ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2021

DATED: February 24, 2022

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") at December 31, 2021 compared to June 30, 2021 and results of operations for the three and six months ended December 31, 2021 compared to the three months and six months ended December 31, 2020.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and six months ended December 31, 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 and to attain profitable operations. Management is active in addressing these issues although there is no assurance that they will be successful. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications. The current situation and the plans to resolve it are contained in the Outlook section of this MD&A.

The effective date of this MD&A is February 24, 2022.

FORWARD-LOOKING STATEMENTS

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

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

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due and to allow it to execute 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 nonessential (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.
- The Company will be able to endure decreased product demands resulting from COVID-19 related plant closures and delayed ordering by certain customers of Enablence products, particularly for customers in the Asia Pacific region.

SUBSEQUENT EVENTS

No material events occurred subsequent to December 31, 2021.

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	**($0.94)**	($1.79)	($1.94)

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 March 31, 2020 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.

	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	Q2 2022 31-Dec 2021
Revenue	$ 220	$ 367	$ 541	$ 683	$ 698	$ 599	$ 575	$ 422
Gross Margin	(468)	(317)	(208)	(25)	(16)	(96)	(111)	(139)
GM %	(212.6%)	(86.2%)	(38.4%)	(3.7%)	(2.3%)	(16.1%)	(19.3%)	(32.9%)
Expenses								
Research & development	407	459	389	325	397	371	315	337
Sales & marketing	60	55	65	62	69	67	57	68
General & administration	848	545	598	408	431	768	802	323
Stock-based compensation	3	3	1	1	1	0	0	903
Expenses	1,318	1,062	1,052	795	898	1,206	1,174	1,631
Operating loss	(1,786)	(1,379)	(1,260)	(820)	(914)	(1,303)	(1,285)	(1,770)
Other income	-	-	-	-	-	-	2,495	17,332
Finance expense	-	-	(30)	(47)	-	-	(89)	(6)
Interest expense	(795)	(406)	(744)	(890)	(31)	(52)	(788)	(668)
Gain on sale of property, plant and equip.	-	-	-	-		-		
Foreign exchange (loss) gain	(799)	415	169	447	174	183	(324)	43
Net income (loss)	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,172)	9	14,931
Weighted average shares outstanding	5,349	5,349	5,349	5,349	5,349	5,349	5,349	6,228
Basic income (loss) per share	($0.63)	($0.26)	($0.35)	($0.24)	($0.14)	($0.22)	$0.01	$2.40
Dlluted income (loss) per share	($0.63)	($0.26)	($0.35)	($0.24)	($0.14)	($0.22)	$0.01	$2.37
Adjusted EBITDA[(1)]	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)	(1,251)	(832)

(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: other income, interest and finance 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-Mar 2020	30-Jun 2020	30-Sep 2020	31-Dec 2020	31-Mar 2021	30-Jun 2021	30-Sep 2021	31-Dec 2022
Net loss for the period	(3,380)	(1,370)	(1,865)	(1,310)	(771)	(1,172)	9	14,931
Add (deduct):								
Other income	-	-	-	-	-	-	(2,495)	(17,332)
Net interest and other expense	795	406	774	937	31	52	877	674
Amortization	38	37	38	39	38	36	34	35
Foreign exchange (gain) loss	799	(415)	(169)	(447)	(174)	(183)	324	(43)
Stock-based compensation expense	3	3	1	1	1	0	0	903
"Adjusted EBITDA"	(1,745)	(1,338)	(1,221)	(780)	(874)	(1,266)	(1,251)	(832)

SUMMARY OF RESULTS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2021 COMPARED TO THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2020

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three and six months ended December 31, 2021 and 2020.

Income Statement Summary (USD $000s)

	Three months ended				Six months ended			
	December		*Increase / (decrease)*		December		*Increase / (decrease)*	
	2021	2020	**#**	**%**	**2021**	2020	**#**	**%**
Revenues	**$ 422**	$ 683	$ (261)	(38%)	**$ 997**	$ 1,224	$ (227)	(19%)
Cost of revenues	**561**	708	(147)	(21%)	**1,216**	1,457	(241)	(17%)
Loss on inventory impairment	**-**	-	-	nmf	**31**	-	31	
Gross margin	**(139)**	(25)	(114)	456%	**(250)**	(233)	14	7%
Gross margin as % of revenue	*(33%)*	*(4%)*		800%	*(25%)*	*(19%)*		32%
Operating expenses:								
Research and development	**337**	325	13	4%	**652**	713	(61)	(9%)
Sales and marketing	**68**	62	6	10%	**125**	127	(2)	(2%)
General and administrative	**323**	408	(85)	(21%)	**1,125**	1,006	119	12%
Stock based compensation	**903**	1	903	nmf	**903**	1	902	nmf
Total operating expenses	**1,631**	795	836	105%	**2,805**	1,847	958	52%
Loss from operations	**(1,770)**	(820)	(950)	116%	**(3,055)**	(2,080)	(976)	47%
Other income (expenses):								
Gain on recapitalization	**17,332**	-	17,332	nmf	**17,332**	-	17,332	nmf
Gain on modification of debt	**-**	-	-	nmf	**2,495**	-	2,495	nmf
Finance expense	**(6)**	(73)	67	(92%)	**(95)**	(56)	(39)	70%
Interest expense	**(668)**	(864)	196	(23%)	**(1,456)**	(1,655)	199	(12%)
Foreign exchange gain (loss)	**43**	447	(404)	(90%)	**(281)**	615	(896)	(146%)
Income (loss) before taxes	**14,931**	(1,311)	16,242	1239%	**14,940**	(3,176)	18,115	570%
Income taxes	**-**	-	-	-	**-**	-	-	
Net income (loss)	**14,931**	(1,311)	16,242	1239%	**14,940**	(3,176)	18,115	570%
Other comprehensive income (net of tax):								
Foreign currency translation gain (loss)	**105**	(1,523)	1,628	107%	**1,152**	(2,160)	3,312	153%
Comprehensive income / (loss)	**$ 15,036**	$ (2,834)	$ 17,870	631%	**$ 16,092**	$ (5,336)	$ 21,427	402%

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for six months ended December 31, 2021 in terms of the Canadian dollar equivalent of US$1 was CAD $1.2610 (2020 – CAD $1.3173) and in terms of the Chinese RMB equivalent of US$1 was RMB $0.1959 (2020 – RMB $0.1478)

RECAPITALIZATION

On December 6, 2021, the Company completed its previously announced Recapitalization plan. Under the Recapitalization, holders of the Company's promissory notes, convertible debt, and certain trade liabilities agreed to settle their debts in exchange for common shares of the Company on the basis of either (i) an exchange of 100% of the debt owed for common shares of the Company at a deemed price of C$3.00 per share, being the closing price of the common shares on the TSXV as of August 20, 2021, or (ii) an exchange of 100% of the debt owed, at a discount of 20% to such amount owed, in exchange for units of the Company at a deemed price of C$3.00 per unit, with each unit containing one common share and 1/5 of a share purchase warrant (the "Debt Settlement Offer"). Each full share purchase warrant will allow the holder of such warrant to purchase one common share of the Company for up to three years following closing of the Recapitalization at a price of C$3.60 per share.

As a result of the recapitalization, all the Company's short-term promissory notes, convertible debentures, and amounts owing to Paradigm, a related party, for financial advisory fees and disclosed as Shares to be issued in the Company's statements of financial position, was settled in exchange for common shares and share purchase warrants under the terms of the Debt Settlement Offer. In addition, certain of the Company's accounts payable and accrued liabilities were settled under the Debt Settlement Offer's terms. The amount of debt settled under the Debt Settlement Offer, and number of common shares and share purchase warrants issued was as follows:

	Face value of liability settled for shares $	Number of common shares issued	Number of warrants issued
Promissory notes	22,123	7,918	997
Convertible debt	9,075	3,009	571
Accounts payable and accrued liabilities	1,096	449	10
	32,295	11,376	1,578
Shares to be issued	2,655	1,170	-
	34,950	12,546	1,578

The difference between the carrying value of the debt and shares to be issued as at the closing date and the value of shares being issued at that time was recognized as a gain to the Company for the current period (see *Gain on Recapitalization*).

On November 17, 2021, as part of the Recapitalization plan, the Company completed its previously announced consolidation of common shares on the basis of one post-consolidation share for every 120 pre-consolidation shares. No fractional post-consolidation common shares were issued, and no cash was paid in lieu of post-consolidation common shares. In the case of fractional common shares resulting from the consolidation, such fractions of a share were rounded down to the nearest whole common share.

In connection with the Recapitalization, the Company closed an initial tranche of its previously announced non-brokered private placement on December 21, 2021. Under the initial tranche, the Company issued 694 common shares at a price of C$1.80 per common share for gross proceeds of C$1,250 (US$992). The Company incurred no underwriter or advisory fees in connection with the private placement.

REVENUE

Revenue for the three months ended December 31, 2021 was $422 as compared to $683 for the same period of the prior year, a decrease of $261, or 38%. The decrease is due to lower non-recurring engineering ("NRE") revenue (by $148) and a decrease of $112 in sales of optical chips. The overall decrease in product revenue was partially offset by increased third-party fabrication services work for a mega-cap technology company. 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 and to temporary plant shutdowns resulting from lockdowns imposed in many Asian nations dealing with large numbers of "Omicron variant" infections due to the pandemic.

Revenue for the six months ended December 31, 2021 was $997 as compared to $1,215 for the same period of the prior year, a decrease of $227, or 19%. The decrease is due to $154 lower non-recurring engineering ("NRE") revenue and a decrease of $72 in optical chips. The decrease in NRE revenue occurred almost entirely in the three months ended December 31, 2021. NRE revenue is volatile from quarter-to-quarter given the short-term nature of most of these projects. Third-party fabrication services work for a mega-cap technology company partially offset the decrease in product sales revenue. The Company has seen a slowdown in orders for its optical chips in the first two quarters from customers in Asia, which it believes is temporary. The Company expects sales to its Asian customers will resume as lockdown restrictions due to the most recent wave of pandemic-related infections ease.

During the three and six months ended December 31, 2021, the Company's top five customers accounted for 81% and 75%, respectively, of the Company's total revenue (2020 – 64% and 67%, respectively).

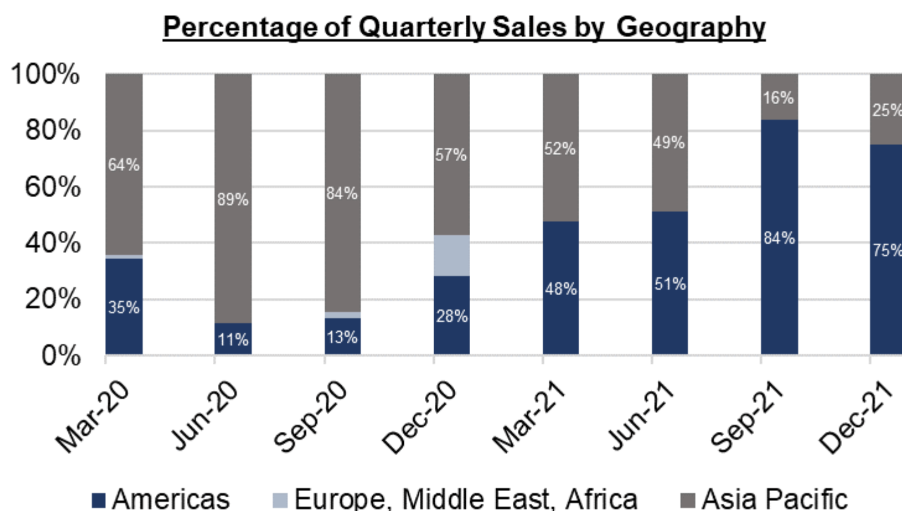
In the six months ended December 31, 2021, the Company processed sales to 23 separate customers across its business, which is comparable to the total customers in the same period in the prior year (six months ended December 31, 2020 – 20 customers).

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

	For The Three Months Ended		For The Six Months Ended	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
	$	$	**$**	$
Americas	**317**	192	**799**	263
Europe, Middle East, Africa	**-**	100	**-**	114
Asia Pacific	**106**	390	**199**	846
	423	683	**998**	1,224

As previously reported, the Company has focused its sales efforts on the Americas markets since the beginning of 2020, which grew to 75% of total sales for the three months ended December 31, 2021 (three months ended December 31, 2020 – 28%). Sales to the Americas for the six months ended December 21, 2021 was 80% of total sales (six months ended December 31, 2020 – 22%). Over the last twelve months, total sales to the Americas exceeds 62% 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.



For the three months ended December 31, 2021, 52% of the Company's revenue is comprised of product revenue (2020: 48%) and 48% is comprised of non-recurring engineering revenue (2020: 52%). For the six months ended December 31, 2021, 66% of the Company's revenue consisted of product revenue (2020 – 59%) and 34% is comprised of non-recurring engineering revenue (2020: 41%). Product revenue generally results from the sale of wafers/chips to end customers while NRE revenue is comprised of new research and development projects for customers and third-party fabrication services revenue from work performed at the Company's Fremont facility. Often times, 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 percentage of NRE revenues can be seen as a positive leading indicator for future revenues of the Company as it indicates increasing demand for new engineering services from customers.

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

	For The Three Months Ended		For The Six Months Ended	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
	$	$	**$**	$
Product	**219**	331	**655**	727
NRE	**204**	352	**343**	497
	423	683	**998**	1,224

Of the $219 in product revenue for the three months ended December 31, 2021, approximately 51% is comprised of revenue related to third party fabrication services for a mega-cap technology company (three months ended December 31, 2020 – 6%). Of the $655 in product revenue for the six months ended December 31, 2021, approximately 58% is comprised of revenue related to third party fabrication services for a mega-cap technology company (six months ended December 31, 2020 – 6%). The Company recorded an additional $103 and $165 in NRE revenue for this customer in the three and six months ended December 31, 2021, respectively (three and six months ended December 31, 2020 - $Nil). The Company 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 a number of elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs. In general, the Company's costs are heavily skewed towards fixed costs because of the operation of its fabrication plant in Fremont, California and the significant number of staff needed at that operation, particularly in the areas of testing and processing once wafers and chips have been completed.

Gross margin for the three months ended December 31, 2021 was ($139) as compared to ($25) for the same period of the prior year, a decline of $114, or 456%, and gross margin for the six months ended December 31, 2020 was ($250) as compared to ($233) for the same period of the prior year, a decline of $14, or 7%   The decline in both periods is due to decreased revenues offset by reductions in plant overhead resulting from staff reductions in 2021 where departing employees have not yet been replaced. In addition, NRE sales, which tend to have stronger gross margins, declined in the current period.

OPERATING EXPENSES

Research & development ("R&D") expense for the three months ended December 31, 2021 was $337 as compared to $325 for the same period of the prior year, an increase of $13, or 4%, and research & development expense for the six months ended December 31, 2021 was $652 as compared to $713 for the same period of the prior year, a decrease of $61, or 9%. The decrease in in the comparable six-month period is primarily the result of staffing reductions that took effect during the three-month period ended December 31, 2020. The increase in the comparable three-month period is the result of partial replacement of departed staff.

Sales & marketing expense for the three months ended December 31, 2021 was $68 as compared to $62 for the same period of the prior year, an increase of $6, or 10%, and sales & marketing expense for the six months ended December 31, 2021 was $125 as compared to $127 for the same period of the prior year, a decrease of $2, or 2%. The expenses are comparable for each period and reflect stable staffing levels and the result of minor fluctuations in day-to-day selling expenses in each period.

General & administration expense for the three months ended December 31, 2021 was $323 as compared to $408 for the same period of the prior year, a decrease of $85, or 21%. The decrease is due to a decrease in rent and utility costs, associated primarily with the facility in Fremont, California, of $18 and a re-allocation of professional fees associated with the Recapitalization incurred prior to the current quarter from General & administration to Gain on recapitalization, and netted against the gain arising from the Recapitalization transaction that was completed during the period ended December 31, 2021. In addition, the Company incurred higher insurance costs and higher management salaries associated with the Company's Co-Chief Executive Officer and Chief Financial Officer who commenced employment with the Company in May 2021.

General & administration expense for the six months ended December 31, 2021 was $1,125 as compared to $1,006 for the same period of the prior year, an increase of $119, or 12%. The increase is due primarily to higher management salaries and insurance costs incurred during the six-month period, offset by lower rent and utility costs and the re-allocation of certain professional fees related to the Recapitalization incurred prior to the six-month period ended December 31, 2021 to offset the gain reported as Other income.

Stock-based compensation expense for the three- and six-month periods ended December 31, 2021 was $903 as compared to $1 for the same periods of the prior year, an increase of $902.

During the three- and six-month period ended December 31, 2021, the Company awarded options, RSUs and DSUs to certain employees and the directors of the Company under the terms of the updated omnibus equity incentive plan approved by the Company's common shareholders at the AGM on October 26, 2021. No grants of equity were made in the comparable periods in the three- and six-month periods ended December 31, 2020.

Of the $903 in stock-based compensation expense for the three- and six-month periods ended December 31, 2021, $6 related to stock option grants (2020: $1), $395 to grants of RSUs (2020: $nil) and $502 to the grant of DSUs (202: $ nil).

GAIN ON RECAPITALIZATION

The Company recorded a gain recapitalization of $17,322 for the three and six months ended December 31, 2021 (three and six months ended December 31, 2020 - $Nil) as a result of the completion of the Recapitalization on December 6, 2021 (see *Recapitalization*). Details of the gain are as follows:

	Face value of liability settled for shares	Value of shares issued	Value of share purchase warrants issued	Gain on exchange - included in Gain on Recapitalization
	$	$	$	$
Notes payable	21,948	9,287	51	12,610
Convertible debentures	9,003	3,528	30	5,445
Accounts payable and accrued liabilities	1,088	527	-	561
Transaction and associated costs				(1,283)
	32,039	13,342	81	17,332

GAIN ON MODIFICATION OF DEBT

During the three and six months ended December 31, 2021, the Company recorded a Gain on modification of debt of $Nil and $2,495, respectively (three and six months ended December 31, 2020 - $Nil). The gain 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*) $247 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)*). All gains arose from transactions completed in the first quarter of the current fiscal year.

FINANCE EXPENSE

Finance expense for the three months ended December 31, 2021 was $6 as compared to $73 for the same period in the prior year, a decrease of $67, or 92%. The decrease is due to a reduction in commission accruals related to the issuance of notes payable during the period as the company was not charged for commissions on notes payable advances during the period. For the six months ended December 31, 2021, finance expense was $95 as compared to $56 for the same period in the prior year, an increase of $39, or 70%. The increase is due to the one-time financing expense associated with the amendment and restatement of the Vortex ENA LP secured loan (see *Interest Expense (c))*, compared to the same period the prior year.

INTEREST EXPENSE

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

Interest and finance expense for the three months ended December 31, 2020 was $668 as compared to $864 for the same period of the prior year, a decrease of $196, or 23%. The decrease is due primarily to (*i*) the lower, fixed interest rate on the secured loan with Vortex ENA LP ("Vortex LP", a related party) of 7.5% as a result of amending the loan agreement on September 3, 2021 (see *(c), below*); and (*ii*) the settlement of all the notes payable and convertible debentures on December 6, 2021 (see *Recapitalization*).

Interest and finance expense for the six months ended December 31, 2021 was $1,456 as compared to $1,655 for the same period of the prior year, a decrease of $199, or 12%. The decrease is due primarily to the lower rate of interest on the Vortex LP secured debt and settlement of notes payable and convertible debenture debt, described above.

Notes payable were as follows at December 31, 2021:

	December 31, 2021	June 30, 2021
	$	$
Short-term loans (a)	**-**	20,248
Short-term RBC loans (b)	**95**	97
Loan from EDC/Vortex (c)	**4,774**	5,625
Loan from Irixi (d)	**406**	385
	5,275	26,355
Less current portion	**501**	26,355
Long-term portion	**4,774**	-

(a) During the three months ended December 31, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $798 (three months ended December 31, 2020 - $796) of which $798 (three months ended December 31, 2020 - $471) was from related parties. During the six months ended December 31, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,904 (six months ended December 31, 2020 - $1,296) of which $1,904 (six months ended December 31, 2020 - $471) was from related parties. These short-term loans were repayable on demand. Of these unsecured short-term loans, $465 were included as part of the amended and restated secured loan agreement with Vortex ENA LP which was completed on December 31, 2021. The remaining short-term loans were exchanged for common shares of the Company as part of the Recapitalization on December 6, 2021.

As at December 31, 2021, a total amount of $nil (June 30, 2021 - $20,248) remains owing on these loans which includes $nil (June 30, 2021 - $2,808) of accrued interest and $nil (June 30, 2021 - $125) of accrued fees. During the three months ended December 31, 2021, $468 of interest was accrued (six months ended December 31, 2020 - $318). During the six months ended December 31, 2021, $840 of interest was accrued (six months ended December 31, 2020 - $618).

On August 20, 2021, the Company announced the Recapitalization to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization was completed on December 6, 2021 (Note 10). As part of the Recapitalization, all the holders of short-term loans under this section (a), except for the $465 advanced by Vortex LP as noted above, agreed as at December 6, 2021 to settle their debts under the terms of the Recapitalization plan. The holders of the short-term loan, in aggregate, received 7,918 common shares and warrants to purchase 997

common shares of the Company for aggregate consideration of $9,338 based on the Company's closing share price on December 6, 2021. The difference between the carrying value of the loans as at the closing date of $21,948 and the value of shares being issued at that time of $12,610 was recognized as a gain to the Company and was included in Gain on recapitalization for the current quarter.

(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 December 31, 2021, the RBC loan balance is $95 (June 30, 2021 - $97). The Company plans to repay the loan balance over the next 12 months. The loans bear no interest prior to December 31, 2022 and no principal payments are due prior to December 31, 2022. Principal repayments can be voluntarily made at any time without fee or penalties. Up to $32 loan forgiveness is available, provided the remainder is repaid in full prior to December 31, 2022. Balances not paid by December 31, 2022 will be converted to a 3-year term loan at 5% annual interest rate, with interest paid monthly beginning January 1, 2023. The balance of the loan, must be paid in full no later than December 31, 2025. 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 and be repaid in 17 equal monthly instalments. Interest was payable monthly at an annual rate of prime plus 10% resulting in a rate of 12.45% per annum as at December 31, 2020 (June 30, 2021 - 12.45%). The loan was secured against all the assets of the Company and was guaranteed by the Company's subsidiaries.

On August 20, 2021, the Company received notification from EDC that the loan was sold to Vortex ENA LP ("Vortex LP"), a related party. The Company entered into a fifth amendment to the loan agreement with Vortex LP on September 3, 2021, which resulted in the following changes: interest rate was lowered to a fixed rate of 7.5% per annum on a go-forward basis; interest can be accrued for the first 24 monthly payment periods after the amendment date, with interest payable in cash thereafter; no required payments of principal during the life of the loan and; an extended maturity date of September 3, 2025, with the Company having one option to extend the maturity date for an additional six months (collectively, the "Secured Loan Amendments"). In addition, all prior events of default were temporarily waived by Vortex LP, provided that the Company 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 six months ended December 31, 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 Gain on modification of debt of $2,181 for the three and six months ended December 31, 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 and six months ended December 31, 2021, the Company made principal payments on the loan in the amount of $Nil (six months ended December 31, 2020 - $Nil), accrued interest of $109 and $287. respectively, (three and six months ended December 31, 2020 - $259 and $430, respectively) and incurred fees relating to the loan of $Nil and $89, respectively (six months ended December 31, 2020 - $Nil) which are included in Finance expense.

On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, the $636 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term promissory notes and the $465 advanced under the terms of the short-term promissory notes, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). Under the terms of IAS 9 – Financial Instruments, this amendment and restatement is a modification of the secured loan to the Company and does not result in the recognition of a gain in the three- and-six month periods ended December 31, 2021. Interest will be accreted to the loan balance based on the 20% per annum fair market interest rate, as described above.

As at December 31, 2021, the balance owing on the Vortex LP term facility is $4,774 (June 30, 2021 - $5,625), inclusive of interest and fees.

(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 most of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47k 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 (“Fremont”) 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 and six months ended December 31, 2021, a total of $7 and $13, respectively (three and six months ended December 31, 2020 - $6 and $11 respectively) of interest has been accrued and the amount owing on the note payable is $406 (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 December 31, 2021, the Company recorded a foreign exchange gain of $43 (three months ended December 31, 2020 – $447) and for the six months ended December 31, 2021 a foreign exchange loss of $(281) (six months ended December 31, 2020 - gain of $615) $615. The loss in the six-month period is the result of the strengthening of the Canadian dollar during the six months ended December 31, 2021 that increased the Canadian dollar balance owing of the Company’s U.S. dollar denominated short-term notes payable, all of which were settled as part of the Company’s Recapitalization (see *Recapitalization*).

INCOME TAXES

Income tax expense is recognized based on management's best estimate of the average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period. The income tax rate for each of the three and six months ended December 31, 2021 was 25%. During the three- and six-month period ended December 31, 2021, the Company recognized a recovery of previously unrecorded income tax losses carrying forward from prior tax years. The Company has sufficient income losses carried forward to offset the full amount any taxable gain arising from the Company's Recapitalization.

There were no income taxes payable or recoverable during the three or six months ended December 31, 2020.

NET INCOME (LOSS)

The Company achieved net income for the three months ended December 31, 2021 of $14,931 as compared to a net loss of $(1,311) for the same period of the prior year, an improvement of $16,242, or 1,239%. For the six months ended December 31, 2021, the Company reported net income of $14,940 as compared to a net loss of $(3,176) for the same period of the prior year, an improvement of $18,115, or 570%.

FOREIGN CURRENCY TRANSLATION GAIN

During the three months ended December 31, 2021, the Company recorded a foreign exchange translation gain of $105, as compared to a loss of $(1,523) for the same period of the prior year. During the six months ended December 31, 2021, the Company recorded a foreign exchange translation gain of $1,152, as compared to a loss of $(2,160) for the same period of the prior year. These changes are the result of conversion of the Company's operations that are being transacted in non-US$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is US$.

INCOME (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 December		Six months ended December	
	2021	2020	**2021**	2020
Net income / (loss) per share (basic)	$ 2.40	$ (0.24)	$ 2.40	$ (0.59)
Net income / (loss) per share (diluted)	$ 2.37		$ 2.37	
Weighted Average Number of Common Shares (basic)	6,228	5,349	6,228	5,349
Weighted Average Number of Common Shares (diluted)	6,299		6,299	

During the three and six months ending December 31, 2021, the Company issued RSUs and DSUs to certain employees and directors under the terms of its Equity Incentive Plan. At the discretion of the Board, RSUs and DSUs may be redeemed and settled, all or in portion, in shares issued from treasury. As of December 31, 2021, 1,043 potentially dilutive shares from the redemption and settlement of RSUs and DSUs (December 31, 2020 – nil) have been included in the calculation of net income/(loss) per share – diluted.

The potential effect of the exercise of stock options are anti-dilutive as all stock options are out-of-the-money based on the Company's last reported share price; therefore, as of December 31, 2021, 745 potentially dilutive shares from the exercise of stock options (June 30, 2021 – 858 stock

options and convertible debentures) have not been included in the calculation of net income/(loss) per share – diluted.

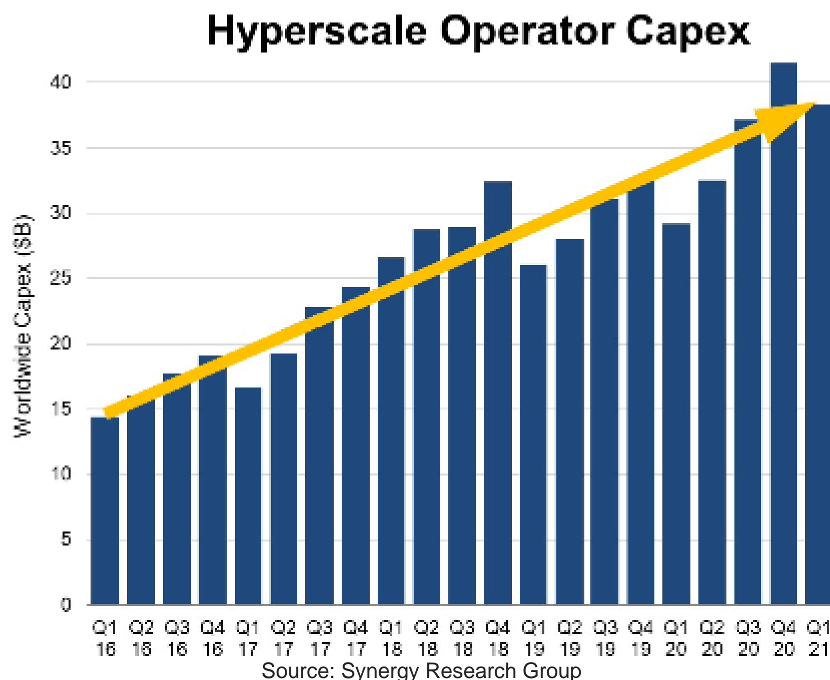
Due to the net loss from operations in the three- and six-month periods ended December 31, 2020, options and convertible debentures were anti-dilutive as all stock options and convertible debenture conversion rights were out-of-the-money based on the Company's last reported share price at that time, and diluted loss per share is not presented.

All common share information in this MD&A, has been adjusted to reflect the 120:1 effect of consolidation, without a corresponding change in dollar amounts. Comparative income (loss) per share has been adjusted to reflect the impact of the share consolidation.

OUTLOOK

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

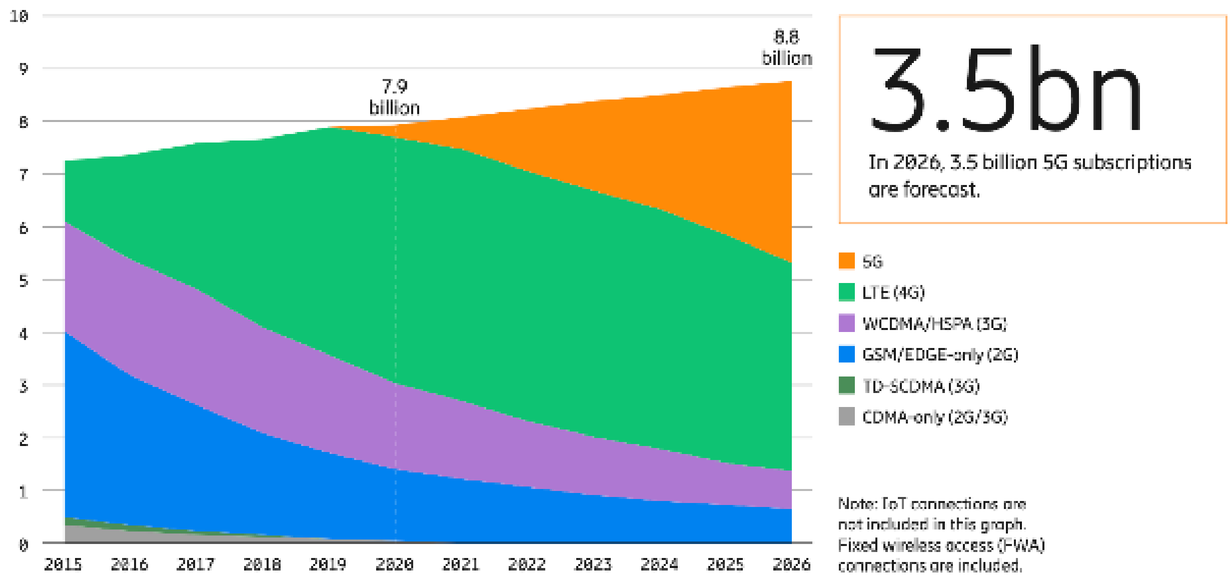
Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. Mega-cap cloud computing companies (Alphabet, Amazon, Apple, Facebook, Microsoft) are achieving 30% p.a. growth rates in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



Source: Synergy Research Group

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

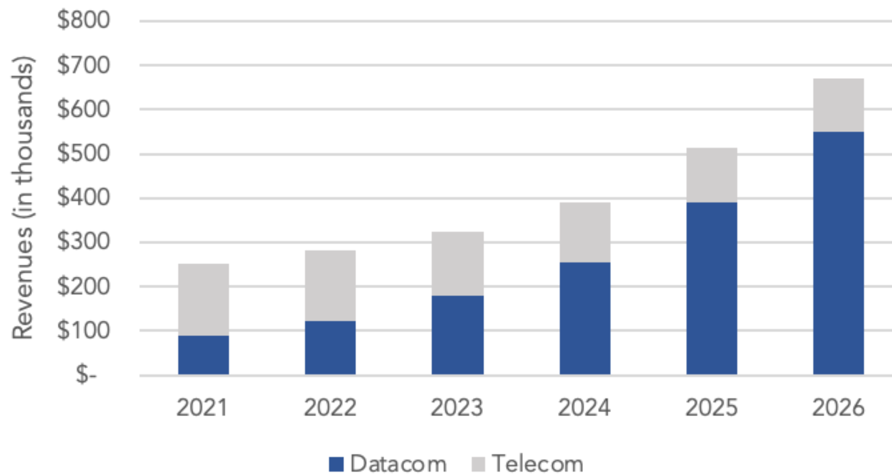
Global Mobile Subscriptions by Technology (billions)



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

Source: Ericsson Mobility Report, 2020

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



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

Our goal over the upcoming year is to increase the size of recurring chip orders from existing customers while adding new customers, through specific NRE projects and traditional sales channels for existing chip designs. We will also selectively offer our fabrication facility services to strategic third-party customers that we believe are strategic to our business or where the

relationship can help Enablence quickly access emerging markets for optical products, increasing our revenue generating capabilities and helping offset our fixed cost operations.

In the normal course, Enablence examines other strategic opportunities in markets other than data center and 5G wireless markets. For example, the Company is currently leveraging its world-class optics knowledge to develop products for customers in need of Light Detection and Ranging ("LiDAR") solutions for autonomous vehicle applications. We are currently working with 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 2022 once concerns the recent "Omicron-variant" wave of the pandemic dissipate.

Recapitalization

To help achieve its long-term goals, the Company completed its previously announced Recapitalization. There were 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 120 pre-consolidation common shares for each one post-consolidation common share (the "Consolidation", and;
3. An up to C$11 million private placement of new capital (the "Private Placement").

The Company completed the Consolidation on November 17, 2021 and the Shares-for-Debt Exchange on December 6, 2021. On December 21, 2021, the Company completed a non-brokered private placement of common shares for proceeds of $992. The proceeds of this non-

brokered private placement were used for general working capital purposes and to fund normal course business operations.

The remaining portion of 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 for use in the Company's location 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 for 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 December 31, 2021, the Company obtained short- and long-term debt financing in the amount of $798 (three months ended December 31, 2020 - $796) and during the six months ended December 31, 2021, the Company obtained short- and long-term debt financing in the amount of $1,904 (six months ended December 31, 2020 - $1,296).

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 December 31, 2021, there are 18,590 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 below sets out the Company's cash and cash equivalents, and working capital as at December 31, 2021 and June 30, 2021:

	December 31, 2021	June 30, 2021
Cash and Cash Equivalents	**$718**	$190
Restricted cash	**4**	4
	$722	$194
Working capital (deficiency)	**($3,844)**	($40,037)

The working capital deficiency from operations at December 31, 2021 was $3,844 as compared to a working capital deficiency of $40,037 at June 30, 2021. The decrease in the working capital deficiency during the six months ended December 31, 2021 is due to the amendment to the secured loan (see *Interest Expense (c)*) and the settlement of the Company's short-term promissory notes and convertible debentures, all of which were short-term liabilities (see *Recapitalization*). The amendment to the secured loan resulted in a reduction in the carrying value of the loan in 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 accounts payable and accrued liabilities, and the debt due to Irixi, which is a short-term liability (see *Interest Expense (d)*).

As at December 30, 2021, the Company had cash available of $718 (not including $4 of restricted cash). The Company consumed $3,868 in operating activities for the six months ended December 30, 2021 as compared to $419 in same period in the prior year. The increase in cash used in operations in the six months ended December 31, 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, higher payment of accounts payable and accrued liabilities. This increase in cash used in operating activities extended the Company's reliance on external financing (see *Short term loan financing,* below).

The chart below highlights the Company's cash flows during the three and six months ended December 31, 2021 and 2020:

	Three months ended December 31,		Six months ended December 31,	
	2021	2020	**2021**	2020
Cash used in Operating activities	**(1,677)**	(493)	**(2,778)**	(1,034)
Investing activities				
Purchase of property, plant and equipment	**(39)**	(14)	**(65)**	(62)
	(39)	(14)	**(65)**	(62)
Financing activities				
Advances from (repayments on) short term notes payable	**786**	775	**1,904**	1,306
Advances from long term notes payable	**361**	-	**361**	-
Net proceeds from issuance of shares	**992**	-	**992**	-
	2,139	775	**3,257**	1,306
Effect of foreign currency translation	**(28)**	(71)	**114**	(120)
Net change in cash and cash equivalents	**395**	197	**528**	90

Short Term Notes Payable Financing

During the six months ended December 31, 2021, the Company obtained 10% interest bearing unsecured short-term notes payable in the amounts of $1,904, of which $1,904 were from related parties. In addition, related parties advanced $636 outside of the short-term notes payable and with no fixed terms of repayment. Under the terms of the amended and restated secured loan agreement completed on December 31, 2021, the $636 previously advanced by related parties during the period ending December 31, 2021 outside of the short-term notes payable and the $465 advanced under the terms of the short-term notes payable, were included in the secured loan (see *Interest Expense (c)*). The remaining balance of short-term notes payable, including all accrued interest and fees, were settled as part of the Recapitalization (see *Recapitalization*). As at December 31, 2021, no amount remains owing on these loans.

Unsecured short-term notes payable 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.

Convertible Debenture Financing:

In June 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$9.60 per Share. The Debentures had an initial maturity date of June 30, 2020.

In June 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 December 6, 2021, all holders of convertible debts agreed to settle their debts, including accrued and unpaid interest as part of the Recapitalization (Note 10). The convertible debenture holders agreed to receive, in aggregate, 3,009 common shares and 571 warrants to purchase common shares representing total consideration of $3,558, based on the Company's closing share price on December 6, 2021. The difference between the carrying value of the convertible debentures at the closing date of $9,003 and the value of shares being issued at that time of $5,445 was recognized as a gain to the Company and was included in Gain on recapitalization for the current quarter.

During the three and six months ended December 31, 2021, the Company recorded accretion to interest expense of $167 and $389 respectively (three and six months ended December 31, 2020 - $199 and $376 respectively) and accrued $73 and $130 of arrears interest (three and six months ended December 31, 2020 - $52 and $102 respectively). Of the $3,058 (June 30, 2021 - $2,917) interest accrued since June 30, 2017, $81 (June 30, 2021 - $81) had been paid and the unpaid balance of $2,979 (June 30, 2021 - $2,836) was included in accrued interest. The unpaid accrued interest outstanding was settled as part of the Recapitalization.

As at December 31, 2021, the total convertible debenture liability is $nil (June 30, 2021 - $8,887), including accrued and unpaid interest of $nil (June 30, 2021 - $2,836).

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 serves as Chief Executive Officer and Chief Technology Officer of the Company. As of January 17, 2022, T. Paul Rowland serves as Interim Chief Financial Officer of the Company. Craig Mode served as Chief Financial Officer of the Company until January 17, 2022 and as Co-Chief Executive Officer of the Company until January 28, 2022.

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 *Interest Expense* sections above for details on financings completed during the six months ended December 31, 2021. 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. It is expected that the Company will have the ability to access a number of different financing sources, including traditional debt and equity options, to finance future operations and growth needs.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 18,590 common shares issued and outstanding as of February 24, 2022 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol “ENA” or “ENA.V”.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

	Current		Non-Current		
As at December 31, 2021	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$		$
Accounts payable and accrued liabilities	4,740	-	-	-	4,740
Notes payable	95	406	4,774	-	5,275
Convertible debentures	-	-	-	-	-
Total	4,835	406	4,774	-	10,015

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

Vortex Entities

Vortex ENA LP ("Vortex LP") is a related party as a result of its general partner being controlled by an affiliate of Paradigm Capital Inc., a company for which a Director of Enablence sits on the advisory board. In addition, a Director of the Company is a minority investor in Vortex ENA LP. As at December 31, 2021, the following group of joint actors holding common shares of the Company are collectively deemed to be control persons as they own over 20% of the common shares of the Company ("Vortex Entities"):

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

The following transactions took place between Enablence and the Vortex Entities in the six months ended December 31, 2021 and December 31, 2020:

- Vortex LP advanced $1,904 under short-term notes payable to the Company (six months ended December 31, 2020 - $Nil from Vortex LP). Vortex LP also acquired $1,485 in short-term notes payable of the Company from existing holders in exchange for units of Vortex LP, including a portion acquired from a Director of the Company. On December 6, 2021, Vortex LP exchanged short-term notes payable totaling $3,538 for 1,270 common shares under the terms of the Recapitalization plan. On December 31, 2021, Vortex LP transferred $465 of the amounts it had advanced under short-term notes payable during the six months ending December 31, 2021 to the secured loan. Interest on short-term notes payable held by Vortex LP for the three and six months ended December 31, 2021 totaled $53 and $101 respectively (three and six months ended December 31, 2020 - $Nil to Vortex LP).
- During the three and six months ended December 31, 2021, Vortex Entities made additional unsecured advances to the Company of $636 (three and six months ended December 31, 2020 - $Nil from Vortex LP) outside of the terms of the short-term notes payable described (a) under *Interest Expense*; such amounts had no fixed repayment terms and carried no interest rate. These amounts were transferred to the secured loan agreement on December 31, 2021, as described below.
- During the period ending December 31, 2021, Vortex LP acquired the secured loan previously held by EDC and entered into a secured loan agreement with the Company on September 3, 2021. On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, $636 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term notes payable and $465 advanced under the terms of the short-term notes payable,

were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). As at December 31, 2021, the balance owing on the Vortex LP term facility is $4,774 (June 30, 2021 - $nil to Vortex LP), inclusive of interest and fees.

- PCI earned commissions and advisory fees relating to financing transactions of $Nil in 2021 (six months ended December 31, 2020 - $232). PCI was owed $2,655 relating to past commissions that were expected to be paid in common shares of the Company (June 30, 2021 - $2,655), subject to TSXV approval. On December 6, 2021, the Company settled the amounts owing, exclusive of taxes, in exchange for common shares of the Company as part of the Recapitalization. As at December 31, 2021, $154 for taxes related to the commissions and advisory fees are recorded in the Company's accounts payable and accrued liabilities (June 30, 2021 - $158).
- On December 6, 2021, a director of PCI exchanged $3,201 owed to him under short-term notes payable for 1,058 common shares and 212 share purchase warrants under the terms of the Recapitalization plan. Interest of $61 and $108 was incurred on these short-term notes payable in the three and six months ended December 31, 2021 respectively (three and six months ended December 31, 2020 - $ 93 and $122, respectively). Prior to completion of the Recapitalization plan, $966 of notes were transferred to Vortex LP in the six months ended December 31, 2021, as referenced above. As at December 31, 2021, the amount due to this Director under the short-term notes payable was $Nil (June 30, 2021 - $3,909).
- On December 6, 2021, a Director of PCI exchanged $1,836 owed to him by the Company under the convertible debentures for 603 common shares and 121 share purchase warrants under the terms of the Recapitalization plan. Interest of $30 and $60 was respectively incurred on these convertible debentures in the three and six months ended December 31, 2021 (three and six months ended December 31, 2020 – $ 30 and $60 respectively). The amount due to the Director of PCI as at December 31, 2021 was $Nil (June 30, 2021 - $1,671).

Private Investor

As a result of the Recapitalization on December 6, 2021, a private investor and his affiliates ("the Investor") became control persons as they own over 20% of the common shares of the Company. As at December 31, 2021, the Investor owns 5,915 common shares and 1,114 share purchase warrants.

The following transactions took place between Enablence and the Investor in the six months ended December 31, 2021 and December 31, 2020.

- Under the terms of the Recapitalization plan, the Investor exchanged $9,928 owed to him by the Company under short-term notes payable in exchange for 3,322 common shares and 664 share purchase warrants. Interest of $118 and $248 was accrued on the notes payable due to the Investor in the three and six months ending December 31, 2021 respectively (three and six months ending December 31, 2020 -$134 and $284 respectively). As at December 31, 2021, the amount owing to Investor under the short-term notes payable was $Nil (June 30, 2021 - $9,680).
- Under the terms of the Recapitalization plan, the Investor exchanged $6,776 of the Company's convertible debentures held by him in exchange for 2,250 common shares and 450 share purchase warrants. Interest of $111 and $222, respectively, was accrued on the convertible debentures due to the Investor in the three and six months ending December 31, 2021 (three and six months ending December 31, 2020 - $112 and $223 respectively). As at December 31, 2021, the amount owing to the Investor under the short-term notes payable was $Nil (June 30, 2021 - $6,554).
- Under the terms of the Recapitalization plan, the Investor exchanged $23 in accounts payable owed to him by the Company for 10 common shares of the Company. As of

December 31, 2021, the amount due to the Investor as accounts payable and accrued liabilities was $Nil (June 30, 2021 - $Nil).

- During the period ended December 31, 2021, the Investor provided consulting and advisory services to the Company in connection with the Recapitalization plan for fees of $789, which was included as transaction and additional costs in Gain on recapitalization. The Company issued 333 common shares in full satisfaction of the fees.

Other Related Party Transactions

Interest totaling $13 and $23, respectively, was accrued for the three and six months ended December 30, 2021 on short-term notes payable previously provided by Directors and officers of the Company (three and six months ended December 30, 2020 - $19 and $26 respectively). On December 6, 2021, the Company settled the full amounts of short-term notes payable owing to Directors and officers of $ 637 in exchange for 330 common shares of the Company as part of the Recapitalization. The amount owed to Directors and officers under short-term notes payable as of December 31, 2021 is $nil (June 30, 2021 - $712); note that $118 of notes were transferred to Vortex LP, prior to the Recapitalization, in the six months ended December 31, 2021, as referenced above.

A Director of the Company held certain amounts of the convertible debentures owed by the Company that were settled as part of the Recapitalization. In the three and six months ended December 31, 2021, the Company incurred interest expense of $8 and $16, respectively (three and six months ended December 31, 2020 - $8 and $16 respectively) relating to the convertible debentures held by this Director. On December 6, 2021, the Company settled the full amount of $ 382 in convertible debentures owing to the Director in exchange for 155 common shares of the Company as part of the Recapitalization. As of December 30, 2021, the amount owed is $nil (June 30, 2021 - $348).

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.

<u>Estimates</u>

Expected Credit loss (“ECL”)

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

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Fair value measurement

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

<u>Judgments</u>

Recognition of deferred income tax assets

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

Accounting for loans from related parties

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

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, notes payable and other liabilities. 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.

Except for other liabilities, the fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. The fair value of the other liabilities, which consists of deferred share units outstanding, is based on the market value of the Company's common shares as at the end of each reporting period. Changes in the value of other liabilities is charged to stock-based compensation expense in the statement of comprehensive income (loss) during the period in which it occurs.

ADDITIONAL INFORMATION

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