

Consolidated financial statements

Enablence Technologies Inc.

For the years ended June 30, 2017 and 2016
(in thousands of United States dollars and shares)

Enablence Technologies Inc.

June 30, 2017 and 2016

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Independent Auditors' Report

To the Shareholders of Enablence Technologies Inc.:

We have audited the accompanying consolidated financial statements of Enablence Technologies Inc., which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 audit 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, 2017 and its financial performance and its cash flows for the year 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 \$8,514 for the year ended June 30, 2017, and as of that date, had an accumulated deficit of \$122,656 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 19 to the consolidated financial statements, which describes the significance of related party transactions.

Other Matter

The consolidated financial statements of the Company as at and for the year ended June 30, 2016 were audited by another licensed public accounting firm who expressed an unqualified opinion on those consolidated financial statements on October 28, 2016.

Ottawa, Ontario

October 27, 2017



Chartered Professional Accountants

Licensed Public Accountants

Enablence Technologies Inc.

Consolidated Statements of Financial Position

(in thousands of United States dollars)

	June 30, 2017	June 30, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	5,086	654
Accounts and other receivables (Notes 5 and 19)	1,158	647
Inventories (Note 6)	1,687	597
Prepaid expenses and deposits	346	241
	8,277	2,139
Property, plant and equipment (Note 7)	1,351	958
	9,628	3,097
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 8 and 19)	4,399	3,096
Current portion of notes payable (Notes 9 and 19)	3,472	11
Deferred revenue (Note 19)	210	982
	8,081	4,089
Convertible debentures (Note 10)	4,387	-
Notes payable (Note 9)	1,578	1,698
	14,046	5,787
Shareholders' deficiency		
Share capital (Note 12)	105,393	99,266
Contributed surplus (Notes 10 and 12)	12,439	11,546
Accumulated other comprehensive income	406	523
Deficit	(122,656)	(114,025)
	(4,418)	(2,690)
	9,628	3,097

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

Approved by the Board:

"Louis De Jong"
Director

"Evan Chen"
Director

Enablence Technologies Inc.

Consolidated statements of comprehensive loss

For the years ended June 30

(in thousands of United States dollars and shares, except per share data)

	2017	2016
	\$	\$
Revenues (Note 19)	3,447	1,623
Cost of revenues	4,049	2,825
Loss on inventory impairment (Note 6)	127	1,122
Gross margin	(729)	(2,324)
Operating expenses		
Research and development (Note 19)	4,615	3,770
Sales and marketing	161	11
General and administration	2,337	2,064
Stock-based compensation (Notes 12 and 18)	300	262
	7,413	6,107
Loss from operations	(8,142)	(8,431)
Other income (expense)		
Finance and other income	34	41
Finance expense (Notes 9 and 10)	(516)	(298)
Write-off of equipment deposit	-	(245)
Foreign exchange loss	(7)	(9)
Gain on settlement of debt (Note 19)	-	176
Loss on sale of equipment	-	(127)
Net loss	(8,631)	(8,893)
Other comprehensive income, net of tax		
Foreign currency translation gain	117	230
Comprehensive loss	(8,514)	(8,663)
Net loss per share, basic and diluted (Note 13)	(\$0.02)	(\$0.02)
Weighted average number of outstanding shares	543,306	395,085

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

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' deficiency

For the years ended June 30

(in thousands of United States dollars and shares)

	Number of shares	Share capital (Note 12)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Deficiency
		\$	\$	\$	\$	\$
Balance at July 1, 2015	220,263	88,652	10,586	293	(105,132)	(5,601)
Stock-based compensation (Note 12)	-	-	262	-	-	262
Issuance of common shares (Note 12)						
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)
Stock-based compensation (Note 12)	-	-	300	-	-	300
Issuance of common shares (Note 12)						
Exercise of warrants	35,242	1,591	-	-	-	1,591
Fair value of warrants exercised	-	421	(421)	-	-	-
December 22, 2016 private placement	25,000	1,482	-	-	-	1,482
Share issuance costs	-	(23)	-	-	-	(23)
January 12, 2017 private placement	6,250	381	-	-	-	381
Share issuance costs	-	(17)	-	-	-	(17)
May 2017 private placement	30,700	1,579	-	-	-	1,579
Share issuance costs	-	(104)	-	-	-	(104)
June 2017 private placement	8,543	461	-	-	-	461
Share issuance costs	-	(29)	-	-	-	(29)
June 30, 2017 conversion to equity (Note 9(a) and 19)	7,143	385	-	-	-	385
Equity portion of convertible debenture (Note 10)	-	-	1,014	-	-	1,014
Net loss	-	-	-	-	(8,631)	(8,631)
Exchange differences on translating operations	-	-	-	(117)	-	(117)
Balance at June 30, 2017	621,928	105,393	12,439	406	(122,656)	(4,418)

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

Enablence Technologies Inc.

Consolidated statements of cash flows

For the years ended June 30

(in thousands of United States dollars)

	2017	2016
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss	(8,631)	(8,893)
Adjusted for the following non-cash items:		
Depreciation	667	801
Stock-based compensation (Note 12)	300	262
Gain on settlement of debt	-	(176)
Loss on sale of equipment	-	127
	(7,664)	(7,879)
Changes in non-cash working capital (Note 20)	(1,175)	(323)
Cash used in operating activities	(8,839)	(8,202)
Investing activities		
Sale of equipment	-	150
Purchase of property, plant and equipment	(1,060)	(287)
Cash used in investing activities	(1,060)	(137)
Financing activities		
Repayment of bank loans	-	(1,347)
Repayment of operating line of credit	-	(465)
Advances from lending consortium	-	419
Net advances/payments on short-term loans	2,724	199
Advances from long-term loans	2,158	1,688
Proceeds from the exercise of warrants	1,591	-
Proceeds from issuance of convertible debentures	4,245	-
Net proceeds from issuance of shares and units	3,730	8,072
Cash provided by financing activities	14,448	8,566
Effect of foreign currency translation on cash and cash equivalents	(117)	254
Increase in cash and cash equivalents	4,432	481
Cash and cash equivalents, beginning of year	654	173
Cash and cash equivalents, end of year	5,086	654
Supplementary information:		
Interest paid - included in operating activities	436	84
Non-cash change in working capital (debt settled with shares)	385	-

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

Enableness Technologies Inc.

Notes to the consolidated financial statements

June 30, 2017 and 2016

(in thousands of United States dollars and shares)

1. Description of business

Enableness Technologies Inc. (“Enableness” or the “Company”) is incorporated under the Canada Business Corporations Act. The head office of Enableness is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enableness 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.

At June 30, 2017, the Company had cash of \$5,086 and working capital of \$196 and had used cash of \$8,839 in its operating activities for the year ended June 30, 2017. The Company incurred a comprehensive loss of \$8,514 for the year ended June 30, 2017 and as of that date had an accumulated deficit of \$122,656. During the year ending June 30, 2017 the Company was economically dependent on a significant customer, which is a related party (Note 16 and 19).

These conditions indicate the existence of material uncertainties that cast significant doubt about the Company’s ability to continue as a going concern. The Company’s 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 26, 2017.

(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, Enableness 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 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.

(vi) *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

Enablence Technologies Inc.

Notes to the consolidated financial statements

June 30, 2017 and 2016

(in thousands of United States dollars and shares)

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

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.

Share-based compensation

The estimation of share-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 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 far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Judgments

Recognition of deferred income tax assets

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

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Management estimates the net realizable values 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.

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

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases. In assessing impairment, Management estimates the recoverable

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(in thousands of United States dollars and shares)

amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

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 June 30, 2017 and 2016.

<u>Name of entity</u>	<u>Place of incorporation</u>	<u>Percentage of ownership</u>	<u>Functional currency</u>
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

* Incorporated in the fiscal year ended June 30, 2017 of which Enablence ((HK) Limited is the holding company.

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.

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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.

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 where goods have not been provided or when services have not been 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.

Non-recurring engineering services related to 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 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

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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:

<u>Asset class</u>	<u>Depreciation term</u>
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 to 5 years
Leasehold improvements	Useful life

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.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis in accordance with the lease term. Associated costs, such as maintenance and insurance, 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

Enablence Technologies Inc.

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(in thousands of United States dollars and shares)

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.

Financial instruments

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 amortized cost using the effective interest method, less any impairment losses.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by references to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

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.

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 statement of financial position 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.

Enablence Technologies Inc.

Notes to the consolidated financial statements

June 30, 2017 and 2016

(in thousands of United States dollars and shares)

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

<u>Financial instrument</u>	<u>Classification</u>
Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Other receivables (excluding investment tax credits and amounts due from government agencies)	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities
Convertible debentures	Other financial liabilities

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/funding

Repayable royalty-bearing funding received for approved research and development projects are recognized at the time the Company is entitled to such funding. The liability to repay this funding is calculated as 2.5% of the Company's actual qualifying revenues, and is included in accrued liabilities. During fiscal 2017, the total of grants received was \$Nil (2016 - \$58) and total of grants during fiscal 2017 recognized by reducing related expenses was \$Nil (2016 - \$Nil). At June 30, 2017, the liability for royalties payable was \$355 (2016 - \$349) (see Note 8).

Stock-based compensation

The Company accounts for share-based compensation arrangements using the fair value method of accounting. When employees are rewarded using share-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 share-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.

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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 exchange rates prevailing at the dates of transactions. The resulting translation adjustments are included in accumulated other comprehensive 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 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.

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

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2019.

IFRS 15 - Revenues

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue - barter

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transactions involving advertising services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15. IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2019.

IFRS 16

IFRS 16, issued in January 2016, introduces 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 will supersede 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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2020.

IFRS 2 Share-based payments

Amendments to IFRS 2, issued in June 2016, provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for reporting periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments on its consolidated financial statements. The Company expects to apply the amendments for its consolidated financial statements dated June 30, 2019.

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 was issued in December 2016 to provide guidance on accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The new interpretation is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this interpretation on its consolidated financial statements. The Company expects to apply the interpretation for its consolidated financial statements dated June 30, 2019.

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.

	2017	2016
	\$	\$
Cash	5,082	650
Restricted cash	4	4
	5,086	654

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5. Accounts and other receivables

	2017	2016
	\$	\$
Trade	968	585
Allowance for doubtful accounts	-	-
	968	585
Other	190	62
	1,158	647

Included in Other receivables is an amount of \$46 (2015 - \$56) related to investment tax credits receivable and \$143 (2016 - \$15) of amounts due from government agencies.

6. Inventories

	2017	2016
	\$	\$
Raw materials	373	357
Work-in-progress	242	774
Finished goods	1,072	117
Allowance for obsolescence	-	(651)
	1,687	597

During the year ended June 30, 2017, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, \$127 (2016 - \$1,122) of obsolete and impaired inventory was written off through cost of sales. In addition, \$651 of inventory that was provided for in prior years, was written off as unrealizable inventory. A continuity of the provision is presented below:

	2017	2016
	\$	\$
Opening balance	651	51
Write-off of unrealizable inventory	(778)	-
Additional impairment provision recorded	127	600
Closing balance	-	651

The amount of inventory recognized as cost of revenues for the year ended June 30, 2017 was \$2,871 (2016 - \$1,481) inclusive of inventory impairment.

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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, 2016	10,970	3,269	1,107	446	801	151	16,744
Additions	396	212	17	36	429	121	1,211
Dispositions	-	-	-	-	-	(151)	(151)
As at June 30, 2017	11,366	3,481	1,124	482	1,230	121	17,804
Accumulated depreciation							
As at June 30, 2016	10,334	3,236	1,086	442	688	-	15,786
Depreciation	360	49	32	7	219	-	667
As at June 30, 2017	10,694	3,285	1,118	449	907	-	16,453
Carrying value							
As at June 30, 2017	672	196	6	33	323	121	1,351

	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 depreciation							
As at June 30, 2015	9,757	3,172	994	437	625	-	14,985
Depreciation	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

Depreciation expense for the year ended June 30, 2017 of \$667 (2016 - \$801) was allocated in the consolidated statements of comprehensive loss as follows: \$533 (2016 - \$664) included within cost of revenues; \$85 (2016 - \$73) included in general and administration; and \$49 (2016 - \$64) included in research and development.

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of \$355 (2016 - \$349) relating to royalty-bearing government funding received for approved research and development projects. 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.

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9. Notes payable

	2017	2016
	\$	\$
Short-term Loans (a) and (c)	1,194	11
Loan from Export Development Canada (b)	3,856	1,698
	5,050	1,709
Less current portion	3,472	11
Long-term portion	1,578	1,698

- (a) During the fiscal year ended June 30, 2017, the Company obtained non-interest bearing, unsecured short-term loans in the amount of \$5,231 CAD from certain related and unrelated parties of which \$1,755 CAD of the loan was repaid during the year, \$385 was converted to equity (Note 12), \$1,156 was exchanged for a convertible debenture (Note 10), leaving an unpaid balance of \$1,194 (\$1,549 CAD) at June 30, 2017. The exchange of debt instruments represented a substantial modification to the terms of the existing financial liability. As a result it was accounted for as a modification. No gain or loss was recognized on the modification. On April 1, 2017, the terms of the loan were changed to start accruing interest at the rate of 10% per annum. The remaining balance of \$1,194 at June 30, 2017 was repaid in early July 2017 which included principal of \$1,138 and interest of \$56.
- (b) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada ("EDC") of \$3 million CAD. In August 2016, the loan facility was increased to \$5 million CAD. 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 the initial draw down which was in March 2016. 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 (see Note 21). Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.7% at June 30, 2017 (June 30, 2016 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries. At June 30, 2017 the principal amount drawn on the EDC term facility is \$3,832 plus an interest accrued of \$24.
- (c) 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 which expired on September 25, 2015. During the year ended June 30, 2016, CAD\$214 of the loan was repaid. 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. The remaining balance of \$11 (CAD\$14) was paid during the fiscal year ended at June 30, 2017.

10. 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 to settle outstanding short term loans received by the Company during the year (Note 9(a)). 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 mature on 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. Management has determined the fair value of the Company's

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liability to make future payments of principal and interest to be \$4,694 and the fair value of the holders' conversion option to be \$1,086. The carrying value of the debentures is accreted to the principal amount over the term to conversion through a charge to interest expense. The carrying value of the equity component of \$1,086 is recorded to contributed surplus. 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 are being amortized over the three year term of the debt. The equity financing costs of \$71 have been charged to contributed surplus.

	\$
Face value of Debentures	5,780
Less equity component	(1,086)
Liability component	4,694
Financing costs associated with liability component	(307)
Plus interest accretion to date	-
	4,387

11. 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:

	2017	2016
	\$	\$
Expected tax rate	26.50%	26.50%
Expected tax benefit from loss	(2,289)	(2,357)
Increase (decrease) in taxes from		
Permanent differences	77	1,210
Benefit of loss carryforwards and other temporary differences	2,905	3,120
Rate differential on tax jurisdictions	(1,004)	(1,159)
Other	311	(814)
	-	-

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.

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At June 30, 2017, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2017	2016
	\$	\$
Tax losses ⁽ⁱ⁾	296,219	291,175
Tax losses ⁽ⁱⁱ⁾	22,155	21,948
Unused credits ⁽ⁱⁱⁱ⁾	2,863	2,794
Deductible temporary differences	24,642	16,550

(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.

Of the \$296,219 tax losses available for carry-forward at June 30, 2017, \$276,266 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.

12. Share capital

Authorized capital stock consists of:

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

Unlimited number of common shares: 621,928 common shares issued and outstanding

On June 30, 2017 the Company issued 7,143 common shares at a price of \$0.07 CAD per share as a result of a debt settlement agreement with a creditor, settling short term bridge financing in the amount of \$385. The securities issued under the Securities for Debt Transaction are subject to a four-month hold period pursuant to applicable securities laws until October 31, 2017.

On May 29, 2017 the Company closed a first tranche of equity financing at a price of \$0.07 CAD per share for gross proceeds in the amount of \$1,579 resulting in the issuance of 30,700 common shares. On June 21, 2017 a second tranche of the equity financing was completed at a price of \$0.07 CAD per share for gross proceeds of \$461 resulting in the issuance of 8,543 common shares. Share issuance costs of \$133 were incurred to complete these financings.

On December 22, 2016, the Company completed the first tranche of financing in the amount of \$1,482 at a price of \$0.08 CAD per share resulting in the issuance of 25,000 shares. On January 12, 2017 the Company then completed a second tranche of financing with the issuance of 6,250 shares for gross proceeds of \$381. Share issuance costs of \$40 were incurred to complete these financings.

During the fiscal year ended June 30, 2017 a total of 35,242 warrants were exercised for gross proceeds of \$1,591 resulting in the issuance of 35,242 common shares. Upon the exercise of these warrants, the fair value as determined at the time of issue of the warrants of \$427, and originally recorded to contributed surplus, was transferred to share capital.

On February 2, 2016, the Company completed a non-brokered private placement with ZTE Corporation, a related party (see Note 19), for 77,000 common shares at a price of \$0.06 CAD per share amounting to gross proceeds of \$3,280.

On November 12, 2015, the Company announced a non-brokered private placement for up to \$1,503 at a price of \$0.0525 CAD per unit. Each unit was comprised of one common share and one half of one common

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share purchase warrant. Each full warrant is exercisable for a period of eighteen months at an exercise price of \$0.07 CAD per warrant. The financing was completed in two parts. The first part closed on November 24, 2015 for gross proceeds of \$1,455 from the issuance of 36,880 shares and 18,440 warrants. The remainder of the financing closed on December 7, 2015 for gross proceeds of \$48 from the issuance of 1,215 shares and 608 warrants.

On September 15, 2015, the Company announced a proposed conversion of up to \$3,000 CAD of existing debt arrangements into units at a price of \$0.0525 CAD 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 \$1,000 CAD of existing debt arrangements, with certain insiders of the Company, for shares at a price of \$0.0525 CAD 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 \$2,634 of debt and the issuance of 70,528 shares and 25,740 warrants. During the three months ended June 30, 2016, 3,214 of the warrants issued on conversion were exercised resulting in cash proceeds of \$173.

On August 21, 2015 the Company announced an overall financing and debt conversion package (the "Financing") of up to \$10,000 CAD. The Financing included three components, the first of which is a non-brokered private placement financing (the "Equity Financing") for a minimum of \$4,000 CAD at a price of \$0.05 CAD per unit ("Unit"), which was completed on October 5, 2015 (see details below). The second component of the Financing, which was conditional, is the provision of a loan facility for up to \$3,000 CAD (the "Loan Facility") by a senior, investment grade lender which closed in calendar 2016 (see Note 9 (b)). The Loan Facility was subject to a number of closing conditions including the completion of the Equity Financing for a minimum \$4,000 CDN which occurred on October 5, 2015 (see details below). The Loan Facility is designed to finance purchase orders from ZTE Corporation to Enablence and is in the form of a term loan with principal repayment commencing 18 months after funds are drawn. The Loan Facility is secured against the assets of the Company with first ranking priority. The third component of the Financing is that certain existing non-secured debt arrangements (not to exceed \$3,000 CAD), may be required to be converted into equity.

In order to meet a condition of the new senior secured lender, Enablence used 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 was comprised of the bank debt outstanding just prior to August 21, 2015 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%. The Consortium debt included \$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 \$4,000 CAD Equity Financing was completed in three tranches: The first tranche of the financing closed on September 14, 2015 for \$159 with the sale of 4,200 units resulting in the issuance of 4,200 shares and 2,100 warrants. The second tranche of the financing closed on September 18, 2015 for \$465 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 with the sale of 63,500 units resulting in the issuance of 63,500 shares and 31,750 warrants.

The second tranche of a financing announced in June 2015 closed on July 6, 2015 for \$435 with the sale of 11,000 units resulting in the issuance of 11,000 shares and 5,500 warrants.

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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:

	2017		2016	
	Number of warrants	Weighted average exercise price (CAD\$)	Number of warrants	Weighted average exercise price (CAD\$)
Outstanding and exercisable, beginning of year	96,624	0.06	23,300	0.07
Warrants issued	-	-	90,288	0.07
Warrants exercised	(35,242)	0.06	(12,164)	0.06
Warrants expired	(61,382)	0.07	(4,800)	0.15
Outstanding and exercisable, end of year	-	-	96,624	0.06

The following table summarizes information for warrants outstanding:

Exercise price per share (CAD\$)	Expiry	June 30, 2017	June 30, 2016
\$0.06	October 2, 2016	-	5,500
\$0.06	October 10, 2016	-	750
\$0.06	December 26, 2016	-	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

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, 2017, the available option pool was a total of 43,062 (2016 – 33,065). 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

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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:

		2017		2016
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		(CAD\$)		(CAD\$)
Outstanding, beginning of year	17,840	0.24	11,404	0.34
Granted	2,800	0.07	8,800	0.09
Forfeited	(1,043)	0.10	(1,505)	0.12
Expired	(467)	2.87	(859)	0.33
Outstanding, end of year	19,130	0.16	17,840	0.24
Exercisable, end of year	12,873	0.19	8,920	0.37

The following table summarizes the options outstanding and exercisable:

<u>For the fiscal year ended June 30, 2017</u>				<u>For the fiscal year ended June 30, 2016</u>			
Options Outstanding			Options Exercisable	Options Outstanding			Options Exercisable
Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Number	Exercise Price (Cdn \$)	Number	Weighted Average Remaining Contractual Life (years)	Number
(Cdn \$)	Outstanding	Contractual	Exercisable	\$)	Outstanding	Contractual	Exercisable
\$ 0.07	2,800	9.5	-	\$ 0.09	7,900	9.7	-
0.09	6,800	8.7	3,700	0.15	6,900	7.9	6,050
0.15	6,707	7.0	6,350	0.33	2,893	6.7	2,723
0.33	2,805	5.7	2,805	7.40	68	0.2	68
10.00	6	2.5	6	10.00	41	1.6	41
12.00	9	3.0	9	12.00	9	4.3	9
-	-	-	-	16.00	25	0.7	25
23.00	3	1.1	3	23.00	4	2.1	4
\$ 0.24	19,130	7.8	12,873	\$ 0.24	17,840	8.4	8,920

The fair value of options granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options. The following weighted average assumptions were used for options granted in the year:

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	2017	2016
Risk-free interest rate	1.01%	0.51%
Expected life of options (years)	5	5
Expected annualized volatility	148%	117%
Expected dividend yield	n/a	n/a
Weighted average fair value of each option	\$ 0.06	\$ 0.07

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, 2017 was \$68 (2016 - \$493). Total stock-based compensation expense during the year relating to current and prior year grants was \$300 (2016 - \$262) of which \$69 (2016 - \$113) was attributable to general and administrative personnel and \$231 (2016 - \$149) was attributable to research and development personnel.

13. 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 debentures and warrants is anti-dilutive; therefore, 112,881 potentially dilutive shares at June 30, 2017 (2016 – 114,464) have not been included in the calculation of diluted loss per common share for the years ended June 30, 2017 and 2016.

14. 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. The table below summarizes the carrying values of the Company’s financial assets and financial liabilities

	June 30, 2017	June 30, 2016
Loans and Receivables (1)	\$ 6,055	\$ 1,230
Other financial liabilities (2)	\$ 13,836	\$ 4,805

(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 the carrying values as the risk profile of the Company has not changed significantly since those 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 accounts and other receivables but excludes investment tax credits and amounts due from government agencies. The Company’s maximum credit risk is \$6,055 (2016 - \$1,301). 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. Two customers accounted for \$901, which is approximately 90% of the trade

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receivable balance at June 30, 2017 (81% and 9% individually). At June 30, 2016, three customers accounted for \$491, which is approximately 84% of the trade receivable balance (31%, 29% and 24% 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.

The age of trade accounts receivable is summarized as follows:

	2017	2016
	\$	\$
Current or under 60 days	917	445
Past due 61 to 90 days	7	88
Past due more than 90 days	44	52
	968	585

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

	2017	2016
	\$	\$
Balance, beginning of year	-	26
Decrease in allowance for doubtful accounts during the year from write off of accounts receivable	-	(26)
Balance, end of year	-	-

Interest rate risk

The Company is exposed to interest rate risk on its notes payable. 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 of \$41 for the year ended June 30, 2017 (June 30, 2016 - \$10).

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. Enableness reports its financial results in US dollars. Most of the Company's revenues are transacted in U.S. currency, 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.

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.

	2017		2016
Net loss	OCI	Net loss	OCI
(CAD\$)	(CAD\$)	(CAD\$)	(CAD\$)
262	82	336	17

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 and other receivables in a timely manner and by

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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, 2017, the Company has financial liabilities which are due on a fiscal year basis as follows:

	2018	2019	2020+	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,399	-	-	4,399
Notes payable	3,827	1,628	-	5,455
Convertible debentures	578	578	6,359	7,515
Total	8,804	2,206	6,359	17,369

15. 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. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

16. Segmented information

The Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	2017	2016
	Property, plant and equipment	Property, plant and equipment
	\$	\$
United States	537	771
Canada	7	36
China	807	151
	1,351	958

Revenue is analyzed geographically as follows:

	2017	2016
	\$	\$
Americas	271	238
Europe, Middle East, Africa	484	645
Asia Pacific	2,692	740
	3,447	1,623

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During the year ended June 30, 2017, one customer accounted for 65% of the Company's total revenue. During the year ended June 30, 2016, four customers account for 88% of the Company's total revenue (26%, 23%, 21% and 18% individually).

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.

	2017	2016
	\$	\$
Product	3,436	1,510
NRE	11	113
	3,447	1,623

17. Commitments

The Company leases office space and certain equipment under operating leases. Rental expenses under these leases were \$552 for the year ended June 30, 2017 (2016 - \$477). The remaining contract payments and minimum lease payments due under the leases are as follows:

	\$
Less than one year	532
Between one and five years	164
More than five years	-
	696

During the year ended June 30, 2017, the Company incorporated Suzhou Enablence Optoelectronic Technologies Co., Ltd., in China, as a 100% owned subsidiary of Enablence (HK) Limited (see Note 3). Total authorized capital of Suzhou Enablence Optoelectronic Technologies Co., Ltd., is \$5,000, of which \$840 has been injected to date. There is no specific deadline within which the remainder of the capital injection must be made.

18. 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.

The following summarizes key management personnel and directors' compensation for the years ended June 30, 2017 and 2016:

	2017	2016
	\$	\$
Salaries and other compensation	634	415
Share-based compensation	72	107
	706	522

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19. 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 \$0.06 CAD per common share for proceeds of \$4,620 CAD. The Strategic Investor holds approximately 15.3% of the issued and outstanding shares of the Company at June 30, 2017 (2016 – 18.7%). 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.

During the year ended June 30, 2017, the Company had sales of \$2,238 (2016 - \$197) to ZTE. At June 30, 2017, the Company had an accounts receivable balance with ZTE of \$814 (2016 - \$153). This amount is included in accounts and other receivables. As at June 30, 2017 the Company had a \$Nil balance (2016 - \$693) in deferred revenue relating to pre-payments from ZTE.

As at June 30, 2017, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares of the Company. TriComm is controlled by Zhiyin Gao, a director and significant shareholder of the Company. Subsequent to the year end Zhiyin Gao resigned as a Director of the Company.

As at June 30, 2017, Irix Holding Ltd. ("Irix"), owned 39,408 Enablence common shares of the Company. Irix is a joint venture controlled by TriComm and Win Brand, which are companies controlled by a director and significant shareholder of Enablence. The following transactions took place between Irix and the Company during fiscal 2017 and 2016:

- During the fiscal year ended June 30, 2017, Suzhou Irix Ltd ("Suzhou Irix"), controlled by Irix, incurred certain start-up and production costs in the amount of \$61 on behalf of Suzhou Enablence Optoelectronic Technologies Co., LTD, which has been recorded as an outstanding liability at June 30, 2017.
- During the fiscal year ended June 30, 2017 Enablence had made \$99 of sales to Suzhou Irix and made purchases of \$128 from Suzhou Irix the net amount of which was recorded to cost of revenues. The Company has the following amounts recorded at June 30, 2017 relating to these transactions: an account receivable balance due from Suzhou Irix of \$44 and an accounts payable owing to Suzhou Irix of \$44.
- During the fiscal year ended June 30, 2017 Suzhou Irix provided other consulting services and materials to Enablence. As a result, at June 30, 2017 the Company has an amount of \$60 set up as an accrued liability owing to Suzhou Irix.
- Prior to the start of fiscal year 2016, the Company received short-term, non-interest bearing, unsecured loans in the amount of \$990 from Irix. \$160 of these loans were repaid and \$1 million CAD of the loans were converted to equity during the year ended June 30, 2016 and a gain of \$176 was recorded on the conversion of debt to equity. The remaining balance of \$11 was repaid during the fiscal year ended June 30, 2017 (see Note 9(a)).
- During the year ended June 30, 2015, the Company purchased equipment from Irix Technologies Inc. (a wholly owned subsidiary of Irix) for \$300. A balance of \$108 was included in loans payable at June 30, 2015. This amount was repaid during 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.

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- During the year ended June 30, 2015, the Company entered into a Strategic Partnership agreement with Irix and Suzhou Irix, whereby, all parties are to work together on product development. During the year, Irix Technologies Inc. and Irix Photonics Inc. (see below) charged \$62 for travel expenses incurred in the provision of product development services by its engineers (2015 - \$21).

In January 2016 the Company entered into a one year R&D Services Agreement (the "Service Agreement") with Suzhou Irix Ltd. and Irix Photonics Inc. ("Irix Photonics"). Irix Photonics was created to carry out the operations of Irix and is a company controlled by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irix Photonics for the development of a new product and assistance in ramping up its volume production, Enablence is contracted to pay Irix Photonics \$150/month ("Service Fees") over the 2016 calendar year. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irix 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 retains ownership of all Intellectual Property associated with the products under the agreement. Pursuant to this agreement, the Company paid Irix Photonics a total of \$1,800 of which \$900 was paid during fiscal year 2016 and \$900 was paid in fiscal year 2017. The Company signed a new services agreement with Irix Photonics 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 June 30, 2017 the Company had paid Irix Photonics \$650 of monthly fees under this new contract and had \$130 recorded as an accrued liability.

At June 30, 2017, an amount of \$432 (2016 - \$312) is included in accounts payable and accrued liabilities relating to consulting services provided by Irix. Of this amount, \$120 (2016 - \$98) was incurred and recorded to consulting fee expense during the current fiscal year relating to services provided through Irix, by Todd Zhang, also the CFO of Enablence. During the year ended June 30, 2017 \$Nil (2016 - \$40) was paid relating to these consulting services.

The Consortium debt as discussed in Note 12 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, 2017:

- A controlling shareholder of Paradigm provided short term loans to the Company of \$3,241 during the year and converted a portion of the loans to equity, exchanged a portion into convertible debentures and then was repaid the remaining balance of \$1,194 during July 2017 (see Note 9 (a) and Note 10)
- Paradigm earned \$474 of commissions relating to the equity and debenture financing the Company closed during May and June 2017.

June 30, 2016:

- Paradigm was part of the lending consortium that was paid a fee of \$150 in 2016 in connection with their acquisition of debt as described in Note 12.
- \$350 CAD of loans received in the prior year were repaid in the year ended June 30, 2016 (Note 9(a))
- A total amount of \$2,450 CAD of short term loans to the Company was converted to equity during the year ended June 30, 2016, relating to short term loans of, \$600 CAD provided during the fiscal year ended June 30, 2016 and \$1,850 outstanding from the fiscal year ended June 30, 2015.

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- 3,214 warrants were exercised during the year ended June 30, 2016.

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.

20. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	2017	2016
	\$	\$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	(511)	(33)
Inventories	(1,090)	573
Prepaid expenses and deposits	(105)	80
Accounts payable and accrued liabilities	1,303	(1,214)
Deferred revenue	(772)	271
	<u>(1,175)</u>	<u>(323)</u>

21. Subsequent events

Subsequent to June 30, 2017, the Company received \$200,000 in unsecured short term bridge loans from a related party with interest accruing at a rate of 10%.

Subsequent to June 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence March 2018 (see note 9(b)).