641,927
Weighted average number of outstanding shares (diluted)	16	**745,994**	751,583

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

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' deficiency
For the years ended June 30
(in thousands of United States dollars and shares)

	Note	Number of shares	Share capital (Note 13)	Contributed surplus	Shares to be issued	Accumulated other comprehensive income (loss)	Deficit	Deficiency
			$	$	$	$	$	$
Balance at July 1, 2019		641,927	106,105	12,542	1,680	711	(145,099)	(24,061)
Stock-based compensation	14	-	-	14	-	-	-	14
Commissions and advisory fees	14, 24	-	-		695			695
Net loss		-	-	-	-	-	(9,557)	(9,557)
Foreign currency translation gain		-	-	-	-	1,050	-	1,050
Balance at June 30, 2020		**641,927**	**106,105**	**12,556**	**2,375**	**1,761**	**(154,656)**	**(31,859)**
Balance at July 1, 2020		641,927	106,105	12,556	2,375	1,761	(154,656)	(31,859)
Stock-based compensation	14	-	-	2	-	-	-	2
Commissions and advisory fees	14, 24	-	-	-	280	-	-	280
Net loss		-	-	-	-	-	(5,041)	(5,041)
Foreign currency translation gain		-	-	-	-	(3,121)	-	(3,121)
Balance at June 30, 2021		**641,927**	**106,105**	**12,558**	**2,655**	**(1,360)**	**(159,697)**	**(39,739)**

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

Enablence Technologies Inc.

Consolidated statements of cash flows
For the years ended June 30
(in thousands of United States dollars)

		2021	2020
		$	$
Cash provided by (used in):	**Note**		
Operating activities			
Net loss		**(5,041)**	(9,557)
Adjusted for the following non-cash items:			
Depreciation	7	**151**	152
Stock-based compensation	14	**2**	14
Commissions and advisory fees	14, 24	**280**	695
Accrued interest on bridge and short term loans	11	**1,983**	1,652
Accretion (net of financing costs) and interest accrual on convertible debenture	12	**1,029**	1,211
Unrealized foreign exchange loss (gain)	3	**(884)**	-
Gain on convertible debenture extension	12	**-**	(207)
		(2,480)	(6,040)
Changes in non-cash working capital	23	**140**	1,525
Cash used in operating activities		**(2,340)**	(4,515)
Investing activities			
Purchase of property, plant and equipment	7	**(64)**	(188)
Cash provided by (used in) investing activities		**(64)**	(188)
Financing activities			
Advances from short-term notes payable	11, 24	**2,677**	4,754
Repayments on short-term notes payable	11	-	(389)
Advances from long-term notes payable	11, 22	-	50
Cash provided by financing activities		**2,677**	4,415
Effect of foreign currency translation on cash and cash equivalents		**(214)**	374
Increase in cash and cash equivalents		**59**	86
Cash and cash equivalents, beginning of period		**135**	49
Cash and cash equivalents, end of period		**194**	135

1. Description of Business

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

2. Basis of preparation

(i) Going concern

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

At June 30, 2021, the Company had cash of $194, negative working capital of $40,037 and had used cash of $2,340 in its operating activities for the year ended June 30, 2021. The Company incurred a comprehensive loss of $8,162 for the year ended June 30, 2021 and as of that date had an accumulated deficit of $159,697. The Company obtained debt financing during the year ended June 30, 2021 and subsequent to the year end (Note 11, 24). As of June 30, 2021, the Company has outstanding debt from Export Development Canada ("EDC", Note 11 (c)) of $5,625. The Company is currently in breach of the agreement relating to interest and principal payments and has received a default notice from EDC. Subsequent to the end of the year, the Company received notice that EDC sold the entire amount of the loan and the Company entered into an amending agreement with the new lender to restructure the loan (Note 24) in order to ensure compliance in the future. On December 31, 2020, the Company's convertible debentures became due in full, along with accrued and unpaid interest. Subsequent to the end of the year, the convertible debenture holders entered into a shares-for-debt agreement with the Company to exchange the full amount of the debts owed for common shares in the Company (Note 24).

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

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

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow and the ability to execute its business plan, including funding operating losses, securing future sources of financing and completing the recapitalization plan announced subsequent to the end of the year (Note 24). If the going concern assumption was not appropriate for these consolidated financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments could be material.

(ii) Statement of compliance

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

(iii) Basis of measurement

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

(iv) Classification of expenses

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 15 for details of expenses by nature.

(v) Approval of consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 19, 2021.

(vi) Presentation currency

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

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, Enablence Technologies Inc., is the Canadian dollar ("C$"). However, the majority of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in US$.

Presenting these consolidated financial statements in US$ allows investors to more easily compare the Company's results with most of its direct competitors. Refer to Note 3 for further details on foreign currency treatment.

(vii) Use of estimates and judgements

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

Estimates

Expected Credit loss ("ECL")

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

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Fair value measurement

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

Judgments

Recognition of deferred income tax assets

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

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. In order to evaluate the likelihood of loan forgiveness, the Company evaluates multiple criteria, including (i) the completion of the PPP forgiveness checklist contained in the loan forgiveness application, and (ii) the ability of the Company to qualify for loan forgiveness from the SBA in the past based on similar circumstances. Once the Company is confident that it has satisfied the criteria, it records the loan amount as Other Income.

Going concern risk assessment

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

Impairment

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

Functional currency

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

3. Significant Accounting Policies

Basis of consolidation

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

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

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

(i) Wholly-owned subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

(ii) Transactions eliminated upon consolidation

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

Revenue Recognition

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

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

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

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

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

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

Inventories

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

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except for items recognized directly in equity or in other

comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Investment tax credits

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

Property, plant and equipment

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

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

Assets under development are not depreciated until available for use.

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

Expenditures for repairs and maintenance are expensed as incurred.

Impairment of long-lived assets

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

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit ("CGU")).

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

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

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

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

Financial instruments

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

Classification

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

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

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

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

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

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

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

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

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

Measurement

Initial recognition - A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value

is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

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

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

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

Impairment

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

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

Convertible debentures

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

Provisions

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

Government grants

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

Stock-based compensation

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

Research and development costs

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

Foreign currency transactions

Items included in the consolidated financial statements of Enablence and each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in net loss for the year.

Foreign currency translation

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

Earnings per share

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

Segmented reporting

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

Recent Accounting Pronouncements and Future Changes in Accounting Policies

New Accounting Policies

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

Future Accounting Policies

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

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

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

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

Annual improvements to IFRS Standards 2018 – 2020

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

IFRS 9 Financial Instruments

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

4. Cash and cash equivalents

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

	June 30, 2021	June 30, 2020
	$	$
Cash	**190**	131
Restricted Cash	**4**	4
	194	135

5. Accounts and other receivables

Trade and other receivables consist of the following:

	June 30, 2021	June 30, 2020
	$	$
Trade	**378**	476
Allowance for expected credit loss	**(103)**	(114)
	275	362
Other	**152**	280
	427	642

Included in other receivables is an amount of $56 (June 30, 2020 - $51) related to investment tax credits receivable and $81 (June 30, 2020 - $217) of amounts due from government agencies.

The age of trade accounts receivable is summarized as follows:

	June 30, 2021	June 30, 2020
	$	$
Current or under 60 days	**305**	311
Past due 61 to 90 days	**-**	-
Past due more than 90 days	**73**	165
	378	476

Note 17 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and prior year impairment provisions apply the IFRS 9 expected loss model.

6. Inventories

	June 30, 2021	June 30, 2020
	$	$
Raw materials	**134**	203
Work-in-progress	**239**	160
Finished goods	**-**	3
Allowance for obsolescence	**(72)**	(67)
	301	299

During the year ended June 30, 2021, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, $4 (2020 - $33) of obsolete and impaired inventory was provided for through cost of sales. A continuity of the provision is presented below:

	June 30, 2021	June 30, 2020
	$	$
Opening balance	**67**	34
Write-off of unrealizable inventory	**-**	-
Additional impairment provision recorded	**5**	33
Closing balance	**72**	67

The amount of inventory recognized as cost of revenues for the year ended June 30, 2021 was $889 (2020 - $844).

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7. Property, plant and equipment

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Total
	$	$	$	$	$	$
Cost						
As at June 30, 2020	11,526	2,797	1,145	426	765	16,659
Additions	63	-	-	2	-	65
As at June 30, 2021	11,589	2,797	1,145	428	765	16,724
Accumulated depreciation						
As at June 30, 2020	11,164	2,778	1,145	422	765	16,274
Depreciation	133	14	-	5	-	152
As at June 30, 2021	11,297	2,792	1,145	427	765	16,426
Carrying value						
As at June 30, 2021	**292**	**5**	**-**	**1**	**-**	**298**

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Total
	$	$	$	$	$	$
Cost						
As at June 30, 2019	11,342	2,797	1,145	422	765	16,471
Additions	184	-	-	4	-	188
As at June 30, 2020	11,526	2,797	1,145	426	765	16,659
Accumulated depreciation						
As at June 30, 2019	11,042	2,763	1,140	411	765	16,121
Depreciation	122	15	5	11		153
As at June 30, 2020	11,164	2,778	1,145	422	765	16,274
Carrying value						
As at June 30, 2020	**362**	**19**	**-**	**4**	**-**	**385**

Depreciation expense for the year ended June 30, 2021 of $152 (June 30, 2020 - $153) was allocated in the consolidated statements of net loss as follows: $133 (June 30, 2020 - $129) in cost of revenues; $4 (June 30, 2020 - $4) in general and administration; and $15 (June 30, 2020 - $20) in research and development.

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of $309 (June 30, 2020 - $281) relating to royalty-bearing government funding received for approved research and development projects, of which $Nil (June 30, 2020 – $Nil) was paid during the year. The repayment of this amount is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company. The Company has discontinued the production of all products relating to this funding and has requested forgiveness on the remaining amount from the funding organization.

9. Contract liabilities

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

	Twelve months ended June 30, 2021	Twelve months ended June 30, 2020
	$	$
Balance, beginning of year	**234**	198
New contract additions in year	**238**	69
Revenue recognized in year - from opening balance	**(63)**	(26)
Revenue recognized in year - from current year additions	**(187)**	(6)
Balance, end of year	**222**	234

10. Government loan (deferred income)

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

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

In February 2021, the Company entered into its second PPP loan in the amount of $613 (the "Second PPP Loan"). Similar to the First PPP Loan, the Company has met the PPP eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As such, it has accounted for the proceeds under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (Note 20). The Second PPP Loan has been recognized to Other Income in the year ended June 30, 2021.

11. Notes payable

	June 30, 2021	June 30, 2020
	$	$
Short-term loans (a)	**20,248**	15,568
Short-term RBC loans (b)	**97**	29
Loan from Export Development Canada (c)	**5,625**	4,497
Loan from Irixi (d)	**385**	321
	26,355	20,415
Less current portion	**26,355**	20,065
Long-term portion	**-**	350

a) During the year ended June 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $2,615 (2020 - $4,725) of which $Nil

(2020 - $391) was from related parties (Note 22). These short-term loans are repayable on demand.

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

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

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

c) In March 2016, the Company closed a secured term loan facility with EDC of C$3 million which was subsequently increased to C$5 million in August 2016. The loan facility was designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE (HK) Limited, a strategic investor and common shareholder in the Company. The loan facility was available in the form of a term loan for a period of 18 months from the date of the initial draw down which was in March 2016. Repayment of principal was to commence 18 months after the first draw on the loan. Principal then was to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.45% at June 30, 2021 (June 30, 2020 - 12.45%). The loan is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries.

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

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

d) On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi"), a related party, signed an Asset Transfer Agreement which resulted in Suzhou Enablence Optoelectronic Technologies Co. Ltd. ("Enablence Suzhou") selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence USA Components Inc. ("Enablence USA") also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 is treated as a note payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the year ended June 30, 2021, a total of $26 (2020 - $20) of interest has been accrued and the amount owing on the note payable is $385 (2020 - $321).

12. Convertible debentures

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

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

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

debt settlement agreements with the Company to exchange the full amount of the debts owed for common shares in the Company as part of the Recapitalization (Note 24).

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

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

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

13. Income tax and investment tax credits

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net loss from continuing operations before income taxes, shown as follows:

	2021	2020
	$	$
Expected tax rate	**26.50%**	26.50%
Expected tax benefit from loss	**(1,336)**	(2,629)
Increase (decrease) in taxes from		
Permanent differences	**(365)**	29
Benefit of loss carryfowards and other temporary differences not recognized	**(1,566)**	3,151
Expired losses	**3,543**	-
Rate change related to opening temporary differences	**-**	-
Rate differential on tax jurisdictions	**(76)**	(134)
Other	**(200)**	(417)
	-	-

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the future 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.

At June 30, 2021, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2021	2020
	$	$
Tax losses (i)	**303,810**	310,167
Tax losses (ii)	**46,290**	42,098
Unused credits (iii)	**3,491**	3,044
Deductible temporary differences	**39,299**	35,888

(i) Related to tax losses that are non-capital in nature. Canadian entity losses commence to expire in 2028 whereas U.S. subsidiary losses began to expire in 2020.
(ii) Related to tax losses that are capital in nature. There is no expiry on these losses.
(iii) Unused investment tax credits that can be used to offset future income taxes payable begin to expire in 2025.

Of the $303,810 tax losses available for carry-forward at June 30, 2021, $279,230 are U.S. net operating losses. These losses may be subject to annual limitations under section 382 of the Internal Revenue Code of the United States.

14. Share capital

Authorized capital stock consists of:

Unlimited number of preferred shares; NIL preferred shares outstanding

Unlimited number of common shares with no par value; 641,927 (2020 – 641,927) common shares issued and outstanding

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At June 30, 2021, the available option pool was 55,028 (June 30, 2020 – 52,724) and outstanding stock options totaled 9,165 (June 30, 2020 – 11,469).

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

A summary of the Company’s stock options and changes during the periods is presented below:

		2021		2020
	Number of Options	**Weighted Avg. Exercise Price (C$)**	Number of Options	Weighted Avg. Exercise Price (C$)
Outstanding, beginning of year	11,469	$ 0.144	20,342	$ 0.109
Granted	-	$ -	-	$ -
Forfeited	(75)	$ 0.065	(7,025)	$ 0.053
Expired	(2,229)	$ 0.070	(1,848)	$ 0.103
Outstanding, end of year	**9,165**	**$ 0.163**	11,469	$ 0.144
Excercisable, end of year	**9,165**	**$ 0.163**	11,319	$ 0.145

The following table summarizes the options outstanding and exercisable:

Year ended June 30, 2021					Year ended June 30, 2020			
Exercise Price (C$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable		Exercise Price (C$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$ 0.050	-	0.0	-		$ 0.050	2,000	8.7	2,000
$ 0.065	300	5.5	300		$ 0.065	600	6.5	450
$ 0.090	3,100	4.7	3,100		$ 0.090	3,100	5.7	3,100
$ 0.150	3,940	3.0	3,940		$ 0.150	3,940	4.0	3,940
$ 0.330	1,825	1.7	1,825		$ 0.330	1,825	2.7	1,825
$ 10.000	-	0.0	-		$ 10.000	-	0.0	-
$ 12.000	-	0.0	-		$ 12.000	4	0.2	4
$ 23.000	-	0.0	-		$ 23.000	-	0.0	-
$ 47.800	-	0.0	-		$ 47.800	-	0.0	-
$ 0.163	9,165	3.4	9,165		$ 0.144	11,469	5.2	11,319

The fair value of options granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options.

Stock-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised.

Total stock-based compensation expense during the year relating to prior year grants was $2 (2020 - $14) of which 100% (2020 – 100%) was attributable to general and administrative personnel.

Shares to be Issued

The Company entered into an engagement letter on July 26, 2017 with a financial advisory firm (the "Financial Advisor") for exclusive financial and capital markets advisory services. The agreement was subsequently amended on September 10, 2020. Under the terms of the agreement, the Company has the ability to satisfy the amounts owed (exclusive of tax) to the Financial Advisor through the issuance of common shares of the Company, upon approval of the TSX Venture Exchange. During the year ended June 30, 2021, the Company incurred $281 (2020 - $695) of commissions, advisory fees and related expenses related to the Financial Advisor. As of June 30, 2021, the total amount owed is $2,814 (2020 – $2,493), which is split between $2,655 (2020 - $2,375) that is recognized in contributed surplus and $158 (2020 - $118) for taxes payable in cash which are shown in Accounts Payable and Accrued Liabilities.

As of June 30, 2021, the total dollar value of the shares to be issued related to the above fees is $2,655 (2020 - $2,375), which issuance is subject to the approval of the TSXV.

15. Expenses by Nature

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

	Years ended June 30	
	2021	2020
Cost of revenues		
Materials/components	889	844
Labour	1,129	1,045
Inventory write downs/provision	4	33
Equipment and Freight	-	-
Allocation of overhead	711	710
Depreciation - COGS	133	129
Total	2,866	2,761
Research & Development		
Staff compensation	1,466	1,780
Travel	-	-
Contractors	(68)	(71)
Materials/supplies	36	132
Depreciation	15	20
Rent/Utilities	32	50
Total	1,481	1,912
Sales & Marketing		
Staff compensation	223	139
Travel	0	14
Trade shows	-	7
Materials/supplies/other	36	24
Rent/Utilities	4	3
Total	263	187
General & Administrative		
Staff compensation	718	951
Rent/Utilities	1,021	1,014
Taxes (Property tax/Use tax)	66	88
Insurance	94	84
HR management fee	18	43
Phone & Internet	37	42
Travel	2	13
Professional fees	893	865
Other	97	354
Depreciation	4	4
G&A Allocation (Rent/utilities)	(745)	(769)
Total	2,205	2,689

16. Loss per Share

The potential effect of the exercise of stock options and convertible debentures are anti-dilutive as all stock options and convertible debenture conversion rights are out-of-the-money based on the Company's last reported share price; therefore, as of the end of the year, 102,915 potentially dilutive shares from the exercise of stock options and convertible debentures (2020 – 105,219) have not been included in the calculation of net loss per share (diluted). In addition, shares to be issued for past financial advisory services and commissions of 233,982 (2020 – 209,225) have not been included in the calculation of net loss per share (diluted).

17. Financial Instruments

Carrying values and fair values

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

	June 30, 2021	June 30, 2020
	$	$
Assets - based on amortized cost	**484**	**508**
Liabilities - based on amortized cost	**40,908**	**32,627**

Notes:

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

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

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

Financial Risk Management

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

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company's maximum credit risk is $484 (June 30, 2020 - $508). The Company maintains its cash balances in operating accounts with large, high quality financial institutions.

Accounts receivable

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due over and above the 30 day standard credit terms. The expected loss rates are based on the payment profiles of sale over a period of 36 months before June 30, 2021. The historical loss rates are adjusted to reflect current and

forward-looking information based on factors affecting the ability of the customers to settle the receivables. The Company has identified the credit worthiness for current and future customers to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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

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

As at June 30, 2021, four customers accounted for more than 10% of the trade receivable total of $305, (June 30, 2020 – four customers, $476), which is approximately 90% (June 30, 2020 – 73%) of the trade receivable total. The Company has taken an expected credit loss of $28 (2020 - $75) against these customers.

In the year ended June 30, 2021, the Company determined that it is not likely that it will recover any amounts receivable from one customer ("Customer A") with a receivable that is greater than 90 days old. As such, the Company has taken a specific 100% provision for the amounts owed by Customer A in the year as shown in the chart below. In aggregate, as of June 30, 2021, it was determined that an expected credit loss of $104 (2020 - $114) was required (as shown on the following page):

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

As at June 30, 2020	Current	More than 30 days	More than 60 days	More than 90 days	Total
	$	$	$	$	$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	292	18	-	165	476
Lifetime Expected Credit Loss	29	2	-	83	114
Specific Impairment Allowance	-	-	-	-	-
Total Expected Credit Loss	29	2	-	83	114

The closing balance of trade receivables loss allowance as at June 30, 2021 reconciles with the trade receivables loss allowance as at June 30, 2020 as follows:

	$
Loss Allowance June 30, 2020	114
Plus: Increased (decreased) allowance on trade receivables	(10)
Less: Write-offs of trade receivables	-
Loss Allowance June 30, 2021	104

Interest rate risk

The Company is exposed to interest rate risk on the EDC loan only, as all other debt obligations have fixed interest rates. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense during the year ended June 30, 2021 of $36 (June 30, 2020 - $35).

Foreign currency risk

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

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

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

Twelve Months Ended June 30, 2021		Twelve Months Ended June 30, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
450	**(318)**	**(514)**	**108**

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

Twelve Months Ended June 30, 2021		Twelve Months Ended June 30, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
22	**6**	**17**	**(1)**

Liquidity risk

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

The Company is currently in breach of its latest amending agreement with EDC relating to interest and principal payments and has received a default notice from EDC (Note 11(c)). Subsequent to the end of the year, EDC sold the loan and the terms of the loan were amended with the new lender to ensure that the Company can maintain compliance with the agreement in the future (Note 24).

The Company is also currently in breach of its agreement with the convertible debt holders as the loans are past their maturity date of December 31, 2020. Subsequent to the end of the year, the convertible note holders unanimously agreed to exchange the full amount of their debts for common shares of the Company as part of the proposed recapitalization plan (Note 24).

At June 30, 2021 and June 30, 2020, the Company has financial liabilities which are due as follows:

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

	Current		**Non-Current**		
As at June 30, 2020	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$		$
Accounts payable and accrued liabilities	5,097	-	-	-	5,097
Notes payable	20,065	-	350	-	20,415
Convertible debentures	7,115	-	-	-	7,115
Total	32,277	-	350	-	32,627

18. Capital Management

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

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

Subsequent to the end of the year, the Company announced a proposed recapitalization transaction that would involve, amongst other items, a shares-for-debt exchange, a shares-for-service exchange and a private placement of new common shares and warrants (Note 24).

19. Segmented Information

The Company operates in one segment, Optical Components.

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

	June 30, 2021	June 30, 2020
	$	$
United States	**298**	382
Canada	**-**	3
	298	385

Revenue is analyzed geographically as follows:

	June 30, 2021	June 30, 2020
	$	$
Americas	**904**	284
Europe, Middle East, Africa	**114**	32
Asia Pacific	**1,503**	785
	2,521	1,101

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

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

		June 30,
	2021	2020
	$	$
Product	**1,741**	727
NRE	**780**	374
	2,521	1,101

20. Commitments

The Company leases office and manufacturing space and certain equipment under operating leases. Rental expenses under these leases were $133 (2020 - $133).

The Company's office and research and development facilities in Ottawa, Ontario, Canada are subject to a lease that expires September 30, 2021 that was subsequently extended after the end of the year (Note 24).

The Company's office and manufacturing facilities in Fremont, California, U.S.A. are currently operating under a month-to-month lease after the most recent lease expired in October 2018 (originally entered in May 2003 and subsequently extended numerous times). The Company is currently in discussions with its landlord about entering a new lease for the premises, but no agreements have been entered into at this time.

The amounts owed under leases and rental expenses are detailed below:

	$
Less than one year	49
Between one and five years	9
More than five years	-
	58

In addition, the Company has a commitment to pay an amount relating to a royalty-bearing government grant received for approved research and development projects, of which $Nil was paid during the year (2020 - $37). The balance of $28 (2020 - $26) is included in the Company's accounts payable. The Company has an obligation to make additional royalty payments based on sales of the products related to these grants (Note 8); however, all products related to the grants have been discontinued or abandoned.

21. Key Management Personnel and Director Compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and are defined as the Chief Executive and Chief Financial Officers of the Company and members ("Directors") of the Company's Board of Directors (the "Board"). The Company's compensation program is administered by the Board and specifically provides for total compensation for executive officers, which is a combination of base salary, performance-based incentives and benefit programs that reflect aggregated competitive pay considering business achievement, fulfillment of individual objectives and overall job performance. Directors, executive officers and employees are entitled to participate in the Company's stock option plans.

The following summarizes key management personnel and Directors' compensation for the years ended June 30, 2021 and 2020:

	2021	2020
	$	$
Salaries and other compensation	**350**	652
Stock-based compensation	**2**	14
	352	666

22. Related Party Transactions

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

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

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

On May 31, 2019, Enablence and Irixi signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi to offset certain debts owed by the Company to Irixi at that time. The net remaining amount due to Irixi of $260 was treated as a long term note payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022 (the "Irixi Loan"). During the year ended June 30, 2021, a total of $51 (2020 - $22) has been accrued and the amount owing on the Irixi Loan is $385 (2020 - $321) as at June 30, 2021 (Note 11(d)).

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

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

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

- $783 (2020 - $783) is included in accrued liabilities for services provided by officers of Irixi to Enablence during their time as consultants, CEO and CFO of Enablence for the periods commencing in November 2013 and ending February 2019
- $482 (2020 - $482) is included in accounts payable, representing amounts paid by Irixi to a contract manufacturer on Enablence's behalf in the year ended June 30, 2018 and for consulting services provided by Irixi to Enablence in the year ended June 30, 2017
- $325 (2020 - $325) for work relating to a services agreement in calendar year 2017

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

Other Related Party Transactions

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

An officer with the Company, named co-CEO and CFO on May 10, 2021, provided the Company with a $50 short-term bridge loan in the twelve-month period ended June 30, 2020, prior to commencing his role as an officer of the Company. The loan is recorded in short-term notes payable (Note 11(a)) and carries an interest rate of 10% per annum. Interest totaling $5 (2020 - $1) was accrued on the loan in the year. The full amount of the loan and interest of $56 (2020 - $51) remains outstanding as of year-end.

23. Supplemental Disclosures of Cash Flow Information

Net change in non-cash operating working capital items:

	June 30, 2021	June 30, 2020
	$	$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	**215**	301
Inventories	**(2)**	98
Prepaid expenses and deposits	**(17)**	112
Accounts payable and accrued liabilities	**569**	365
Contract Liabilities	**(12)**	36
Deferred Income	**(613)**	613
	140	1,525

24. Subsequent Events

The following events happened subsequent to June 30, 2021.

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

Recapitalization Transaction

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

Restructuring of Secured Loan

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

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

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

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

Interim Promissory Note Financing

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

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

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

Shares-for-Debt Settlement

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

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

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

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

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

Shares-for-Services Settlement

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

Concurrent Private Placement

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

Consolidation

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

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

<u>Other Subsequent Events</u>

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

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

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

- Co-CEO and CTO
  - Eligibility to receive a retention bonus of C$853 (“Retention Bonus 1”)
    - Provided the Recapitalization is completed and the employee remains actively employed by the Company, Retention Bonus 1 will be reduced by quarterly cash payments of $25 per quarter, in arrears, commencing 15 months after the completion of the Recapitalization until the Retention Bonus 1 is fully paid (with the final payment being C$28)
  - In the event of a termination without cause or a resignation with good reason, the employee will be entitled to payment equal to the greater of (i) all remaining amounts due under Retention Bonus 1, payable within 90 days of the termination of employment, or (ii) twelve months base salary plus an amount equal to the average annual bonus paid to employee over the last two fiscal years preceding the termination date
    - The failure to complete the Recapitalization is an event of good reason that would entitle employee to resign with good reason and trigger the Retention Bonus 1 entitlements
- Director of Research and Design
  - Eligibility to receive a retention bonus of C$879 (“Retention Bonus 2”)
    - Provided the Recapitalization is completed and the employee remains actively employed by the Company, Retention Bonus 1 will be reduced by quarterly cash payments of $25 per quarter, in arrears, commencing 3 months after the completion of the Recapitalization until 12 months after the completion of the Recapitalization, and C$50 per quarter commencing 15 months after completion of the Recapitalization until the Retention Bonus 2 is fully paid (with the final payment being C$79)
  - In the event of a termination without cause or a resignation with good reason, the employee will be entitled to payment equal to the greater of (i) all remaining amounts due under Retention Bonus 2, payable within 90 days of the termination of employment, or (ii) twelve months base salary plus an amount equal to the average annual bonus paid to employee over the last two fiscal years preceding the termination date
    - The failure to complete the Recapitalization is an event of good reason that would entitle employee to resign with good reason and trigger the Retention Bonus 2 entitlements