



**ENABLENCE TECHNOLOGIES INC.**

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

FOR THE YEAR ENDED June 30, 2022

DATED: October 28, 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 Enableness Technologies Inc. (“Enableness” or the “Company”) as at June 30, 2022 compared to June 30, 2021 and the results of operations for the year ended June 30, 2022 compared to the year ended June 30, 2021 (collectively, the “MD&A”).

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2022 and June 30, 2021. References made herein to “Enableness”, the “Company”, “we” and “our” mean Enableness, 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](http://www.sedar.com)

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

The effective date of this MD&A is October 28, 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 fully on its business plan.
- Enableness 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.
- Enableness will be able to attract and retain key people.

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

## SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2022:

As of the date hereof and subsequent to June 30, 2022, Vortex LP, a related party, advanced an additional \$1,486 under the terms of the amended and restated loan agreement between the Company and Vortex LP.

On July 18, 2022, the Company granted an officer options to purchase 200,000 common shares of the Company at a strike price of CAD \$1.50 per common share in accordance with the terms of the Company's Omnibus Equity Incentive Plan. Of the options granted, 100,000 vested immediately as of the date of grant and 100,000 will vest upon the achievement of certain mutually agreed performance targets. The options expire on July 17, 2032.

On August 9, 2022, the Company extended the lease of its Ottawa office and research and development space from October 1, 2022 to September 30, 2023 on the same terms and conditions as the prior lease.

On August 31, 2022, the Company entered into a Confirmation Agreement Re Guarantees and Security ("Confirmation Agreement") with Vortex LP, a related party, relating to the Amended and Restated Loan Agreement. The Confirmation Agreement confirms the security and guarantees executed and previously delivered by the Company to Vortex LP and provides for the funding of additional advances from time to time by Vortex LP to fund the Company's ongoing working capital requirements. No additional changes were made to the Amended and Restated Loan Agreement.

## SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	Year ended June 30		
	2022	2021	2020
Revenue	\$1,978	\$2,521	\$1,101
Gross margin	(463)	(345)	(1,660)
Operating expenses	5,321	3,951	4,802
Loss before other income (expenses)	(5,784)	(4,296)	(6,462)
Net income (loss)	11,693	(5,041)	(9,557)
Basic income (loss) per share	\$0.91	(\$0.94)	(\$1.79)
Diluted income (loss) per share	\$0.87	(\$0.94)	(\$1.79)
<b>Balance Sheet Data</b>	<b>Year ended June 30</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total assets	\$1,434	\$1,391	\$1,615
Total non-current financial liabilities	5,493	-	350
Total liabilities	11,226	41,130	33,474
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 infrastructure end markets (“Datacoms”). Enablence also works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets, which the Company refers to as Advanced Vision. In select strategic circumstances, the Company also uses its proprietary, non-captive fabrication plant in Fremont, California to manufacture chips designed by third party customers.

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

### **RESULTS OF OPERATIONS**

#### Summary of Fourth Quarter Results

The Company reported revenues of \$539 for the quarter ended June 30, 2022 as compared to \$599 for the quarter ended June 30, 2021, an decrease of \$60, or 10%. The decrease is primarily due to net lower non-recurring engineering (“NRE”) services of (\$52) and (\$8) in lower product sales to some smaller customers.

The Company also reported a higher net loss of \$2,133 for the quarter ended June 30, 2022 as compared to a net loss of \$1,095 for the quarter ended June 30, 2021, an increase of \$1,037, or 95%. The higher loss was primarily due to a decrease in revenue of \$60 and gross margin of \$38 and higher stock-based compensation expense of \$247 offset by a decrease in research & development expenses (mainly due to a reduction in engineering staff count) of \$57 combined with a decrease in general & administration costs of \$70 stemming mostly from increased professional fees in the 2021 quarter relating to the revocation of the Cease Trade Order and the Recapitalization Plan. The Company incurred a foreign exchange loss of \$27 for the quarter ended June 30, 2022 compared to a foreign exchange gain of \$183 for the comparable quarter in 2021. In addition, there was a one-time gain included in other income of \$798 in the quarter ended June 30, 2021 relating to the forgiveness of loans provided to the Company’s U.S. subsidiary by the U.S. Small Business Administration (“SBA”) under the Paycheck Protection Program. There was no comparable gain in the quarter ended June 30, 2022. Furthermore, the Company reduced the amount of gain on recapitalization by \$826 and increased the gain on modification of debt by \$411 to reflect fourth quarter adjustments to assumptions regarding the valuation of warrants previously issued under the recapitalization plan and the fair value of advances received prior to the amendment and restatement of the loan from Vortex ENA LP. There were no corresponding amounts in the comparable prior period. Finally, the Company recorded a recovery of deferred income taxes in the quarter ended June 30, 2022 of \$204; there was no corresponding income tax recovery or expense in the comparable prior period.

#### Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended September 30, 2021 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management’s opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2022. 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.

	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	Q3 2022 31-Mar 2022	Q4 2022 30-Jun 2022
Revenue	\$ 541	\$ 683	\$ 698	\$ 599	\$ 575	\$ 422	\$ 442	\$ 539
Gross Margin	(208)	(25)	(16)	(96)	(111)	(139)	(79)	(134)
GM %	(38.4%)	(3.7%)	(2.3%)	(16.1%)	(19.3%)	(32.9%)	(17.9%)	(24.9%)
Expenses								
Research & development	388	324	397	372	315	337	396	314
Sales & marketing	65	62	69	67	57	68	65	72
General & administration	598	408	431	768	802	323	509	698
Stock-based compensation	1	-	1	-	-	903	40	422
Expenses	1,052	794	898	1,207	1,174	1,631	1,010	1,506
Operating loss	(1,260)	(819)	(914)	(1,303)	(1,285)	(1,770)	(1,089)	(1,640)
Gain on recapitalization	-	-	-	-	-	17,332	-	(826)
Gain on modification of debt	-	-	-	-	2,181	-	149	411
Gain on forgiveness of debt	-	-	-	-	314	-	7	-
Finance expense	(30)	(47)	(8)	-	(89)	(6)	-	-
Interest expense	(734)	(892)	(31)	25	(788)	(668)	(194)	(310)
Gain on sale of property, plant and equip.	-	-	-	-	-	-	-	55
Foreign exchange (loss) gain	168	447	174	183	(324)	43	13	(27)
Income taxes	-	-	-	-	-	-	-	204
Net income (loss)	(1,856)	(1,311)	(779)	(1,095)	9	14,931	(1,114)	(2,133)
Weighted average shares outstanding	5,349	5,349	5,349	5,349	5,349	6,228	9,821	12,793
Basic income (loss) per share	(\$0.35)	(\$0.25)	(\$0.15)	(\$0.20)	\$0.00	\$2.40	(\$0.11)	(\$0.17)
Diluted income (loss) per share	(\$0.35)	(\$0.25)	(\$0.15)	(\$0.20)	\$0.00	\$2.37	(\$0.11)	(\$0.17)
Adjusted EBITDA <sup>(1)</sup>	(1,221)	(780)	(874)	(1,269)	(1,251)	(832)	(1,014)	(1,183)

(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 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:

	30-Sep 2020	31-Dec 2020	31-Mar 2021	30-Jun 2021	30-Sep 2021	31-Dec 2022	31-Mar 2022	30-Jun 2022
Net income (loss) for the period	(1,856)	(1,311)	(779)	(1,095)	9	14,931	(1,114)	(2,133)
Add (deduct):								
(Income) loss from discontinued operations								
Gain on recapitalization	-	-	-	-	-	(17,332)	-	826
Gain on modification of debt	-	-	-	-	(2,181)	-	(149)	(411)
Gain on forgiveness of debt	-	-	-	-	(314)	-	(7)	-
Finance expense	30	47	8	-	89	6	-	-
Net interest and other expense	734	892	31	(25)	788	668	194	310
Amortization	38	39	38	36	34	35	35	35
Gain on sale of equipment	-	-	-	-	-	-	-	(55)
Foreign exchange (gain) loss	(168)	(447)	(173)	(185)	324	(43)	(13)	27
Stock-based compensation expense	1	-	1	0	-	903	40	422
Income tax (recovery) expense	-	-	-	-	-	-	-	(204)
<b>"Adjusted EBITDA"</b>	<b>(1,221)</b>	<b>(780)</b>	<b>(874)</b>	<b>(1,269)</b>	<b>(1,251)</b>	<b>(832)</b>	<b>(1,014)</b>	<b>(1,183)</b>

## SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2022 COMPARED TO THE YEAR ENDED JUNE 30, 2021

The following table sets forth a summary of key earnings information from our consolidated financial statements for the year ended June 30, 2022 and 2021.

	Year ended June 30,		Increase / (Decrease)	
	2022	2021	\$	%
Revenues	\$ 1,978	\$ 2,521	\$ (543)	(22%)
Cost of revenues	2,441	2,866	(425)	(15%)
Loss on inventory impairment				
<b>Gross margin</b>	<b>(463)</b>	<b>(345)</b>	<b>(118)</b>	<b>(34%)</b>
<i>Gross margin as % of revenue</i>	<i>(23%)</i>	<i>(14%)</i>		<i>(71%)</i>
Operating expenses:				
Research and development	1,362	1,481	(119)	(8%)
Sales and marketing	262	263	(1)	(0%)
General and administrative	2,332	2,205	127	6%
Stock based compensation	1,365	2	1,363	<i>nmf</i>
<b>Total operating expenses</b>	<b>5,321</b>	<b>3,951</b>	<b>1,370</b>	<b>35%</b>
Loss from operations	(5,784)	(4,296)	(1,488)	35%
Other income (expenses):				
Gain on recapitalization	16,506	-	16,506	<i>nmf</i>
Gain on modification of debt	2,741	-	2,741	<i>nmf</i>
Gain on disposal of property, plant, and equipment	55	-	55	<i>nmf</i>
Gain on debt forgiveness	321	-	321	<i>nmf</i>
Finance/other income	-	1,380	(1,380)	(100%)
Finance expense	(95)	(85)	(10)	(12%)
Interest expense	(1,960)	(3,012)	1,052	35%
Foreign exchange gain (loss)	(295)	972	(1,267)	(130%)
Income (loss) before taxes	11,489	(5,041)	16,530	328%
Income taxes	204	-	204	<i>nmf</i>
Net income (loss)	11,693	(5,041)	16,734	332%
Other comprehensive income (net of tax):				
Foreign currency translation gain (loss)	1,316	(3,121)	4,437	142%
<b>Comprehensive income/(loss)</b>	<b>\$ 13,009</b>	<b>\$ (8,162)</b>	<b>\$ 21,171</b>	<b>259%</b>

Enableness 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 year ended June 30, 2022 in terms of the Canadian dollar equivalent of US\$1 was CAD \$1.2657 (2021 – CAD \$1.2823) and in terms of the Chinese RMB equivalent of US\$1 was RMB \$0.1550 (2021 – RMB \$0.1512)

### 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	21,948	7,918	997
Convertible debt	9,003	3,009	571
Accounts payable and accrued liabilities	1,088	449	10
	32,039	11,376	1,578
Shares to be issued	2,655	1,170	-
	34,694	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 a 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 a non-brokered private placement on December 21, 2021, issuing 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 year ended June 30, 2022 was \$1,978 as compared to \$2,521 for the prior year, a decrease of \$543, or 22%. The decrease is due to lower sales of optical chips which was partially offset by an increase in third-party fabrication services work for a mega-cap technology for a net decrease of \$286. The Company experienced a slowdown in orders for its optical chips beginning in January 2022 from customers in Asia, due primarily to temporary plant shutdowns resulting from lockdowns imposed in many Asian nations dealing with “Omicron variant” infections due to the pandemic. Sales to customers in Asia began recovering in the fourth quarter of fiscal 2022. In addition, NRE revenue decreased \$257 compared to the prior year. NRE revenue is volatile from quarter-to-quarter given the short-term nature of most of these projects.

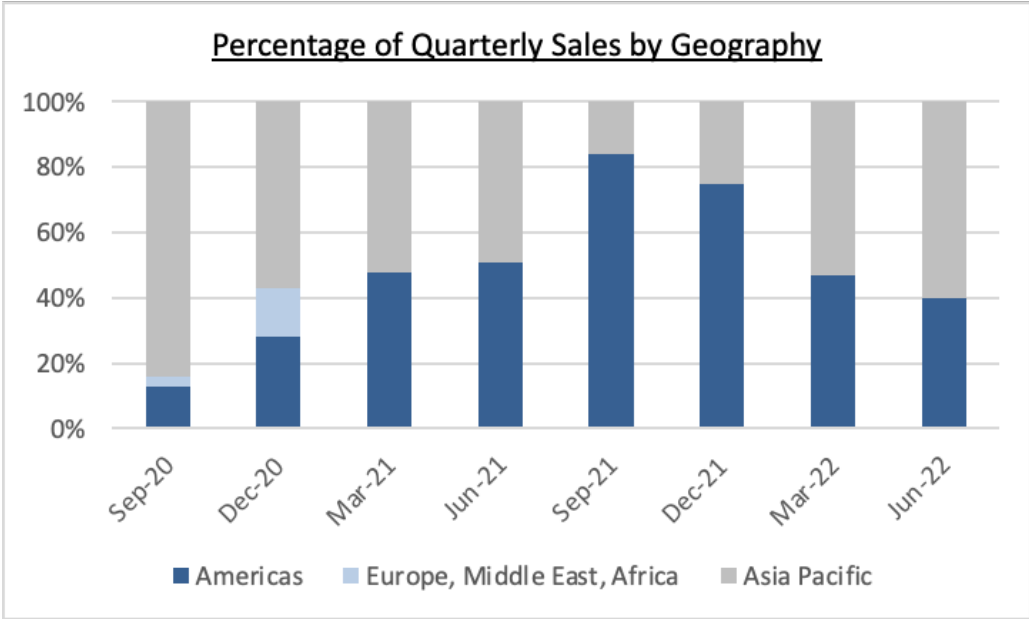
During the year ended June 30, 2022, seven customers accounted for 82% of the Company’s total revenue (2021 – eight customers, 81%).

In the year ended June 30, 2022, the Company processed sales to 25 separate customers across its business, which is comparable to the total customers in the same period in the prior year (2021 – 25 customers).

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

	June 30, 2022	June 30, 2021
	\$	\$
Americas	1,220	904
Europe, Middle East, Africa	-	114
Asia Pacific	758	1,503
	<b>1,978</b>	<b>2,521</b>

As previously reported, the Company has focused its sales efforts on the Americas markets since the beginning of 2020. For the year ended June 30, 2022, the Company’s Americas business grew to 62% of total sales (2021 – 36%), due in part to focused sales efforts on the region and in part due to the temporary decrease in sales in the Asia Pacific market resulting from pandemic-related lockdowns in that region. 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 year ended June 30, 2022, 74% of the Company’s revenue is comprised of product revenue (2021: 69%) which includes amounts relating to recurring third-party fabrication services revenue from work performed at the Company’s Fremont facility, and 26% is comprised of non-recurring engineering revenue (2021: 31%). Product revenue generally results from the sale of wafers/chips to end customers while NRE revenue is comprised of new research and development projects for customers. Often, NRE projects result in long-term recurring product revenue for the Company once it has solved a design challenge for the customer. In this sense, stability or growth in the percentage of NRE revenues can be seen as a positive leading indicator for future revenues of the Company as it indicates increasing demand for new engineering services from customers.



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

	June 30, 2022	June 30, 2021
	\$	\$
Product	1,455	1,741
NRE	523	780
	<b>1,978</b>	<b>2,521</b>

Of the \$1,455 in product revenue for the year ended June 30, 2022, approximately 15% is comprised of revenue related to third-party fabrication services for a mega-cap technology company (2021 – 22%). The Company recorded an additional \$297 in NRE revenue for this customer in the year ended June 30, 2022 (2021 - \$42). The NRE projects for this customer were substantially completed by June 30, 2022. The customer has not initiated any new NRE projects to date; however, the Company continues to perform limited third-party fabrication services for this customer. Management of the Company is working to obtain new NRE projects for this customer which could lead to additional product revenue in the future. Management believes that this customer’s strategic importance has been related to the products manufactured for them, which have exposed the Company to the fast-growing augmented and virtual reality (“AR/VR”) markets to which it would not have had access through existing chip designs and customers. The AR/VR markets form a part of the much broader “Advanced Vision” sector of photonic applications, which is expected to be a significant source of revenue growth for the Company in the future.

### **GROSS MARGIN**

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

Gross margin for the year ended June 30, 2022 was (\$463) as compared to (\$345) for the prior year, a decline of \$118, or 34%. The decline is due to decreased revenues from the sale of optical chips (\$286) and a higher loss on inventory impairment (\$34), offset by lower cost of revenues. The decline in cost of revenues is due to reduced materials costs associated with lower production volumes (\$110) and reduced plant overhead which was primarily the result of (i) lower spending on equipment repairs and components (\$130) and (ii) staff reductions in fiscal 2022 where departing employees have not yet been replaced (\$136). In addition, NRE sales, which tend to have stronger gross margins, declined \$257 in the current year.

### **OPERATING EXPENSES**

**Research & development** (“R&D”) expense for the year ended June 30, 2022 was \$1,362 as compared to \$1,481 for the prior year, a decrease of \$119, or 8%.

The decrease in 2022 versus 2021 primarily reflects the full-year effect of staffing reductions that occurred part-way through the 2021 fiscal year combined with additional staffing reductions in the second half of the fiscal 2022 year.

**Sales & marketing** expense for the year ended June 30, 2022 was \$262 as compared to \$263 for the prior year, a decrease of \$1, or 0%.

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 year ended June 30, 2022 was \$2,332 as compared to \$2,205 for the prior year, an increase of \$127, or 6%.

The increase is due to (i) higher compensation costs of \$172 relating to the replacement of certain members of the Company's senior executive, including hiring a Chief Executive Officer to fill a role that had been vacant since May 2020; (ii) increased exchange filing fees and Annual General Meeting costs totaling \$119, as a result of the completion of the Recapitalization plan and private placement of common shares during the 2022 fiscal year; (iii) an increase in travel and other costs of \$57 (the Company incurred no travel costs during fiscal 2021 due to COVID travel restrictions); offset by lower professional fees of (\$213), primarily decreased legal and consulting fees. Professional fees in 2021 were elevated due to costs associated with the revocation of the Cease Trade Order imposed during the 2021 fiscal year and the proposed Recapitalization.

**Stock-based compensation** expense for the year ended June 30, 2022 was \$1,365 as compared to \$2 for the prior year, an increase of \$1,363.

During the 2022 fiscal year, 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 fiscal year ended June 30, 2021.

Of the \$1,365 in stock-based compensation expense for the year ended June 30, 2022 \$231 relates to stock options (2021: \$2), \$419 relates to RSU grants (2021: \$Nil), and \$715 (2021: \$Nil), relates to grants of DSUs. For the year ended June 30, 2022, of the total stock-based compensation expense \$650 or 48% (2021: \$2; 100%) was attributable to general and administrative personnel and \$715 or 52% (2021: \$0; 0%) relates to members of the Company's Board.

### **GAIN ON RECAPITALIZATION**

The Company recorded a gain on recapitalization of \$16,506 for the year ended June 30, 2022, (2021: \$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 Other income
	\$	\$	\$	\$
Promissory notes	21,948	9,287	573	12,088
Convertible debt	9,003	3,528	329	5,146
Accounts payable and accrued liabilities	1,088	527	6	555
Transaction and associated costs				(1,282)
	<u>32,039</u>	<u>13,342</u>	<u>908</u>	<u>16,506</u>

### **GAIN ON MODIFICATION OF DEBT**

During the year ended June 30, 2022, the Company recorded a Gain on modification of debt of \$2,741 (2021: \$Nil) resulting from the restatement of the Company's secured loan following the execution of the fifth amending agreement on September 3, 2021 and maturity extension on December 31, 2021 (see *Finance and Interest Expense (c)*).

## **GAIN ON DISPOSAL OF PROPERTY, PLANT, AND EQUIPMENT**

During the year ended June 30, 2022, the Company disposed of certain lab equipment and tooling at its Ottawa location that was redundant to the Company's research and development activities for total proceeds of \$55. The equipment was fully depreciated and the Company recognized a gain of \$55 for the year ended June 30, 2022 (2021: \$Nil). The Company did not dispose of any property, plant, and equipment assets in the fiscal year ended June 30, 2021

## **GAIN ON FORGIVENESS OF DEBT**

During the year ended June 30, 2022, the Company recorded a gain on forgiveness of debt of \$321. 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 fiscal year; (ii) \$247 from the reversal of accrued liabilities for accrued vacation pay for two company executives, including the CTO, which were eliminated upon the signing of new employment agreements in the current fiscal year; and (iii) \$7 relating to miscellaneous other liabilities.

## **FINANCE/OTHER INCOME**

During the year ended June 30, 2021, the Company recorded finance/other income of \$1,380. This income was the result of the Company's application for and receipt of forgiveness of the two Paycheck Protection Program loans it had received prior to June 30, 2021. There was no comparable amount for the year ended June 30, 2022.

## **FINANCE EXPENSE**

Finance expense for the year ended June 30, 2022 was \$95 as compared to \$85 for the prior year, an increase of \$10, or 12%.

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 prior year, when the Company accrued commissions related to notes payable issued during the year. The company was not charged for commissions on advances under the secured loan during the 2022 fiscal 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 year ended June 30, 2022 was \$1,960 as compared to \$3,012 for the same period of the prior year, a decrease of \$1,052, or 35%. 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 and extending the maturity date on December 31, 2021 (see (c), below); and (ii) the settlement of all the notes payable and convertible debentures on December 6, 2021 (see *Recapitalization*).

Notes payable were as follows at June 30, 2022:

	<b>June 30, 2022</b>	June 30, 2021
	<b>\$</b>	<b>\$</b>
Short-term loans (a)	-	20,248
Short-term RBC loans (b)	<b>93</b>	97
Loan from EDC/Vortex (c)	<b>5,493</b>	5,625
Loan from Irix (d)	<b>393</b>	385
	<b>5,979</b>	26,355
Less current portion	<b>486</b>	26,355
Long-term portion	<b>5,493</b>	-

- (a) During the year ended June 30, 2022, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of \$1,905 (2021 - \$2,615) of which \$1,905 (2021 - \$Nil) was from related parties. These short-term loans were repayable on demand. Of these unsecured short-term loans, \$465 were included as part of the amended and restated secured loan agreement with Vortex ENA LP (“Vortex LP”) which was completed on December 31, 2021. The remaining short-term loans were exchanged for common shares of the Company as part of the Recapitalization.

As at June 30, 2022, a total amount of \$Nil (2021 - \$20,248) remains owing on these loans which includes \$Nil (2021 - \$2,808) of accrued interest and \$Nil (2021 - \$125) of accrued fees. During the year ended June 30, 2022, \$668 of interest was accrued (2021 - \$1,227).

During the year ended June 30, 2022, the Company accrued net commissions included in finance expense of \$6 (2021 - \$85) on these loans.

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. 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 August 20, 2021 to settle their debts under the terms of the Recapitalization plan. The holders of the short-term loan, in aggregate, received 7,918 common shares and warrants to purchase 997 common shares of the Company for aggregate consideration of \$9,860 based on the Company’s closing share price on December 6, 2021. The difference between the carrying value of the loans as at the closing date of \$21,948 and the value of shares being issued at that time of \$12,088 was recognized as a gain to the Company and was included in gain on recapitalization for the current period.

- (b) In April 2020, the Company received \$29 from the Royal Bank of Canada (“RBC”) as an interest-free loan to cover operating costs. In August 2020, the Company received another RBC loan in the amount of \$31, and in January 2021 the Company received an aggregate of \$32 in additional RBC loans. As at June 30, 2022, the RBC loan balance is \$93 (June 30, 2021 - \$97). 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 \$3 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 on or before December 31, 2022.
- (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 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 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 (a related party). The Company entered into a fifth amendment to the loan agreement with Vortex LP on September 3, 2021, which resulted in the following changes:

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

As these Secured Loan Amendments meet the criteria for a significant modification of the loan under the terms of IFRS 9 – Financial Instruments, the Company recognized a gain in the year ended June 30, 2022 relating to the 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 on modification of debt of \$2,181 for the year ended June 30, 2022. Following the amendment date, interest will be accreted to the loan balance based on the 20% per annum fair market interest rate.

During the year ended June 30, 2022, the Company made principal payments on the loan in the amount of \$Nil (2021 - \$Nil), accrued interest of \$446 (2021 - \$662), recorded accretion to interest expense of \$289 (2021 - \$Nil), and incurred fees relating to the loan of \$89 (2021 - \$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 \$532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term promissory notes and the \$465 advanced under the terms of the short-term promissory notes, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). The Company has determined under IFRS 9 *Financial Instruments*, that this amendment and restatement of the secured loan with Vortex meets the test for substantial modification. As a result, the net present value of the changes to the future contractual cash flows relating to the \$997 previously advanced by Vortex, discounted at a fair value interest rate of 21.5%, was recognized as a gain on modification of debt of \$411 for the year ended June 30, 2022. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 21.5% per annum.

During the year ended June 30, 2022, Vortex advanced to the Company an additional \$1,636 (2021 - \$Nil) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 24.7 to 27.6% per annum in computing the fair value of the advances, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the \$1,636 advanced by Vortex LP under the terms of the amended and restated loan agreement, the net present value of future contractual cash flows (discounted using a fair value interest rate) of \$868 has been recorded as notes payable and the portion of advances relating to below-market interest rates of \$768 was recorded in equity as contributed surplus.

Of the total amount advanced by Vortex LP during the year ended June 30, 2022 of \$2,633, the net present value of future contractual cash flows (discounted using a fair value interest rate) of \$1,454 has been recorded as notes payable, the portion of advances relating to

below-market interest rates of \$768 is recorded in equity as contributed surplus, and \$411 is recorded as a gain on debt modification.

As at June 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is \$5,493 (2021 - \$5,625 due to EDC), inclusive of interest of \$446 (2021 - \$942 due to EDC), accretion of \$289 (2021 - \$Nil due to EDC), and fees of \$89 (2021 - \$Nil). The face value of the senior secured loan payable to Vortex was \$8,664 as at June 30, 2022, inclusive of interest and fees.

- (d) On May 31, 2019, Enablence and Irix Holdings Ltd. ("Irix") signed an Asset Transfer Agreement ("ATA") which resulted Enablence selling certain assets and liabilities to Irix including \$180 of fixed assets, \$173 of leasehold improvements, \$47 of inventory as well as the transfer of certain employee contracts, less costs of \$60 owed by Irix to Enablence. Under the ATA, Enablence and Irix agreed that the consideration due to Enablence from Irix would be offset against certain debts owing to Irix by Enablence of \$720. The net remaining amount due to Irix of \$260 is treated as a note payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the year ended June 30, 2022, a total of \$22 (2021 - \$26) of interest has been accrued and the amount owing on the note payable is \$393 (2021 - \$385). The Company did not repay the note on its due date of May 31, 2022 and continues to accrue interest at 7.5%. The note payable is classified as a current liability in the consolidated statements of financial position.

### **FOREIGN EXCHANGE GAIN (LOSS)**

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

During the year ended June 30, 2022, the Company recorded a foreign exchange loss of \$(295) compared to a foreign exchange gain of \$972 for the prior year.

The loss in the current fiscal year is the result of the strengthening of the Canadian dollar during the year ended June 30, 2022 that increased the U.S. dollar balance owing of the Company's Canadian dollar denominated debt, which consisted primarily of the payment trade accounts payable and accrued liabilities and other short-term obligations.

### **INCOME TAXES**

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

	<b>2022</b>	2021
	\$	\$
Expected tax rate	<b>26.50%</b>	26.50%
Expected tax benefit from loss	<b>3,045</b>	(1,336)
Increase (decrease) in taxes from		
Permanent differences	<b>(3,936)</b>	(365)
Benefit of loss carryforwards and other temporary differences not recognized	<b>(8,031)</b>	(1,566)
Expired losses	<b>9,194</b>	3,543
Rate change related to opening temporary differences	-	-
Rate differential on tax jurisdictions	<b>(42)</b>	(76)
Other	<b>(434)</b>	(200)
	<b>(204)</b>	-

During the year ended June 30, 2022, the Company recognized a recovery of previously unrecorded income tax losses carrying forward from prior tax years. The Company has sufficient income losses carried forward to offset the full amount the taxable gain arising from the Company's Recapitalization.

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

### **NET INCOME (LOSS)**

The net income for the year ended June 30, 2022 was \$11,693 as compared to a net loss of \$(5,041) for the prior year, an improvement of \$16,734, or 332%.

### **FOREIGN CURRENCY TRANSLATION GAIN (LOSS)**

During the year ended June 30, 2022, the Company recorded a foreign exchange translation gain of \$1,316, as compared to a loss of \$(3,121) for the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US\$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is the U.S. dollar.

### **INCOME (LOSS) PER COMMON SHARE**

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

	<b>Year ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
Net income / (loss) per share (basic)	<b>\$0.91</b>	\$(0.94)
Net income / (loss) per share (diluted)	<b>\$0.87</b>	\$(0.94)
Weighted Average Number of Common Shares (basic)	<b>12,793</b>	5,349
Weighted Average Number of Common Shares (diluted)	<b>13,451</b>	5,349

During the year ending June 30, 2022, 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 June 30, 2022, 1,293 potentially dilutive shares from the redemption and settlement of RSUs and DSUs (2021 – nil) have been included in the calculation of net income/(loss) per share – diluted.

The potential effect of the exercise of stock options, warrants, and convertible debentures are anti-dilutive as all stock options, warrants, and convertible debenture conversion rights are out-of-the-money based on the Company's average share price for the year; therefore, as of June 30, 2022, 2,419 potentially dilutive shares from the exercise of stock options and warrants (2021 – 858 from exercise of 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 year ended June 30, 2021, 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.

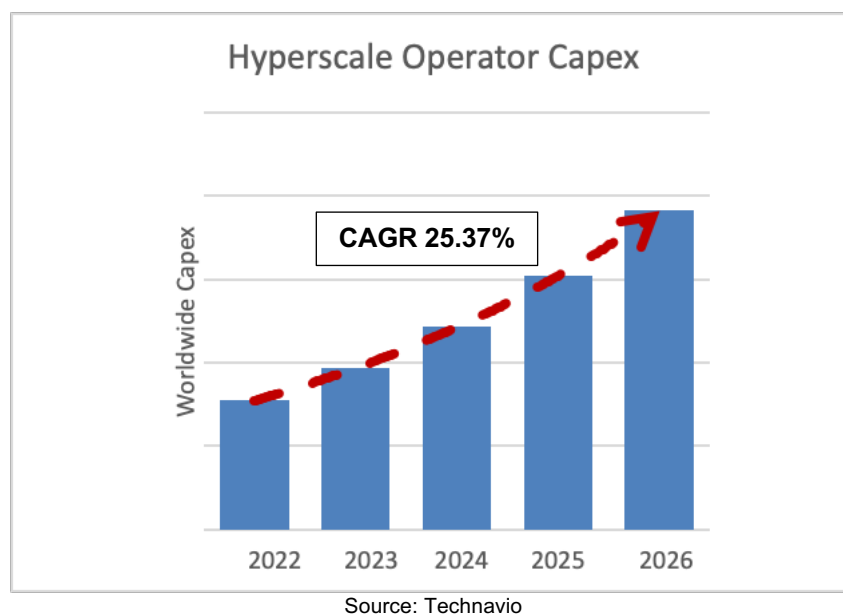
All common share information in this MD&A, has been adjusted to reflect the 120:1 effect of consolidation, without a corresponding change in dollar amounts. Comparative income (loss) per share has been adjusted to reflect the impact of the share consolidation.

## OUTLOOK

The Company continues to develop its core competency in PLC optical chip design and fabrication, targeting high-growth markets – such as data centers, and the advanced vision applications to which the Company’s PLC technology is uniquely suited, including LiDAR, OCT, and AR/VR. All these markets are experiencing high-growth rates in equipment sales and the related PLC chips and other components and modules required for their construction and ongoing operation.

### *Datacoms:*

Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. Mega-cap cloud computing companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft) continue to spend on the construction of hyperscale data centers. The size of the hyperscale data center market, which directly affects the Company’s revenue prospects, is projected to grow at a CAGR more than 25% over the next five years.



Enablence has developed a series of compact PLC optical chips - multiplexers and demultiplexers - that are used in multi-channel high-speed optical transceivers in our target markets. In the past three years, we worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. After completing rigorous product qualifications with several customers, the Company is now delivering 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 center and emerging photonics markets will drive increasing demand for optical chips such as those manufactured by Enablence.

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 third-party customers that we believe are strategic to our business or where the relationship can help Enablence quickly access emerging markets for optical products, increasing our revenue generating capabilities and helping offset our fixed cost operations.

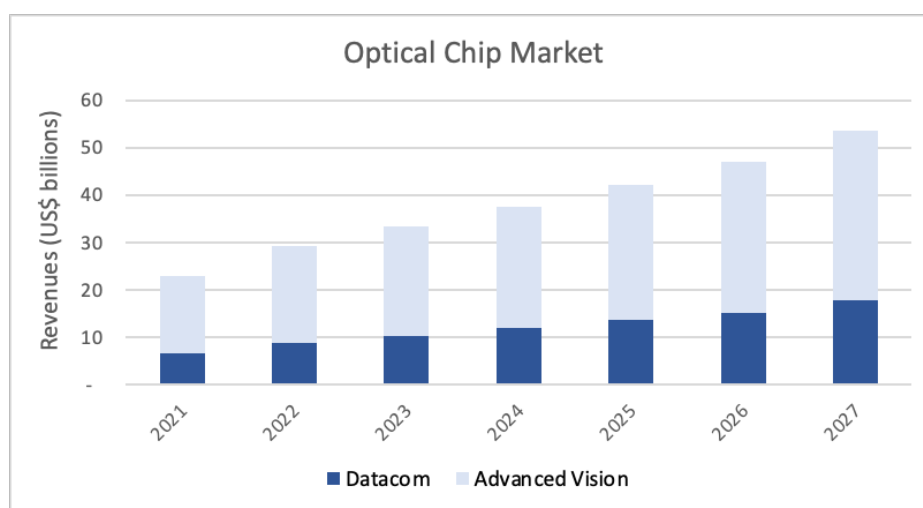


### Advanced Vision:

In the normal course, Enablence examines other strategic opportunities in markets beyond data centers. For example, the Company is currently leveraging its world-class optics knowledge to develop products for customers in need of Light Detection and Ranging (“LiDAR”) solutions for autonomous vehicle applications. We are currently working with U.S., European, and Asian customers in the LiDAR industry on design projects and anticipate additional long-term demand increases from these customers as they complete testing of our products and move forward with the commercial launch of products in the coming 12 to 24 months.

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

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



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

To meet increasing customer demand, the Company is presently increasing production capacity at its fabrication plant from the average 100-150 wafer per month production rate during fiscal 2022, initially to 400 wafers per month in the first half of fiscal 2023 and then to 600 wafers per month by about June 2023. This is being accomplished through modest capital investment and hiring key operational staff. The Company also plans to invest in testing equipment and skilled research staff in the Company’s location in Ottawa, allowing the research and design team to more rapidly iterate new designs and expand our customer base. This investment in R&D will support the expected increase in demand for the Company’s NRE services, which is critical to the Company future growth in optical chip product sales.

The company presently faces three significant challenges, on which management is focussing its efforts:

1. **Stabilizing the manufacturing process at higher production volumes** – which is being addressed through the addition of additional Statistical Process Controls, increased technician training, and additional in process testing.
2. **Decreasing R&D cycle time** – which is being addressed through the development of new AI/ML and statistical models that will reduce the verification requirements for each cycle.

3. **Accessing required capital** – raising the capital required to fund the expansion of the Company’s R&D and production capacity is critical to the long-term success of the Company. The company is aggressively pursuing multiple sources of funding, both public and private, that will take the company to profitability.

## LIQUIDITY

The Company’s objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company’s operating, debt service and organic growth requirements. During the year ended June 30, 2022, the Company obtained long-term debt financing in the amount of \$2,175 (2021: \$Nil) and short-term financing in the amount of \$1,904 (June 30, 2021: short- and long-term debt financing in the amount of \$3,325, inclusive of government loans).

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at June 30, 2022, there are 18,590 common shares and no preferred shares outstanding, after giving effect to the 120:1 consolidation of common shares which occurred during the year ended June 30, 2022 (see “*Recapitalization*”).

In connection with the Recapitalization, the Company closed a non-brokered private placement on December 21, 2021, issuing 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.

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 Enableness will gain adequate market acceptance for its new products or be able to generate sufficient gross margins to reach profitability; however, as noted above under “*Outlook*”, management of the Company is focused on addressing these issues.

Enableness 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 June 30, 2022 and 2021:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash and cash equivalents	<b>\$187</b>	\$190
Restricted cash	<b>4</b>	4
	<u><b>\$191</b></u>	<u>\$194</u>
Working capital (deficiency)	<u><b>(\$4,568)</b></u>	<u>(\$40,037)</u>

The working capital deficiency from operations at June 30, 2022 was \$4,568 as compared to a working capital deficiency of \$40,037 at June 30, 2021. The decrease in the working capital deficiency during the year ended June 30, 2022 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 Irix, which is a short-term liability (see *Interest Expense (d)*).

As at June 30, 2022, the Company had cash available of \$187 (not including \$4 of restricted cash). The Company consumed \$5,052 in operating activities for the year ended June 30, 2022 as compared to \$2,335 in the prior year. The increase in cash used in operations in the year ended June 30, 2022 as compared to the prior year is primarily the result of higher operating losses and one-time payments of accounts payable in the current year period, compared to the prior year period. This increase in cash used in operating activities extended the Company's reliance on external financing (see *Notes payable financing*, below).

The chart below highlights the Company's cash flows for the years ended June 30, 2022 and 2021:

	Year ended June 30	
	2022	2021
<b>Cash used in Operating activities</b>	<b>(5,052)</b>	<b>(2,335)</b>
<b>Investing activities</b>		
Purchase of property, plant, and equipment	(111)	(64)
Proceeds on disposal of of property, plant, and equipment	55	-
<b>Total operating expenses</b>	<b>(56)</b>	<b>(64)</b>
<b>Financing activities</b>		
Advances from short-term notes payable	1,904	2,677
Advances from long-term notes payable	2,175	-
Net proceeds from issuance of shares	992	-
<b>Total operating expenses</b>	<b>5,071</b>	<b>2,677</b>
<b>Effect of foreign currency translation</b>	<b>34</b>	<b>(219)</b>
<b>Net change in cash and cash equivalents</b>	<b>(3)</b>	<b>59</b>

#### Notes Payable Financing:

During the year ended June 30, 2022, the Company obtained 10% interest bearing unsecured short-term notes payable in the amounts of \$1,905, of which \$1,905 were from related parties. In addition, related parties advanced \$532 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 \$532 previously advanced by related parties during the year ended June 30, 2022 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 June 30, 2022, no amount remains owing on these loans (June 30, 2021 - \$20,248) remains owing on the short-term notes payable which includes \$Nil (June 30, 2021 - \$2,808) of accrued interest and \$Nil (June 30, 2021 - \$125) of accrued fees.

On December 31, 2021, the Company amended the secured loan agreement with Vortex ENA LP (originally entered into on September 3, 2021). The amended and restated secured loan agreement bears interest at the fixed rate of 7.5% per annum. Interest can be accrued for the first 24 monthly payment periods after the amendment date, with interest payable in cash thereafter. There are no required payments of principal during the life of the loan, which matures on December 31, 2025, the Company having one option to extend the maturity date for an additional six months. During the year ended June 30, 2022, the Company received advances of \$2,175 under the terms of the amended and restated loan agreement.

Since Vortex is considered to be a related party, the Company utilized a range of estimated fair market interest rates of 24.7 to 27.6% per annum in computing the fair value of the loan and subsequent advances, 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. Accordingly, the Company recognized a gain on modification of debt of \$2,741 upon restatement of the loan during the year ended June 30, 2022. Of the total additional amount advanced by Vortex LP during the current fiscal year of \$2,633, the net present value of future contractual cash flows (discounted using a fair value interest rate) of \$1,454 has been recorded as notes payable, the portion of advances relating to below-market interest rates of \$768 is recorded in equity as contributed surplus, and \$411 is recorded as gain on debt modification. Following the amendment date, interest will be accreted to the loan balance based on the 20.0 – 27.6% per annum fair market interest rates.

During the year ended June 30, 2022, the Company made principal payments on the loan in the amount of \$Nil (2021 - \$Nil), accrued interest of \$446 (2021 - \$662), recorded accretion to interest expense of \$289 (2021 - \$Nil).

As at June 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is \$5,493 (June 30, 2021 - \$5,625 due to EDC), inclusive of interest, accretion, and fees. The face value of the senior secured loan payable to Vortex was \$8,664 as at June 30, 2022, inclusive of interest and fees.

Unsecured short-term notes payable and secured long-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 financing under the terms and conditions of its long-term secured loan agreement, 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 (see “*Recapitalization*”). The convertible debenture holders agreed to receive, in aggregate, 3,009 common shares and 571 warrants to purchase common shares representing total consideration of \$3,857, 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 \$5,146 was recognized as a gain to the Company and was included in gain on recapitalization for the current quarter.

During the year ended June 30, 2022, the Company recorded accretion to interest expense of \$259 (2021: \$832) and accrued \$130 of arrears interest (2021: \$250). Of the \$3,212 (June 30, 2021 - \$2,917) interest accrued since June 30, 2017, \$81 (June 30, 2021 - \$81) had been paid and the unpaid balance of \$3,131 (June 30, 2021 - \$2,836) was included in accrued interest. The unpaid accrued interest outstanding was settled as part of the Recapitalization.

As at June 30, 2022, the total convertible debenture liability is \$Nil (June 30, 2021 - \$8,887), including accrued and unpaid interest of \$Nil (June 30, 2021 - \$2,836).

### Government Loan (Other Income):

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

In May 2020 and February 2021, the Company entered into two PPP loans, each in the amount of \$613 (the “First PPP Loan”) for total loan proceeds of \$1,226. The Company applied for forgiveness of both loans in during fiscal 2021 and received notice of the approval of forgiveness. The amount of the forgiveness of \$1,226 was recognized into other Income for the year ended June 30, 2021.

### **BOARD AND MANAGEMENT**

Derek H. Burney, Louis De Jong, Dan Shmitt, and Derek J. Burney are the Directors of the Company. Mr. Derek H. Burney acts as Chair of the Board of Directors, and Mr. De Jong acts as Chair of the Audit Committee. Mr. Derek J. Burney was appointed to the Board of Directors on September 1, 2022.

As of March 21, 2022, Todd Haugen serves as Chief Executive Officer of the Company. Ashok Balakrishnan served as Co-Chief Executive Officer of the Company until January 28, 2022, and as Chief Executive Officer until March 21, 2022. Mr. Balakrishnan continues to serve as the Company’s Chief Technology Officer. As of January 17, 2022, T. Paul Rowland serves as 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**

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

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

See the *Liquidity, Interest Expense* and *Subsequent Events* sections above for details on financings completed during the year ended June 30, 2022 and for loans obtained subsequent to year end. As stated in the *Liquidity* section above, the Company has been able to raise additional long-term and short-term loan financing to support its operating deficits and growth needs. It is expected that the Company will have the ability to access a number of different financing sources, including traditional debt and equity options, to finance future operations and growth needs.

Enableness is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 18,590 common shares issued and outstanding as of October 5, 2022 and no preferred shares issued and outstanding. The common shares of Enableness 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:

As at June 30, 2022	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
Accounts payable and accrued liabilities	\$ 4,990	\$ -	\$ -	\$ -	\$ 4,990
Notes Payable	486	-	5,493	-	5,979
Convertible debentures	-	-	-	-	-
Total	5,476	-	5,493	-	10,969

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.

Enableness 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 Enableness sits on the advisory board. In addition, a Director of the Company is a minority investor in Vortex ENA LP. As at June 30, 2022, 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 owns 1,938 shares and 332 share purchase warrants

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

- Vortex LP advanced \$1,905 under short-term notes payable to the Company. Vortex LP also acquired \$1,491 in short-term notes payable of the Company from existing holders in exchange for units of Vortex LP, including a portion acquired from a Director of the Company. On December 6, 2021, Vortex LP exchanged short-term notes payable totalling \$3,542 for 1,270 common shares under the terms of the Recapitalization plan. On

December 31, 2021, Vortex LP transferred \$465 of the amounts it had advanced under short-term notes payable during the six months ending December 31, 2021 to the secured loan. Interest on short-term notes payable held by Vortex LP for the year ended June 30, 2022 totalled \$101 respectively.

- During the year ended June 30, 2022, Vortex Entities made additional unsecured advances to the Company of \$532 outside of the terms of the short-term notes payable described above; such amounts had no fixed repayment terms and carried no interest rate. These amounts were transferred to the secured loan agreement on December 31, 2021, as described below.
- During the period ending June 30, 2022, Vortex LP acquired the secured loan previously held by EDC and entered into a secured loan agreement with the Company on September 3, 2021. On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, \$532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term notes payable and \$465 advanced under the terms of the short-term notes payable, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). During the year ended June 30, 2022, Vortex advanced to the Company \$1,643 under the terms of the amended and restated loan agreement. Of the \$2,633 in total amounts advanced by Vortex LP during the year ended June 30, 2022, \$1,454 has been included in notes payable, \$768 has been included in contributed surplus, and \$411 is recorded as a gain on debt modification. Subsequent to June 30, 2022, Vortex advanced to the Company an additional \$1,486 under the terms and conditions of the agreement.

During the year ended June 30, 2022, the Company accrued interest of \$446 and recorded accretion of \$289 relating to the Vortex loan. As at June 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is \$5,493 and the face value owing is \$8,664, inclusive of interest and fees.

- PCI earned commissions and advisory fees relating to financing transactions of \$Nil during the year ended June 30, 2022 (year ended June 30, 2021 - \$267). 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 1,170 common shares of the Company as part of the Recapitalization. As at June 30, 2022, \$157 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 \$3,205 owed to him under short-term notes payable for 1,059 common shares and 212 share purchase warrants under the terms of the Recapitalization plan. Interest of \$108 was incurred on these short-term notes payable in the year ended June 30, 2022 (June 30, 2021 - \$244). Prior to completion of the Recapitalization plan, \$970 of notes were transferred to Vortex LP during the six months ended December 31, 2021, as referenced above. As at June 30, 2022, the amount due to this Director under the short-term notes payable was \$Nil (June 30, 2021 - \$3,909).
- On December 6, 2021, a Director of PCI exchanged \$1,821 owed to him by the Company under the convertible debentures for 603 common shares and 121 share purchase warrants under the terms of the Recapitalization plan. Interest of \$78 was incurred on these convertible debentures in the year ended June 30, 2022 (June 30, 2021 - \$163). The amount due to the Director of PCI as at June 30, 2022 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 June 30, 2022, the Investor owns 5,915 common shares and 1,114 share purchase warrants.

The following transactions took place between Enableness and the Investor in the years ended June 30, 2022 and June 30, 2021.

- Under the terms of the Recapitalization plan, the Investor exchanged \$9,986 owed to him by the Company under short-term notes payable in exchange for 3,322 common shares and 664 share purchase warrants. Interest of \$248 was accrued on the notes payable due to the Investor in the year ended June 30, 2022 (June 30, 2021 - \$567). As at June 30, 2022, 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 \$6,802 of the Company’s convertible debentures held by him in exchange for 2,250 common shares and 450 share purchase warrants. Interest of \$290 was accrued on the convertible debentures due to the Investor in the year ended June 30, 2022 (June 30, 2021 - \$607). As at June 30, 2022, 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 June 30, 2022, the amount due to the Investor as accounts payable and accrued liabilities was \$Nil (June 30, 2021 - \$Nil).
- During the period ended June 30, 2022, the Investor provided consulting and advisory services to the Company in connection with the Recapitalization plan for fees of \$782, which was included as transaction and additional costs in Gain on recapitalization. The Company issued 333 common shares in full satisfaction of the fees.

### Other Related Party Transactions

Interest totaling \$23 was accrued for the year ended June 30, 2022 on short-term notes payable previously provided by Directors and officers of the Company (year ended March 30, 2021 - \$51). On December 6, 2021, the Company settled June full amounts of short-term notes payable owing to Directors and officers of \$638 in exchange for 263 common shares of the Company as part of the Recapitalization. The amount owed to Directors and officers under short-term notes payable as of June 30, 2022 is \$Nil (June 30, 2021 - \$712), including \$118 of notes that 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 year ended June 30, 2022, the Company incurred interest expense of \$23 (year ended June 30, 2021 - \$43 relating to the convertible debentures held by this Director. On December 6, 2021, the Company settled the full amount of \$379 in convertible debentures owing to the Director in exchange for 155 common shares of the Company as part of the Recapitalization. As of June 30, 2022, the amount owed is \$Nil (June 30, 2021 - \$348).

Under the terms of the Recapitalization plan, a Director of the Company exchanged \$39 in accounts payable owed to him by the Company for 17 common shares of the Company. As of June 30, 2022, the amount due to the Investor as accounts payable and accrued liabilities was \$Nil (June 30, 2021 - \$40).



## **RISKS AND UNCERTAINTIES**

The Company's financial position remains challenged in a dynamic, rapidly changing environment that involves risks and uncertainties. As a result, management expectations may not be realized. The Company continues to be dependent on additional financing until revenues and gross margins increase to the point that operations are profitable. As a result, an investment in Enableness is speculative.

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

## CRITICAL ACCOUNTING ESTIMATES

### *Use of estimates and judgements*

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

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

#### *Warrants*

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

### *Fair value measurement*

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

### 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 to equity as contributed surplus.

#### *Treatment of Government Loans*

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

#### *Going concern risk assessment*

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

#### *Impairment*

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

## **FINANCIAL AND OTHER INSTRUMENTS**

Enableness'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](http://www.sedar.com).

## **APPENDIX A**

### **RISKS AND UNCERTAINTIES**

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

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

#### **Significant future capital requirements; need for significant additional financing**

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

#### **Company's proprietary fab plant and office space in Fremont, California operates under a month-to-month lease**

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

#### **The Company's revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations and cash flows**

The Company's revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, the Company's operating results may not follow any past trends. The Company's quarterly revenue is generally dependent upon conversion of opportunities in the sales pipeline during the quarter. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. Accordingly, Enableness must build inventory based in part on its revenue forecast in order to meet delivery requirements for a major portion of its short lead-time orders. The factors affecting the Company's revenue and results, many of which are outside of its control, include:

- lack of long-term purchase commitments from customers;
- competitive conditions in the industry, including strategic initiatives by the Company or its competitors, new products, product announcements and changes in pricing policy by the Company or its competitors
- market acceptance of the Company's products;
- the Company's ability to maintain existing relationships and to create new relationships with customers;
- the discretionary nature of purchase and budget cycles of the Company's customers;

- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, strategic investments or changes in business strategy; and
- timing of product development and new product initiatives.

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

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

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

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

**Inventory Management**

Lead times for the materials and components that the Company orders through its contract manufacturers may vary significantly and depend on numerous factors, including the specific supplier, contract terms and market demand for a component at a given time. If the Company overestimates its production requirements, its contract manufacturers may purchase excess components and build excess inventory. If the Company's contract manufacturers purchase excess components that are unique to its products or build excess products, the Company could be required to pay for these excess parts or products and recognize related inventory write-down costs. If the Company underestimates its product requirements, its contract manufacturers may have inadequate component inventory, which could interrupt manufacturing of its products and result in delays or cancellation of sales. In prior periods the Company has experienced excess and obsolete inventory write-downs which impact the Company's cost of revenue. This may continue in the future, which would have an adverse effect on the gross margins, consolidated financial condition and consolidated results of operations of the Company.

## **Accounts Receivable Management**

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

## **Dependence on Third Party Suppliers**

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

## **International Operations**

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

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

## **Managing Growth**

The Company pursues a growth strategy that focuses on organic growth. The Company has undertaken several acquisitions in prior years to allow the Company to expand its product offerings and customer base and may do so in the future. While the Company has no active plans to acquire other companies, the success with which the Company can integrate companies acquired in the future will be critical in achieving the benefits from them. Failure to properly

integrate and save costs and achieve market leadership based on these acquisitions may hinder the Company's ability to be successful in its growth plans. On-going plans for further acquisitions will also be dependent on the Company's ability to fund an acquisition, identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired operations and technology of such companies successfully with its own and maintain the goodwill of the acquired business. The Company is unable to predict whether it will be able to identify further suitable additional acquisition candidates or the likelihood that these potential additional acquisitions will be completed. In addition, efforts to integrate acquisitions entail significant risks including, but not limited to, the possibility that the operations of the acquired business will not be profitable, diversion of the attention of the Company's management from day-to-day operation of the Company's business and the assumption of significant and/or unknown liabilities of the acquired business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Acquisitions could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that the acquisitions made to date will be successfully integrated and future acquisitions will be successfully completed or that, if more acquisitions are completed, the acquired businesses, products or technologies will be integrated successfully or generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

### **Uncertain Global Economic Conditions**

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

### **Political, Economic and Other Risks of Operations in China**

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

### **Difficulty in enforcement of judgements**

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



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

### **Market Opportunities**

The demand for the Company's products depends in large part on the continued growth of the industries in which it participates, particularly in the deployment of large-scale data centres. A market decline could have an adverse effect on the Company's business. The speed of data centre deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the datacoms industry in which the Company participates grow is critical to its ability to meet expectations and improve the Company's financial performance.

### **Sales Cycles are Long and Unpredictable**

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

### **Dependence on Key Customers**

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

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

## Customer Spending Patterns

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

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

## Competitive Pressures

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

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

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

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

Many of the Company's existing and potential competitors are larger than the Company, with longer operating histories and substantially greater financial, technical, marketing or other resources, significantly greater name recognition, and a larger installed base of customers. Unlike some of the Company's competitors, the Company does not provide equipment financing to potential customers. In addition, many of the Company's competitors have broader product lines than it does, so they can offer bundled products, which may appeal to certain customers.

The products that the Company and its competitors sell require a substantial investment of time and funds for our customers to design into their products. Customers are typically reluctant to switch component suppliers once a particular supplier's product has been designed in. As a

result, competition among component suppliers to secure contracts with potential customers is particularly intense and will continue to place pressure on product pricing. Some of the Company's competitors have resorted in the past, and may resort in the future, to offering substantial discounts to win new customers and generate cash flows. If the Company is forced to reduce prices in order to secure customers, the Company may be unable to sustain gross margins at desired levels or achieve profitability.

### **Product Defects and Warranty Obligations**

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

### **Product Development and Technological Change**

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

### **Product Obsolescence**

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

## **Development Stage Products and Customer Expectations**

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

## **Intellectual Property**

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

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

## **Intellectual Property Litigation**

The Company may be subject to intellectual property infringement claims that are costly to defend and could limit the Company's ability to use some technologies in the future. The Company's industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. From time to time, third parties have asserted against the Company, and may assert against it in the future, patent, copyright, trademark or other intellectual property rights to technologies or rights that are important to the business. In addition, the Company has agreed, and may in the future agree, to indemnify its customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. Any claims asserting that the Company's products infringe, or may infringe on, the proprietary rights of third parties, with or without merit, could be time-consuming, resulting in costly litigation and diverting the efforts of management. These claims could also result in product shipment delays or require the Company to modify its products or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available to the Company on acceptable terms, if at all.

## **Currency Fluctuations may Adversely Affect the Company**

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

## **Earnings History**

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

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

## **Key Personnel**

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

## **Changes in Accounting and Tax Rules**

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

## **Changes in Government Policy**

The Company's results may be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of the Canadian and foreign governments, agencies and similar organizations. The Company's results may be affected by social and economic conditions that impact its operations, including in emerging markets in Asia and in markets subject to ongoing political hostilities.

## **Cybersecurity Threats**

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

## **Share Price Volatility**

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

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

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

## **The Impacts of Infectious Diseases (COVID-19)**

As at the date hereof, the global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel and gatherings of individuals, quarantines, temporary business closures and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the disruptions to business internationally and the related financial impact cannot be estimated with any degree of certainty at this time. In addition, the increasing number of individuals infected with COVID-19 could result in an even greater global health crisis

that could adversely affect global economies and financial markets, resulting in a protracted economic downturn that could have an adverse effect on the Company's prospects.

Measures taken by governmental authorities and corporate entities, including through mandated or voluntary shutdowns, may also lead to a general long-term slow-down in the economy and may lead to disruptions to the Company's workforce and facilities, customers, sales and operations and supply chain.

In particular, as a result of the foregoing, COVID-19 could materially and adversely impact the Company's business, including without limitation, employee health, workforce availability and productivity, limitations on travel, supply chain disruptions, increased insurance premiums, the Company's ability to obtain equity or debt financing in the future, and restrictions to the Company's ability to conduct its business. Also, the Company's revenues and cash resources may be negatively affected, and demand for the Company's products may decrease as partners and potential customers defer their projects. Any such disruptions or closures could have a material adverse effect on the Company's business. In addition, parties with whom the Company does business or on whom the Company is reliant may also be adversely impacted by the COVID-19 pandemic which may in turn cause further disruption to the Company's business.

The Company is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on several factors set out above. The extent to which the pandemic will impact the Company's operations in the future is highly uncertain and cannot be predicted with confidence as at the date hereof, but could have a material adverse effect on the Company's business, financial condition and results of operations. These uncertainties include, but are not limited to, the duration of the outbreak, the ability of governments in countries in which the Company conducts business to curtail the spreading of the virus, the economic recovery as well as community and social stabilities. Any of these uncertainties, and others, could have further material adverse effects on the Company's business and operations.