ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021

DATED: November 24, 2021

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

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

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

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

The effective date of this MD&A is November 24, 2021.

FORWARD-LOOKING STATEMENTS

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

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

- The Company will complete the Recapitalization, including obtaining all regulatory approvals, as approved by shareholders at the Company's annual and special meeting of shareholders on October 26, 2021 (the "AGM")
- The Company will be able to raise sufficient financing to meet its financial obligations as they come due and to allow it to execute on its business plan

- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability
- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure
- Enablence will be able to attract and retain key people
- Enablence will continue to maintain an ongoing tenancy for its fabrication facility in Fremont, California, despite the month-to-month nature of its current lease
- The Company will be able to re-open its offices in Ottawa, Canada and Fremont, California to full capacity, as both locations continue to operate primarily on a remote basis for non-essential (i.e. fab plant) workers
- The Company will be able to meet supply chain challenges faced since the start of the COVID-19 pandemic, which have resulted in plant closures and shipping delays for certain suppliers of Enablence raw materials, particularly for suppliers in the Asia Pacific region

SUBSEQUENT EVENTS

The following events happened subsequent to September 30, 2021.

Annual and Special Meeting of Shareholders

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

- Approval of the consolidation of the Company's common shares on the basis of one post-consolidation common share for a number of pre-consolidation common shares within a range of 50 to 200, such ratio to be determined by the Board of Directors in its sole discretion
- Approval of the Company's revised omnibus equity incentive plan that allows for the Board to make awards of up to 330,000,000 common share equivalents, subject to a maximum limit of 20% of the common shares of the Company outstanding at that time
- Approval of shares-for-debt settlements in conjunction with the Recapitalization
- Approval of Mr. Dan Bordessa as a new control person of the Company, by way of he and his joint actors being expected to own over 20% of the common shares of the Company following the completion of the Recapitalization
- Approval of Vortex ENA LP as a potential new control person of the Company, by way of Vortex LP and its related joint actors being expected to own over 20% of the common shares of the Company following the completion of the Recapitalization

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

Other Subsequent Events

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

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

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

On November 15, 2021, the Company announced that it has received waivers from certain major creditors participating in the Recapitalization to waive the requirement for all proposed participants in the shares-for-debt exchange to enter into debt settlement agreements with the Company (the

"Major Creditor Waivers"). In aggregate, the Company obtained debt settlement agreements with creditors holding approximately 96% of the amounts proposed for settlement, representing $34,195 of the total $35,730 proposed for conversion (based on a September 30, 2021 USD:CAD exchange rate of 1.2741). The receipt of the Major Creditor Waivers allows the Company to proceed with closing of the shares-for-debt transactions and will allow the Company to satisfy the secured loan condition that the Recapitalization be completed prior to December 31, 2021 (see *Finance and Interest Expense (c)*), pending approval of the TSX Venture Exchange ("TSXV"). As such, the temporary waiver of defaults under the loan will become permanent if closing occurs before December 31, 2021.

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

a) The Additional Short-Term Loan, along with prior amounts of C$275 advanced to the Company prior to September 30, 2021 and recorded in the Company's accounts payable and accrued liabilities are transferred to Vortex LP
b) Up to C$2 million of additional funds will be made available under the secured loan, subject to the sole discretion of Vortex LP
c) The Company and Vortex LP have agreed to enter into an amended and restated senior loan agreement within 30 business days of the execution of the waiver that will reflect that the amounts reference in (a) and (b) above will become part of the balance owing to Vortex LP under the secured loan, and will accrue interest and be repayable at the same time as the other amounts due

SELECTED FISCAL YEAR INFORMATION

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

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

OVERVIEW

ENABLENCE'S BUSINESS

Enablence Technologies Inc. is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange (TSXV –

ENA). Enablence designs, manufactures and sells optical components, primarily in the form of planar lightwave circuits ("PLC") on silicon-based chips. Enablence products serve a global customer base, primarily focused today on data centre and telecommunications infrastructure (namely 5G) end markets. Enablence also works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets. In select strategic circumstances, the Company also uses its proprietary, non-captive fabrication plant in Fremont, California to manufacture chips designed by third party customers. The Company's product lines address access – connecting homes and businesses to the network; metro – communication rings within cities of different sizes; and long-haul – linking cities, countries and continents. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 400 gigabits per second.

RESULTS OF OPERATIONS

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended December 31, 2019 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2021.

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

Quarterly P&L	Q2 2020 31-Dec 2019	Q3 2020 31-Mar 2020	Q4 2020 30-Jun 2020	Q1 2021 30-Sep 2020	Q2 2021 31-Dec 2020	Q3 2021 31-Mar 2021	Q4 2021 30-Jun 2021	Q1 2022 30-Sep 2021
Revenue	$ 233	$ 220	$ 367	$ 541	$ 683	$ 698	$ 599	$ 575
Gross Margin	(449)	(468)	(317)	(208)	(25)	(16)	(96)	(111)
GM %	(192.7%)	(212.6%)	(86.2%)	(38.4%)	(3.7%)	(2.3%)	(16.0%)	(19.3%)
Expenses								
Research & development	511	407	459	389	325	397	371	315
Sales & marketing	40	60	55	65	62	69	67	57
General & administration	747	848	545	598	408	431	768	802
Stock-based compensation	4	3	3	1	1	1	(0)	0
Expenses	1,302	1,318	1,062	1,052	795	898	1,206	1,174
Operating loss	(1,750)	(1,786)	(1,379)	(1,260)	(820)	(914)	(1,302)	(1,285)
Finance and other expense	(837)	(795)	(406)	(774)	(937)	(31)	25	1,618
Gain on sale of property, plant and equip.	-	-	-	-	-		-	
Foreign exchange (loss) gain	140	(799)	415	169	447	174	183	(324)
Net loss	(2,447)	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,095)	9
Weighted average shares outstanding	641,927	641,927	641,927	641,927	641,927	641,927	641,927	641,927
Basic and diluted income (loss) per share	($0.00)	($0.01)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	$0.01
Adjusted EBITDA(1)	(1,707)	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)	(1,251)

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

NON-GAAP FINANCIAL MEASURES

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

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

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

	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	31-Mar 2021	30-Jun 2021	30-Sep 2021
Net loss for the period	(2,447)	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,095)	9
Add (deduct):								
Net interest and other expense	837	795	406	774	937	31	(25)	(1,618)
Amortization	40	38	37	38	39	38	36	34
Gain on sale of equipment	-	-	-	-	-	-	-	-
Foreign exchange (gain) loss	(140)	799	(415)	(169)	(447)	(174)	(183)	324
Stock-based compensation expense	4	3	3	1	1	1	(0)	0
"Adjusted EBITDA"	(1,707)	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)	(1,251)

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SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2020

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

	Three months ended September		Increase / (decrease)	
	2021	2020	#	%
Revenues	$ **575**	$ 541	$ 34	6%
Cost of revenues	**686**	749	(63)	(8%)
Gross margin	**(111)**	(208)	97	(47%)
	(19%)	*(38%)*		(50%)
Operating expenses:				
Research and development	**315**	389	(74)	(19%)
Sales and marketing	**57**	65	(8)	(12%)
General and administrative	**802**	598	204	34%
Stock based compensation	**0**	1	(0)	(40%)
Total operating expenses	**1,174**	1,052	122	12%
Loss from operations	**(1,285)**	(1,260)	(26)	2%
Other income (expenses):				
Finance and other income (expense)	**2,495**	17	2,478	nmf
Finance expense	**-**	(30)	30	(100%)
Interest expense	**(877)**	(761)	(116)	15%
Gain on convertible debenture extension	**-**	-	-	n/a
Foreign exchange gain (loss)	**(324)**	169	(493)	(292%)
Net income / (Loss)	**9**	(1,865)	1,874	(100%)
Other comprehensive income (net of tax):				
Foreign currency translation gain (loss)	**1,047**	(637)	1,684	(264%)
Comprehensive income / (loss)	$ **1,056**	$ (2,502)	$ 3,558	(142%)

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive income / (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar, the Canadian dollar and the Chinese renminbi (“RMB”) can have an impact on the reported results for each fiscal period. The average exchange rate for the three months ended September 30, 2021 in terms of the Canadian dollar (“CAD”) equivalent of US$1 was CAD $1.2601 (three months ended September 30, 2020 – CAD $1.3316) and in terms of the Chinese Renminbi (“RMB”) equivalent of US$1 was RMB $0.1545 (three months ended September 30, 2020 – RMB $0.1447).

REVENUE

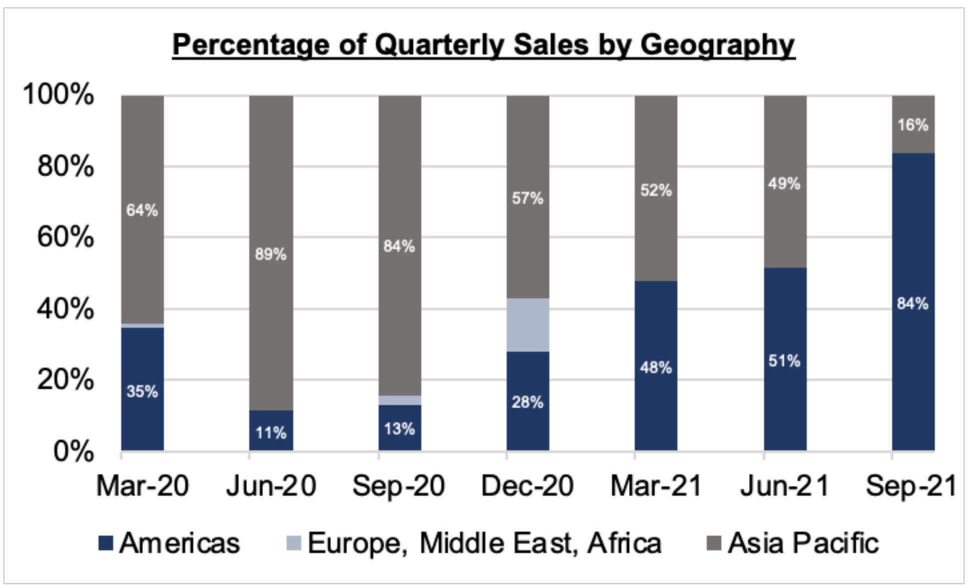
Revenue for the three months ended September 30, 2021 was $575 as compared to $541 for the same period in the prior year, an increase of $34, or 6%. The increase is due to higher non-recurring engineering (“NRE”) revenue ($52) and third-party fabrication services work as a component of product revenue for a mega-cap technology company ($114), offset by a decrease of $132 in optical chips. The Company has seen a slowdown in orders for its optical chips in the current quarter from customers in Asia which it believes is temporary and due to typical demand swings from its customers.

In the three months ended September 30, 2021, the Company processed sales to approximately fifteen separate customers across its business, which is in line with total customers in the same period in the prior year. During the three months September 30, 2021, the Company's top five customers accounted for 93% of the Company's total revenue (three months ended September 30, 2020 – 79%).

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

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

As previously reported, the Company has focused its sales efforts on the Americas markets since the beginning of 2020, which grew to 84% of total sales for the three months ended September 30, 2021 (three months ended September 30, 2020 – 13%). For the last twelve months, total sales to the Americas exceeds 51% of total sales. The Company believes that increasing its Americas business is important since it has the only non-captive (i.e. not owned by, or beholden to, one customer) optical chip fabrication plant in North America and it can deliver its products faster to local customers than competitors who primarily manufacture products in Asia. It is the Company's intention to continue to prioritize growth in the Americas business in the near-term.



76% of the Company's revenue for the three months ended September 30, 2021 are comprised of product revenue which includes amounts relating to recurring third party fabrication services (three months ended September 30, 2020 - 73%) and 24% is comprised of NRE revenue (three months ended September 30, 2020 - 27%). Product revenue generally results from the sale of wafers/chips to end customers. NRE revenue is comprised of new research and development projects for customers. Often, NRE projects result in long-term recurring product revenue for the Company once it has solved a design challenge for the customer. In this sense, growth in the NRE revenues can be seen as a positive leading indicator for future revenues of the Company as it indicates increasing demand for new engineering services from customers.

Of the $436 in product revenue for the three months ended September 30, 2021, approximately 33% is comprised of revenue related to third party fabrication services for a mega-cap technology company (three months ended September 30, 2020 – 6%). The Company recorded an additional $61 in NRE revenue for this customer in the three months ended September 30, 2021 (three months ended September 30, 2020 - $Nil) and continues to perform new NRE projects for this customer which may lead to additional Product revenue in the future. Management of the Company believes that this customer is strategically important as growth in fabrication services revenue will offset the overall fixed costs of operating the fabrication plant and increasing orders from this customer may allow for the introduction of additional staff shifts in the future and higher revenues for the Company. The products being manufactured for this customer also provides the Company with exposure to the fast-growing augmented and virtual reality (“AR/VR”) markets that it would not have access to through existing chip designs and customers.

GROSS MARGIN

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

Gross margin for the three months ended September 30, 2021 was ($111) as compared to ($208) for the same period in the prior year, an improvement of $97, or 47%. The improvement is due to increased revenues and reductions in plant overhead resulting from staff reductions in 2021 where departing employees have not yet been replaced.

OPERATING EXPENSES

Research & Development (“R&D”) expense for the three months ended September 30, 2021 was $315 as compared to $389 for the same period in the prior year, a decrease of $74, or 19%.

The decrease in the current period was primarily the result of staffing reductions that took effect after September 30, 2020.

Sales & Marketing expense for the three months ended September 30, 2021 was $57 as compared to $65 for the same period in the prior year, a decrease of $8, or 12%.

The decrease in the current period is the result of minor reductions in day-to-day selling expenses in the current quarter.

General & Administration expense for the three months ended September 30, 2021 was $802 as compared to $598 for the same period in the prior year, an increase of $204, or 34%.

The increase in the current period is primarily due to higher professional fees associated with the Recapitalization and work relating to the Cease Trader Oder. The Company also incurred higher management salaries associated with the Company’s new Co-Chief Executive Officer and Chief Financial Officer who commenced employment with the Company in May 2021.

Stock-Based Compensation expense for the three months ended September 30, 2021 was $0 as compared to $1 for the same period in the prior year, a decrease of $0, or 40%.

No stock-based compensation has been awarded by the Company since February 28, 2019, but the Company does anticipate using this as a compensation tool for employees, officers and directors of the Company in the future. An updated omnibus equity incentive plan was approved by the Company's common shareholders at the AGM on October 26, 2021 (*see Subsequent Events*).

FINANCE AND OTHER INCOME

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

Finance and other income for the three months ended September 30, 2021 was $2,495 as compared to $17 for the same period in the prior year, an increase of $2,478, or 14,576%. The increase is the result of (i) $67 from the reversal of accrued liabilities relating to a grant made to the Company in 2013 for a product never commercialized and where the grant provider agreed to forgive the amounts owed in the current period, (ii) $248 from the reversal of accrued liabilities for accrued vacation pay for two company executives, including the Co-CEO and CTO, which were eliminated upon the signing of new employment agreements by both executives in the current period, and (iii) $2,181 from a gain on the restatement of the Company's secured loan following the execution of the fifth amending agreement on September 3, 2021 (see *Finance and Interest Expense (c)*).

FINANCE AND INTEREST EXPENSE

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

Finance expense for the three months ended September 30, 2021 was $Nil as compared to $30 for the same period in the prior year, a decrease of $30, or 100%. The decrease is due to a reduction in commission accruals related to the issuance of notes payable, as no commissions are payable to the Company's financial advisor for any capital raised after December 31, 2020.

Interest expense for the three months ended September 30, 20201 was $877 as compared to $761 for the same period in the prior year, an increase of $116, or 15%. The increase is a result of higher balances of notes payable, offset by a stronger Canadian dollar for the current period which reduced the effect of interest on US$ denominated notes payable.

Notes payable were as follows at September 30, 2021:

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

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

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

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

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

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

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

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

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

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

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

FOREIGN EXCHANGE GAIN (LOSS)

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

During the three months ended September 30, 2021, the Company recorded a foreign exchange loss of $324 as compared to a gain of $169 in the prior year. See also – *Foreign Currency Translation Gain (Loss)*. The loss in the current period is the result of the strengthening of the Canadian dollar during the three months ended September 30, 2021 that increased the Canadian dollar balance owing of the Company's U.S. dollar denominated short-term notes payable.

INCOME TAXES

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

NET INCOME / (LOSS)

The Company achieved net income for the three months ended September 30, 2021 of $9 as compared to a net loss of $1,865 for the same period in the prior year, an improvement of $1,874, or 100%.

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

During the three months ended September 30, 2021, the Company recorded a foreign exchange translation gain of $1,047, as compared to a loss of $637 for same period in the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US dollar currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is the U.S. dollar.

LOSS PER COMMON SHARE

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

	Three months ended September	
	2021	2020
Net income / (loss) per share (basic)	$ 0.00	$ (0.00)
Net income / (loss) per share (diluted)	$ 0.00	$ (0.00)
Weighted Average Number of Common Shares (basic)	641,927	641,927
Weighted Average Number of Common Shares (diluted)	744,842	745,994

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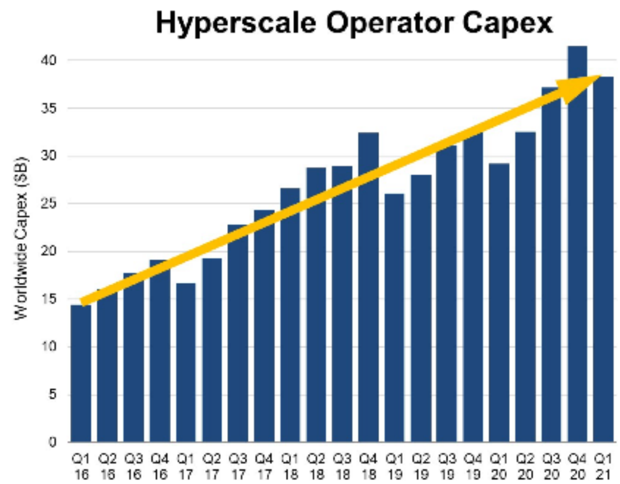
OUTLOOK

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

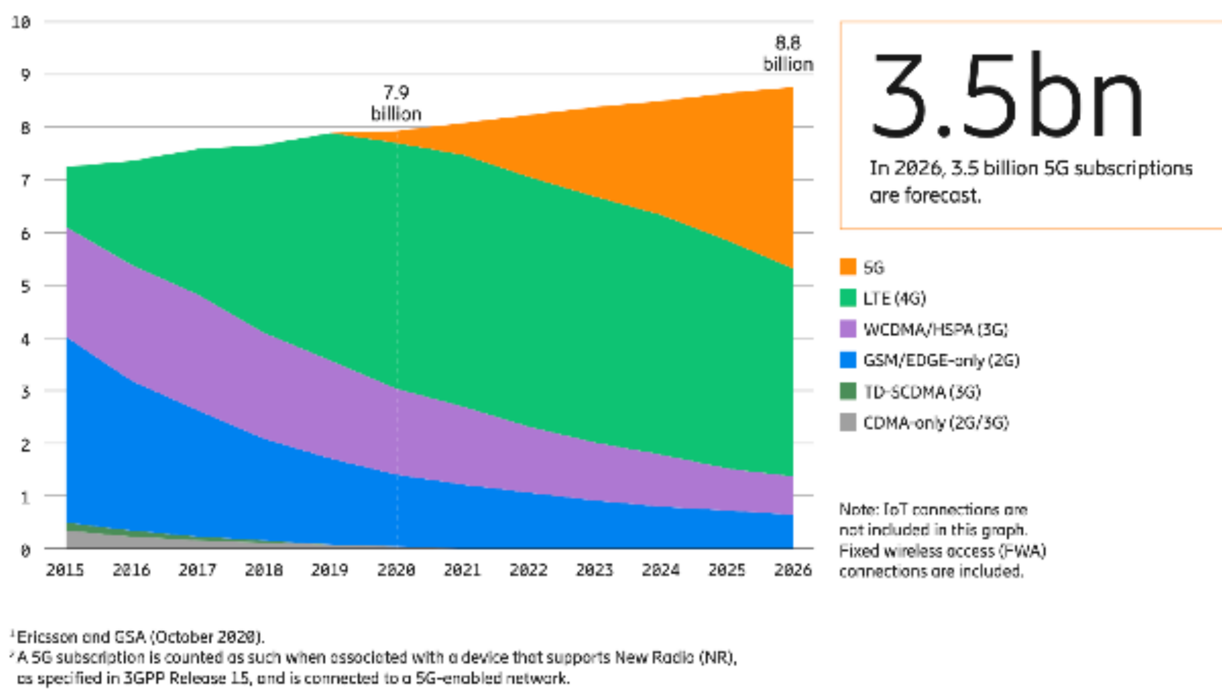
Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. Mega-cap cloud computing companies (Alphabet, Amazon, Apple, Facebook, Microsoft) are achieving 30% p.a. growth rates in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



Source: Synergy Research Group

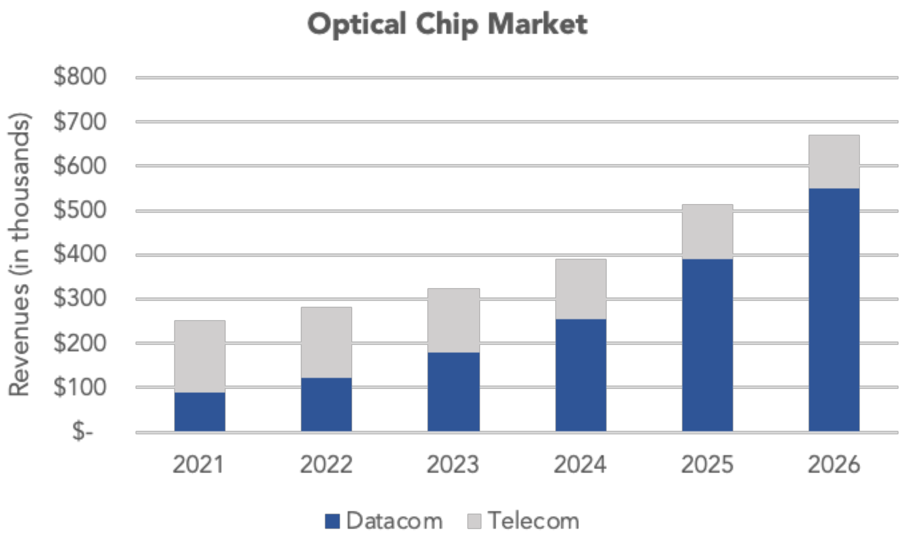
Similarly, 5G networks are in the early stages of deployment in major markets around the globe, including the United States, Korea, China, Canada and Europe, with increasing construction, deployment, and consumer usage forecast in 2022 and beyond as these networks are built out.

Global Mobile Subscriptions by Technology (billions)



Source: Ericsson Mobility Report, 2020

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



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

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

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

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

The COVID-19 pandemic continues to impact the business operations of the Company. The Company's Fremont, California plant operations have been allowed to continue to remain open under the Critical Manufacturing exemption for essential workers enacted by the State of California, however, the remainder of its office staff in California and in Canada have continued to work remotely in most circumstances, to prevent the potential for outbreaks that could harm employee health and hurt future business operations. In addition, the Company is reliant on raw materials for its products that are in extremely high demand globally which has increased lead times for the Company and made production planning difficult. One example is blank silicon wafers which are sourced from Asia where factories have been closed numerous times during the pandemic and where we compete against other companies in the extremely busy semiconductor industry for supply. The Company is managing these issues primarily through larger bulk advance orders for these products and in some instances, prepayment which negatively impacts the cash available to support other business operations. The Company has also experienced demand fluctuations for its products as its customers have often delayed orders and shipments for issues faced in their own operations. The Company is hopeful that business operations will return to normal now that vaccine rollouts are widespread globally and hopes to re-open its offices fully to its staff later in 2021 once concerns over a potential "fourth wave" of the pandemic dissipate.

Recapitalization

To help achieve its long-term goals, the Company announced the Recapitalization in August 2021. There are three primary components to the Recapitalization:

1. A shares-for-debt exchange with existing creditors who are exchanging debts owed into common shares of the Company (the "Shares-for-Debt Exchange");
2. A consolidation of the common shares on the basis of between 50 and 200 pre-consolidation common shares for each 1 post-consolidation common share (the "Consolidation", and;
3. An up to C$11 million private placement of new capital (the "Private Placement").

As of the date hereof, and subsequent to the end of the current quarter, the Company has received the required approvals from its shareholders and creditors to proceed with the Shares-for-Debt Exchange and the Consolidation and the consolidation has been completed. The Company anticipates closing on the Shares-for-Debt Exchange prior to the end of November 2021.

The Private Placement has not been completed at this time. As such, the previously announced, up to US$4 million capital improvement plan (the "Cap-Ex Plan"), remains on hold pending further investment into the Company. The Company believes that this new capital will allow it to increase production capacity at the Company's fabrication plant from the current 100-150 wafer per month production rate to 300-400 wafers per month. A portion of the capital improvement plan funds will also be used to purchase testing equipment in Ottawa, allowing the research and design team to more rapidly iterate new designs and expand our customer base. We will also hire additional staff in key operational and sales roles to support the planned ramp-up in customer demand. The failure to raise new funds through a Private Placement, or other means, will result in slower growth for the Company and will potentially limit our ability to achieve the revenues necessary to achieve profitability from its business operations.

In addition to the Cap-Ex Plan, the Company planned to use the remaining proceeds from the Private Placement to general working capital purposes and to fund normal course business operations. The inability to complete the Private Placement, or to raise similar amounts through other means, will make it difficult for the Company to meet the day-to-day operating needs of the business. As such, completing a new capital raise remains critical to the long-term success of the Company.

LIQUIDITY

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, debt service and organic growth requirements. During the three months ended September 30, 2021, the Company obtained short- and long-term debt financing in the amount of $1,106.

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

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

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

	September 30, 2021	**June 30, 2021**
Cash and Cash Equivalents	**$323**	$190
Restricted cash	**4**	4
	327	194
Working capital (deficiency)	(35,403)	(40,037)

The working capital deficiency from operations at September 30, 2021 was $35,403 as compared to a working capital deficiency of $40,037 at June 30, 2021. The decrease in the working capital deficiency during the three months ended September 30, 2021 is mainly due to the amendment to the secured loan (see *Finance and Interest Expense (c)*) which resulted in a reduction in the carrying value of the loan on the Company's financial statements and a movement from short-term liabilities to long-term liabilities as the revised maturity date is greater than twelve months from the end of the current quarter.

The working capital deficiency primarily results from significant amounts of short-term notes payable, convertible debentures and accrued liabilities and accounts payable. As part of the Recapitalization, the Company has entered into debt settlement agreements with creditors representing 100% of the amounts owed under the short-term loans described in *Finance and Interest Expenses (a)* above as well as creditors representing 100% of the amounts described under *Convertible Debenture Financing* below. All amounts due to such creditors will be exchanged for common shares and/or units (which include a common share plus 1/5 of a share purchase warrant) upon closing of the Recapitalization, subject to TSXV approval. A small amount of additional accounts payable and accrued liabilities will also be satisfied through the Shares-for-Debt Exchange as part of the Recapitalization.

If the Recapitalization is not completed by December 31, 2021, then all debts, including short-term loans, the Vortex LP secured loan and the convertible debentures will become due on demand. This would have severe financial consequences for the Company, as it would be required to either (i) issue new replacement debt, (ii) issue new equity, or (iii) pursue such other alternatives as may be available to the Company to allow for the repayment of the debt. Given the large balances owed, there can be no guarantee that the Company will be able to successfully execute on any alternative strategies and the Company's ability to operate as a going concern would be challenged. Please refer to *Risks and Uncertainties* for more information.

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

	Year ended September 30, **2021**	2020
Cash used in Operating activities	**(1,113)**	(374)
Investing activities		
Purchase of property, plant and equipment	**(27)**	(49)
Proceeds on disposal of equipment	**-**	-
	(27)	(49)
Financing activities		
Advances from (repayments on) short term notes payabl(	**1,118**	531
Advances from long term notes payable	**-**	-
Net proceeds from issuance of shares	**-**	-
	1,118	531
Effect of foreign currency translation	**153**	(218)
Net change in cash and cash equivalents	**132**	(110)

As at September 30, 2021, the Company had cash available of $323 (not including $4 of restricted cash). The Company consumed $1,113 in operating activities for the three months ended September 30, 2021 as compared to $374 in same period in the prior year. The increase in cash used in operations in the three months ended September 30, 2021 as compared to the same period in the prior year is primarily the result of higher one-time accounts receivable reductions in the prior year period, higher pre-payment for NRE projects in the prior year period and an increase in prepaid expenses in the current year.

Short Term Loan Financing

During the three months ended September 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,106, of which $1,106 were from related parties. As at September 30, 2021, a total amount of $21,466 remains owing for short-term loans, including the ones issued this quarter, which includes $3,137 of accrued interest and $125 of accrued fees.

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

Convertible Debenture Financing

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

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

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

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

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

Government Loan (Deferred Income)

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

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

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

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

BOARD AND MANAGEMENT

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

Ashok Balakrishnan and Craig Mode serve as Co-Chief Executive Officers of the Company. Mr. Mode also serves as Chief Financial Officer and Mr. Balakrishnan also serves as Chief Technology Officer of the Company, respectively.

CAPITAL RESOURCES

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

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

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

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 641,927 common shares issued and outstanding as of November 16, 2021 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol “ENA” or “ENA.V”.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

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

The Company received a temporary waiver of defaults from Vortex LP as part of the fifth amendment signed in the current period. If the Recapitalization is closed by December 31, 2021, the temporary waiver of defaults will become permanent. If the Recapitalization is not completed by that time, then all amounts will be due, and the Company will be in default under the loan agreement.

The Company is currently in breach of its latest amending agreement with EDC relating to interest and principal payments and has received a default notice from EDC. Subsequent to the end of the year, EDC notified the Company that it has sold the loan to another party, and the Company entered into an amendment to the loan agreement with the new lender to ensure it can maintain compliance with the loan terms in the future (see *Subsequent Events*).

The Company is also in breach of its agreement with the convertible debenture holders as the debentures matured on December 31, 2020. During the current period, the debenture holders executed debt settlement agreements to exchange their debentures for common shares in the Company as part of the Recapitalization, subject to the approval of the TSXV. If the Recapitalization is not closed, then the debentures will be in default.

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

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

TRANSACTIONS WITH RELATED PARTIES

Vortex Entities

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

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

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

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

the commissions and advisory fees that are recorded in the Company's accounts payable and accrued liabilities (June 30, 2021 - $158). The amounts, exclusive of taxes, are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

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

- $3,145 (June 30, 2021 - $3.909) are owed to Roland under short-term promissory notes, including interest of $62 incurred in the three months ended September 30, 2021 (three months ended September 30, 2020 - $59); note that $966 of notes were transferred to Vortex LP in the three months ended September 30, 2021, as referenced above. The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.
- $1,794 (June 30, 2021 - $1,671) are owed to Roland under convertible debentures, including interest of $44 incurred in the three months ended September 30, 2021 (three months ended September 30, 2020 – $38). The amounts are proposed to be settled in exchange for common shares of the Company as part of the Recapitalization.

Other Related Party Transactions

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

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

RISKS AND UNCERTAINTIES

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

Any investor should consider carefully these risks and the risks and uncertainties that are detailed in *Appendix A* of the Company's Management's Discussion & Analysis for the period ended June 30, 2021, filed on October 21, 2021 and available under the Company's issuer profile on www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

Use of estimates and judgements

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

Estimates

Expected Credit loss (“ECL”)

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

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Fair value measurement

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

Judgments

Recognition of deferred income tax assets

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

Accounting for loans from related parties

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

Treatment of Government Loans

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

Going concern risk assessment

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

Impairment

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

Functional currency

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

FINANCIAL AND OTHER INSTRUMENTS

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

ADDITIONAL INFORMATION

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