

Consolidated financial statements

Enablence Technologies Inc.

For the three months ended September 30, 2018 and 2017
(in thousands of United States dollars and shares)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablece Technologies Inc. for the three months ended September 30, 2018 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: November 29, 2018

“Evan Chen”
Evan Chen
CEO

“Tao Zhang”
Tao Zhang
CFO

Enablence Technologies Inc.

Condensed Consolidated statements of comprehensive loss

For the three months ended September 30

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

	2018	2017
	\$	\$
Revenues	148	1,926
Cost of revenues (Note 12)	705	1,820
Gross margin	(557)	106
Operating expenses		
Research and development (Note 12 and 17)	697	1,435
Sales and marketing (Note 12)	70	47
General and administration (Note 12)	479	567
Stock-based compensation (Note 11)	4	33
	1,250	2,082
Loss from operations	(1,807)	(1,976)
Other income (expense)		
Finance and other income	-	(1)
Finance expense (Note 9 and 10)	(448)	(357)
Foreign exchange loss	94	5
Net loss	(2,161)	(2,329)
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	(317)	255
Comprehensive loss	(2,478)	(2,074)
Net loss per share, basic and diluted (Note 13)	(\$0.00)	(\$0.00)
Weighted average number of outstanding shares (Note 13)	635,624	621,928

See accompanying notes to these unaudited condensed consolidated financial statements

Enableness Technologies Inc.

Condensed Consolidated statements of changes in shareholders' deficiency

For the three months ended September 30

(in thousands of United States dollars and shares)

	Number of shares	Share capital (Note 11)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Deficiency
		\$	\$	\$	\$	\$
Balance at July 1, 2017	621,928	105,393	12,439	406	(122,656)	(4,418)
Stock-based compensation (Note 11)	-	-	33	-	-	33
Net loss	-	-	-	-	(2,329)	(2,329)
Exchange differences on translating operations	-	-	-	(255)	-	(255)
Balance at September 30, 2017	621,928	105,393	12,472	151	(124,985)	(6,969)
Balance at July 1, 2018	621,927	105,393	12,521	950	(133,033)	(14,169)
Stock-based compensation (Note 11)	-	-	4	-	-	4
Issuance of common shares (Note 11)	20,000	758	-	-	-	758
Net loss	-	-	-	-	(2,161)	(2,161)
Foreign currency translation gain	-	-	-	(317)	-	(317)
Balance at September 30, 2018	641,927	106,151	12,525	633	(135,194)	(15,885)

See accompanying notes to these unaudited condensed consolidated financial statements

Enablence Technologies Inc.

Condensed Consolidated statements of cash flows

For the three months ended September 30

(in thousands of United States dollars)

	2018	2017
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss	(2,161)	(2,329)
Adjusted for the following non-cash items:		
Depreciation	95	196
Stock-based compensation (Note 11)	3	33
Foreign exchange translation gain (loss)	-	86
Accrued interest on bridge and short term loans	127	-
Accretion on convertible debenture (net of financing costs)	258	238
	(1,678)	(1,776)
Changes in non-cash working capital (Note 18)	125	(1,153)
Cash used in operating activities	(1,553)	(2,929)
Investing activities		
Purchase of property, plant and equipment	(67)	(118)
Proceeds on disposal of property, plant and equipment	2	-
Cash provided by (used in) investing activities	(65)	(118)
Financing activities		
Advances from short-term loans	874	200
Repayments on short-term loans	-	(1,194)
Net proceeds from issuance of shares	755	-
Cash provided by financing activities	1,629	(994)
Effect of foreign currency translation on cash and cash equivalent	59	-
Increase (decrease) in cash and cash equivalents	70	(4,041)
Cash and cash equivalents, beginning of period	107	5,086
Cash and cash equivalents, end of period	177	1,045
Supplementary information:		
Interest paid - included in operating activities	10	193

See accompanying notes to these unaudited condensed consolidated financial statements

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

1. Description of business

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

2. Basis of preparation

(i) *Going concern*

These condensed 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 September 30, 2018, the Company had cash of \$177, negative working capital of \$16,498 and had used cash of \$1,553 in its operating activities for the three months ended September 30, 2018. The Company incurred a comprehensive loss of \$2,478 for the three months ended September 30, 2018 and as of that date had an accumulated deficit of \$135,194.

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 consolidated financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments could be material.

(ii) *Statement of compliance*

These Condensed Consolidated Financial Statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”), under International Accounting Standard (“IAS”) 34 – Interim Financial Reporting, and were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 3 Significant Accounting Policies, in our audited consolidated financial statements for the year ended June 30, 2018. These condensed consolidated financial statements do not include all of the notes required in annual financial statements.

(iii) *Basis of measurement*

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

(iv) *Classification of expenses*

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 12 for details of expenses by nature.

(v) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on November 29, 2018.

(vi) *Presentation currency*

The presentation currency of the Company’s consolidated financial statements is the United States dollar (“US\$”).

Enableness Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

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.

(vii) *Use of estimates and judgments*

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

Estimates

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Fair value measurement

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

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment.

Going concern risk assessment

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

Impairment

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 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 September 30, 2018.

<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

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

ii. Transactions eliminated upon consolidation

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

New or amended IFRS standards effective July 1, 2018

The Company has adopted the following new or amended IFRS standards for the interim and annual period beginning on July 1, 2018:

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, Revenue from contracts with customers, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue as well as other related interpretations. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has adopted IFRS 15 on the effective date using a modified retrospective basis which involves not restating periods prior to the date of initial application. The application of this new standard had no impact on the reported results. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with the customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligations are satisfied.

IFRS 15 principally affects the timing of revenue recognition for transactions by each element in an arrangement (distinct goods or services in a bundled price or deliveries that occur at different points in time and/or over different periods of time). Revenue is recognized when the Company transfers control of the goods or services to the customer upon delivery.

Certain information and disclosures normally included in annual consolidated financial statements, prepared in accordance with IFRS 15 Revenue from contracts, were omitted where such information is not considered material to the understanding of the Company's interim financial information.

Under IFRS 15, we apply the following practical expedients:

- We do not adjust the promised amount of consideration for the effects of a significant financing component if, at contract inception, we expect the period between when we transfer the promised goods or services to a customer and when the customer pays for that good or service will be one year or less; and
- Costs of obtaining a contract that would be amortized within one year or less are immediately expensed.

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

IFRS 9 – Financial Instruments

In July 2014, the IASB completed the three-part project to replace IAS 39, Financial instruments: recognition and measurement by issuing IFRS 9, Financial instruments. IFRS 9, Financial instruments includes (a) classification and measurement of financial assets and financial liabilities, (b) a forward-looking 'expected loss' impairment model and (c) a substantially-reformed approach to hedge accounting.

The Company has adopted IFRS 9 on the effective date and determined that there was no impact on its reported results.

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 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.

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.

	September 30,	June 30,
	2018	2018
	\$	\$
Cash	173	103
Restricted cash	4	4
	177	107

5. Accounts and other receivables

	September 30,	June 30,
	2018	2018
	\$	\$
Trade	865	1,115
Allowance for doubtful accounts	-	-
	865	1,115
Other	211	181
	1,076	1,296

Included in Other receivables is an amount of \$58 (June 30, 2018 - \$46) related to investment tax credits receivable and \$153 (June 30, 2018 - \$130) of amounts due from government agencies.

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

6. Inventories

	September 30, 2018	June 30, 2018
	\$	\$
Raw materials	415	424
Work-in-progress	115	140
Finished goods	1,414	1,430
Allowance for obsolescence	(513)	(521)
	1,431	1,473

A continuity of the obsolescence provision is as follows:

	September 30, 2018	June 30, 2018
	\$	\$
Opening balance	521	-
Write-off of unrealizable inventory	(8)	(25)
Additional impairment provision recorded	-	546
Closing balance	513	521

7. Property, plant and equipment

Depreciation expense for the three months ended September 30, 2018 of \$95 (September 30, 2017 - \$196) was allocated in the consolidated statements of comprehensive loss as follows: \$78 (September 30, 2017 - \$167) included within cost of revenues; \$2 (2017 - \$4) included in general and administration; and \$15 (September 30, 2017 - \$25) included in research and development.

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of \$366 (June 30, 2018 - \$359) 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.

9. Notes payable

	September 30 2018	June 30, 2018
	\$	\$
Short-term Loans (a)	5,320	4,369
Loan from Export Development Canada (b)	4,005	3,804
	9,325	8,173
Less current portion	9,325	8,173
Long-term portion	-	-

- (a) During the fiscal year ended June 30, 2017, the Company obtained non-interest bearing, unsecured short-term loans in the amount of \$4,044 (\$5,231 CAD) from certain related and unrelated parties (Note 17) of which \$1,320 (\$1,755 CAD) of the loans were repaid during the year, \$385 was converted to equity, \$1,156

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

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 paid in July 2017 which included principal of \$1,138 and interest of \$56. During the year ended June 30, 2018, the Company obtained 10% interest bearing unsecured short term loans in the amount of \$1,497 of which \$558 was from a related party (Note 17), and obtained non-interest bearing unsecured short term loans in the amount of \$2,700, of which a fee of \$125 is payable on the May 2018 maturity of \$1,250 of this loan. During the three months ended September 30, 2018 the Company obtained 10% interest bearing unsecured short term loans in the amounts of \$883 of which \$252 was from a related party (Note 17). As at September 30, 2018 a total amount of \$5,320 remains owing on these loans which includes \$96 of accrued interest and \$125 of accrued fees.

- (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. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 13.70% at September 30, 2018 (June 30, 2018 -13.45%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries. On October 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018. On March 9, 2018 the Company received an additional principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in August 2018. In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the amendment was considered a modification of debt. At September 30, 2018 the principal amount drawn on the EDC term facility is \$4,005 inclusive of interest. On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. The notice requires Enablence to make payment of the amount in arrears of \$549 (\$719 CAD) plus a per diem default fee until full payment of this amount has been made. On October 26, 2018, as a result of the default, EDC provided Enablence with a demand for repayment on the total value of the loan, inclusive of interest to date at that time of \$3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to rectify the default subject to meeting certain ongoing terms and conditions.

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 (Note 17) to settle outstanding short term loans received by the Company during the year ended June 30, 2017 (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 determined the fair value of the Company's 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

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

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 is being amortized over the three year term of the debt. The equity financing costs of \$71 have been charged to contributed surplus. During the three months ended September 30, 2018, the Company recorded accretion of \$231 to interest expense and \$24 of amortization of the debt financing costs. Of the \$753 interest earned since June 30, 2017, \$31 has been paid and the unpaid balance of \$722 is overdue and included in accrued interest. As at September 30, 2018, the total convertible debenture liability is \$5,621.

11. Share capital

Authorized capital stock consists of:

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

Unlimited number of common shares with no par value: 641,927 common shares issued and outstanding (2018 – 621,927)

On July 30, 2018 the Company closed an equity financing at a price of \$0.05 CAD per share for gross proceeds in the amount of \$758 (\$1,000 CAD) resulting in the issuance of 20,000 common shares.

Warrants

During the fiscal year ended June 30, 2018 and the three months ended September 30, 2018, no warrants were issued or outstanding.

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At September 30, 2018, the available option pool was a total of 47,476 (June 30, 2018 – 45,476). The Board of Directors administers the stock option plan.

During the fiscal year ended June 30, 2018 and the three months ended September 30, 2018, no stock options were granted or exercised. At September 30, 2018, 16,716 stock options are outstanding.

Stock-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. Total stock-based compensation expense during the three months ended September 30, 2018 was \$3 (September 30, 2017 - \$33) all of which related to prior year option grants.

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

12. Expenses by Nature

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

	Three Months Ended September 30,	
	2018	2017
<u>Cost of revenues</u>		
Materials/components	159	1,180
Labour	252	275
Allocation of overhead	215	199
Depreciation - COGS	78	167
Total	<u>705</u>	<u>1,820</u>
<u>Research & Development</u>		
Staff compensation	571	570
Travel	2	1
Contractors	(12)	377
Materials/supplies	104	460
Depreciation	16	15
Rent/Utilities	16	13
Total	<u>697</u>	<u>1,435</u>
<u>Sales & Marketing</u>		
Staff compensation	40	38
Travel	19	8
Trade shows	5	-
Materials/supplies/other	5	0
Rent/Utilities	2	1
Total	<u>70</u>	<u>47</u>
<u>General & Administrative</u>		
Staff compensation	181	260
Rent/Utilities	288	267
Taxes (Property tax/Use tax)	22	14
Insurance	27	38
HR management fee	19	22
Phone & Internet	9	10
Travel	11	7
Professional fees	121	120
Other	30	27
Depreciation	2	15
G&A Allocation (Rent/utilities)	(232)	(213)
Total	<u>479</u>	<u>567</u>

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

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, 110,466 potentially dilutive shares at September 30, 2018 (September 30, 2017 – 115,099) have not been included in the calculation of diluted loss per common share for the three months ended September 30, 2018 and 2017.

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

	September 30, 2018	June 30, 2018
Loans and Receivables (1)	\$ 1,042	\$ 1,222
Other financial liabilities (2)	19,312	17,931

(1) Includes cash and cash equivalents and accounts and other receivables (excluding amounts due from government agencies and Investment tax credits).

(2) Includes accounts payable and accrued liabilities, notes payable and convertible debentures

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

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts and other receivables but excludes investment tax credits and amounts due from government agencies. The Company’s maximum credit risk is \$1,042 (June 30, 2018 - \$1,222). 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. As at September 30, 2018, two customers (June 30, 2018 – one customer) accounted for \$857 (June 30, 2018 - \$1,066), which is approximately 99% (June 30, 2018 – 96%) of the trade receivable balance.

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 at September 30 is summarized as follows:

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

	September 30, 2018	June 30, 2018
	\$	\$
Current or under 60 days	102	53
Past due 61 to 90 days	52	-
Past due more than 90 days	711	1,062
	865	1,115

The accounts receivable amount that is past due more than 90 days relates to one customer. Management believes no doubtful account provision is required relating to this outstanding receivable based on conversations with the customer as well as their payment history.

Interest rate risk

The Company is exposed to interest rate risk on its notes payable and convertible debentures. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense, during the three months ended September 30, 2018 of \$10 (September 30, 2017 - \$4).

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, China, Hong Kong and Canada and is, therefore, subject to foreign currency risk. Enablence reports its financial results in U.S. dollars. Most of the Company's revenues are transacted in U.S. currency, and 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 and a 10% strengthening of the Chinese Renminbi ("RMB") against the U.S. dollar would have increased net losses from operations and decreased the other comprehensive gain ("OCI") by the total amounts shown below. A weakening of the Canadian dollar and the Chinese Renminbi against the U.S. dollar would have the opposite effect.

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

Three months ended September 30, 2018		Three months ended September 30, 2017	
Net loss	OCI	Net loss	OCI
64	26	92	(109)

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

Three months ended September 30, 2018		Three months ended September 30, 2017	
Net loss	OCI	Net loss	OCI
6	(1)	5	2

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 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 September 30, 2018, the Company has financial liabilities which are due on a fiscal year basis as follows:

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

	To Sept 30, 2019	To Sept 30, 2020	To Sept 30, 2021+	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,366	-	-	4,366
Notes payable	9,325	-	-	9,325
Convertible debentures	5,621	-	-	5,621
Total	19,312	-	-	19,312

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:

	September 30, 2018	June 30, 2018
	Property, plant and equipment	Property, plant and equipment
	\$	\$
United States	486	508
Canada	4	5
China	123	130
Total	613	643

Revenue is analyzed geographically as follows:

	Three months ended September 30, 2018	2017
	\$	\$
Americas	57	10
Europe, Middle East, Africa	-	436
Asia Pacific	91	1,480
Total	148	1,926

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

During the three months ended September 30, 2018, two customers accounted for 93% of the Company's total revenue (61% and 32% individually) and during the three months ended September 30, 2017, two customers accounted for 91% of the Company's total revenue (76% and 15% 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.

	Three months ended September 30,	
	2018	2017
	\$	\$
Product	148	1,886
NRE	-	40
	148	1,926

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 \$0.06 CAD per common share for proceeds of \$3,280 (\$4,620 CAD). The Strategic Investor holds approximately 14.8% (June 30, 2018 – 15.3%) of the issued and outstanding shares of the Company. 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 three months ended September 30, 2018, the Company had sales of \$Nil to ZTE (September 30, 2017 - \$1,463). At September 30, 2018, the Company had an accounts receivable balance with ZTE of \$715 (June 30, 2018 - \$1,066) which is included in accounts and other receivables.

As at September 30, 2018, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares of the Company. TriComm is controlled by Zhiyin Gao, a former director of the Company who resigned in September 2017.

As at September 30, 2018, Irix Holding Ltd. ("Irix"), owned 39,408 common shares of the Company. Irix is a joint venture controlled by China TriComm Ltd. (a company controlled by a former director of the Company) and Win Brand (a company whereby the CEO and CFO of the Company have ownership interests). Suzhou Irix Ltd. ("Suzhou Irix") is a company controlled by Irix. The following transactions took place between Irix, Suzhou Irix and the Company during the three months ended September 30, 2018 and the year ended June 30, 2018:

- During the three months ended September 30, 2018, Suzhou Irix provided employee related services and utilities to the Company of \$26 (FY2018 – \$85). At September 30, 2018 \$94 (2018 - \$66) remains outstanding within accounts payable and accrued liabilities relating to these services.
- During the fiscal year ended June 30, 2018, Irix paid \$463 to a contract manufacturer for the delivery of finished goods to a customer of which \$463 is owing to Irix at September 30, 2018

Enableness Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

- At September 30, 2018 an amount of \$582 (2017 – \$552) is included in accounts payable and accrued liabilities relating to consulting services provided by Irix. Of this amount, \$30 (2017 - \$30) was incurred and recorded to consulting fee expense relating to services provided through Irix by Todd Zhang, the CFO of the Company. At September 30, 2018 \$362 (June 30, 2017 - \$332) remains outstanding within accounts payable and accrued liabilities relating to these consulting services.
- During the fiscal year ended June 30, 2017, Suzhou Irix incurred certain start-up and production costs on behalf of Suzhou Enableness Optoelectronic Technologies Co., LTD. An amount of \$64 (June 30, 2017 - \$61) is included in accrued liabilities at September 30, 2018 related to these costs.
- During the fiscal year ended June 30, 2017 USA Irix provided other consulting services and materials to Enableness. As a result, at September 30, 2018 the Company has an amount of \$17k owing to USA Irix (June 30, 2017 - \$17).

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 Enableness. 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, Enableness 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 September 30, 2018, under the 2017 contract, the Company has paid Irix Photonics \$1,235 of monthly fees and has \$325 recorded as an accrued liability.

Paradigm Capital Partners Limited (“PCPL”) is a shareholder of Enableness and is a company controlled by close family members of a director of Enableness. The following transactions took place with PCPL, its affiliates and individuals related to PCPL (collectively “Paradigm”), during the periods ended:

Three months ended September 30, 2018:

- The Company received \$252 in unsecured short term bridge loans from a controlling shareholder of Paradigm (also see Subsequent Events)

Year ended June 30, 2018:

- The Company received \$568 in unsecured short term bridge loans from a controlling shareholder of Paradigm accruing interest at a rate of 10% amounting to \$26.

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.

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.

Enablence Technologies Inc.

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2018 and 2017

(in thousands of United States dollars and shares)

18. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	September 30,	
	2018	2017
	\$	\$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	217	(1,423)
Inventories	(30)	(80)
Prepaid expenses and deposits	(465)	(53)
Accounts payable and accrued liabilities	369	363
Deferred revenue	34	40
	125	(1,153)

19. Subsequent events

Subsequent to September 30, 2018, the Company received \$889 in unsecured short term bridge loans with interest accruing at a rate of 10% of which \$284 was provided by a related party.

On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. The notice requires Enablence to make payment of the amount in arrears of \$549 (\$719 CAD) plus a per diem default fee until full payment of this amount has been made. On October 26, 2018, as a result of the default, EDC provided Enablence with a demand for repayment on the total value of the loan, inclusive of interest, of \$3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to rectify the default subject to meeting certain ongoing terms and conditions (see 9(b)).