ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE MONTHS ENDED September 30, 2022

DATED: November 16, 2022

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

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. ("Enablence" or the "Company") as at September 30, 2022 compared to June 30, 2022 and the results of operations for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 (collectively, the "MD&A").

This MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the three months ended September 30, 2022 and as well as the audited consolidated financial statements and accompanying notes for the year ended June 30, 2022. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence, its subsidiaries, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as otherwise indicated. All financial amounts are in thousands of U.S. dollars ("US$" or "USD"), unless stated otherwise. Other continuous disclosure filings for the Company are available on www.sedar.com

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

The effective date of this MD&A is November 16, 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.
- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure.
- Enablence will be able to attract and retain key people.

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

SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2022:

As of the date hereof and subsequent to September 30, 2022, Vortex LP, a related party, advanced an additional $525 under the terms of the amended and restated loan agreement between the Company and Vortex LP (Notes 11(c) and 21).

On October 26, 2022, the Company granted a total of 158,000 DSUs to the Directors of the Company in accordance with the terms of the Company's Omnibus Equity Incentive Plan. DSUs vest at the discretion of the Board.

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)

Balance Sheet Data	**Year ended June 30**		
	2022	2021	2020
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 Unaudited Quarterly Results

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

	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	Q1 2023 30-Sep 2022
Revenue	$ 683	$ 698	$ 599	$ 575	$ 422	$ 442	$ 539	$ 554
Gross Margin	(25)	(16)	(96)	(111)	(139)	(79)	(134)	(380)
GM %	(3.7%)	(2.3%)	(16.1%)	(19.3%)	(32.9%)	(17.9%)	(24.9%)	(68.6%)
Expenses								
Research & development	324	397	372	315	337	396	314	356
Sales & marketing	62	69	67	57	68	65	72	97
General & administration	408	431	768	802	323	509	698	784
Stock-based compensation	-	1	-	-	903	40	422	258
Expenses	794	898	1,207	1,174	1,631	1,010	1,506	1,495
Operating loss	(819)	(914)	(1,303)	(1,285)	(1,770)	(1,089)	(1,640)	(1,875)
Gain on recapitalization	-	-	-	-	17,332	-	(826)	-
Gain on modification of debt	-	-	-	2,181	-	149	411	-
Gain on forgiveness of debt	-	-	-	314	-	7	-	-
Finance expense	(47)	(8)	-	(89)	(6)	-	-	-
Interest expense	(892)	(31)	25	(788)	(668)	(194)	(310)	(319)
Gain on sale of property, plant and equip.	-		-	-	-	-	55	-
Foreign exchange (loss) gain	447	174	183	(324)	43	13	(27)	(87)
Income taxes	-	-	-	-	-	-	204	158
Net income (loss)	(1,311)	(779)	(1,095)	9	14,931	(1,114)	(2,133)	(2,123)
Weighted average shares outstanding	5,349	5,349	5,349	5,349	6,228	9,821	12,793	16,131
Basic income (loss) per share	($0.25)	($0.15)	($0.20)	$0.00	$2.40	($0.11)	($0.17)	($0.14)
DIluted income (loss) per share	($0.25)	($0.15)	($0.20)	$0.00	$2.37	($0.11)	($0.17)	($0.14)
Adjusted EBITDA[(1)]	(780)	(874)	(1,269)	(1,251)	(832)	(1,014)	(1,183)	(1,573)

(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:

	31-Dec 2020	31-Mar 2021	30-Jun 2021	30-Sep 2021	31-Dec 2022	31-Mar 2022	30-Jun 2022	30-Sep 2022
Net income (loss) for the period	(1,311)	(779)	(1,095)	9	14,931	(1,114)	(2,133)	(2,123)
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	47	8	-	89	6	-	-	-
Net interest and other expense	892	31	(25)	788	668	194	310	319
Amortization	39	38	36	34	35	35	35	44
Gain on sale of equipment	-	-	-	-	-	-	(55)	-
Foreign exchange (gain) loss	(447)	(173)	(185)	324	(43)	(13)	27	87
Stock-based compensation expense	-	1	0	-	903	40	422	258
Income tax (recovery) expense	-	-	-	-	-	-	(204)	(158)
"Adjusted EBITDA"	(780)	(874)	(1,269)	(1,251)	(832)	(1,014)	(1,183)	(1,573)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 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.

	Three months ended September		Increase / (Decrease)	
	2022	**2021**	$	%
Revenues	$ **554**	$ 575	$ (21)	*(4%)*
Cost of revenues	**934**	655	279	*43%*
Loss on inventory impairment		31	(31)	*nmf*
Gross margin	**(380)**	(111)	(269)	*(242%)*
Gross margin as % of revenue	*(69%)*	*(19%)*		*(255%)*
Operating expenses:				
Research and development	**356**	315	41	*13%*
Sales and marketing	**97**	57	40	*70%*
General and administrative	**784**	802	(18)	*(2%)*
Stock based compensation	**258**	0	258	*nmf*
Total operating expenses	**1,495**	1,174	321	*27%*
Loss from operations	**(1,875)**	(1,285)	(590)	*46%*
Other income (expenses):				
Gain on modification of debt	**-**	2,174	(2,174)	*nmf*
Gain on debt forgiveness	**-**	321	(321)	*nmf*
Finance expense	**-**	(89)	89	*100%*
Interest expense	**(319)**	(788)	469	*60%*
Foreign exchange gain (loss)	**(87)**	(324)	237	*(73%)*
Income (loss) before taxes	**(2,281)**	9	(2,290)	*nmf*
Income taxes	**158**	-	158	*nmf*
Net income (loss)	**(2,123)**	9	(2,132)	*nmf*
Other comprehensive income (net of tax):				
Foreign currency translation gain (loss)	**624**	1,047	(423)	*40%*
Comprehensive income/(loss)	$ **(1,499)**	$ 1,056	$ (2,555)	*242%*

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for three months ended September 30, 2022 in terms of the Canadian dollar equivalent of US$1 was CAD $1.3061 (three months ended September 30, 2021 – CAD $1.2601) and in terms of the Chinese RMB equivalent of US$1 was RMB $0.1465 (three months ended September 30, 2021 – RMB $0.1545)

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 three months ended September 30, 2022 was $554 as compared to $575 for the prior year, a decrease of $21, or 4%. The decrease is due to higher sales of optical chips ($33 or 8% increase) offset by a $(54), or 39%, decrease in NRE revenues. NRE revenue is volatile from quarter-to-quarter given the short-term nature of most of these projects.

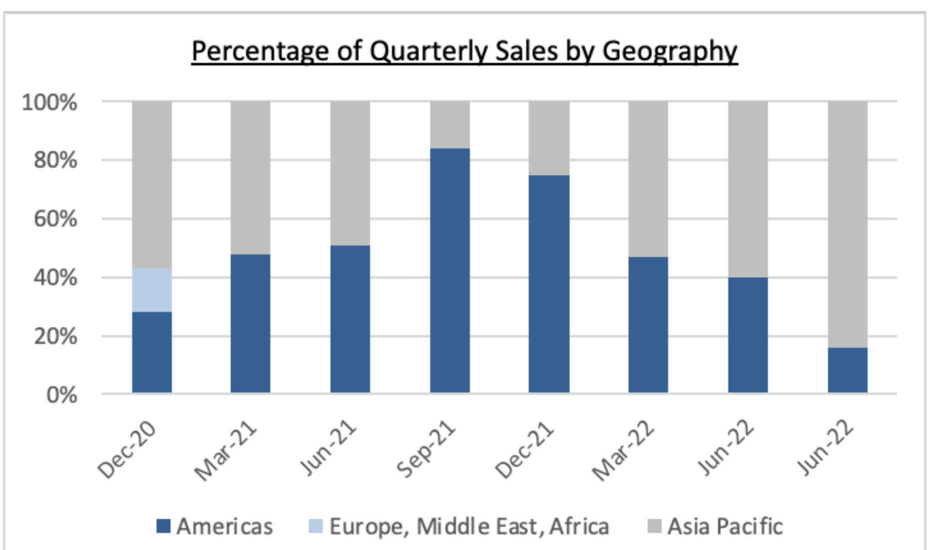
During the three months ended September 30, 2022, the Company's top five customers accounted for 89% of the Company's total revenue (three months ended September 30, 2021 - 93%).

In the three months ended September 30, 2022, the Company processed sales to 13 separate customers across its business, which is comparable to the total customers in the same period in the prior year (three months ended September 30, 2021 – 15 customers).

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

	September 30, 2022	September 30, 2021
	$	$
Americas	**91**	482
Europe, Middle East, Africa	**-**	-
Asia Pacific	**463**	93
	554	575

For the three months ended September 30, 2022, the Company's Americas business decreased to 16% of total sales (2021 – 84%), due in part to focused sales efforts on the Asia Pacific region which resulted in a new customer win in Japan (increasing revenues by $56) and increased demand from existing Chinese customers (increasing revenues by $314). This increase in sales to Asia Pacific was offset by $381 in lower NRE and fab services sales to an Americas-based mega-cap technology company. The Company, however, 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 prioritize growth in the Americas business in the near-term.



For the three months ended September 30, 2022, 85% of the Company's revenue is comprised of product revenue (three months ended September 30, 2021: 76%) which includes amounts relating to recurring third-party fabrication services revenue from work performed at the Company's Fremont facility, and 15% is comprised of non-recurring engineering revenue (three months ended September 30, 2021: 24%). 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; however, NRE revenue recognized can be volatile from quarter to quarter.

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

	September 30, 2022	September 30, 2021
	$	$
Product	**469**	436
NRE	**85**	139
	554	575

Of the $469 in product revenue for the three months ended September 30, 2022, approximately 3% is comprised of revenue related to third-party fabrication services for a mega-cap technology company (three months ended September 30, 2021 – 33%). The Company recorded an additional $61 in NRE revenue for this customer in the three months ended September 30, 2022 (three months ended September 30, 2021 - $61). The NRE projects for this customer were substantially completed by September 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 three months ended September 30, 2022 was ($380) as compared to ($111) for the prior year, a decline of $269, or 242%. The decline is due to the slight decrease in revenues from the sale of optical chips ($21) and a higher cost of revenues ($279) offset by lower loss on inventory impairment ($31). The higher cost of revenues is due to primarily to $144 in higher spending on repairs to production equipment to support a planned increase in wafer production rates from 100-125 wafers/month to 400 wafers/month, $66 in higher labor costs as the Company added staff during the three months ended September 30, 2022 to meet planned increases in demand subsequent to the quarter end, $46 in increased plant overhead due to higher production rates, and $23 in higher depreciation and other costs, as the Company invested in additional capital assets to support planned future growth in production. In addition, NRE sales, which tend to have stronger gross margins, declined $54 in the three months ended September 30, 2022, compared to the three months ended September 30, 2021.

OPERATING EXPENSES

Research & development ("R&D") expense for the three months ended September 30, 2022 was $356 as compared to $315 for the same period in the prior year, a decrease of $41, or 13%.

The increase in the current period primarily reflects increased salaries for the Company's R&D staff which took effect shortly before the current prior commenced.

Sales & marketing expense for the three months ended September 30, 2022 was $97 as compared to $57 for the same period in the prior year, an increase of $40, or 70%.

The increase reflects increased salaries for members of the sales and marketing team, and the additional sales staff in China during the current period.

General & administration expense for the three months ended September 30, 2022 was $784 as compared to $802 for the same period in the prior year, an decrease of $18, or 2%.

The decrease is due to (*i*) higher compensation costs of $84 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 property and use taxes totaling $14; (*iii*) an increase in travel and other costs of $22 (the Company incurred almost no travel costs during the three months ended September 30, 2021 due to COVID travel restrictions); offset by lower insurance costs ($13) and professional fees ($127), primarily decreased legal and consulting fees. Professional fees during the three months ended September 30, 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 three months ended September 30, 2022 was $258 as compared to $Nil for the prior year, an increase of $258.

During the 2022 fiscal year and during the three months ended September 30, 2022, 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 three months ended September 30, 2021.

Of the $258 in stock-based compensation expense during the three months ended September 30, 2022, $236 relates to stock options (three months ended September 30, 2021– $Nil), $22 relates to RSU grants (three months ended September 30, 2021 – $Nil), and $Nil (three months ended September 30, 2021 – $Nil), relates to grants of DSUs. For the three months ended September 30, 2022, of the total stock-based compensation expense $258 (three months ended September 30, 2021 – $Nil) was attributable to general and administrative personnel and $Nil (three months ended September 30, 2021 – $Nil) relates to members of the Company's Board.

GAIN ON MODIFICATION OF DEBT

During the three months ended September 30, 2021, the Company recorded a Gain on modification of debt of $2,174 resulting from the restatement of the Company's secured loan following the execution of the fifth amending agreement on September 3, 2021 (see *Finance and Interest Expense (c)*). The Company recorded no similar gain during the current period.

GAIN ON FORGIVENESS OF DEBT

During the three months ended September 30, 2021, 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. The Company recorded no similar gain during the current period.

INTEREST EXPENSE

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

Interest and finance expense for the three months ended September 30, 2022 was $319 as compared to $788 for the same period of the prior year, a decrease of $469, or 60%. The decrease is due primarily to (*i*) the lower, fixed interest rate on the secured loan with Vortex ENA LP ("Vortex LP", a related party) of 7.5% as a result of amending the loan agreement on September 3, 2021 (see *(c), below*); and (*ii*) the settlement of all the notes payable and convertible debentures on December 6, 2021 (see *Recapitalization*).

Notes payable were as follows at September 30, 2022:

	September 30, 2022	June 30, 2022
	$	$
Short-term loans (a)	**-**	-
Short-term RBC loans (b)	**88**	93
Loan from Vortex (c)	**6,124**	5,493
Loan from Irixi (d)	**369**	393
	6,581	5,979
Less current portion	**457**	486
Long-term portion	**6,124**	5,493

a) During the three months ended September 30, 2021, the Company obtained 10% interest bearing unsecured short-term loans, repayable on demand, in the amount of $1,106 of which $Nil was from related parties. These short-term loans were exchanged for common shares of the Company as part of the Recapitalization. The Company received no corresponding unsecured short-term loans in the three months ended September 30, 2022.

   As at September 30, 2022, a total amount of $Nil (June 30, 2022 - $Nil) remains owing on these loans which includes $Nil (June 30, 2022 - $Nil) of accrued interest and $Nil (June 30, 2022 - $Nil) of accrued fees. During the three months ended September 30, 2022, $Nil of interest was accrued (three months ended September 30, 2021 - $372).

   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 $465 advanced by Vortex LP subsequent to September 20, 2021, 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 during the year ended June 30, 2022.

b) In April 2020, the Company received $29 from the Royal Bank of Canada ("RBC") as an interest-free loan to cover operating costs. In August 2020, the Company received another RBC loan in the amount of $31, and in January 2021 the Company received an aggregate of $32 in additional RBC loans. As at September 30, 2022, the RBC loan balance is $88 (June 30, 2022 - $93). 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 $31 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.

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 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").

   As these Secured Loan Amendments met the criteria for a significant modification of the loan under the terms of IFRS 9 – Financial Instruments, the Company recognized a gain during the three months ended September 30, 2021 relating to the extinguishment of the fair market value of the loan in its consolidated financial statements. The Company utilized an estimated fair market interest rate of 20% per annum in computing the fair value of the loan as of the September 3, 2021 amendment date, as management believed that this more closely approximated the interest rate that would have been charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized a gain on modification of debt of $2,181 for the three months ended September 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 three months ended September 30, 2022, the Company made principal payments on the loan in the amount of $Nil (three months ended September 30, 2021 - $Nil), accrued interest of $175 (three months ended September 30, 2021 - $178), recorded accretion to interest expense of $143 (2021 - $Nil), and incurred fees relating to the loan of $Nil (three months ended September 30, 2021 - $98) 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 determined under IFRS 9 *Financial Instruments*, that this amendment and restatement of the secured loan with Vortex meets the test for substantial modification. The Company utilized an estimated fair market interest rate of 21.5% per annum in computing the fair value of the amounts advanced prior to the December 31,2021 amendment date, and 24.7 to 27.6% for advances received subsequent to the December 31, 2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. The adjusted carrying amount will be amortized over the remaining term of the secured loan using effective interest rates of between 21.5 and 27.6% per annum.

During the three months ended September 30, 2022, Vortex advanced to the Company an additional $1,313 (three months ended September 30, 2021 - $Nil) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 28.5 to 30.1 % 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 $1,313 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 $685 has been recorded as notes payable and the portion of advances relating to below-market interest rates of $628 was recorded in equity as contributed surplus.

Of the total amount advanced by Vortex LP under the terms of amended and restated senior secured loan to September 30, 2022 of $3,946, the net present value of future contractual cash flows (discounted using a fair value interest rate) of $2,139 has been recorded as notes payable, the portion of advances relating to below-market interest rates of $1,396 is recorded in equity as contributed surplus, and $411 is recorded as a gain on debt modification.

As at September 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is $6,124 (June 30, 2022 - $5,493), inclusive of interest of $621 (June 30, 2022 - $446), accretion of $432 (June 30, 2022 - $289), and fees of $89 (June 30, 2022 - $89). The face value of the senior secured loan payable to Vortex was $9,565 (June 30, 2022 - $8,664) as at September 30, 2022, inclusive of interest and fees.

d) On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi") signed an Asset Transfer Agreement (“ATA”) which resulted Enablence selling certain assets and liabilities to Irixi as well as the transfer of certain employee contracts, net of amounts owed by Irixi to Enablence. Under the ATA, Enablence and Irixi agreed that the consideration due to Enablence from Irixi would be offset against certain debts owing to Irixi by Enablence. The net remaining amount due to Irixi of $260 is treated as a note payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the three months ended September 30, 2022, a total of $6 (three months ended September 30, 2022 - $6) of interest has been accrued and the amount owing on the note payable is $369 (June 30, 2022 - $393). 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 three months ended September 30, 2022, the Company recorded a foreign exchange loss of $(87) compared to $(324) for the prior year, a decrease of $237 or 73% decrease.

The loss in the current fiscal year is the result of the strengthening of the US dollar during the three months ended September 30, 2022 that decreased the U.S. dollar balance owing of the Company’s Canadian dollar and Chinese yuan 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:

	Three months ended September 30,	
	2022	2021
	$	$
Expected tax rate	**26.50%**	26.50%
Expected tax (benefit)/expense from loss	**(604)**	2
Increase (decrease) in taxes from		
Permanent differences	**-**	2
Benefit of loss carryfowards and other temporary differences not recognized	**435**	9
Other	**11**	(9)
	(158)	-

NET INCOME (LOSS)

The net loss for the three months ended September 30, 2022 was $(2,123) as compared to net income of $9 for the same period in the prior year, an decrease of $(2,132).

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

During the three months ended September 30, 2022, the Company recorded a foreign exchange translation gain of $624, as compared to a gain of $1,047 for the same period in the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US$ 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.

	Three months ended September 30,	
	2022	2021
Net income / (loss) per share (basic)	**$(0.12)**	$0.00
Net income / (loss) per share (diluted)	**$(0.12)**	$0.00
Weighted Average Number of Common Shares (basic)	**18,590**	5,349
Weighted Average Number of Common Shares (diluted)	**18,590**	5,349

At the discretion of the Board, RSUs and DSUs may be redeemed and settled, all or in portion, in shares issued from treasury. Since the Company experienced a net loss in the three months ended September 30, 2022, the redemption and settlement of RSUs and DSUs are anti-dilutive. In addition, the potential effect of the exercise of stock options, warrants, and convertible debentures are anti-dilutive as all stock options, warrants, and convertible debenture conversion rights are out-of-the-money based on the Company's average share price for the quarter; therefore, as of September 30, 2022, 3,690 potentially dilutive shares from the exercise of stock options, RSUs, DSUs, and warrants (three months ended September 30, 2021 – 858 from exercise of stock options and convertible debentures) have not been included in the calculation of net income/(loss) per share – diluted.

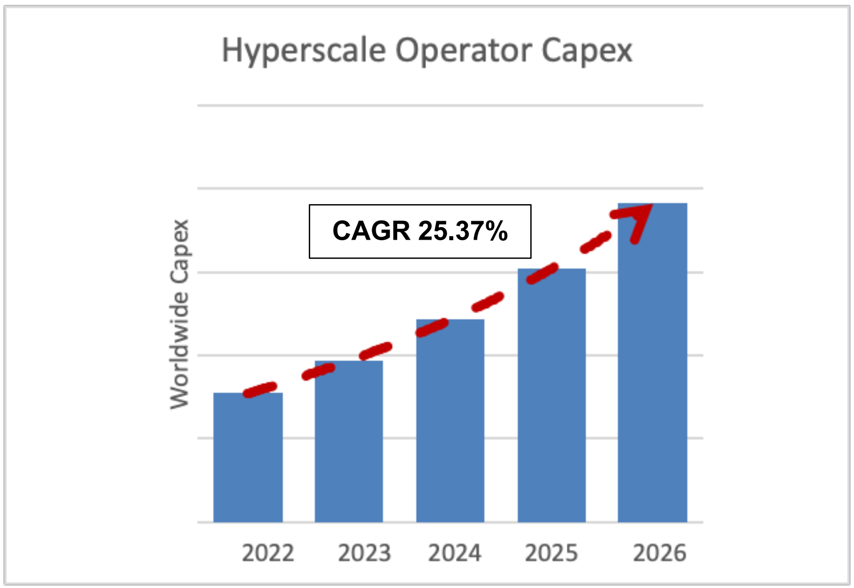
All common share information in this MD&A, has been adjusted to reflect the 120:1 effect of consolidation, without a corresponding change in dollar amounts. Comparative income (loss) per share has been adjusted to reflect the impact of the share consolidation.

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.



Source: Technavio

Enablence has developed a series of compact PLC optical chips - multiplexers and demultiplexers - that are used in multi-channel high-speed optical transceivers in our target markets. In the past three years, we worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. 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.

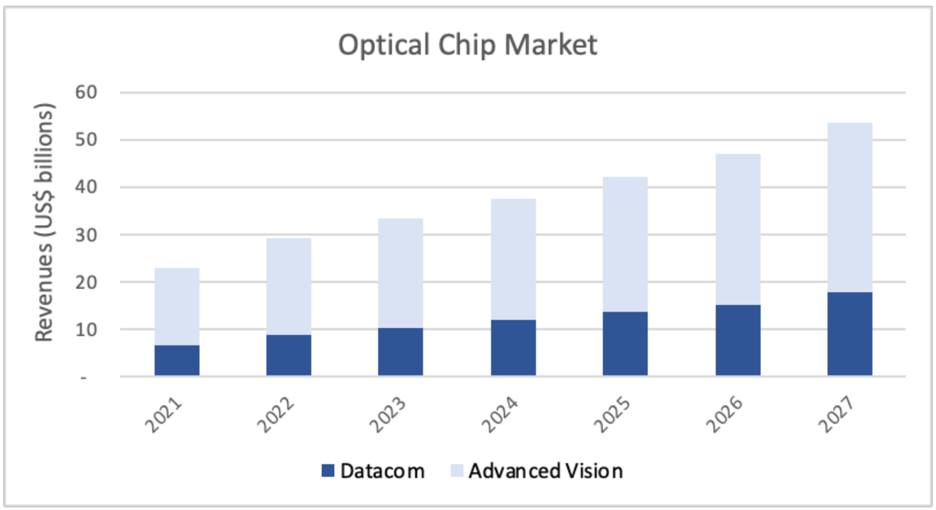
Our goal over the upcoming year is to increase the size of recurring chip orders from existing customers while adding new customers, through specific NRE projects and traditional sales channels for existing chip designs. We will also selectively offer our fabrication facility services to third-party 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 three months ended September 30, 2022, the Company obtained long-term debt financing in the amount of $1,313 (three months ended September 30, 2021 - $Nil) and no short-term financing (three months ended September 30, 2021 - short-term debt financing of $1,118).

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at September 30, 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 fiscal year ended June 30, 2022 (see "*Recapitalization*").

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

Enablence has not generated positive cash flow from operations since its inception and has relied on cash from the issuance of equity and debt to fund its operations. The table below sets out the Company's cash and cash equivalents, and working capital as at September 30, 2022 and June 30, 2022:

	September 30, 2022	June 30, 2022
Cash and cash equivalents	**$194**	$187
Restricted cash	**4**	4
	$198	$191
Working capital (deficiency)	**($4,920)**	($4,568)

The working capital deficiency from operations at September 30, 2022 was $4,920 as compared to a working capital deficiency of $4,568 at June 30, 2022. The working capital deficiency primarily results from accounts payable and accrued liabilities, and the debt due to Irixi, which is a short-term liability (see *Interest Expense (d)*). The increase in the working capital deficiency during the three months ended September 30, 2022 is due to an increase in accounts payable and accrued liabilities.

As at September 30, 2022, the Company had cash available of $194 (not including $4 of restricted cash). The Company consumed $1,272 in operating activities for the three months ended September 30, 2022 as compared to $1,083 in the same period in the prior year. The increase in cash used in operations in the three months ended September 30, 2022 as compared to the same period in the prior year is primarily the result of higher operating losses that were partially offset by one-time receipt of accounts receivable in the current 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 three months ended September 30, 2022 and 2021:

	Three months ended September 30	
	2022	**2021**
Cash used in Operating activities	**(1,272)**	(1,083)
Investing activities		
Purchase of property, plant, and equipment	**(224)**	(27)
Total operating expenses	**(224)**	(27)
Financing activities		
Advances from short-term notes payable	**-**	1,118
Advances from long-term notes payable	**1,313**	-
Total operating expenses	**1,313**	1,118
Effect of foreign currency translation	**190**	155
Net change in cash and cash equivalents	**7**	163

Notes Payable Financing:

During the three months ended September 30, 2022, Vortex advanced to the Company an additional $1,313 (three months ended September 30, 2021 - $Nil) under the terms of the amended and restated senior secured loan agreement. Since Vortex is considered to be a related party, the Company has utilized a range of estimated fair market interest rates of 20.0 to 30.1% 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. The Company utilized a range of estimated fair market interest rates of 28.5 to 30.1 % per annum in computing the fair value of the advances received during the three months ended September 30, 2022. Of the $1,313 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 $685 has been recorded as notes payable and the portion of advances relating to below-market interest rates of $628 was recorded in equity as contributed surplus.

During the three months ended September 30, 2022, the Company made no principal payments on the loan (three months ended September 30, 2021 - $Nil), accrued interest of $175 (three months ended September 30, 2021 - $178), and recorded accretion to interest expense of $143 (three months ended September 30, 2021 - $Nil).

Of the total amount advanced by Vortex LP under the terms of amended and restated senior secured loan to September 30, 2022 of $3,946, the net present value of future contractual cash flows (discounted using a fair value interest rate) of $2,139 has been recorded as notes payable, the portion of advances relating to below-market interest rates of $1,396 is recorded in equity as contributed surplus, and $411 is recorded as a gain on debt modification.

As at September 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is $6,124 (June 30, 2022 - $5,493), inclusive of interest of $621 (June 30, 2022 - $446), accretion of $432 (June 30, 2022 - $289), and fees of $89 (June 30, 2022 - $89). The face value of the senior secured loan payable to Vortex was $9,565 (June 30, 2022 - $8,664) as at September 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.

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

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

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

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

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 18,590 common shares issued and outstanding as of November 16, 2022 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below presents the Company's contractual obligations from operations:

	Current		**Non-Current**		
As at September 30, 2022	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$	$	$
Accounts payable and accrued liabilties	5,374	-	-	-	5,374
Notes Payable	457	-	6,124	-	6,581
Convertible debentures	-	-	-	-	-
Total	5,831	-	6,124	-	11,955

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

Vortex Entities

Vortex ENA LP ("Vortex LP") is a related party as a result of its general partner being controlled by an affiliate of Paradigm Capital Inc., a company for which a Director of Enablence sits on the advisory board. In addition, a Director of the Company is a minority investor in Vortex ENA LP. As at September 30, 2022, the following group of joint actors ("Vortex Entities") holding common shares of the Company are collectively deemed to be control persons as they own over 20% of the common shares of the Company:

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

The following transactions took place between Enablence and the Vortex Entities in the three months ended September 30, 2022 and three months ended September 30, 2021:

- During the three months ended September 30, 2022, Vortex LP advanced to the Company $1,313 under the terms of the amended and restated loan agreement. Of the total amount advanced by Vortex LP under the terms of amended and restated senior secured loan to September 30, 2022 of $3,946, the net present value of future contractual cash flows (discounted using a fair value interest rate) of $2,139 has been recorded as notes payable, the portion of advances relating to below-market interest rates of $1,396 is recorded in equity as contributed surplus, and $411 is recorded as a gain on debt modification. Subsequent to September 30, 2022, Vortex advanced to the Company an additional $525 under the agreement's terms and conditions.

  During the three months ended September 30, 2022, the Company accrued interest of $175 (three months ended September 30, 2021 - $178), and recorded accretion of $143 (three months ended September 30, 2021 - $Nil) relating to the Vortex loan. As at September 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is $6,124 (June 30, 2022 – $5,493) and the face value owing is $9,565 (June 30, 2022 - $8,664), inclusive of interest and fees.
- As at September 30, 2022, $149 for taxes related to the commissions and advisory fees previously provided by PCI are recorded in the Company's accounts payable and accrued liabilities (June 30, 2022 - $157).

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 September 30, 2022, the Investor owns 5,915 common shares and 1,114 share purchase warrants. No transactions took place between the Company and the Investor in the three months ended September 30, 2022 and 2021.

Other Related Party Transactions

Interest totaling $13 was accrued for the three months ended September 30, 2021 on short-term notes payable previously provided by Directors and officers of the Company. On December 6, 2021, the Company settled the full amounts of short-term notes payable owing to Directors and officers of $638 in exchange for 263 common shares of the Company as part of the Recapitalization. The amount owed to Directors and officers under short-term notes payable as of September 30, 2022 is $Nil (June 30, 2022 - $Nil).

A Director of the Company held certain amounts of the convertible debentures owed by the Company that were settled as part of the Recapitalization. In the three months ended September 30, 2021, the Company incurred interest expense of $9 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 September 30, 2022, the amount owed is $Nil (June 30, 2022 - $Nil).

RISKS AND UNCERTAINTIES

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

Any investor should consider carefully these risks and the risks and uncertainties that are detailed in *Appendix A* of the Company's Management's Discussion & Analysis for the period ended June 30, 2022, filed on October 28, 2022 and available under the Company's issuer profile on www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

Use of estimates and judgements

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

Estimates

Expected Credit loss ("ECL")

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

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible debentures and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments.

The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

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