Consolidated financial statements

Enablence Technologies Inc.

For the years ended June 30, 2016 and 2015
(in thousands of United States dollars and shares)

Enablence Technologies Inc.
June 30, 2016 and 2015

Table of contents

Deloitte LLP
1600 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Enablence Technologies Inc.

We have audited the accompanying consolidated financial statements of Enablence Technologies Inc. (the "Company"), which comprise the consolidated balance sheets as at June 30, 2016 and June 30, 2015, and the consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enablence Technologies Inc. as at June 30, 2016 and June 30, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Company incurred a comprehensive loss of $8,663 for the year ended June 30, 2016, the Company's current liabilities exceeded its current assets by $1,950, and as of that date, had an accumulated deficit of $114,025 as well as financial obligations that must be met. The ability of the Company to continue as a going concern is dependent upon the Company's ability to maintain the continuing support of its creditors and lenders, raise additional financing and achieve a profitable level of operations. These conditions, along with other matters, as set forth in Note 2, indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

Without qualifying our opinion, we draw attention to Note 17 to the consolidated financial statements, which describes the significance of related party transactions.

Without modifying our opinion, we draw attention to Note 19 to the consolidated financial statements, which explains that certain comparative information as at June 30, 2015 and July 1, 2014 have been restated.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

October 28, 2016
Ottawa, Ontario

Enablence Technologies Inc.

Consolidated balance sheets
as at June 30, 2016 and June 30, 2015

(in thousands of United States dollars)

	2016	2015
	$	$
		Restated (Note 19)
Assets		
Current assets		
Cash and cash equivalents (Note 4)	**654**	173
Accounts and other receivables (Note 5)	**647**	614
Inventories (Note 6)	**597**	1,170
Prepaid expenses and deposits	**241**	321
	2,139	2,278
Property, plant and equipment (Notes 7 and 19)	**958**	1,772
	3,097	4,050
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**3,096**	4,133
Current portion of notes payable (Note 8)	**11**	4,630
Deferred revenue	**982**	711
	4,089	9,474
Notes payable (Note 8)	**1,698**	-
Other long-term liabilities	**-**	177
	5,787	9,651
Shareholders' deficiency		
Share capital (Note 10)	**99,266**	88,652
Contributed surplus	**11,546**	10,586
Accumulated other comprehensive income	**523**	293
Deficit	**(114,025)**	(105,132)
	(2,690)	(5,601)
	3,097	4,050

Approved by the Board:

" Louis De Jong" — Director

" John Roland" — Director

See accompanying notes to the consolidated financial statements

Enablence Technologies Inc.

Consolidated statements of comprehensive loss
years ended June 30, 2016 and 2015
(in thousands of United States dollars and shares, except per share data)

	2016	2015
	$	$
Revenues	**1,623**	2,047
Cost of revenues	**2,825**	4,897
Loss on inventory impairment	**1,122**	1,246
Gross margin	**(2,324)**	(4,096)
Operating expenses		
Research and development	**3,770**	3,248
Sales and marketing	**11**	285
General and administration	**2,064**	2,165
Stock-based compensation (Note 10)	**262**	468
	6,107	6,166
Loss from operations	**(8,431)**	(10,262)
Other income (expense)		
Finance and other income	**41**	2
Finance expense	**(298)**	(303)
Write-off of equipment deposit	**(245)**	-
Foreign exchange loss	**(9)**	(50)
Gain on settlement of debt	**176**	-
Loss on sale of equipment	**(127)**	-
Net loss	**(8,893)**	(10,613)
Other comprehensive income, net of tax		
Foreign currency translation gain	**230**	190
Comprehensive loss	**(8,663)**	(10,423)
Net loss per share, basic and diluted (Note 11)		
Continuing operations	**(0.02)**	(0.06)
Weighted average number of outstanding shares	**395,085**	181,857

See accompanying notes to the consolidated financial statements

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' equity (deficiency)
years ended June 30, 2016 and 2015
(in thousands of United States dollars and shares)

	Number of shares	Share capital (Note 10)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity (deficiency)
		$	$	$	$ Restated (Note 19)	$
Balance at July 1, 2014	164,183	84,906	10,103	103	(94,519)	593
Stock-based compensation (Note 10)	-	-	468	-	-	468
Issuance of warrants with debt	-	-	15	-	-	15
Issuance of common shares (Note 10)						
December 12, 2014 private placement	18,000	2,322	-	-	-	2,322
December 12, 2014 private placement shares issued for commission and expenses	1,080	139	-	-	-	139
Share issuance costs	-	(168)	-	-	-	(168)
April 2, 2015 private placement	23,000	914	-	-	-	914
April 10, 2015 private placement	7,000	278	-	-	-	278
June 26, 2015 private placement	7,000	283	-	-	-	283
Share issuance costs	-	(22)	-	-	-	(22)
Net loss	-	-	-	-	(10,613)	(10,613)
Exchange differences on translating operations	-	-	-	190	-	190
Balance at June 30, 2015	**220,263**	**88,652**	**10,586**	**293**	**(105,132)**	**(5,601)**
Stock-based compensation (Note 10)			262			262
Issuance of common shares (Note 10)						
July 6, 2015 private placement	11,000	435				435
September 2015 private placement	16,500	624				624
Fair value of warrants issued		(112)	112			-
Share issuance costs		(23)				(23)
October 5, 2015 private placement	47,470	1,802				1,802
October 5, 2015 conversion of debt to equity	16,030	605				605
October 23, 2015 conversion of debt to equity	70,528	2,634				2,634
November 24, 2015 private placement	36,880	1,455				1,455
December 7, 2015 private placement	1,215	48				48
Fair value of warrants issued		(640)	640			-
Share issuance costs		(107)				(107)
February 2, 2016 private placement	77,000	3,280				3,280
Share issuance costs		(27)				(27)
Exercise of warrants March 2016	200	11	(2)			9
Exercise of warrants May 2016	11,964	629	(52)			577
Net loss					(8,893)	(8,893)
Exchange differences on translating operations				230		230
Balance at June 30, 2016	**509,050**	**99,266**	**11,546**	**523**	**(114,025)**	**(2,690)**

See accompanying notes to the consolidated financial statements

Enablence Technologies Inc.

Consolidated statements of cash flows
years ended June 30, 2016 and 2015

(in thousands of United States dollars)

	2016	2015
	$	$
Cash provided by (used in):		
Operating activities		
Net loss	**(8,893)**	(10,613)
Adjusted for the following non-cash items:		
Amortization	**801**	977
Stock-based compensation (Note 10)	**262**	468
Unrealized foreign exchange loss	**-**	34
Gain on settlement of debt	**(176)**	-
Loss on sale of equipment	**127**	-
	(7,879)	(9,134)
Changes in non-cash working capital (Note 18)	**(323)**	2,782
Cash used in operating activities	**(8,202)**	(6,352)
Investing activities		
Sale of equipment	**150**	-
Purchase of property, plant and equipment	**(287)**	(253)
Cash used in investing activities	**(137)**	(253)
Financing activities		
Repayment of bank loans	**(1,347)**	(570)
Repayment of operating line of credit	**(465)**	(497)
Advances from lending consortium	**419**	-
Advances from bridge and short-term loans	**199**	2,824
Advances from long-term loans	**1,688**	-
Net proceeds from issuance of shares and units	**8,072**	3,746
Cash provided by financing activities	**8,566**	5,503
Effect of foreign currency translation on cash and cash equivaler	**254**	88
Increase (decrease) in cash and cash equivalents	**481**	(1,014)
Cash and cash equivalents, beginning of year	**173**	1,187
Cash and cash equivalents, end of year	**654**	173
Supplementary information		
Interest paid	**84**	18

See accompanying notes to the consolidated financial statements

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 segments 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 continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At June 30, 2016, the Company had cash of $654 and negative working capital of $1,950 and had used cash of $8,202 in its operating activities for the year ended June 30, 2016. The Company incurred a comprehensive loss of $8,663 for the year ended June 30, 2016 and as of that date had an accumulated deficit of $114,025.

These conditions indicate the existence of material uncertainties that cast significant doubt about the Company’s ability to continue as a going concern. However, subsequent to year-end, the Company has been successful in obtaining additional financing. See Subsequent events Note 20 for further detail.

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 possible future sources of financing.

If the going concern assumption was not appropriate for these financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments would be material.

(ii) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS.

(iii) Basis of measurement

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

(iv) Approval of consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 28, 2016.

(in thousands of United States dollars and shares)

2. Basis of preparation (continued)

(v) 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$. Furthermore, a significant portion of the Company's debt is in US$. Presenting these 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 the functional currencies of each of the subsidiaries.

(vi) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities.

Significant estimates in the accompanying consolidated financial statements relate to the impairment of property, plant and equipment, valuation of debt and equity instruments, inventory provisions, and certain accruals and provisions. Actual results could differ from these estimates.

Significant judgements in the accompanying consolidated financial statements relate to inventory cost capitalization, functional currency determinations and recognition of deferred tax assets.

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 June 30, 2016 and 2015.

Name of entity	Place of incorporation	Percentage of ownership	Functional currency
Continuing operations		%	$
Enablence Technologies Inc.	Canada	Parent	Cdn
Enablence USA Inc.	Delaware, USA	100	US
Enablence USA Components Inc.	Delaware, USA	100	US
Enablence Canada Inc.	Canada	100	Cdn
Enablence (HK) Limited*	Hong Kong	100	HKD
Discontinued operations			
Enablence USA FTTx Networks, Inc.	Delaware, USA	100	US
Enablence Systems Inc.	Delaware, USA	100	US

* Enablence (HK) Limited ("Enablence HK"), was incorporated on April 11, 2016. Enablence HK is expected to be the holding company for a new Chinese subsidiary. As of June 30, 2016, the Chinese subsidiary had not been incorporated although construction for the Chinese operation was started in April 2016. As of June 30, 2016, the facility was not available for use.

3. Significant accounting policies (continued)

Basis of consolidation (continued)

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 financial statements. Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

(a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. Significant accounting policies (continued)

Multiple-element arrangements

When a single sales transaction requires the delivery of more than one product or service ("multiple elements"), the revenue recognition criteria are applied separately to identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer. The consideration is allocated to deliverables based on their relative fair values. The fair value of each component is determined using vendor specific objective evidence, third party evidence of selling price, or estimated selling price.

Revenue is not recognized when payment is received for services not rendered. Revenue may also be deferred under certain contractual arrangements whereby delivery is not considered to have occurred until all elements of the product or service have been delivered and accepted. If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value.

Service related revenue contracts require judgement by management to determine the stage of completion, as this requires the ability to accurately estimate costs incurred and accurately estimate costs required to complete 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 reduction in the carrying value of inventory to reflect realizable value based on current cost, production and sales estimates.

Income taxes

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.

3. Significant accounting policies (continued)

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. 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
Photomasks	3 years
Computer equipment	3 to 5 years
Office furniture and equipment	3 and 5 years
Leasehold improvements	Lesser of 10 years or remaining term of lease

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

Expenditures for repairs and maintenance 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 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.

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).

An impairment loss is recorded when the recoverable amount of an asset or its CGU is less than its carrying amount. 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 judgement is made in establishing these assumptions.

3. Significant accounting policies (continued)

Financial instruments

Non-derivative financial assets:

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset not carried at fair value through earnings is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

The Company's financial assets and liabilities comprise (a) loans and receivables, and (b) other financial liabilities.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at cost, less any impairment losses.

Other financial liabilities:

The Company initially recognizes debt liabilities on the date that they are originated. All other financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value minus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

The Company categorized each of its financial instruments outstanding as follows:

Financial instrument	Classification
Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities

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.

3. Significant accounting policies (continued)

Government grants

Repayable royalty-bearing grants received for approved research and development projects are recognized at the time the Company is entitled to such grants. The liability to repay the Government is calculated as a percentage of the Company's actual qualifying revenues, and is included in liabilities. During fiscal 2016, the total of grants received was $58 (2015 - $Nil). Total of grants recognized by reducing related expenses was $ Nil (2015 - $Nil). At June 30, 2016, liability for royalties payable was $349 (2015 - $323) of which $ Nil (2015 - $177) is included as a long-term liability.

Stock-based compensation

The grant date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the period the employees unconditionally become entitled to the awards. For awards with graded vesting, the fair value of each tranche is recognized over the respective vesting period. The amount recognized as an expense is adjusted for expected forfeitures, such that the amount of share-based compensation expense recognized is based on the number of awards that are ultimately expected to vest.

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 period.

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 exchange rates prevailing at the dates of transactions. The resulting translation adjustments are included in accumulated other comprehensive income (loss) in equity.

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 shares options granted to employees and directors. The effects of anti-dilutive potential common shares are ignored in calculating diluted EPS.

3. Significant accounting policies (continued)

New and revised IFRS issued but not yet effective

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

IFRS 9 - Financial Instruments (IFRS 9)

IFRS 9, was issued by the IASB on July 24, 2014 and will replace IAS 39, *Financial Instruments*: Recognition and Measurement (IAS 39). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 11 - Joint Arrangements (IFRS 11)

IFRS 11, was amended by the IASB on May 6, 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

IFRS 15, was issued by the IASB on May 28, 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard. It is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IAS 1 - Presentation of Financial Statements (IAS 1)

IAS1, was amended by the IASB on December 18, 2014. The amendments to existing IAS 1 requirements relate to materiality; order of the notes; subtotals; accounting policies; and disaggregation. The amendments are effective for annual periods beginning or after January 1, 2016. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

(in thousands of United States dollars and shares)

4. Cash and cash equivalents

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

	2016	2015
	$	$
Cash	**650**	169
Restricted cash	**4**	4
	654	173

5. Accounts and other receivables

	2016	2015
	$	$
Trade	**585**	570
Allowance for doubtful accounts	**-**	(26)
	585	544
Other	**62**	70
	647	614

Included in Other accounts receivable is an amount of $46 (2015 - $56) related to investment tax credits receivable.

6. Inventories

	2016	2015
	$	$
Raw materials	**357**	475
Work-in-progress	**774**	737
Finished goods	**117**	9
Allowance for obsolescence	**(651)**	(51)
	597	1,170

(in thousands of United States dollars and shares)

6. Inventories (continued)

During the year ended June 30, 2016, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, $1,122 (2015 - $1,249) of obsolete and impaired inventory was written off through cost of sales. In addition, $51 of inventory that was provided for in the prior year, was written off as unrealizable inventory. A continuity of the provision is presented below:

	2016	2015
	$	$
Opening balance	**51**	159
Additional impairment provision recorded	**600**	-
Write-off of unrealizable inventory	**-**	(108)
Closing balance	**651**	51

The amount of inventory materials recognized as cost of revenues for the year ended June 30, 2016 was $1,481 (2015 - $2,864), inclusive of the inventory impairment amount.

(in thousands of United States dollars and shares)

7. Property, plant and equipment

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Construction in progress	Total
	$	$	$	$	$	$	$
Cost							
As at June 30, 2015	11,178	3,269	1,064	445	801	-	16,757
Additions	92	-	43	1	-	151	287
Dispositions	(300)	-	-	-	-	-	(300)
As at June 30, 2016	10,970	3,269	1,107	446	801	151	16,744
Accumulated amortization							
As at June 30, 2015	9,757	3,172	994	437	625	-	14,985
Amortization	577	64	92	5	63	-	801
As at June 30, 2016	10,334	3,236	1,086	442	688		15,786
Carrying value							
As at June 30, 2016	**636**	**33**	**21**	**4**	**113**	**151**	**958**

Restated - See Note 19

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leasehold improvements	Total
	$	$	$	$	$	$
Cost						
As at June 30, 2014	10,855	3,278	1,045	442	801	16,421
Additions	323	15	19	3	-	360
Dispositions	-	(24)	-	-	-	(24)
As at June 30, 2015	11,178	3,269	1,064	445	801	16,757
Accumulated amortization						
As at June 30, 2014	8,926	3,063	920	433	552	13,894
Amortization	831	109	74	4	73	1,091
As at June 30, 2015	9,757	3,172	994	437	625	14,985
Carrying value						
As at June 30, 2015	**1,421**	**97**	**70**	**8**	**176**	**1,772**

(in thousands of United States dollars and shares)

8. Notes payable

	2016	2015
	$	$
Secured note 1 (a)	**-**	505
Secured note 2 (a)	**-**	836
Line of credit (a)	**-**	465
Bridge Loan (b)	**11**	416
Short-term Loans/Promissory Notes (c)	**-**	2,408
Loan from Export Development Canada (d)	**1,698**	-
	1,709	4,630
Less current portion	**11**	4,630
Long-term portion	**1,698**	-

(a) On August 21, 2015, the Company's existing secured bank debt provided by a bank in the United States (see the table above: Secured Note 1 and 2 and Line of Credit) was acquired by a lending group in Canada (the "Consortium"), made up of certain minority shareholders of the Company, secured against the assets of the Company in Canada and the United States. The total amount owing to the Consortium at August 21, 2015 was $1,638. This was comprised of the outstanding secured bank debt at that time of $1,468, plus additional fees and legal costs of $170 associated with the transaction. Interest on the Consortium debt accrues at the same rate as previously on the bank debt, which is prime rate as published in the Wall Street Journal plus 3.25%. During the year ended June 30, 2016, interest of $37 and final loan principal balance of $1,219 was repaid by the Company to Consortium holders. In addition, $419 of the debt was converted to equity. The Consortium debt included $209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co.

(b) During the quarter ended September 30, 2014, the Company received short-term, non-interest bearing, unsecured bridge loans ("Bridge Loan") in the amount of CAD$720 from certain related and unrelated parties of which CAD$420 was provided by companies controlled by directors of the Company. The companies that provided the Bridge loan were issued 4,800 warrants exercisable at a price of $0.15. These warrants expired on September 25, 2015. During the year ended June 30, 2016, CAD$214 of the loan was repaid (2015 – CAD$200). CAD$92 of the Bridge loan was converted to common shares on October 23, 2015 and another CAD$200 was replaced by an interest bearing promissory note. Details of the new promissory note are in 8(c) below. The remaining balance of $11 (CAD$14) remains outstanding at June 30, 2016.

(c) During the period from September 2014 through August 2015, certain related and unrelated parties extended short-term, non-interest bearing, unsecured loans to the Company ("Short-Term Loans"), in the amount of $3,103. During the year ended June 30, 2016, $39 of the loan was repaid (2015 – $70). In addition, $2,830 of the loans were converted to equity.

The remaining balance was replaced by an interest bearing promissory note of CAD$150. The total amount of the new promissory note was CAD$350. The loan had a maturity date of May 1, 2016 and seven monthly payments of principal only CAD$50 starting November 1, 2015. Interest was calculated monthly at a rate of 10% on the remaining principal balance. Interest was not due or payable until the earlier of an event of default and the final payment of principal on or before May 1, 2016. The full principal balance of CAD$350 as well as CAD$14 of accrued interest was repaid during the year ended June 30, 2016.

8. Notes payable (continued)

(d) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada ("EDC") of up to CAD$3 million. The loan facility is 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 is available in the form of a term loan for a period of 18 months from the date of draw. Repayment of principal is to commence 18 months after the first draw on the loan. Principal then is to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.7% at June 30, 2016. The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries. Subsequent to year end, the loan facility was increased to CAD$5 million and additional draws were made by the Company. See note 20 for further details.

(in thousands of United States dollars and shares)

9. Income taxes and investment tax credits

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net loss from continuing operations before income taxes, shown as follows:

	2016	2015
	$	$
Expected tax rate	**26.50%**	26.50%
Expected tax benefit from loss	**(2,357)**	(2,812)
Increase (decrease) in taxes from		
Permanent differences	**1,210**	138
Benefit of loss carryforwards and other temporary differences	**3,120**	5,266
Rate differential on tax jurisdictions	**(1,159)**	(1,396)
Other	**(814)**	(1,196)
	-	-

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those losses can be carried forward and temporary differences are deductible. The amount of the deferred tax assets considered realizable could change materially in the near term, based on future taxable income during the carry-forward period.

At June 30, 2016, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2016	2015
	$	$
Tax losses (i)	**291,175**	288,321
Tax losses (ii)	**21,948**	23,110
Unused credits (iii)	**2,794**	3,753
Deductible temporary differences	**16,550**	14,486

(i) Related to tax losses that are non-capital in nature. Canadian entity losses commence to expire in 2026 whereas the US subsidiary losses commence to expire in 2020.

(ii) Related to tax losses that are capital in nature. There is no expiry on these losses.

(iii) Unused investment tax credits that can be used to offset future income taxes payable begin to expire in 2025.

9. Income taxes and investment tax credits (continued)

Of the $291,175 tax losses available for carry-forward at June 30, 2016, $270,102 are U.S. net operating losses. These losses may be subject to annual limitations under section 382 of the Internal Revenue Code of the United States.

10. Share capital

Authorized capital stock consists of:
Unlimited number of preferred shares: NIL preferred shares issued and outstanding
Unlimited number of common shares: 509,050 common shares issued and outstanding

On February 2, 2016, the Company completed a non-brokered private placement with ZTE Corporation for 77,000 common shares at a price of CDN$0.06 per share amounting to gross proceeds of $3,280 (CDN$4,620). The securities are subject to a four month hold period which expired on June 3, 2016 (see Related Party note).

On November 12, 2015, the Company announced a non-brokered private placement for up to CDN$2,000 at a price of CDN$0.0525 per unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each full warrant is exercisable for a period of eighteen months at an exercise price of $0.07 per warrant. The financing was completed in two parts. The first part closed on November 24, 2015 for gross proceeds of $1,455 (CDN$1,936) from the issuance of 36,880 shares and 18,440 warrants. The shares and warrants are subject to a four month hold period expiring on March 25, 2016. The remainder of the financing closed on December 7, 2015 for gross proceeds of $48 (CDN$64) from the issuance of 1,215 shares and 608 warrants. The shares and warrants were subject to a four month hold period which expired on April 5, 2016.

On August 21, 2015 the Company announced an overall financing and debt conversion package (the “Financing”) of up to CDN$10,000. The Financing included three components, the first of which was a non-brokered private placement financing (the “Equity Financing”) for a minimum of CDN$4,000 at a price of $0.05 CDN per unit (“Unit), which was completed on October 5, 2015 (see details below). Each unit was comprised of one common share and one half of one common share purchase warrant The second component of the Financing, which was conditional, is the provision of a loan facility for up to CDN$3,000 (the “Loan Facility”) by a senior, investment grade lender. The Loan Facility was subject to a number of closing conditions including the completion of the Equity Financing for a minimum CDN$4,000. The Loan Facility was designed to finance purchase orders from ZTE Corporation to Enablence and is to be in the form of a term loan with principal repayment commencing 18 months after funds are drawn. The Loan Facility would be secured against the assets of the Company with first ranking priority.

The third component was, as part of the Financing, that certain existing non-secured debt arrangements (not to exceed CDN$3,000) may be required to be converted into equity.

In order to meet a condition of the new senior, secured lender, Enablence used the proceeds from the Financing to repay its existing senior secured debt. This existing secured bank debt was acquired by a lending group (“Consortium”) in Canada in August 2015, secured against the assets of the Company in Canada and the United States, to replace the existing secured facility with a bank in the United States.

The total amount owing to the Consortium at August 21, 2015, as a result of its acquisition of the Company’s bank debt, was $1,638. This is comprised of the bank debt outstanding just prior to August 21, 2015 of $1,468 (see note 8), plus additional fees and legal costs of $170 associated with the transaction. Interest on the Consortium debt accrues at the same rate as previously on the bank debt, which is prime rate as published in the Wall Street Journal plus 3.25%. The Consortium debt includes $209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co. The final portion of the Consortium debt was fully repaid in February 2016.

The CDN$4,000 Equity Financing was completed in three tranches: The first tranche of the financing closed on September 14, 2015 for $159 (CDN$210) with the sale of 4,200 units resulting in the issuance of 4,200

10. Share capital (continued)

shares and 2,100 warrants. The second tranche of the financing closed on September 18, 2015 for $465 (CDN$615) with the sale of 12,300 units resulting in the issuance of 12,300 shares and 6,150 warrants. The third and final tranche closed on October 5, 2015 for $2,407 (CDN$3,175) with the sale of 63,500 units resulting in the issuance of 63,500 shares and 31,750 warrants. The shares and warrants were subject to a four-month holding period. During the year ended June 30, 2016, 200 warrants were exercised resulting in cash proceeds of $9 (CDN$12).

On September 15, 2015, the Company announced a proposed conversion of up to CAD$3,000 of existing debt arrangements into units at a price of $0.0525 per unit, with each unit comprised of one common share and one half warrant. Each full warrant was exercisable for a period of 18 months at an exercise price of $0.07 per warrant. Additionally, the Company proposed to convert up to CAD$1,000 of existing debt arrangements, with certain insiders of the Company, for shares at a price of $0.0525 per share. Such Insiders would not receive warrants as part of this conversion. The proposed conversion was completed on October 23, 2015 with the conversion of $2,810 of debt and the issuance of 70,528 shares and 25,740 warrants. The securities were subject to a four month hold period which expired on February 24, 2016. During the year ended June 30, 2016, 3,214 of the warrants issued on conversion were exercised resulting in cash proceeds of $173 (CDN$225).

In June 2015, the Company initiated a non-brokered private placement for up to CA$2,000 at a price of CA$0.05 per unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each full warrant is exercisable for a period of eighteen months at an exercise price of $0.06 per warrant. The first tranche of the financing closed on June 26, 2015 for CA$350 with the sale of 7,000 units resulting in the issuance of 7,000 shares and 3,500 warrants. The shares and warrants are subject to a four-month holding which expired on October 27, 2015.

The second tranche of this financing closed on July 6, 2015 for $435 (CDN$550) with the sale of 11,000 units resulting in the issuance of 11,000 shares and 5,500 warrants. The shares and warrants are subject to a four-month holding which expired on November 7, 2015.

In April 2015, the Company completed a non-brokered private placement for CA$1,500 at a price of CA$0.05 per unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each full warrant is exercisable for a period of eighteen months at an exercise price of $0.06 per warrant. The financing was completed in two parts. The first part closed on April 2, 2015 for gross proceeds of CA$1,150 (US$914) from the issuance of 23,000 shares and 11,500 warrants. The shares and warrants were subject to a four month hold period which expired on August 3, 2015. The remainder of the financing closed on April 10, 2015 for gross proceeds of CA$350 (US$278) from the issuance of 7,000 shares and 3,500 warrants. The shares and warrants were subject to a four month hold period which expired on August 11, 2015. De Jong & Co Inc., controlled by Louis De Jong, and John Roland, each purchased 5,000 of these Units. Each is an insider and considered a related party. During the year ended June 30, 2016, 8,750 of the issued warrants were exercised resulting in cash proceeds of $404 (CD$525).

In June 2014, the Company initiated a non-brokered private placement for up to 66,667 shares at a price of CA$0.15 for gross proceeds of CA$10,000, to be subscribed for in tranches by new strategic shareholders as well as certain existing shareholders of the Company.

The first tranche of the financing closed on June 26, 2014 with the sale of 6,667 shares for gross proceeds of $937 and net proceeds of $924 after share issuance costs. The shares were subject to a four-month hold period pursuant to applicable securities law.

The second tranche of the financing closed on December 12, 2014 with the sale of 18,000 shares for gross proceeds of $2,322 and net proceeds of $2,300 after share issuance costs. The shares were subject to a four-month hold period pursuant to applicable securities law. A finder's fee of 6%, namely, 1,080 common shares of the Company, was also paid to an arm's length party, and these shares were also subject to a four month hold period pursuant to applicable securities laws.

(in thousands of United States dollars and shares)

10. Share capital (continued)

Warrants

Each warrant entitles the holder to purchase one common share of the Company. A summary of the warrants outstanding and the changes during the year is presented below:

	2016			2015
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
		(CA$)		(CA$)
Outstanding and exercisable, beginning of year *	**23,300**	**0.07**	-	-
Warrants issued	**90,288**	**0.07**	23,300	0.07
Warrants exercised	**(12,164)**	**0.06**	-	-
Warrants expired	**(4,800)**	**0.15**	-	-
Outstanding and exercisable, end of year	**96,624**	**0.06**	23,300	0.07

* includes 18,500 warrants issued with shares and 4,800 warrants issued with debt instrument

(in thousands of United States dollars and shares)

10. Share capital (continued)

The following table summarizes information for warrants outstanding:

Exercise price per share (Cdn$)	Expiry	**June 30, 2016**	June 30, 2015
$0.15	September 25, 2015	-	4,800
$0.06	October 2, 2016	5,500	11,500
$0.06	October 10, 2016	750	3,500
$0.06	December 26, 2016	3,500	3,500
$0.06	January 6, 2017	5,500	-
$0.06	March 14, 2017	2,100	-
$0.06	March 18, 2017	5,950	-
$0.06	April 5, 2017	31,750	-
$0.07	April 23, 2017	22,526	-
$0.07	May 24, 2017	18,440	-
$0.07	June 4, 2017	608	-
		96,624	23,300

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 June 30, 2016, the available option pool was a total of 33,065 (2015 - 10,622). The Board of Directors administers the stock option plan.

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 in February 2016 will vest in two equal 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.

A summary of the Company's stock options and changes during the periods is presented below:

		2016		2015
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		(CA$)		(CA$)
Outstanding, beginning of year	**11,404**	**0.34**	14,606	0.63
Granted	**8,800**	**0.09**	-	-
Forfeited	**(1,505)**	**0.12**	(2,663)	0.24
Expired	**(859)**	**0.33**	(539)	8.59
Outstanding, end of year	**17,840**	**0.24**	11,404	0.34
Exercisable, end of year	**8,920**	**0.37**	6,509	0.48

Stock-based compensation expense was reduced by $61 (2015 - $148) to reverse the amount of compensation related to forfeited options.

(in thousands of United States dollars and shares)

10. Share capital (continued)

Stock option plan (continued)

The following table summarizes the options outstanding and exercisable as at June 30, 2016:

Options Outstanding			Options Exercisable	
Exercise Price (Cdn $)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn $)
$ 0.09	7,900	9.7	-	$ 0.09
0.15	6,900	7.9	6,050	0.15
0.33	2,893	6.7	2,723	0.33
7.40	68	0.2	68	7.40
10.00	41	1.6	41	10.00
12.00	9	4.3	9	12.00
16.00	25	0.7	25	16.00
23.00	4	2.1	4	23.00
$ 0.24	17,840	8.4	8,920	$ 0.37

The fair value of options granted is determined using the Black-Scholes option pricing model. The following assumptions were used for options granted in the year:

	2016	2015
Risk-free interest rate	**0.51%**	n/a
Expected life of options (years)	**5**	n/a
Expected annualized volatility	**117%**	n/a
Expected dividend yield	**n/a**	n/a
Weighted average fair value of each option	**$ 0.07**	n/a

Stock-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. Grant date fair value of options issued during the year ended June 30, 2016 was $493 (2015 - $Nil). Total stock-based compensation expense related to current and prior year grants was $262 (2015 - $468).

11. Loss per share

As a result of the net losses in continuing operations in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants is anti-dilutive; therefore, 114,464 potentially dilutive shares at June 30, 2016 (2015 – 34,704) have not been included in the calculation of diluted loss per common share for the years ended June 30, 2016 and 2015.

(in thousands of United States dollars and shares)

12. Financial instruments

Carrying values and fair values

Financial instruments are classified into one of the following categories: fair-value through profit or loss (“FVTPL”), held-to-maturity, available-for-sale, loans and receivables and other financial liabilities.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts and other receivables. The Company’s maximum credit risk is $1,148 (2015 - $787). The Company primarily invests its excess cash in high quality financial instruments with large, high quality financial institutions. 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. Three customers accounted for approximately 84% of the accounts receivable balance at June 30, 2016 (31%, 29% and 24% individually). At June 30, 2015, two customers accounted for approximately 96% of the accounts receivable balance (86% and 10% individually).

The allowance for doubtful accounts is reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined to be not collectible.

During the fiscal year ended June 30, 2016, the previous allowance for accounts receivable of $26 was written off. The age of trade accounts receivable, gross of the allowance of $Nil at June 30, 2016 (2015 - $26), is summarized as follows:

	2016	2015
	$	$
Current or under 60 days	**445**	166
Past due 61 to 90 days	**88**	26
Past due more than 90 days	**52**	378
Total gross trade accounts receivable	**585**	570

Subsequent to year end, $27 of the accounts receivable past due more than 90 days at June 30, 2016 has been collected.

The continuity of the allowance for doubtful accounts is as follows:

	2016	2015
	$	$
Balance, beginning of year	**26**	2
Increase in allowance for doubtful accounts	**-**	26
Decrease in allowance for doubtful accounts during the year from write off of accounts receivable	**(26)**	(2)
Decrease in allowance for doubtful accounts during the year from collection of accounts	**-**	-
Balance, end of year	**-**	26

(in thousands of United States dollars and shares)

12. Financial instruments (continued)

Interest rate risk

The Company is exposed to interest rate risk on its secured notes payable. 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 of $10 for the year ended June 30, 2016 (June 30, 2015 - $30).

Foreign currency risk

The Company operates internationally with subsidiaries in the United States and Canada and is, therefore, subject to foreign currency risk. Enablence reports its financial results in US$. Most of the Company's revenues are transacted in U.S. currency, and the Company incurs expenses in both Canadian and U.S. dollars. In the Chinese operation, the functional currency for expenses and other items is the Chinese renminbi. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the Canadian dollar against the U.S. dollar would have increased net losses from operations and decreased the other comprehensive gain ("OCI") by the amounts shown below. A weakening of the Canadian dollar would have the opposite effect.

	2016		2015
Net loss	**OCI**	Net loss	OCI
(CA$)	**(CA$)**	(CA$)	(CA$)
336	**17**	273	21

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. The ability to do so relies on the Company collecting its accounts receivable 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.

At June 30, 2016, the Company has financial liabilities which are due as follows:

	2017	2018	2019	Total
	$	$	$	$
Accounts payable and accrued liabilities	3,096	-	-	3,096
Notes payable	-	943	755	1,698
Bridge and short-term loans payable	11	-	-	11
Total	3,107	943	755	4,805

13. 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 equity (deficiency) and debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders and none are planned. Following the fiscal year ended June 30, 2016 management has secured additional financing. (Note 19).

(in thousands of United States dollars and shares)

14. Segmented information

The Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	2016	2015
	Property, plant and equipment	Property, plant and equipment
	$	$ (Restated - Note 19)
United States	**771**	1,367
Canada	**36**	405
China	**151**	-
	958	1,772

Revenue is analyzed geographically as follows:

	2016	2015
	$	$
Americas	**238**	537
Asia Pacific	**645**	1,061
Europe, Middle East and Africa	**740**	449
	1,623	2,047

During the year ended June 30, 2016, four customers account for 88% of the Company's total revenue (26%, 23%, 21% and 18% individually). During the year ended June 30, 2015, three customers account for 59% (26%, 19% and 14% individually) of the Company's total revenue.

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.

	2016	2015
	$	$
Product	**1,510**	1,976
NRE	**113**	71
	1,623	2,047

(in thousands of United States dollars and shares)

15. Commitments

The Company leases office space and certain property and equipment under operating leases. Rental expenses under these leases were $477 for the year ended June 30, 2016 (2015 - $554). In addition, during the year ended June 30, 2016, the Company entered into a construction contract for $427 for its Chinese facility in Suzhou and made payments of $106 under this contract. The remaining contract payments and minimum lease payments due under the leases for the next four years and beyond are as follows:

	$
2017	678
2018	297
2019	78
2020 and beyond	-
	1,053

16. Key management personnel and director compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and are defined as the Chief Officers of the Company and the Company's Board of Directors. The Company's compensation program is administered by the Board of Directors and specifically provides for total compensation for executive officers, which is a combination of base salary, performance-based incentives and benefit programs that reflect aggregated competitive pay in light of business achievement, fulfillment of individual objectives and overall job performance. Directors, executive officers and employees participate in the Company's stock option plans (Note 10).

The following summarizes key management personnel and directors' compensation for the years ended June 30, 2016 and 2015:

	2016	2015
	$	$
Salaries and directors' fees	**415**	219
Share-based payments	**79**	-
	494	219

17. Related party transactions

On February 2, 2016, the Company closed a private placement with ZTE Corporation ("Strategic Investor) for 77,000 shares at a price of CDN$0.06 per common share for proceeds of CDN$4,620. All securities were subject to a four month hold period which expired June 3, 2016. As a result of the closing, the Strategic Investor holds approximately 18.66% of the issued and outstanding shares of the Company at June 30, 2016 (2015 – 8.2%). As part of the financing, (i) the Strategic Investor entered into a voting agreement with certain shareholders of the Company to vote in favour of one nominee of the Strategic Investor to the Board of Directors of the Company, (ii) the Strategic Investor will have a right of participation to maintain its percentage of shareholdings in the Company in future issuances of securities by the Company, and (iii) the Company has put in place a Product Roadmap Development Committee which will make recommendations to the Board of Directors on future product development (iv) an updated version of the Business Cooperation Agreement from December 2014 was signed by the Company and the Strategic Investor.

17. Related party transactions (continued)

- During the year ended June 30, 2016, the Company had sales of $197 (2015 - $233) with ZTE. At June 30, 2016, the Company had an accounts receivable balance with ZTE of $153 (2015 - $ nil). This amount is included in accounts and other receivables.
- In addition, during the year ended June 30, 2016, the Company received a pre-payment from ZTE in the amount of $210 for the fulfilment of certain purchase orders it had placed with the Company (2015 - $750). An amount of $693 related to these pre-payments is included in deferred revenue at June 30, 2016 (2015 - $517).

As at June 30, 2016, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares, which represents approximately 5.9% (2015 – 13.6%) of the issued and outstanding common shares of the Company. TriComm is controlled by Mr. Zhiyin Gao, a director and significant shareholder of the Company. During September 2013, as a result of equity financing received, the Company recorded $112 of legal fees owing to Win Brand Limited which was included in accounts payable and accrued liabilities at June 30, 2014. The amount was repaid during the year ended June 30, 2015. Win Brand Limited (“Win Brand”) is controlled by the Chief Executive Officer (“CEO”) of the Company.

As at June 30, 2016, Irixi Holding Ltd. ("Irixi"), owned 39,408 Enablence common shares, which represents approximately 7.7% (2015 – 9.2%) of the issued and outstanding common shares of the Company. Irixi is a joint venture controlled by TriComm and Win Brand. During the year ended June 30, 2016, the following transactions took place between Irixi and the Company:

- Prior to the start of the current fiscal year, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of $990 from Irixi. $160 of these loans were repaid and CAD$1M of the loans were converted to equity during the year ended June 30, 2016. A gain of $176 was recorded on the conversion of debt to equity. The remaining balance is $11 and is included in loans payable at June 30, 2016.
- During the year ended June 30, 2015, the Company purchased equipment from Irixi Technologies Inc. (a wholly owned subsidiary of Irixi) for $300. A balance of $108 was included in loans payable at June 30, 2015. This amount was repaid in the year ended June 30, 2016. The equipment was subsequently sold to the Company’s contract manufacturer and a loss of $127 was recorded in the year ended June 30, 2016.
- During the year ended June 30, 2015, the Company entered into a Strategic Partnership agreement with Irixi and Suzhou Irixi Ltd., whereby, all parties work together on product development. During the year, Irixi Technologies Inc. and Irixi Photonics Inc. (see below) charged $62 for travel expenses incurred in the provision of product development services by its engineers (2015 -$21). $19 of this amount remains unpaid and is included in accounts payable and accrued liabilities at June 30, 2016 (2015 -$19).

In January 2016 the Company entered into a one year R&D Services Agreement (the “Service Agreement”) with Suzhou Irixi Ltd. and Irixi Photonics Inc. (“Irixi Photonics”). Irixi Photonics was created to carry out the operations of Irixi and is a company controlled by the CEO and Chief Financial Officer (“CFO”) of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irixi Photonics for the development of a new product and assistance in ramping up its volume production, Enablence will pay Irixi Photonics $150/month (“Service Fees”) over a twelve month term. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irixi Photonics may be eligible for the payment of a success fee (“Success Fee”). The Success Fee amounts to $2 million less any Service Fees previously paid. The Company will retain ownership of all Intellectual Property associated with the products under the agreement. During the year ended, June 30 2016, the Company paid Irixi Photonics $900 of service fees, pursuant to this agreement.

During the fiscal year ended June 30, 2016, the Company recorded consulting fee expense of $98 (2015 - $156) for Evan Chen ($20) and Todd Zhang ($78). $40 of this amount was paid to Todd Zhang during the year ended June 30, 2016. At June 30, 2016, the total amount owing to Irixi related to consulting fee expense is $312 (2015 - $254) and is included in accounts payable and accrued liabilities.

(in thousands of United States dollars and shares)

17. Related party transactions (continued)

The Consortium debt as discussed in Note 8 above, included $209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co. This debt was fully repaid by the Company in February 2016. In addition, 1 million warrants were exercised by De Jong & Co. during the year ended June 30, 2016.

Paradigm Capital Partners Limited ("PCPL') is a shareholder of Enablence and is a company controlled by close family members of a director of Enablence. The following transactions took place with PCPL, its affiliates and individuals related to PCPL (collectively "Paradigm") during the year ended June 30, 2016:

- Paradigm was part of the lending consortium that was paid a fee of $150 in connection with their acquisition of the Cathay bank debt as described in note 8(a).
- CAD$350 of loans received in the prior year were repaid in the year ended June 30, 2016. Further details are provided in notes 8(b) and 8(c)
- Short-term loans of CAD$600 were received during the year ended June 30, 2016 (2015 – CAD$1,850) as described in note 8(c). The total amount of $2,450 was converted to equity during the year ended June 30, 2016.
- 3,214 warrants were exercised during the year ended June 30, 2016.
- Subsequent to year end, the Company received CAD$885 in short-term, non-interest bearing, unsecured bridge loans.

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 by the related parties.

18. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	2016	2015
	$	$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	**(33)**	803
Inventories	**573**	2,164
Prepaid expenses and deposits	**80**	98
Accounts payable and accrued liabilities	**(1,214)**	(562)
Deferred revenue	**271**	279
	(323)	2,782

Amortization expense for the year ended June 30, 2016 of $801 (2015 - $977) includes the following in the Consolidated statements of comprehensive loss: a) $664 (2015 - $678) included within cost of revenues, b) $73 (2015 - $194) included with general and administration, and c) $64(2015 - $105) included within research and development. In connection with the October 2015 financings, approximately $608 of Units (Note 10) were issued on a non-cash basis as part of the debt repayment.

(in thousands of United States dollars and shares)

19. Restatement of amortization in prior periods

During 2016, the Company determined that certain errors had accumulated in its calculations of amortization for prior periods. These errors resulted in amortization being understated for prior periods. As a result the Company has restated its amortization for previous periods as follows:

Impact on equity (increase (decrease) in equity)

	July 1, 2014
	$
Property, plant and equipment	(146)
Total assets	(146)
Net impact on equity	(146)

20. Subsequent events

On July 11, 2016, the Company made a draw of CAD$804 to fully utilize its existing CAD$3 million loan facility with EDC. In August 2016, EDC amended the loan facility to increase the maximum amount available to $5 million and advanced another CAD$1,973 to the Company. To date, the Company has drawn CAD$4,973 under this facility.

In addition, during October 2016, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of CAD$885.

During September 2016 and October 2016, 750 warrants were exercised for gross proceeds of CAD$45.