Unaudited Interim Condensed Consolidated Financial Statements

Enablence Technologies Inc.

For the three and nine months ended March 31, 2021 and 2020
(in thousands of United States dollars and shares)

Notice to Reader

The accompanying unaudited condensed financial statements of Enablence Technologies Inc. for the three and nine months ended March 31, 2021 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Date: May 28, 2021

"Ashok Balakrishnan"	*"Craig Mode"*
Ashok Balakrishnan	Craig Mode
Co-CEO & CTO	Co-CEO & CFO

Enablence Technologies Inc.

Interim condensed consolidated statements of financial position

(in thousands of United States dollars)

	Note	**As at March 31, 2021**	As at June 30, 2020
		$	$
Assets			
Current assets			
Cash and cash equivalents	4	**315**	135
Accounts and other receivables	5	**419**	642
Inventories	6	**281**	299
Prepaid expenses and deposits		**236**	154
		1,251	1,230
Property, plant and equipment	7, 18	**332**	385
		1,583	1,615
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**5,419**	5,097
Notes payable	11, 19	**24,445**	20,065
Convertible debentures	12	**8,547**	7,115
Contract liabilities	9	**180**	234
		38,591	32,511
Government loan	10	**613**	613
Notes payable	11, 19	**465**	350
		39,669	33,474
Shareholders' deficiency			
Share capital	13	**106,105**	106,105
Contributed surplus	13	**12,557**	12,556
Shares to be issued	13, 19	**2,695**	2,375
Accumulated other comprehensive income		**(840)**	1,761
Deficit		**(158,603)**	(154,656)
		(38,086)	(31,859)
		1,583	1,615

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

Approved by the Board:

"Louis De Jong" — Director

"Derek Burney" — Director

Enablence Technologies Inc.

Interim condensed consolidated statements of comprehensive loss
For the three and nine months ended March 31
(in thousands of United States dollars and shares, except per share data)

		Three Months Ended March 31		Nine Months Ended March 31	
		2021	2020	**2021**	2020
		$	$	**$**	$
	Note				
Revenues	9, 18	**698**	220	**1,922**	734
Cost of revenues	14	**714**	653	**2,171**	2,043
Loss on inventory impairment	6	**-**	35	**-**	35
Gross margin		**(16)**	(468)	**(249)**	(1,344)
Operating expenses					
Research and development	14	**397**	407	**1,110**	1,453
Sales and marketing	14	**69**	60	**196**	132
General and administration	14	**431**	855	**1,437**	2,151
Stock-based compensation	13	**1**	3	**2**	11
		898	1,325	**2,745**	3,747
Loss from operations		**(914)**	(1,793)	**(2,994)**	(5,091)
Other income (expense)					
Finance and other income	10	**611**	(1)	**632**	31
Finance expense	11, 12	**(642)**	(795)	**(2,374)**	(2,419)
Foreign exchange gain (loss)		**174**	(799)	**789**	(715)
Net loss		**(771)**	(3,388)	**(3,947)**	(8,194)
Other comprehensive income (loss), net of tax					
Foreign currency translation gain (loss)		**(441)**	2,481	(2,601)	2,225
Comprehensive loss		**(1,212)**	(907)	**(6,548)**	(5,969)
Net loss per share, basic and diluted	15	**($0.00)**	($0.01)	**($0.01)**	($0.01)
Weighted average number of outstanding shares	15	**641,927**	641,927	**641,927**	641,927

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

Enablence Technologies Inc.

Interim condensed consolidated statements of changes in shareholders' deficiency
For the three and nine months ended March 31
(in thousands of United States dollars and shares)

	Note	Number of shares	Share capital (Note 13)	Contributed surplus	Shares to be issued	Accumulated other comprehensive income (loss)	Deficit	Deficiency
			$	$	$	$	$	$
Balance at July 1, 2019		641,927	106,105	12,542	1,680	711	(145,099)	(24,061)
Stock-based compensation	13	-	-	11	-	-	-	11
Commissions and advisory fees	11, 19	-	-		677			677
Net loss		-	-	-	-	-	(8,194)	(8,194)
Foreign currency translation gain		-	-	-	-	2,225	-	2,225
Balance at March 31, 2020		**641,927**	**106,105**	**12,553**	**2,357**	**2,936**	**(153,293)**	**(29,342)**
Balance at July 1, 2020		641,927	106,105	12,556	2,375	1,761	(154,656)	(31,859)
Stock-based compensation	13	-	-	2	-	-	-	2
Commissions and advisory fees	11, 19	-	-	-	320	-	-	320
Net loss		-	-	-	-	-	(3,947)	(3,947)
Foreign currency translation gain		-	-	-	-	(2,601)	-	(2,601)
Balance at March 31, 2021		**641,927**	**106,105**	**12,557**	**2,695**	**(840)**	**(158,603)**	**(38,086)**

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

Enablence Technologies Inc.

Interim condensed consolidated statements of cash flows
For the nine months ended March 31
(in thousands of United States dollars)

		Nine Months Ended March 31	
		2021	2020
		$	$
Cash provided by (used in):	**Note**		
Operating activities			
Net loss		**(3,947)**	(8,194)
Adjusted for the following non-cash items:			
Depreciation	7	**115**	115
Stock-based compensation	13	**2**	11
Commissions and advisory fees	13, 19	**320**	677
Accrued interest on bridge and short term loans	11	**1,435**	1,214
Accretion (net of financing costs) and interest accrual on convertible debenture	12	**810**	892
		(1,265)	(5,285)
Changes in non-cash working capital	20	**427**	673
Cash used in operating activities		**(838)**	(4,612)
Investing activities			
Purchase of property, plant and equipment	7	**(63)**	(171)
Cash provided by (used in) investing activities		**(63)**	(171)
Financing activities			
Advances from short-term notes payable	11,19	**1,983**	4,150
Cash provided by financing activities		**1,983**	4,150
Effect of foreign currency translation on cash and cash equivalents		**(902)**	633
Increase (decrease) in cash and cash equivalents		**180**	-
Cash and cash equivalents, beginning of period		**135**	49
Cash and cash equivalents, end of period		**315**	49
Supplementary information:			
Interest paid - included in operating activities		**-**	142

1. Description of business

Enablence Technologies Inc. ("Enablence" or the "Company") is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange (TSXV - ENA). The Company designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. The Company's product lines address all three portions of optical networks: access, connecting homes and businesses to the network; metro, communication rings within large cities; and long-haul, linking cities, countries and continents.

2. Basis of preparation

(i) Going concern

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

As at March 31, 2021, the Company had cash of $315, negative working capital of $37,340 and had used cash of $838 in its operating activities for the nine months ended March 31, 2021. The Company incurred a comprehensive loss of $6,548 for the nine months ended March 31, 2021 and as of that date, has an accumulated deficit of $158,603. The Company obtained debt financing during the nine months ended March 31, 2021 and subsequent to the quarter end (Notes 11, 19, 21). A portion of the debt financing was from related parties. The Company also has outstanding debt from Export Development Canada ("EDC", Note 11(c)). As at March 31, 2021, the total amount owing to EDC is $5,372, inclusive of accrued and unpaid interest. The Company is currently in breach of the agreement relating to interest and principal payments and has received a default notice from EDC. The Company is in discussions with EDC to restructure and/or modify the terms of the debt so that it can maintain compliance in the future. On December 31, 2020, the Company's convertible debentures became due in full, along with accrued and unpaid interest. The holders of the convertible debentures have unanimously agreed to not take any action at this time.

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

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

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

(ii) *Statement of compliance*

These Condensed Consolidated Financial Statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), under International Accounting Standard ("IAS") 34 – Interim Financial Reporting, and were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 3 Significant Accounting Policies, in our audited consolidated financial statements for the year ended June 30, 2020. These interim condensed consolidated financial statements do not include all of the notes required in annual financial statements.

(iii) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(iv) *Classification of expenses*

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 14 for details of expenses by nature.

(v) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on May 27, 2021.

(vi) *Presentation currency*

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

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, Enablence Technologies Inc., is the Canadian dollar. However, the majority of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in US$. Presenting these consolidated financial statements in US$ allows investors to more easily compare the Company's results with most of its direct competitors. Refer to Note 3 for further details on foreign currency treatment.

(vii) *Use of estimates and judgments*

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.

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

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

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

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as much 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.

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

Functional currency
An area of judgment that has a significant effect on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries' functional currency often requires significant judgment where the primary

economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

3. Significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at March 31, 2021 and 2020.

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

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

i. Wholly-owned subsidiaries

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

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

ii. Transactions eliminated upon consolidation

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

Revenue recognition

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

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

For non-recurring engineering services, the Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the statement of financial position (Note 9). Revenue is recognized upon delivery of set items within the service contracts.

Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Write-downs are taken for excess and obsolete inventory and for a reduction in the carrying value of inventory to reflect realizable value based on current cost, production and sales estimates. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except for items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Investment tax credits

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

Property, plant and equipment

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

Asset class	Depreciation term
Machinery and equipment	3 to 10 years
Lab equipment and tooling	3 to 5 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	Lease term

Assets under development are not depreciated until available for use.

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

Expenditures for repairs and maintenance to maintain fixed assets in normal operating condition are expensed as incurred.

Impairment of long-lived assets

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

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

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

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

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

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

Financial instruments

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

Classification

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

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

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

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

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

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

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

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

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

Measurement

Initial recognition – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

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

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

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

Impairment

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

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

Convertible debentures

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

Provisions

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

Government grants

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

Stock-based compensation

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

Research and development costs

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

Foreign currency transactions

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

Foreign currency translation

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

Earnings per share

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

Segmented reporting

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

Accounting Policies Adopted Effective July 1, 2019

Leases

On July 1, 2019, the Company adopted IFRS 16. IFRS 16 uses a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

In using the modified retrospective approach, the Company has elected to record the right-of-use asset for any identified leases under IFRS 16 at the present value of their future value lease payments on July 1, 2019. On initial transition, the Company's incremental borrowing rate will be used as the discount rate in determining this value. The Company's incremental borrowing rate will continue to be used for any leases entered into after initial transition, unless the discount rate implicit in the lease is known, in which case it will be used to determine the present value of the future lease payments. The Company has also elected to use the following practical expedients in transitioning to IFRS 16:

Leases with a short remaining term - The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. During the three and nine months ended March 31, 2021, the Company has expensed $32, and $93, respectively, of lease payments as a result of using this expedient.

IFRIC 23, Uncertainty over Income Tax Treatment ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. IFRIC 23 had no material impact on the consolidated financial statements of the Company.

(in thousands of United States dollars and shares)

4. Cash and cash equivalents

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

	March 31, 2021	June 30, 2020
	$	$
Cash	**311**	131
Restricted Cash	**4**	4
	315	135

5. Accounts and other receivables

Trade and other receivables consist of the following:

	March 31, 2021	June 30, 2020
	$	$
Trade	**370**	476
Allowance for expected credit loss	**(66)**	(114)
	304	362
Other	**115**	280
	419	642

Included in other receivables is an amount of $40 (June 30, 2020 - $51) related to investment tax credits receivable and $62 (June 30, 2020 - $207) of amounts due from government agencies.

The age of trade accounts receivable is summarized as follows:

	March 31, 2021	June 30, 2020
	$	$
Current or under 60 days	**297**	311
Past due 61 to 90 days	**-**	-
Past due more than 90 days	**73**	165
	370	476

Note 16 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and comparative impairment provisions apply the IFRS 9 expected loss model.

6. Inventories

	March 31, 2021	June 30, 2020
	$	$
Raw materials	**130**	203
Work-in-progress	**215**	160
Finished goods	**3**	3
Allowance for obsolescence	**(67)**	(67)
	281	299

(in thousands of United States dollars and shares)

During the nine months ended March 31, 2021, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, $Nil (2020 - $Nil) of obsolete and impaired inventory was provided for through cost of revenues. A continuity of the provision is presented below:

	March 31, 2021	June 30, 2020
	$	$
Opening balance	**67**	34
Write-off of unrealizable inventory	**-**	-
Additional impairment provision recorded	**-**	33
Closing balance	**67**	67

The amount of inventory recognized as cost of revenues for the nine months ended March 31, 2021 was $670 (March 31, 2020 - $643), inclusive of inventory impairment.

7. Property, plant and equipment

Depreciation expense for the nine months ended March 31, 2021 of $117 (March 31, 2020 - $113) was allocated in the consolidated statements of net loss as follows: $103 (March 31, 2020 - $94) in cost of revenues, $11 (March 31, 2020 - $6) in research and development, and $3 (March 31, 2020 - $3) in general and administration

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of $305 (June 30, 2020 - $281) relating to royalty-bearing government funding received for approved research and development projects, of which $Nil was paid during the nine months ended March 31, 2021. The liability to repay this funding is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company.

9. Contract liabilities

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

	Nine months ended March 31, 2021	Twelve months ended June 30, 2020
	$	$
Balance, beginning of year	**234**	198
New contract additions in year	**199**	69
Revenue recognized in year - from opening balance	**(62)**	(26)
Revenue recognized in year - from current year additions	**(191)**	(6)
Balance, end of year	**180**	234

10. Government loan (deferred income)

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

(in thousands of United States dollars and shares)

In May 2020, the Company entered into its first PPP loan in the amount of $613 (the "First PPP Loan"). The Company applied for forgiveness of this loan in March 2021 and received notice of the approval of forgiveness on May 17, 2021. The forgiveness payment date from the SBA is March 26, 2021. Accordingly, the Company has recognized the forgiveness of the First PPP Loan into Finance and other income in the three months ended March 31, 2021.

In February 2021, the Company entered into its second PPP loan in the amount of $613 (the "Second PPP Loan"). Similar to the First PPP Loan, the Company expects to meet PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As such, it has accounted for the proceeds under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (Note 20).

11. Notes payable

	March 31, 2021	June 30, 2020
	$	$
Short-term loans (a)	**19,074**	15,568
Federal government loans (b)	**95**	29
Loan from Export Development Canada (c)	**5,372**	4,497
Loan from Irixi (d)	**370**	321
	24,910	20,415
Less current portion	**24,445**	20,065
Long-term portion	**465**	350

(a) During the nine months ended March 31, 2021, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $1,952, of which $477 were from related parties (Note 19). During the year ended June 30, 2020, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of $4,725 of which $781 was from related parties (Note 19). These short-term loans are repayable on demand.

As at March 31, 2021, a total amount of $19,073 (June 30, 2020 - $15,568) remains owing on these loans, which includes $2,428 (June 30, 2020 - $1,396) of accrued interest and $125 (June 30, 2020 - $125) of accrued fees. During the nine months ended March 31, 2021, $946 (2020 - $434) of interest was accrued.

During the nine months ended March 31, 2021, the Company accrued commissions included in finance expense of $116 (for the year ended June 30, 2020 - $285) on these loans (Notes 13 and 19), which commissions are reflected in shares to be issued.

(b) In April 2020, the Company received $30 from the Canada Emergency Business Account ("CEBA") which is an interest-free loan to cover operating costs. In August 2020, the Company received another CEBA loan in the amount of $30, and in January 2021 the Company received an aggregate of $32 in additional CEBA loans. As at March 31, 2021, the CEBA loan balance is $95 (June 30, 2020 - $29). Repaying the balance of the loans on or before December 31, 2022 will result in a loan forgiveness of $32.

(c) On March 3, 2016, the Company closed a secured term loan facility with EDC of $3 million Canadian dollars ("CAD"). In August 2016, the loan facility was increased to $5 million CAD which amounted to $3.8 million USD, based on then prevailing exchange rates. The loan facility was designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE Corporation, a strategic investor in the Company. The loan facility was available in the form of a term loan for a period of 18 months from the date of the initial draw down which was in March 2016. Repayment of principal was to commence 18 months after the first draw on the loan. Principal then was to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.45% at March 31, 2021 (June 30, 2020 - 12.45%). The loan is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries.

On October 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018. On March 9, 2018 the Company received an additional principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in August 2018. In accordance with IFRS 9, *Financial Instruments: Recognition and Measurement*, the amendment was considered a modification of debt. On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. On October 26, 2018, as a result of the default, EDC provided Enablence with a demand for repayment on the total value of the loan, inclusive of interest to date at that time of $3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to remedy the default, subject to the Company meeting certain ongoing terms and conditions. On October 28, 2019, the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance agreement provided the Company until January 28, 2019 to remedy the ongoing default, subject to the Company meeting certain ongoing terms and conditions. The Company made an interest payment of $191 as part of this agreement. On May 11th, 2020, the Company announced a fourth amending and waiver agreement with EDC to capitalize the total amount of outstanding advances and accrued interest, to waive prior events of default, and to commence principal repayments at a to-be-determined point-in-time during the year 2020, according to a mutually agreed schedule. The Company was unable to make such payments and is currently in breach of the agreement, resulting in the receipt of a default notice from EDC. The Company is in discussions with EDC to restructure and/or modify the terms of the debt so that it can maintain compliance in the future.

During the nine months ended March 31, 2021, the Company made principal payments on the loan in the amount of $Nil (2020 - $Nil) and accrued interest during the nine months ended March 31, 2021 of $485 (2020 - $171). As at March 31, 2021, the principal amount drawn on the EDC term facility is $5,372 (June 30, 2020 - $4,497), inclusive of interest.

(d) On May 31, 2019, Enablence and Irixi Holdings Ltd. ("Irixi"), a related party, signed an Asset Transfer Agreement which resulted in Suzhou Enablence Optoelectronic Technologies Co. Ltd. ("Enablence Suzhou") selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence USA Components ("Enablence Fremont") also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the nine months ended March 31, 2021, a total of $17 of interest has been accrued and the amount owing on the Note Payable is $370 (June 30, 2020 - $321).

12. Convertible debentures

On June 30, 2017, the Company issued a total of $5,780 ($7,500 CAD) 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 with a related party creditor (Note 22) to settle outstanding short-term loans received by the Company during the year ended June 30, 2017. The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder, into common shares of the Company (the "Shares") at a price of $0.08 CAD per Share. The Debentures had an initial maturity date of June 30, 2020.

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

During the year ended June 30, 2020, the Company recorded accretion of $951 to interest expense, accrued $143 of arrears interest and $117 of amortization of the debt financing costs.

On June 30, 2020, the Company entered into an amending agreement with all of the holders of its Debentures to extend the original maturity date from June 30, 2020 to December 31, 2020. Other than the extension of the maturity date of the Debentures, the other terms of the Debentures remain unchanged. On December 31, 2020, the Company's convertible debentures became due in full, along with accrued and unpaid interest. The holders of the convertible debentures have unanimously agreed to not take any action at this time.

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

During the nine months ended March 31, 2021, the Company recorded accretion of $653 to interest expense and accrued $163 of arrears interest. Of the $2,599 (June 30, 2020 - $1,891) interest accrued since June 30, 2017, $80 (June 30, 2020 - $73) has been paid and the unpaid balance of $2,519 (June 30, 2020 - $1,817) is overdue and included in accrued interest.

As at March 31, 2021, the total Debenture liability is $8,548 (June 30, 2020 - $7,115), including accrued and unpaid interest of $2,519 (June 30, 2020 - $1,817).

13. Share capital

Authorized capital stock consists of:

Unlimited number of preferred shares: NIL preferred shares issued and outstanding

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

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At March 31, 2021, the available option pool was 54,233 (June 30, 2020 – 51,928) and outstanding stock options totalled 9,960 (June 30, 2020 – 12,264).

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

Shares to be Issued

The Company is a contract party to an engagement letter dated July 26, 2017 with Paradigm Capital Inc. ("Paradigm"), a related party to the Company (Note 19). Under the terms of the engagement, Paradigm supplies exclusive financial and capital markets advisory services to the Company. In exchange for its services, Paradigm has agreed to compensation in the form of common shares of the Company, subject to the approval of the TSX Venture Exchange. In addition, the Company is required to pay for any taxes on services provided in the form of cash. During the nine months ended March 31, 2021, the Company incurred $320 (March 31, 2020 - $677) of commissions and advisory fees owed to Paradigm. As of March 31, 2021, the total fees relating to commissions and advisory fees to Paradigm is $2,695 (June 30, 2020 - $2,375). As of March 31, 2021, the total dollar value of shares to be issued related to the above fees is $2,695 (June 30, 2020 - $2,375), which issuance is subject to approval of the TSX Venture Exchange.

(in thousands of United States dollars and shares)

14. Expenses by Nature

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

	Three months ended March 31		Nine months ended March 31	
	2021	2020	**2021**	2020
Cost of revenues				
Materials/components	247	195	670	643
Labour	280	265	862	774
Inventory write downs/provision	-	35	-	35
Equipment and Freight	-	-	-	-
Allocation of overhead	153	161	537	533
Depreciation - COGS	34	32	103	94
Total	714	688	2,171	2,078
Research & Development				
Staff compensation	407	400	1,101	1,383
Travel	-	-	-	-
Contractors	(25)	(33)	(52)	(56)
Materials/supplies	5	24	26	70
Depreciation	4	5	11	16
Rent/Utilities	6	11	25	39
Total	397	407	1,110	1,453
Sales & Marketing				
Staff compensation	60	54	168	91
Travel	-	-	0	13
Trade shows	-	1	-	6
Materials/supplies/other	8	4	24	19
Rent/Utilities	1	1	3	2
Total	69	60	196	132
General & Administrative				
Staff compensation	181	298	520	863
Rent/Utilities	234	240	771	767
Taxes (Property tax/Use tax)	22	25	53	72
Insurance	12	11	40	74
HR management fee	5	10	14	39
Phone & Internet	10	10	28	31
Travel	-	6	-	13
Professional fees	125	397	550	655
Bad Debt expense	(16)	-	(48)	120
Other	17	29	70	90
Depreciation	1	1	3	3
G&A Allocation (Rent/utilities)	(160)	(174)	(564)	(577)
Total	431	855	1,437	2,151

15. Loss per share

The potential effect of the exercise of stock options and convertible debentures are anti-dilutive as all stock options and convertible debenture conversion rights are out-of-the-money based on the Company's last reported share price; therefore, 103,710 potentially dilutive shares from the exercise of stock options and convertible debentures, as at March 31, 2021 (June 30, 2020 – 106,014) have not been included in the calculation of diluted loss per common share.

(in thousands of United States dollars and shares)

16. Financial instruments

Carrying values and fair values

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

	March 31, 2021	June 30, 2020
	$	$
Assets - based on amortized cost	**633**	**508**
Liabilities - based on amortized cost	**38,876**	**32,627**

(1) Includes cash and cash equivalents and accounts and other receivables (excluding amounts due from government agencies and Investment tax credits).
(2) Includes accounts payable and accrued liabilities, notes payable and convertible debentures

The carrying values of cash and cash equivalents, accounts and other receivables and accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity. The fair value of the notes payable and convertible debentures approximate their carrying values, as the Company's loans were negotiated and the borrowing terms and conditions continue to reflect current market conditions.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company's maximum credit risk is $633 (June 30, 2020 - $508). The Company primarily invests its excess cash in high quality financial instruments with large, high quality financial institutions.

Accounts receivable

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sale over a period of 36 months before June 30, 2020. The historical loss rates are adjusted to reflect current and forward-looking information based on factors affecting the ability of the customers to settle the receivables. The Company has identified the credit worthiness for current and future customers to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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

(in thousands of United States dollars and shares)

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

As at March 31, 2021, three customers each accounted for more than 10% of the trade receivables, in aggregate representing approximately 55% (June 30, 2020 – 4 customers, 73%) of the trade receivables total of $370 (June 30, 2020 – $476). As at March 31, 2021, the Company has taken an expected credit loss of $50 (June 30, 2020 - $75) against these customers.

As at March 31, 2021, it was determined that an expected credit loss of $66 (June 30, 2020 - $114) across all customers was required, as detailed below:

As at March 31, 2021	**Current**	**More than 30 days**	**More than 60 days**	**More than 90 days**	**Total**
	$	$	$	$	$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	297	-	-	73	370
Lifetime Expected Credit Loss	30	-	-	37	66
Specific Impairment Allowance	-	-	-	-	-
Total Expected Credit Loss	30	-	-	37	66

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

The closing balance of trade receivables loss allowance as at March 31, 2021 reconciles with the trade receivables loss allowance as at June 30, 2020 as follows:

	$
Loss Allowance June 30, 2020	114
Plus: Increased (decreased) allowance on trade receivables	(47)
Less: Write-offs of trade receivables	-
Loss Allowance March 31, 2021	66

Interest rate risk

The Company is exposed to interest rate risk on its notes payable and convertible debentures. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense during the nine months ended March 31, 2021 of $38 (March 31, 2020 - $27).

Foreign currency risk

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

(in thousands of United States dollars and shares)

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

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

Nine Months Ended March 31, 2021		Nine Months Ended March 31, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
(266)	**(265)**	459	231

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

Nine Months Ended March 31, 2021		Nine Months Ended March 31, 2020	
Net income (loss)	**OCI**	Net income (loss)	OCI
21	**5**	(11)	(1)

Liquidity risk

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

The Company is currently in breach of its latest amending agreement with EDC relating to interest and principal payments and has received a default notice from EDC (Note 11(c)). The Company is in discussions with EDC to restructure and/or modify the terms of the debt so that it can maintain compliance in the future. On December 31, 2020, the Company's convertible debentures became due in full, along with accrued and unpaid interest. The holders of the convertible debentures have unanimously agreed to not take any action at this time.

As at March 31, 2021 and June 30, 2020, the Company has financial liabilities which are due as follows:

	Current		**Non-Current**		
As at March 31, 2021	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**5+ years**	**Total**
	$	$	$		$
Accounts payable and accrued liabilities	5,419	-	-	-	5,419
Notes payable	24,445	-	465	-	24,910
Convertible debentures	8,547	-	-	-	8,547
Total	38,411	-	465	-	38,876

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

(in thousands of United States dollars and shares)

17. Capital management

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

Management defines capital as the Company's total deficiency and debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares and/or raise new debt. To date, no dividends have been paid to the Company's shareholders and none are planned. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

18. Segmented information

The Company operates in one segment, Optical Components.

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

	March 31, 2021	June 30, 2020
	$	$
United States	**330**	382
Canada	**2**	3
	332	385

Revenue is analyzed geographically as follows:

	Nine months ended March 31,	
	2021	2020
	$	$
Americas	**596**	242
Europe, Middle East, Africa	**114**	32
Asia Pacific	**1,212**	460
	1,922	734

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from non-recurring engineering ("NRE") development services for clients.

	Nine months ended March 31,	
	2021	2020
	$	$
Product	**1,007**	365
NRE	**915**	369
	1,922	734

19. Related party transactions

As at March 31, 2021, China TriComm Ltd. ("TriComm") owned 30,000 common shares of the Company. TriComm is controlled by Zhiyin Gao, a former director of the Company who resigned in September 2017. As at March 31, 2021, Irixi Holding Ltd. ("Irixi"), owned 39,408 common shares of the Company. Irixi is a joint-venture controlled by TriComm and Win Brand (a company where the previous CEO and CFO of the Company have ownership interests). Suzhou Irixi Ltd. ("Suzhou Irixi") is a company controlled by Irixi.

On May 31, 2019, Enablence and Irixi signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi, including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence Fremont also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 was treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2022. During the nine months ended March 31, 2021, a total of $17 of interest has been accrued and the amount owing on the Note Payable is $370 (June 30, 2020 - $321).

The following transactions took place between Enablence and Irixi during the nine months ended March 31, 2021 and March 31, 2020.

- During the nine months ended March 31, 2021, Suzhou Irixi paid $Nil (March 31, 2020 – $50) rental costs on behalf of the Company.

As at March 31, 2021, $612 (March 31, 2020 – $612) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixi.

During the fiscal year ended June 30, 2017, Irixi provided other consulting services and materials to Enablence. As at March 31, 2021, the Company has an amount of $19 owing to Irixi (March 31, 2020 - $19).

The Company signed a services agreement with Irixi for the 2017 calendar year at a monthly fee of $130, as well as a base royalty on certain future products at 3% of net sales and additionally a potential 17.5% bonus royalty on gross margin on such products if certain targets are met. As of March 31, 2021, the Company has recorded $325 as an accrued liability. The Company did not make any payments pursuant to this services agreement in the nine months ended March 31, 2021 or March 31, 2020.

During the nine months ended March 31, 2021, the Company received $Nil (March 31, 2020 - $211) in the form of a short-term bridge loan from director(s) of the Company.

Paradigm Capital Partners Limited ("PCPL") is a shareholder of Enablence and is a company controlled by close family members of a former director of Enablence. PCPL is an affiliate of Paradigm Capital Inc. The following transactions took place with Paradigm, PCPL and their affiliates and individuals related to Paradigm and PCPL (collectively the "Paradigm Affiliates"), during the periods noted below:

Nine months ended March 31, 2021

- The Company received $477 in unsecured short-term loans from a controlling shareholder of Paradigm. These short-term loans are repayable on demand (Note 11(a)).
- The Company accrued commissions of $117 in connection with the raising of the unsecured short-term loans, for which the Company will issue common shares as payment (Note 13), subject to the approval of the TSX Venture Exchange. The Company has accounted for these expenses in finance expenses.

(in thousands of United States dollars and shares)

- The Company received strategic advisory services from Paradigm of $203, for which the Company will issue common shares as payment (Note 13), subject to approval of the TSX Venture Exchange. The Company has accounted for these expenses in professional fees.

Nine months ended March 31, 2020

- The Company received $433 in unsecured short-term loans from a controlling shareholder of Paradigm. These short-term loans are repayable on demand (Note 11(a)).
- The Company accrued commissions of $267 in connection with the raising of the unsecured short-term loans, for which the Company will issue common shares as payment, subject to approval of the TSX Venture Exchange. The Company accounted for these expenses in finance expenses.
- The Company received strategic advisory services from Paradigm in the amount $410, for which the Company will issue common shares as payment, subject to approval of the TSX Venture Exchange. The Company accounted for these expenses in professional fees.

As at March 31, 2021, the amount of shares to be issued to Paradigm is $2,695 (June 30, 2020 - $2,375, subject to the approval of the TSX Venture Exchange.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to with the related parties.

20. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	Nine Months Ended March 31, 2021	2020
	$	$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	**223**	296
Inventories	**18**	139
Prepaid expenses and deposits	**(82)**	261
Accounts payable and accrued liabilities	**322**	(17)
Contract liability	**(54)**	(6)
	427	673

21. Subsequent events

The following events happened subsequent to March 31, 2021.

The Company received $521 (including $342 from a related party) in unsecured short-term bridge loans with interest accruing at a rate of 10% per annum. These short-term loans are repayable on demand. The Company accrued commissions of $31 (including $21 in connection with the related party amount) in connection with the raising of these loans for which the Company will issue common shares as payment, subject to the approval of the TSX Venture Exchange.

As of May 28, 2021, the Company continues to negotiate a settlement agreement with Fraunhofer-Gesellschaft zur Forderung der angewandten Forschung e.V. (“Fraunhofer) which states that the Company will pay Fraunhofer a total of $828 over a period of approximately 17 months until such liability is extinguished. It is anticipated that such payments will commence no later than September 30, 2021 based on the terms of the agreement. Since 2018, Fraunhofer’s Heinrich Hertz Institute (“HHI”) has developed a series of novel optical products for the Company, which the Company plans to further develop and bring to market.